



**POST OFFICE LIMITED BOARD MEETING**  
***Strictly Confidential***

**MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 22 FEBRUARY 2022 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 09:30 AM<sup>1</sup>**

<b>Present:</b>	Tim Parker	Chairman <b>(TP)</b>
	Tom Cooper	Non-Executive Director <b>(TC)</b>
	Carla Stent	Non-Executive Director <b>(CS)</b>
	Zarin Patel	Senior Independent Director <b>(ZP)</b>
	Lisa Harrington	Non-Executive Director <b>(LH)</b>
	Saf Ismail	Non-Executive Director <b>(SI)</b>
	Ben Tidswell	Non-Executive Director <b>(BT)</b>
	Brian Gaunt	Non-Executive Director <b>(BG)</b>
	Nick Read	Group Chief Executive Officer <b>(NR)</b>
	Alisdair Cameron	Group Chief Finance Officer <b>(AC)</b>
<b>In attendance:</b>	Sarah Koniarski	Senior Assistant Company Secretary <b>(SK)</b>
	Max Jacobi	Strategic Financial Planning and Analysis Director <b>(MJ)</b>
		(Item 2)
	Cathy Mayor	Finance Director – Retail <b>(CM)</b> (Item 2)
	Kathryn Sherratt	Finance Director - Network, Support and Change Finance <b>(KS)</b> (Item 2)
	Tim McInnes	Strategy & Transformation Director <b>(TM)</b> (Item 2)
	Fintan Canavan	POL Public Inquiry Director <b>(FC)</b> (Item 3)
<b>Apologies:</b>	Elliot Jacobs	Non-Executive Director <b>(EJ)</b>

**Action**

**1. Welcome and Conflicts of Interest<sup>2</sup>**

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. Draft Budget 2022/23**

The Board received a report, which had been circulated in advance of the meeting, providing an initial view of the Company's operational budget for 2022/23. The report provided an outline of the draft budget for discussion, providing a view on trading profit, Postmaster remuneration and overhead costs. The **IRRELEVANT** EBITDAS draft budget did not yet include costs for Historical Matters ('HMu') nor change spend (the latter carrying a reliance on the finalisation of the BEIS funding agreement, which was not yet agreed and the subject of ongoing discussion with government).

At the invitation of the Chairman, the CFO summarised the key points in the report. The draft budget had assumed that revenue would increase by **IRRELEVANT** reflecting a flat mails business, a recovery in travel and the continued closure of bank branches. Postmaster remuneration was forecast (although not guaranteed) to grow by **IRRELEVANT**. Overhead costs were expected to increase by **IRRELEVANT** subject to a number of variables. The report identified areas of fixed and compulsory costs (which could not be changed) alongside

<sup>1</sup> 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.

<sup>2</sup> This meeting was an addition to the scheduled meetings so standard items such as minutes and matters arising were carried over to the meeting on 29<sup>th</sup> March 2022.



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areas for consideration, together with a high-level overview of the implications arising from options to defer or remove spend.

There were risks to delivery of the plan and resourcing, should the funding settlement significantly depart from expectation. Constraints on funding and investment would also impact on the longer-term financial position of the business.

AC highlighted the following in his submission:

- Delivery of SPM, Belfast Exit and PCI were core components of the budget.
- Some spend in areas such as Supply Chain and IT, for example, was necessary for 'keeping the lights on' and maintaining aging systems.
- A lack of available funds had constrained the company's ability to pursue certain cost saving options (such as redundancy, a mutually agreed resignation scheme, DMB franchising) despite their potential to materially reduce cost base in the long term.
- HMU costs were being reviewed but AC sensed that there were limited opportunities for savings, as the statutory Horizon IT inquiry continued to grow.
- There remained a number of uncertainties, but AC was keen to reach a point of clarity by the March Board.
- An earlier iteration of the budget, based on first submissions from around the business, had totalled a trading loss of [IRRELEVANT] against a target of [IRRELEVANT] profit. The GE had concluded that this was unacceptable, particularly given the resulting impact on self-funded change spend which endangered business-critical projects. The GE had therefore challenged itself to come back to a [IRRELEVANT] profit.
- Postmaster remuneration was forecast to grow by [IRRELEVANT]. Having a reliance on variable trading, this amount could not be guaranteed. AC emphasised that [REDACTED] would not cover headline inflation and noted that remuneration had flattened since 2019-20. AC explained how shifts in products would impact branches in different ways.
- AC drew a parallel with the proposed [REDACTED] pay increase for employees (totalling [IRRELEVANT] which included statutory national insurance increases. In contrast to Postmaster remuneration, this amount would be guaranteed. It was at least 2% less than inflation and followed a [REDACTED] pay increase in 2021-22 (the CWU was consulting on strike action based on the 2021-22 outcome).
- AC summarised the breakdown of revenues and overheads as set out in the report. AC noted circa [IRRELEVANT] of unavoidable [IRRELEVANT] (citing the delivery of the ATM strategy, provision for Starling and fixed contractual index-linked commitments, as examples). Although these would contribute to an increased trading profit overall, they would increase costs as well as revenue.
- Where there were opportunities to reduce or remove costs through a series of difficult choices, such as reducing resource, or further reducing marketing spend, AC thought it crucial that the Board understood the short- and long-term impact of its decisions. Where spending was cut, there would be corresponding implications for capacity, revenue, remuneration (linked to trading) and projects which would have to reduce in scope or stop altogether. Some choices would affect resilience and growth prospects in the longer term, carrying strategic implications.
- The outcome of the funding agreement would directly affect the change spend budget. This would be reviewed ahead of March to identify which elements were necessary to managing risk and resilience across the business.

Given the prospect of likely reduced funding and depleting reserves (attributable to the level of expenditure in Historical Matters), AC observed that the business was constrained in its ability to self-fund cost reduction and growth initiatives. AC welcomed the Board's guidance



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on areas to prioritise. The Board was invited to discuss the draft budget, providing feedback ahead of a further iteration to be presented at the March Board meeting.

The following points were raised in discussion:

- Cyber security was an example of an area where the Board would be presented with a difficult choice; whether to prioritise funding a full solution (and if so, across what timescale), or alternatively, to agree the minimum acceptable spend on monitoring and detection in readiness to act should the risk escalate. The risk exposure associated with the latter needed to be clearly conveyed if this were to be accepted.
- ZP agreed that there needed to be a structured approach to considering priorities. ZP asked what the next three years in mails performance looked like and whether a downward trajectory was anticipated. ZP welcomed greater detail on retail and lottery.
- AC referenced the incoming pricing changes across Royal Mail products, which were more complex than in previous years. Although newly competitive pricing would be beneficial, it was difficult to predict how the market would shift, what the volumes would be and the flow through to Postmaster remuneration.
- CM provided an overview of the outlook in mails. It was important to recognise that mails was made up of a number of distinct products and services. Pick Up Drop Off (PUDO) was showing an upward trajectory. As we prepared to scale up the service, we needed to operationalise lessons learned during the pilot scheme to optimise the proposition. Home shopping returns were performing well and expected to grow. Core mails products, however, were in decline. The complexity of the tariff changes was taking some time to work through. Gift cards sales had been impacted by Covid and the end of a guarantee provision in the contract. Supermarkets were our main competitor in this regard and benefitted from longer opening hours. AC believed that POL and Postmasters made a profit on nearly all of the mail products, with the exception of a few which were conditional under the Royal Mail contract. A detailed breakdown of projections would be presented to the Board at the July strategy day.
- CS asked what consideration had been given to stopping certain services or products, particularly whether we should cut our losses in some underperforming areas to reinvest fully in other areas guaranteed to generate a return. AC explained that margins across products were variable, particularly the percentage split with Postmasters. Citing the lottery by way of example only, AC explained that although the revenue to POL was relatively small, for Postmasters it was more important as they received circa 90% remuneration. Conversely, banking deposits were more time consuming for Postmasters but were a crucial component of profit and growth for POL. Work was underway to re-evaluate these value splits. AC had asked the business unit (led by Zdravko Mladenof) to demonstrate the impact of SPM in this area. We needed to understand the incremental cost of building some of the marginal products into SPM, taking account of the technical build costs. For example, how many currencies should we continue to offer given the build cost and impact on Travel sales. NR supplemented that at a strategic level, there were three components to this discussion; (i) understanding which products and services POL should focus its operations on (the last McKinsey review had identified cash and banking; mails and parcels; travel and bill payments as key markets accounting for circa 86% of all income generated); (ii) looking ahead to FY 2023/24 onwards, the impact of SPM posed new questions; such as which products and services should be transferred onto the cloud, how would we facilitate transfer and how sophisticated would it be, where were the commercial interplays. We already knew that it would not be possible to transfer all 167 products and services due to funding constraints meaning important commercial decisions would need to be made; (iii) we needed to re-evaluate and re-





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- balance the percentage split in remuneration for Postmasters. Developing this strategy would be a key focus area in the coming months.
- CS asked whether alternative funding (referred to in the report) was now an option and if so, on what grounds. AC explained that recourse to private loans was not an option, as it would potentially be outside of Treasury rules. AC referenced the recent partnership with Yoti (Digital Identity) as an example of a business model which had enabled the Post Office to stay in an emerging market, which otherwise would have been challenging to sustain a presence in alone. New opportunities were being explored to work in partnership with other providers, Amazon being an example. Although conceptual at this stage, the business was exploring the extent to which partners might fund initiatives in the network, support marketing campaigns, or co-fund technology solutions. This had not yet progressed to discussions and would be subject to the shareholder being comfortable with the arrangements.
  - BG noted the significant transition from the original budget submission to the current draft and asked how confident management could be in delivering the outturn, given the balance of risks / opportunities attached to it. AC confirmed that this budget submission was a work in progress, subject to further refinement. As part of the ongoing reprioritisation exercise, management was working closely with the business to identify areas where spend should be withheld and to understand the impact of these decisions.
  - SI believed that the proposed Postmaster remuneration was unsatisfactory, particularly as it was not guaranteed. SI observed that the proposal was against a backdrop of an already challenging environment for Postmasters, as businesses emerged from the pandemic and faced into higher business rates and utility costs. SI believed that this would result in high levels of churn and attrition across the network. SI suggested that linking Postmaster remuneration to profitability (similar to employee bonuses) would be a fairer approach and reinforce the shared values 'we work in partnership, we are one team, we deliver'. AC agreed that this concept was compelling and had been explored by the Group Executive. There would, however, be a great deal of complexity involved in changing contracts to restructure remuneration in this way. Such change would be subject to consultation and could not be delivered within a short timescale.
  - SI questioned whether we had anticipated the complexity of pricing changes ahead of the new Royal Mail agreement. Turning to other contracts, SI was supportive of reviewing existing commercial contracts with a view to renegotiating improved terms and value as businesses emerged from the pandemic. Responding to earlier discussion on PUDO, SI acknowledged that although it was beneficial to keep in-step with competitors providing similar services, it was important to note that profit generation for Postmasters was limited unless volumes significantly increased. SI concurred with AC's analysis around the value of lottery for Postmasters, which supported cash flow in branch. **Responding, CM offered to meet with SI outside of the meeting, to go through the Mails Distribution Agreement 2.** AC added that Banking Framework 3 had recently been agreed and work was underway to update the value share for Postmaster remuneration potentially from 1 January onwards, particularly on deposits. SI noted that banking remuneration for Postmasters had been static since 2019 and encouraged update without delay.
  - BT welcomed more detail on the constraints around self-funding change. BT asked whether the consequences of not hitting the **IRRELEVANT** profit target were understood and whether different approaches to Postmaster remuneration had been considered, given the variable nature of branches, their product mix and customer segmentation, which affected income.
  - AC explained that the **IRRELEVANT** target had recognised a reduced level of income as it had become apparent that some of the planned cost reductions were unaffordable. There was a direct correlation between trading profit and funds available for change spend. The

**Action: CM**



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capacity for change spend would become clearer once the funding agreement was finalised. Our ability to invest in change went to the heart of commercial sustainability. AC was confident that a return on investment in change could be realised within a three-year timeframe; facilitating cost-cutting measures and supporting growth initiatives. A lack of funds, however, curtailed these opportunities. AC provided an overview of the components affecting Postmaster remuneration and work to evolve the structure. AC explained that the current payment model was linked to effort but acknowledged that the balance of remuneration was not always consistent across locals and mains due to differing demographics.

- LH agreed with the general consensus that the relatively short-term nature of the funding agreement and its implications for the budget were challenging and would limit investment in sustainable growth. SPM would be crucial to rebuilding the lifeblood of the Post Office. LH cautioned against replicating the status quo; a pivotal point of failure in transformation. Difficult choices would shortly need to be made. It was acknowledged that we needed to invest in the commercial expertise and experience needed to navigate this crucial transition. LH recalled for the Board the Internal Audit recommendations around governance, challenge and decision-making forums, particularly the speed of decision making on SPM. In addition to technology, sound commercial decision-making would be key to successful delivery as options were limited by funding constraints. AC confirmed that these were live conversations. We also needed to understand the real costs of building products into the programme. AC submitted that SPM was not a digital transformational project, although it would represent significant change for Post Office, as it left Horizon. LH agreed, adding that in addition to budget constraints, there would be limited time to build, test and roll-out SPM. Options would be limited, which further placed a heavy reliance on making the right commercial choices at pace.
- Recognising that SPM had been identified a top priority, attracting significant spend, CS emphasised the importance of ensuring that there was absolute clarity on the programme deliverables and that there was visibility of key commercial decisions at Board level.
- Responding to a request from TC, **it was agreed that AC would assist to circulate the Interpath reports to Board members.** **Action: AC**

The Chairman summarised debate. There was a shared consensus amongst the Board members that POL was navigating challenging circumstances. Funding constraints had necessitated a prioritisation exercise which would present difficult choices in order to shape a realistic plan. Given that we had a set of products, where the structure of the revenue was largely determined, we had to consider how and where we could reshape our cost structure. Management had asked for a steer on priorities. Decisions on Postmaster and employee remuneration were key components. Within Postmaster remuneration, further consideration needed to be given to the value share across the network and whether the existing structure could be evolved, for example hypothesising an override adjustment to guarantee minimum returns.

Looking ahead, although we had made reasoned assumptions about trading in an uncertain economic climate, we could not be certain of the reality of trading and how it would translate to cash generation. This in turn would impact spending decisions, particularly those affecting people and change. Within the change portfolio, the Board required management to clearly articulate spend which was deemed critical as this would be prioritised in H1. Given the significant macro-economic uncertainties, it was recognised that there needed to be an element of contingency built into the spending plan. We would need to review forecasts,



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using actuals during the year, to confirm the available change budget ahead of finalising H2 spending decisions.

Taking the proposed 3% pay increase for employees as an example, the Board needed to understand what the impact of increasing it would be on a percentage points basis. The Board was also sensitive to how difficult decisions around pay would be perceived by employees and affect relationships with trade unions. Similarly, the Board needed to understand the impact of increasing SPM budget on a percentage points basis. How would changes in these areas flow through to the surplus available for change spend and commercial sustainability. There also needed to be provision for recruitment to business-critical roles, such as the commercial expertise needed in SPM. Management would prepare to address these questions ahead of the March Board, when budget discussions would reconvene and further Board discussion on risk and resilience versus spend could be expected. It was acknowledged that options would be limited. The Board asked that management clearly articulate the consequences of recommendations to stop or defer activity.

Looking ahead to the finalisation of the funding agreement and approval of the 2022/23 budget, discussion on the three-year plan would be critical to transitioning the business from short-term recovery to a sustainable commercial foothold in the longer term.

The Board NOTED the draft budget 2022/23 report, noting that an updated budget proposal would return to the Board for consideration in March 2022.

**3. POL Public Inquiry Budget 2021/22**

The Board received and NOTED the report 'Public Inquiry Budget 2021/22' dated 22 February 2022. At the invitation of the Chairman, FC provided an overview of the report, setting out the level of spending 2021/22 year to date and in addition, the expected spend for February and March 2022. The Board noted that the scope and direction of the Inquiry had substantially changed since its inception and the core assumptions underpinning the Inquiry budget had now been updated accordingly. Work on the 2022/23 Inquiry budget was underway. FC provided a high-level overview of the controls in place to monitor costs, detect any duplication of work and ensure governance around new or additional activity. Budget versus costs reviews would be scheduled on a 3 monthly basis, at Board level or delegated as the Board saw fit to Investment Committee.

The Board RESOLVED to **APPROVE** [IRRELEVANT] to the end of March 2022, comprising [IRRELEVANT] relating to November 2021 – January 2022, less [IRRELEVANT] carried over from the prior approved funding of [IRRELEVANT], and [IRRELEVANT] cost forecasted for February and March 2022.

**4. Belfast Exit Expenditure for March 2022**

The Board received and NOTED the report 'Belfast Exit – Update and Interim Funding Request' dated 22 February 2022.

A further programme update would return to the Board on 29 March 2022.

The Board RESOLVED to **APPROVE** a drawdown request for £2.6m capital expenditure to fund delivery activity for the Belfast Exit Programme until the end of March 2022.

**5. Any Other Business**

There being no other business the Chairman declared the meeting closed at 11.15am.

Board Minutes from 22.02.2022 (approved on 12.07.2022)



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6. **Date of next scheduled meeting:** 29<sup>th</sup> March 2022.

**TIM PARKER**

Chairman

15/07/2022 09:08

**Voting Results for Board Minutes from 22.02.2022 (approved on 12.07.2022)**

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

<b>Vote Response</b>	<b>Count (%)</b>
For	1 (100%)
Against	0 (0%)
Abstained	0 (0%)
Not Cast	0 (0%)

**Voter Status**

<b>Name</b>	<b>Vote</b>	<b>Voted On</b>
Parker, Tim	For	15/07/2022 09:08