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POST OFFICE

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 30 JULY 2019 AT HARTWELL HOUSE, OXFORD ROAD, STONE, AYLESBURY, HP17 8NR

Present:	Tim Parker	Chairman **(TP)**
	Alisdair Cameron	Interim Group Chief Executive Officer **(AC)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Carla Stent	Non-Executive Director **(CS)**
In attendance:	Veronica Branton	Company Secretary **(VB)**
	Ben Foat	General Counsel **(BF)** (items 6. – 8.)
	Amanda Jones	Retail Sales Director **(AJ)** (item 6.)
	Julie Thomas	Operations Director **(JT)** (item 6.)
	Laurence O'Neill	Senior Legal Counsel **(LON)** (item 7.)
	Owen Woodley	CEO – FST&I **(OW)** (item 9.)
	Chrysanthy Pispinis	Director, PO Money **(CP)** (item 9.)
	Debbie Smith	CEO – Retail **(DS)** (item 10.)
	Andrew Goddard	MD – Payzone Bills Payments Ltd **(AG)** (item 10.)

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 including Status Report**

The Board **APPROVED** the minutes of the Board meeting held on 28 May 2019.

Progress with completion of the actions as shown on the action log was **NOTED**.

3. **CEO Report**

Al Cameron introduced the report and highlighted a number of points:

- the financial trend for the year was of concern but we were working to get back to plan and put in place a £25m buffer
- we were looking at what our plan would be if a major partner were to go into administration. Tom Cooper would put us in touch with Hannah Gray who leads the UKGI/ BEIS insolvency team — **To do: TC**
- Barclays had taken the decision not to use Banking Framework 2 for withdrawals. It was important that this was not a decision which it would be attractive for others to follow. It was noted that the Minister had already written to Barclays to express her disappointment
- Postal Museum (PM). We had been supporting the PM financially as a junior partner with Royal Mail and had an annual contract with them for archiving services. In addition, POL had lent the PM £3 m which had not been repaid. PM had requested a letter of support from POL in advance of the publication of their Annual Report and Accounts which we were not minded to provide. It was **AGREED** that we would analyse their financial position and find out how RM was proposing to respond to the situation — **Exec**
- that Supply Chain was running at capacity and might need to make extra pick-ups. It was noted that control risks such as this were not always getting reported to the ARC. AC and CS would discuss how to ensure this flow of information. — **To do: AC/ CS**

A number of points were raised, including:

- whether announcing redundancies in stages would be more unsettling than a single announcement? It was reported that people were used to there being changes in the business and that we would adhere to the consultation processes involving the trades unions, where this was required. The roles at risk were predominantly management roles but would not impinge on the new CEO being able to choose his Group Executive
- [redacted]

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- we had been advised that Duncan Tate (a key partner) was leaving Fujitsu. It was suggested that we raise with Fujitsu our requirement for the standard of service and expertise to be maintained notwithstanding the change in partner **Exec**
- did we think that the time and resource proposed for investment in Digital Identity was worthwhile given the competing priorities? It was acknowledged that our resources were stretched and that prioritisation would be an important consideration for the Board and incoming Chief Executive. A meeting was taking place with John Manzoni on 1 August 2019 to discuss, among other topics, the proposed extension of the Verify contract. We wanted greater certainty either that fees would be increased (they were currently close to cost) or that we would have a clearer means of commercialising the proposition, noting that we regarded 10 million accounts as the threshold for being an attractive provider for clients, such as banks, to choose us as a digital identity provider
- bill payments. We were close to agreeing an exclusive contract with British Gas. It would be preferable to delay the start of this contract from January 2020 to June 2020 because of the technical issues that needed to be resolved and because Co-op would have a six month period where they were still linked to Paypoint and could not provide a bills payments service to British Gas customers; however, Paypoint had announced their loss of the contract to the market so we needed to proceed with a January 2020 start date. This meant that we would have to replace 5,000 devices over a two month period, using devices that were not our first choice because we could not secure these in time. Paypoint had sent us a cease and desist letter and we were ensuring that there were no activities at ground level that could breach competition law
- Service incidents. The increase in service incidents was discussed and it was **AGREED** that these would be categorised, including where they linked to changes made by third parties or to releases we had made **Exec**
- IRRELEVANT

4. **Finance**

5.1 **Financial Performance Report**

Financial Performance in P3 was discussed and **NOTED**.

5.2 **Quarterly Delivery Report and Funding Request**

The Board **APPROVED** the submission of a request to the Shareholder for a payment of £7m for Q2 against qualifying spend of £46m.

5. **Annual Report and Accounts 2018/19 (ARA 2018/19)**

The ARC had met on 29 July 2019 and had discussed the ARA 2018/19, including the draft statements on the group litigation and on the workers' rights case (Starling).

The Board:

- **APPROVED** the statements on the group litigation and workers' rights cases (Starling) for inclusion in the ARA 2018/19
- **APPROVED** and **DELEGATED** to the Chairman and Interim CEO the signing of the Annual Report and Accounts for the year ended 31 March 2019.

[1] *The main policy fully insured members' pension benefit accruals from 1 April 2012 to 31 March 2017, the date of the plan closure.*

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6. **Group Litigation Update**

Ben Foat updated the Board on the group litigation:

- the Court of Appeal's decision on leave to appeal the Common Issues Trial Judgment and the publication of the Horizon Issues Trial Judgment were anticipated in mid-September 2019
- work was taking place to prepare for mediation and settlement which could commence in the middle of October or the beginning of November 2019
- We are analysing the categories of claimants that could be covered by the settlement. It was noted that settlement for those with a criminal conviction could not be pursued and Lord Justice Fraser's view on how this category should be treated would be required. Around 60 claimants were in this category.

A number of points were raised:

- whether we would be able to make an umbrella figure as an offer? It was reported that one option was to provide a global figure for settlement, the distribution of which could be determined by the claimants' solicitor, another option was to make individual settlements
- whether claimants were required to sign off on the settlement individually? It was reported that the funder would have first sign off. There was likely to be a committee of claimants who would consider offers. Claimants were not required to accept a settlement offer but if the funder was recommending acceptance the claimant risked losing their funding and could incur previous costs. In such a case, the Judge would have to continue hearing the case for those claimants who would not agree to settle
- the permissions that would be required to fund any settlement agreement. It was noted that Shareholder permission was required for funding above IRRELEVANT A recommendation would need to be made to HM Treasury and BEIS for a) a settlement which was within POL funding but with Shareholder approval required because it was above IRRELEVANT b) where POL needed to borrow money to secure a settlement and a mechanism was required for repayment c) where a one off capital injection was required
- that if a settlement pot were approved the spend from this would need to be monitored very carefully
- what sum could be afforded from working capital? It was reported that IRRELEVANT would take us to IRRELEVANT but we needed to keep driving cash efficiencies. We needed to be flexible to manage the requirements of the case and have a reasonable starting point for our negotiations, recognising that we might need to talk with our Shareholder. A significant amount of settlement analysis was required before we would be in a position to consider a potential settlement figure. That work would be taking place over the next month and the Board would need to take a decision on the starting point and range for the mediation discussions. That figure and the range would also have to be discussed with BEIS/ HM Treasury and we would need to write to BEIS outlining the Board's recommendations
- that we still needed to understand more about the claimants and their funders. Had there been a past history of settlements? What was the mediator's background? How strong was our team?
- that the Board would need to understand all the constituent parts for the negotiations and what could and could not be negotiated.

Julie Thomas updated the Board on the operational work streams:

- current procedures and processes were being amended where improvements could be made and these could be processed quickly[2]. We were working through a table of all the relevant artefacts but were also thinking about where we should do things completely differently. That included support for branches and the Horizon system itself. 150 people were based in Chesterfield who answered between 30,000 – 40,000 calls a month. These volumes showed that we were not addressing problems in the right way. We were considering introducing a self-audit tool for branches to help them see where there were issues that needed to be resolved; by doing this we might be able to avoid some suspensions and target support to the right branches

[2] For example, if we could see that a screen on Horizon was potentially confusing and resulted in more errors than average.

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- the leadership team had changed, the loss management systems had been improved and we were seeing a consistency in responses. The work was at an early stage and represented a mind-set change as much as a change in processes and procedures
- the greatest costs were associated with changing the Horizon system and bringing in Branch Hub. Ultimately we thought these changes would lead to cost savings.

A number of points were raised:

- how long did it take on average to fix an issue raised by a Postmaster? Questions could usually be answered immediately but culturally we were trying to address problems differently so that we could identify the issue within the system and resolve this for the Postmaster. The more fundamental fix could take three days but resolving problems in this way helped to build trust and encourage reporting
- Cash balances. The figure of 4,500 not balancing their cash every day seemed high. What were the reasons for this? It was reported that the complexity of the systems and insufficient training in some instances were drivers. IRRELEVANT IRRELEVANT IRRELEVANT The quid quo pro of resolving problems and providing support would be that branches would not be permitted to trade if they had not done their cash balances properly.

Amanda Jones updated the Board on changes to the field management system and support for Postmasters:

- lack of field management had been one of the weakest links in our chain and we were already seeing benefits from having field team support. It meant that we could move away from a "one size fits all" approach. Attracting the right people as Postmasters and supporting them with training and refresher training was central to our success
- previously Postmasters had received training on new products but no refresher training on operations. This was being introduced together with face to face support. We were piloting new ways of working through the field teams in around 200 branches. We had a diagnostic that helped Post Office understand the business and helped the Postmaster to run their business. We had developed toolkits in various areas like marketing and would seek Postmasters' views on training and support periodically.

A number of points were raised:

- whether we would be relaunching our network support approach through regional roadshows?
- we needed to understand the environment in which Sub postmasters operated, to align our interests with Postmasters' and to assess whether we had the balance right between fixed pay and variable pay
- where Post Offices failed the reasons were varied and there were many different scenarios. The toolkit needed to include how to be a better retailer
- we needed to have a tariff that made us attractive, a much lower central cost structure and strong field support for Postmasters. There would be costs involved in changing our approach, systems and processes
- we had sub-optimal retail products. We still needed a complete picture of Postmaster revenue from POL and from other parts of their business. The whole concept needed to be profitable and with a profitable franchise we would need to consider how much we should be investing in the profit opportunities.

The Board **ENDORSED** the approach set out in the paper in relation to the mediation and operational activities to address the requirements flowing from the Common Issues Trial Judgment, prepare for the Horizon Issues Trial Judgment and achieve the delivery of better support to agents.

The Board **AGREED** that a paper should be included on the September Board agenda setting out proposals for a starting figure for mediation and an upper limit. The legal team would then be delegated authority to settle the matter in accordance with the Board's instructions. It was noted that BEIS approval would be required for a settlement figure above £50m and the Board would also need to approve writing to BEIS to seek approval of the range proposed for the settlement and any borrowing requirements. The BEIS approvals we likely to take some time and they would need to

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understand in detail how much POL could afford for the settlement and where additional borrowing or a capital injection would be required and on what terms.

7. **Starling (Workers' rights litigation)**

[redacted]

The Board **AGREED** that updates should be provided to the Board rather than setting up a Board Subcommittee at this stage. We also needed to make sure that UKGI/ BEIS were fully briefed on the case and how we proposed to manage it.

8. **Legal Enterprise Optimisation**

Ben Foat and Owen Woodley introduced the paper which proposed a change to the corporate restructuring approach approved by the Board in principle previously. The revised approach would not deliver the optimal structure[3] but allowed for a potentially quicker execution of the Peregrine Strategy[4] by expanding the remit of the PO Insurance subsidiary rather than setting up a new Financial Services subsidiary. To do this a variation of permissions would need to be approved by the FCA; this could take between 6 and 12 months and with the work required it was anticipated that an expanded PO Insurance would not be in place until June 2020. It also no longer proposed to set up a ServCo, the main business requirement of which was to be able to engage new employees on more commercial terms. Legal advice had been taken which suggested that it might be possible to do this within the current corporate structure.

A number of points were raised:

- that if we were proposing to move a large proportion of the business into PO Insurance we needed to understand how we were going to manage this from a group perspective. Many questions had not been answered and needed to be worked through, including the governance structure. Issues included moving financial services from an unregulated to a regulated environment; considering the board composition of the expanded subsidiary; making sure that the Chair of the PO Insurance/ financial services subsidiary was also a Non-Executive Director on the POL Board. We needed to understand the ramifications of moving from the current position to the new position from a regulatory, personnel (including SMCR requirements), cost and transition perspective
- that the reasons for the changed approach should be set out clearly, noting that some costs were already sunk.

The Board **AGREED**:

- that a paper should be prepared for the September Board meeting setting out the reasons for the changed approach on corporate restructuring and the ramifications of moving from the current position to the new position **BF**
- to **DELEGATE AUTHORITY** to the CEO or CFO and General Counsel to agree the final versions of the draft Articles of Association and Framework Agreement, subject to there being no further material change.

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[3] *There was nothing to prevent POL from changing its corporate structure in the future, for example, to set up a Holdco should there be an imperative to do so.*

[4] *Whereby POL is no longer in an exclusive relationship with Bank of Ireland for the sale of all financial services products and can forge other partnership arrangements.*

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9. **Bank of Ireland**

Owen Woodley and Chrysanthy Pispinis updated the Board on the final position in the negotiations with the Bank of Ireland on a new contract under which we were IRRELEVANT IRRELEVANT We had been meticulous about drafting the terms of the revised contract and defining terms such as sole traders.

The Board:

- **CONSIDERED** and **AGREED** the final construct of our refreshed relationship with BoI
- **DELEGATED AUTHORITY** to the Interim CEO and Chief Executive FST&I to proceed to signature on the basis presented once the contractual legal drafting is concluded.
- **APPROVED** the total spend of IRRELEVANT related to these negotiations.

The Board congratulated Owen Woodley, Chrysanthy Pispinis and the team on the successful outcome of their dedication and resilience through a lengthy and complex negotiation process.

10. **Parent Company Guarantee for Payzone Bills Payments Limited**

Debbie Smith and Andrew Goddard introduced the paper, noting that we wanted to sign the contract with British Gas at the end of August 2019.

It was noted that the IRRELEVANT clauses proposed by British Gas were wide and that we would be proposing reductions to the breadth of the draft guarantee.

The Board **APPROVED** the delegation of authority to the CEO and the General Counsel to finalise and approve the terms of the parent guarantee in relation to the British Gas contract as set out in the paper. Should any material variances to this be proposed we would revert to the Board for approval.

11. **Governance items**

The Board **RATIFIED** the appointment of Nick Read as Chief Executive Officer of Post Office Limited. Nick Read would start in post on 16 September 2019.

The Board **NOTED** the resignation of Shirine Khoury-Haq as a Non-Executive Director of Post Office Limited on 18 July 2019.

The Board **NOTED** that a Credit Card contract had been signed with Capital One on 25 June 2019, following the approval of the Sub-group, to which the Board had delegated authority for that decision.

The Board **APPROVED** the revised Remuneration Committee terms of reference on the recommendation of the Remuneration Committee.

12. **Items for Noting**

12.1 Sealings

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items numbered 1782 to 1801 inclusive in the seal register.

12.2 Health and Safety Report

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

12.3 Future Meeting Dates
The Board **NOTED** the future meeting dates.

12.4 Forward Agenda
The Board **NOTED** the forward agenda.

13. **Date of next meeting**
23 September 2019.

Tim Parker 23/9/19

Chairman Date

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