POST OFFICE LIMITED BOARD MEETING

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MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 27 OCTOBER 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ BY CONFERENCE CALL AT 10:00 AM[1]

Present:	Tim Parker	Chairman **(TP)**
	Nick Read	Group Chief Executive Officer **(NR)**
	Alisdair Cameron	Group Chief Finance Officer **(AC)**
	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)**
In attendance:	Veronica Branton	Company Secretary **(VB)**
	Dan Zinner	Chief Operating Officer **(DZ)** (Items 4 & 5.)
	Martin Edwards	Managing Director - Identity Services **(ME)** (Item 5.)
	Amanda Jones	(Interim) Group Retail and Franchise Network Director **(AJ)** (Item 6.)
	Tracy Marshall	Network Development Director **(TM)** (Item 6.)
	Declan Salter	Historical Matters Unit Director **(DS)** (Item 7.)
	Vernon Everitt	Managing Director, Customers, Communication and Technology, TFL (Board briefing session) **(VE)**
	Andy Neather	Head of Engagement, TFL (Board briefing session) **(AN)**

Action

Performance and current issues

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 and Matters Arising

The Board **APPROVED** the minutes of the Board meeting held on 22nd September 2020.

The Board **NOTED** the progress with the completion of actions as shown on the action log.

Ken McCall asked that action on Postmaster contracts not be closed and he would have a separate conversation with Nick Read about this work. Nick Read noted that being legally compliant was different from being changed culturally and work was ongoing in this area. Carla Stent agreed with these points and noted that it was clear from the information provided in the Reading Room that there were still some gaps and key deficiencies to be addressed.

Ken McCall suggested that we should bring back to the Board a session on the previous position, the current position and any outstanding matters on POL's operational processes and its support for Postmasters. The Board needed to see the actual performance on these matters, such as how the customer service centre was operating. KM also noted that in some instances we only had one applicant to take on a Post Office. Zarin Patel noted that she was interested in the matters Declan Salter had identified in his report where operational practice differed from the documented position; [redacted] should also be reviewed again by the Board. Nick Read noted that a law firm was not best placed to look at operational effectiveness so he had asked Declan Salter to test this for the operation changes that had been required to comply with the Judgment. NR added that he would be pleased to reach a position where more individuals wanted to run a Post Office but this was a somewhat different issue to the compliance and conformance perspective. Al Cameron noted that

Action: executive

[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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the key reason for wanting to increase to our branch numbers to 12,000 was to avoid a situation where we had little or no choice on who to take on as a Postmaster; he added that it was always hard to judge whether what was in place operationally was good enough but we would bring back to Board the current picture on operational processes and support to Postmasters.

Lisa Harrington reported that she had reviewed the P1 incidents with the IT team and had noted that these were in the Board's spotlight and would be a continued area of focus.

3. CEO Report

Nick Read introduced his report and noted that funding issues and the HSS were a major focus for the business currently. The impact of local lockdowns was being seen and this could adversely affect our and other retailers' golden trading period. Concerns had not been raised by Postmasters at this stage but that might happen. The shape of trade had flattened and this was likely to continue because of the impact of Tier 2 and Tier 3 restrictions in areas around the country.

Irrelevant

We were not proceeding with the engagement of North Highland to support the SPM programme and would come back to the Board in November with a "drains up" review of the SPM work. We needed to have a discussion with Fujitsu about an extension of the contract for the elements of Horizon that had not been migrated to the cloud by March 2023. Fujitsu seemed amenable to this proposition but it could be costly. We needed to consider all of the elements of the Fujitsu relationship given their role in the Government Inquiry. PCI-DSS was progressing well. Lisa Harrington noted that POL dealt well with straightforward migration issues but, as we had already recognised, our capabilities for harder migrations needed to be developed. We needed to set out simply what we wanted to achieve and map out the parcels of work. Nick Read reported that we were recruiting the capability in this area currently.

A number of points were raised, including:

- **Irrelevant**

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Irrelevant

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4. Finance

4.1 Financial Performance Report

Al Cameron reported that our position was slightly ahead of forecast and that our main concern was IRRELEVANT This position could be exacerbated by local lockdowns and Brexit, the implications of which were being considered. We did not think there would be major operational challenge associated with Brexit and were comfortable with the data position in Europe. We might need to put customs stickers on parcels going to Europe and system changes would be required if different arrangements had to be put in place for Northern Ireland. The Rapid Response Team was being restarted. No -one yet knew what the State Aid rules would be.

A number of points were raised, including:

- Ken McCall asked about the mixture of profit margins for different products. Al Cameron would provide KM with the specific details of this **To do:** AC
- Carla Stent noted that a number of vacancies had not been filled and asked whether this and the roles being removed through the organisational development (OD) work exposed us to greater risk, where this might impact our control systems, and what mitigations we were taking. Al Cameron reported that not many roles that related to our controls systems were being removed in Tranche 1 of the OD. We were considering our compliance resource requirements but with a focus on whether the first line of defence was in the right place. Nick Read added that the Tranche 2 proposals were being worked through and the Board would be updated on this separately and how this mapped onto the McKinsey blueprint figures
- Tom Cooper asked about the IT incidents and Lisa Harrington reported that she would be reviewing these incidents with Jeff Smyth on 28th October 2020. The incidents were not linked but there were interesting learnings which were being followed -up. Best practice was being followed and everything that needed to be tested was being tested. Al Cameron noted that the position had been better since a high number of SSK IT incidents had been resolved. There had been a pattern of incidents linked to change controls especially where these were being rolled out by third parties and this was an area of potential interest.

4.2 Forecast

Al Cameron reported that the position with the forecast was changing frequently. The re -forecast of £IRRELEVANT trading profit at year end had not changed significantly. The Government was now proposing a one-year funding envelope. We could not expect HM Treasury to agree to fund the Historical Shortfalls Scheme liabilities while the claims could not be quantified with any degree of accuracy. The position should be clearer by December 2020 but would still be imperfect. There would be no clarity on the criminal cases for some time. It was not clear how much of the one-year funding agreed

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would be segregated from the HSS claims. The trading position for the different business lines was noted. Change spend was being minimised and we were trying to move cash impacts into the next financial year where we could.

IRRELEVANT

A number of decisions had already been discussed and agreed with the ARC and fewer material as sets could be going back into the last financial year. We would need to look carefully at those values and whether they needed to be impaired.

The HSS claims continued to increase. If these claims reached, say, £150m there would be substantial net liabilities which would play back into the 2019/20 Annual Report and Accounts figures. We had included provisions rather than contingent liabilities for the HSS. This had consequences for defaults and cross defaults and posed a number of commercial threats. Th e letter of comfort had been drafted by BEIS and was supportive but was not a guarantee. We could create an asset on the balance sheet if the Government agreed to meet the HSS payments. However, the risk of uncertainty brought us into the territory of wrongful trading. With this in mind, the advice from Linklaters was not to start making the HSS payments. Al Cameron thought we should write to BEIS to request permission to start making HSS payments but only if we had a stronger letter of comfort and coul d make payments without there being a risk to individual directors.

A number of points were made, including:

- Tim Parker noted that individual directors were beginning to feel discomforted with the situation and the Non-Executive Directors had concluded tha t an independent view should be sought. [redacted] TP noted that we would obtain funding at some point but it was taking some time and there were issues to be resolved. The Board was in the uncomfortable position of not being able to meet stakeholder expectations while the business was close to a position of wrongful trading. We wanted to make sure we were doing absolutely the right thing but it was a very difficult situation. [redacted] We were a Unitary Board and were all facing the same risks. TP noted that he and the Board should reflect on the issues and not take precipitous decisions now but should agree the funding letter to BEIS soon **Action:** Board
- Carla Stent thought we should expedite the work on assessing the HSS claims to obtain greater accuracy as soon as possible. We should also look again at the structure of the Historical Matters Business Unit and whether this should be set up as a separate entity to avoid cross contamination of funding. The Board **AGREED** that we should seek to expedite the work to quantify the HSS claims and revisit setting the HMBU as a separate entity **Action:** executive
- Zarin Patel asked whether PWC would think there was a material uncertain ty and what the consequential issues of this would be. Al Cameron noted that we had estimates of £100m - £200m for the HSS claims and estimates of £800m estimates for the outcomes of criminal cases. POL did not have the money to pay these claims. While we believed the Government would not let us fail we did not have that agreement yet so there was material uncertainty. Government might decide to extend POL funding beyond a year but the uncertainty either sat with us or with Government.

Strategy and updates

5. Network Strategy update

Dan Zinner summarised the purpose of the new Network Strategy and its key features. Access criteria would be maintained on the three main services for all Post Offices. All six criteria would be maintained but Post office would not need to provide all con currently in all Post Offices to give us greater flexibility on format. The Socially Generated Economic Indicators (SGEI) as a measure would be replaced by Government services. Three different types of pilot/ proof of concepts were being run that would feed into the network strategy.

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Martin Edwards explained that the focus was on turning the strategy into detailed plans. We were aligning plans with the SPM programme, updating the geospatial modelling and developing the network transition plan. The progress of the Network Strategy would link into the funding arrangements.

A number of points were raised, including:

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- Irrelevant
- Lisa Harrington asked whether we had determined what a successful outcome would be from the new format pilots and whether it needed to take five months to pilot. Dan Zinner explained that we needed feedback from customers; were testing whether fewer products made operating a Post Office easier for Postmasters; were testing Postmaster and multiple demands for the new formats; and, were assessing the impact of new formats on trade in other Post Offices , which was likely to take some months. LH suggested that we describe the work differently with an agile approach in mind. This was proof of concept execution. Carla Stent noted that not all of the points considered in the July Strategy sessions seemed to have fed through to the work and it would be helpful to revisit those points. We would need to consider how Postmasters were inputting into this work and the feedback loop to Postmasters. We would need to consider the impact on this work if the SPM programme slowed down. Dan Zinner explained that we were not trying to recreate Horizon in the new formats and would be revising technology requirements as we worked through our proof of concepts. The Network Strategy and SPM programmes would be converging. Ken McCall noted that the technology for parcels existed through off the shelf, stand-alone carrier agnostic systems. **Action:** DZ/ ME

6. Postmaster NEDs

Amanda Jones introduced the paper and noted that two decisions were sought: a) approval of the process to appoint Postmaster NEDs and b) appointment of two Postmasters NEDs , as long as the applications were sufficiently strong. AJ summarised the make -up proposed for the independent selection panel but asked whether shortlisted candidates meeting the Chairman should be built into the process. External research had informed the approach proposed and AJ thanked Zarin Patel and Tom Cooper for the contacts they had provided. We were trying to seek a balance between running a democratic process and ensuring that we had the right calibre of candidates to fulfil the requirements of the NED role.

Tracy Marshall shared a slide setting out an overview of the process. We wanted to bring the Postmaster view into the boardroom but they would not be acting in a representative capacity. We would like to announce the process and timelines at the Postmaster roadshow on 4th November 2020 and would explain the public appointment requirements and role description. This would give people time to consider whether they wanted to apply. We wanted to keep process quite simple and BEIS approval of the process would be needed. TM described the criteria and the selection process leading to a longlist of about 12 candidates.

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A number of points were raised, including:

- Tim Parker noted that he thought the approach set out in appendix 1 of the paper seemed complicated. Amanda Jones explained that we had tried to make it simple at the earlier stages to keep the pool as wide as possible but had then included ways of assessing suitability for the role
- the resource requirements were discussed and it was explained that the cost for the Postmaster NED appointments would be £30k – 40k and that the £498k related to a wider programme
- Zarin Patel thought that it was a comprehensive paper and process. Having been through a similar process at John Lewis ZP was interested to know whether POL would offer backfill support for the Postmaster NEDs. We should also think carefully about running an appointment process completely separate from the norm and the message this might send. The need to win trust was recognised but we could run a Nominations Committee process with independence built into it. Lisa Harrington noted that the Board needed to work successfully with these new colleagues and Carla Stent noted that it was equally important for shortlisted candidates to meet the Board. Tim Parker raised the backdrop against which the appointments were being proposed and the importance of the Board not being seen to try to influence the outcome of the process. Tom Cooper noted that we needed to consider carefully the composition of the panel as we needed people to be invested in the outcome. Tim Parker asked Nick Read for his view. NR thought that the panel needed to be completely independent though the Board would ultimately recommend the appointments to the Secretary of State. We needed the right criteria and process.

The Board supported in principle the appointment of two Postmaster NEDs to the POL Board and the process set out in the paper presented to the Board, including an independent panel; however, it was felt to be important for the shortlisted candidates to have the opportunity to meet the Chairman and other members of the Board and for the Board to meet the candidates. This step should be added to the process. We should also consider carefully the composition of the panel and be clear that the Postmaster NEDs would play the same role as other NEDs. The final criteria and panel composition should be agreed by the Board and the process should not be announced at the Postmaster roadshow on 4th November 2020. The process needed to be approved by BEIS.

Board briefing session: TFL's Customer and IT Transformation
Vernon Everitt, Managing Director, Customers, Communication and Technology, TFL
Andy Neather, Head of Engagement, TFL

Lisa Harrington introduced Vernon Everitt and Andy Neather from TFL. She had been personally inspired by TFL and its customer led transformation and Vernon Everitt had helped Lisa in her work with BT's transformation. Post Office was still on a journey and could draw on other companies' experience.

Vernon Everitt explained that TFL's work was centred on showing that public transport was safe and giving people a range of options during the Covid-19 period. The introduction of Oyster cards and subsequently contactless payments had been fundamental in making access to transport in the capital easier. Contactless payments were an extension of Oyster.

Accessing live transport data helped TFL commercially and customers from a time perspective. We could see what was happening around London with live updates. This information was available via an app. TFL was trialling 4G to allow phones to be used on the underground. We were w orking with a complex IT estate but had taken out £1bn of operating costs over the last four years. The core purpose currently was to keep London working, adapting to COVID. 70% of revenues were fare revenues which had virtually stopped overnight. TFL fa ced intense competition so was on a continuous journey and were looking at what might happen to transport requirements post Covid.

Tim Parker observed that many of TFL's strategic initiatives had been successful but asked whether there had been any major regrets or lost opportunities. Vernon Everitt noted that they had been overly cautious on some occasions, such as piloting the use of data and would now press harder in instances such as this and remove customer barriers. It had taken five years from think ing about contactless payment to its implementation and some routes considered had proved to be blind alleys; it was necessary to accept this might happen and reverse where required.

Ken McCall asked how much time still had to be spent on legacy issues and how much could be focussed on developing the business and its services. Vernon Everitt explained that TFL's approach was to set itself targets for what its projects should deliver. The pace at which it was possible to change was influenced by factors such staff and customer behaviour and preferences. A disciplined gate one approach was taken to projects and TFL followed an agile project approach, where possible.

Tom Cooper asked whether TFL had dependencies on one vendor. Vernon Everitt explained that they now ran exclusively off SAP and had more than one vendor. It had taken us five years to work through contracts to get to this place. Core products were used wherever possible as they could achieve 99% of what was required.

Lisa Harrington asked Vernon Everitt's advice on business transformation overall. Vernon Everitt said that it was important to try and to provide a business service platform from which all the key services could run. TFL had set up a business services un it for all its transactional activities. For major capital programmes, there were end-to-end processes and areas of the business, such as procurement , had been through a transformation process.

7. Historical Matters Business Unit report

Declan Salter introduced the reports which would form a consolidated paper from next month and would include a matrix format for finance. 70 claims with a quantum of circa £300k had been received for the Stamps Scheme to date. There were some unrealistic ally high claims but the average claim was £6k. DS noted that we needed to review the content of more of the 31k boxes than we first thought but were having some difficulty finding the barristers to undertake this work. A rigorous approach being taken. The IT Team to support the Horizon work was being set up and four people should be in place by next week. Fujitsu was not being entirely receptive to our requests for information (For example, we needed to understand who had be authorised to access Known Error Logs, not just the process for accessing this information) but w e had audit rights under the contract to undertake this work. We had warned Fujitsu that the Inquiry could turn into a statutory inquiry if they would not cooperate.

A number of points were raised, including:

- Carla Stent asked whether there was any overlap between the Stamps Scheme claims and the HSS claims. Declan Salter reported that there was some overlap and some claims for stress; these claims would be investigated carefully and transferred to the HSS if appropriate
- Zarin Patel noted the extension of the completion of the Post-Conviction Disclosure Exercise to February 2021 and requested that the Board were kept up to date with anything emerging from that. It would also be helpful for the Board to understand the work that would be taking place on the Horizon system **Action:** DS
- Zarin Patel noted that it had been very helpful to see the examples included in the "shine a light" section and asked whether these were issues Declan Salter was coming across, rather a start to finish approach. DS confirmed that this was the case and that focus could be given to any issues where there was a particular concern. ZP thought it would be helpful to retain a focus on the helpline issues. DS explained that the business was looking at how we could have a general query email address. The quality of documents and readability were also critical issues. The terminology used was not straightforward and we should make this easier for Postmasters and what they could do when they had made a mistake. Some of the more significant issues like balancing still needed to be resolved. Much work had already taken place and the report was focussed on areas where urgent action was still needed to put things right. Tom Cooper thought it very useful to have focus on these issues and was surprised by the escalation process described as he had thought that these processes were in place already. DS noted that the problem arose where there was a disagreement between the Postmaste r and Post Office after the initial stages of the consideration of the complaint. There needed to be a clear escalation route for unresolved issues
- Lisa Harrington thought it would be helpful to clarify the role of the area manager and whether they were the first port of call for the Postmaster where they had an issue **Action:** DS
- Tom Cooper asked how the Supply Chain letters could have been issued. Declan Salter explained that the Operations and Supply Chain teams were working separately from one another. The letters had been stopped
- Ken McCall wanted the Board to understand the whole transaction process end -to-end with a postmaster; he was concerned about people working in silos. The CEO needed an individual in Post Office to sign off that all the processes ha d changed as required. The Board did not see many statistics beyond customer service figures. Nick Read noted that for the next nine months this was the most important focus. The Group Executive was holding a workshop in November on **Action:** DZ

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the core strands for legal compliance and cultural and strategic change. Dan Zinner was responsible for postmaster and customer relationships and there was significant work to be done. We needed to be able to attest that we had done everything in our power to test issue s such as how well the helpline functioned. Declan Salter noted that we had been carrying out validity testing

- Ken McCall asked why the accountable Group Executive member had not known about the supply chain issue. Al Cameron explained that the focus in supply chain had been on cash efficiency issues and we had not yet drilled down to that level of operational detail.

The Board was pleased that Declan Salter was pursuing the "shine a light" issues which was a key focus of his role. Declan Salter noted that it was striking that there were only £2m in shortfalls which was a very small figure in a network the size of the Post Office's and demonstrated the integrity of our postmasters.

Noting and governance items

8.1 Post Office Insurance Options

The Board **NOTED** the paper.

8.2 Project Assurance (pensions)

The Board **NOTED** the paper.

8.3 Health & Safety Report

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

8.4 Sealings

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 2006 to 2020 inclusive in the seal register.

8.5 Future Meeting Dates

The future meeting dates were **NOTED.**

8.6 Forward Agenda

The forward agenda was **NOTED.**

9. Any Other Business

There being no other business the Chairman declared the meeting closed at 1.50 pm.

10. Date of next scheduled meeting

24 November 2020.

GRO

26/11/2020 14:25

CHAIRMAN