

Briefing Note for Brian Gaunt, Non-Executive Director – January 2022**1. Overarching strategy**

Nick Read joined as CEO in September 2019 and led work on Purpose, Strategy & Growth¹ in discussion with the Board. That work identified strengths, weaknesses, challenges and imperatives for change. These outputs have been further developed leading to a strategy that focuses on the core services and building a modern franchise partnership.

Post Office strengths:

- Trusted institution (58% of consumers give it a rating of 8+ out of 10). Strong ratings on reputation, service and convenience in parcels
- Branch network convenience for mails and parcels (65% of participants in our customer survey agreed or strongly agreed that they had a PO branch close to their home/office vs. 50% for our best competitor)
- Access to basic banking services (8 million customers annually)
- Businesses outside our core (financial services, insurance, telecom) that make a large contribution and which, delivered through digital channels, are a proof of concept of our ability to deliver platform plays, leveraging our brand and access to customers.

External challenges:

- Competition in parcels
- Decline in use of cash (UK cash payments fell by 16% from 2017 to 2018)
- Difficulty of attracting and retaining younger customers and SMEs (relevance of Post Office and trust in it is lower for younger customers. There is a gap for SMEs in the ease of service offered and quick access to staff.)
- Aside of travel money and travel insurance Post Office has not established financial services as a medium-term growth engine for consumers or SMEs. Credibility needs to be established on expertise, ease of use and an awareness of the products and services being offered by Post Office. There is also a “negative halo” associated with poor branch experience which makes consumers sceptical about Post Office’s digital services
- Digital and gig economy competitors with a low-cost base, agility and focus on volume over profitability.

Imperative to modernise Post Office as an organisation:

- high-cost operating model, with limited deployment of process digitisation or analytics. This means that there are currently ~3,850 FTEs in POL against a potential longer-term target state of c1,700 (post the completion of DMB franchising).
- Post Office isn’t a compelling proposition for retailers with processes and systems seen as onerous while trust needs to be improved with Postmasters
- Diversification has led to a complicated set of products. Mails & Parcels, Cash & Banking and Financial Services account for 76% of FY2019/20E direct contribution (including PayZone), but managerial focus, best PO team capabilities and change budget do not reflect this, with topics such as BillPay (including PayZone) and Identity (respectively 1% and 3% of FY2019/20E direct contribution) taking disproportionate oversight and investments
- Bottom quarter organisational health index compared to relevant peers with particular gaps in clarity of strategic direction, role clarity, personal accountability, external/competitor orientation and innovation (the Board has asked for this exercise to be undertaken again to see how much the dial has shifted since 2019/20).
- dependence on third parties for technological needs with low maturity in vendor management capability (Horizon costs = ~£90m vs. initial benchmarks of ~£50-60m)

¹ Supported by McKinsey.

- Unsustainable physical branch network to self-fund. [IRRELEVANT] [IRRELEVANT] predominantly driven by the need to support our geographic and access criteria, alongside some legacy fixed agent pay contracts
- reduction in change funding [IRRELEVANT] GLO reserve funding in FY2020/21). There was an envelope [IRRELEVANT] after delivering projects required to “keep the lights on”. The FY2021/22 change spend budget is also restricted and there are many competing priorities.

Clarifying our purpose:

- **Thriving postmasters** a) increasing our efficiency to offer valuable, competitively priced services b) focusing and innovating to maintain our lead in core markets in the face of competitive disruption c) re-thinking our support and franchise model for our postmasters to better serve their needs.
- **Ease and access** (a) Services and products that are easy to use and make our customers lives easier. b) access to services they wouldn't otherwise have access to without Post Office's physical and digital presence (esp., mails & parcels and banking)
- **Service oriented central support.**

Post Office Limited's (POL) multiple business and product lines can drive complexity² but out of a total revenue of £951m in 2020, £366m [IRRELEVANT] was delivered by Mails & Parcels and £188m [IRRELEVANT] by Cash & Banking Services. Clearly there are no simple choices as other products and services help drive footfall into branches and deliver revenue and profit, while the allocation of costs associated with particular products is not always straight forward. Additionally, we need to maintain a branch network of at least 11,500 to meet the access criteria attached to our funding agreement with Government; these services in turn help to distinguish POL as a retailer which provides vital services to customers who might otherwise be excluded, an important aspect of our brand. The discussions at last year's strategy sessions³ set out the focus for the next few years on developing the retail network and the core services of Mails & Parcels and Banking. Other services will support the core but the limited investment funding available will be directed to the core as well as critical IT projects. Non-core services will shift more to partnership or branding arrangements which have limited investment requirements. The focus of activity broadly maps to three areas: 1) Re-setting and fixing the past (Cultural change; fit for purpose network; right sized cost base; 21st century tech; Historical Matters Business Unit work) 2) Building foundations for POL (entrenching Mails & developing PUDO; Cash & Banking; Commercial Relevance) 3) Self-sustaining commercial (platform products).

The strategy sessions on 27th & 28th July 2021 focussed on this and preparing for the Autumn funding submission.

[paper link – July Strategy papers & subsequent updates].

2. Fixing the past

Group Litigation Order (GLO)

In 1999/2000 POL introduced a computerised electronic point of sale system, Horizon, which Postmasters were required to use in their branches. The Horizon System required sub-postmasters (SPMs) to account for stock, sales and takings and, as part of the balancing process, identify

² Regulatory demands stretch on management time, challenges in prioritising competing demands for investment and resource etc, working out what is really adding value.

³ The Board has dedicated strategy days each July.

shortfalls or discrepancies. Under the terms of their contracts, SPMs were required to make good any shortfalls out of their own funds.

In April 2016, a High Court claim was issued against Post Office. The litigation⁴ was between Post Office and a group of 555 mostly former Postmasters⁵; it involved complex technical, operational and contractual matters. In March 2017 the Court issued a Group Litigation Order, a procedural tool to enable the Court to manage litigation affecting multiple parties. The Judge ordered that the case would be heard in a series of trials. Until 2013 POL had sought to prosecute cases for theft, fraud and false accounting⁶. Some settlements were paid under a mediation scheme in 2013 and under the Network Transformation Scheme leavers were offered 26 months' worth of earnings.

Mr Justice Fraser, the managing judge across the trials in the GLO, handed down his judgment on the Commons Issues trial in March 2019 and on the Horizon Issues trial in December 2019⁷. Both judgments were very critical of POL historically and while the current Horizon system was seen to be reasonably robust the legacy systems were not. The Judge was also critical of the approach POL had taken to the GLO. The POL Board lost confidence in the approach being taken to the litigation. HSF was instructed together with new Counsel and following a constructive mediation process, which involved Nick Read as the new CEO and Ben Foat as the General Counsel appointed a few months previously, a settlement was reached with the claimants in December 2019 thereby ending the litigation.

Settlement

The settlement agreement reached was at a cost to Post Office Limited of £57.75m, inclusive of the £5.5m Common Issues Judgment costs. The distribution of that sum was for the claimants and their backers to determine but there has been discontent about the limited sums received by claimants and a campaign for further compensation, particularly in light of the Court of Appeal's ruling on 23rd April 2021, is ongoing and is spearheaded by Alan Bates. Post Office Limited has publicly supported these claimants receiving additional compensation. Part of the settlement agreement was that POL would set up a compensation scheme for historical shortfalls.

Compensation Schemes

The Historical Shortfalls Scheme (HSS) was developed and launched in May 2020. A Stamps Reconciliation Scheme was subsequently set up in July 2020. The HSS window for applications has closed and those claims are being worked through by an independent panel with Board and Shareholder oversight. The process is for a settlement offer to be made to a claimant who may choose to accept or reject that proposal. Following the approval of the Funding Agreement with BEIS for 2021/22 on 18th March 2021, the Board approved the first settlement offers being made for de minimis claims under the HSS subject to being sighted on those claims. The first test cases for different types of claims (shortfalls only, consequential losses. Quantified, partly quantified and unquantified claims) have been reviewed by the Board and the BEIS SteerCo and have been reviewed by the Independent Panel. Once the Panel has provided its views on how it intends to approach various matters (e.g. D&I awards), Herbert Smith Freehills has drafted a set of principles which help guide how the case summaries are prepared and how the claims are reviewed by the

⁴ Alan Bates & Others v. Post Office Limited

⁵ 61 of whom had been prosecuted through the criminal courts

⁶ There were also two cases involving Horizon evidence in 2015.

⁷ The trial ended in July 2019.

Panel. Extra resource and focus are being placed on accelerating offers being made through the HSS. At the 31st December 2021, settlement offers had been issued for 33% of the HSS claims.

POL also set up a Historical Matters Business Unit (HMBU) in September 2020. The aim of this was for all historical matters to be dealt with by a dedicated team to include overseeing the management of the compensation schemes⁸; the ongoing litigation (criminal and civil), supported by internal and external lawyers; obtaining assurance on conformance with the judgments; and, since the announcement of the Public Inquiry (Independent Review into the Post Office Limited Horizon IT System. [[HYPERLINK "https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020"](https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020)]), co-ordinating POL's response to this. It also meant that the HMBU could be tasked with "shining a light" on any operational issues that still needed to be addressed. A further aim of the HMBU was to allow management to focus on the running and development of today's business. Inevitably, the HMBU needs support from the business to provide information and understand processes. Since it was announced that the Inquiry had been set on a statutory footing it was decided to set up a separate team to respond to this supported by an Inquiry Director and Fintan Canavan has been appointed to the role on an interim basis (he is a partner at a law firm and has previous experience of Public Inquiries). The Chairman, the Shareholder representative and some of current Group Executive, as well as previous employees and office holders, are likely to be required to provide evidence to the Inquiry; for current office holders and employees this will include reporting on the improvement work that has been undertaken and the roadmap for future improvements. Simon Recaldin has recently joined as Historical Matters Director (the initial postholder was on a fixed term contract which ended at the end of July 2021). Ben Foat, General Counsel, is overseeing both workstreams and the HM Director and Inquiry Director report to him. The Board Committee on Historical Remediation, chaired by Ben Tidswell, helps the Board in discharging its responsibilities in dealing with the criminal and civil cases as well as the compensation schemes.

The programme of improvement and conformance work is extensive and linked to organisational cultural change and the development of partnerships with Postmasters and multiple franchisees as much as it is with processes and procedures. Third party assurance of the work we are doing has been secured, with a report on conformance and gaps with the Common Issues judgment provided by Norton Rose Fulbright; a report on the work required to achieve conformance with the Horizon Issues judgment from KPMG; and an overarching report on improvement work required from Deloitte. An Improvement Development Group is overseeing and tracking all of these workstreams at executive level, established to ensure a separation between those charged with delivering the work and those assuring it. Board oversight of certain matters will continue and it will receive updates at each scheduled meeting. Details can be found here: [Historical Matters papers to 30 November Board 2021 meeting](#)].

The Board also retains oversight of the work of the HMBU and certain decisions are reserved to the Board, particularly where principles are being established or precedents will be set because of the decision taken.

Court of Appeal and Crown Court cases

On 26th March 2020 the Criminal Cases Review Commission (CCRC) referred 39 cases prosecuted by POL to the Court of Appeal Criminal Division (CACD) while still reviewing a further 22 cases. These

⁸ An independent panel has been set up which recommends the settlement offers but the overall financial envelope for the HSS claims must be approved by the Board prior to discussion with the Shareholder.

were cases originally tried in the criminal courts. Six cases were also referred to the Crown Court. These were cases which were originally tried in a Magistrates Court. A further two Crown Court cases were subsequently referred and the Board decided not to oppose these cases on public interest grounds at its meeting on 29th April 2021.

The CCRC set out its reasons for the case referrals in a Statement of Reasons (SoR) in June 2020. The SoR drew heavily on the judgments from Fraser J. As the private prosecutor in these cases POL had a duty to respond. POL also had a duty to review what information it held that might be relevant, not only to those whose cases had been referred, but to all those prosecuted. That review (the Post-Conviction Disclosure Exercise) is near conclusion and bundles of information (both generic and case specific) have been issued. By January 2021 more than 3.8 million documents had been reviewed.

The Board reviewed the cases referred to the CACD and to the Crown Court individually over two days in September 2020. A trinity of issues riddled most of the cases: unreliability of the historical Horizon system (a finding in law following the Horizon Issues judgment); disclosure failures (e.g. in many cases not providing information such as Horizon transaction data) and poor investigation practices (e.g. starting from the premise that the Horizon data was correct with the burden resting on the Postmaster to prove otherwise). The Court considered arguments for limb 1 abuse of process (not able to receive a fair trial) and limb 2 abuse of process (not fair to try). The Board determined to concede limb 1 abuse in 39 of the CACD 42 cases and oppose in three cases which were not reliant on Horizon data. In four cases the Board also thought that limb 2 abuse of process was evidenced because of the improper use of plea bargaining. The benchmark for such a finding is high as limb 2 abuse of process is an affront to the criminal justice system. On 23rd April 2021 the CACD handed down its judgment which found both limb 1 and limb 2 abuse of process in all 39 cases. In essence, it found that issues with the Horizon system, which had had “teething” issues from its introduction in 1999, the disclosure failures and the poor investigation practices were so bad that they amounted to an affront to the public conscience (i.e. the reasons for finding limb 1 abuse and limb 2 abuse of process were the same because of the severity of the failings). The CACD dismissed the 3 cases that POL had opposed. Public apologies were made when the settlement was reached in December 2019 and following the CACD judgment. Letters of apologies were sent by the Chairman to the 39 Sub-Postmasters whose cases were overturned. POL has publicly supported the need for compensation while acknowledging that the damage done cannot be undone.

Since then, the Board, and subsequently the Historical Remediation Committee, have considered further cases referred to the CACD, more of which have been opposed because the cases were not reliant on Horizon data and had characteristics close to the 3 cases previously opposed. Further tranches of cases will continue to be referred to the CACD and Crown Courts and POL has a duty, as the original prosecutor of the case, to submit a Respondent’s Notice in each case confirming whether or not it will oppose the appeal.

In the Crown Court cases the Board did not oppose any of the six cases initially referred on public interest grounds and these cases have since been quashed. Further cases have been and will continue to be submitted.

The approach between the CACD and the Crown Court differ. The CACD is focussed on the safety of the conviction and is not re-examining the evidence but where a case is referred to the Crown Court and the original prosecutor opposes the conviction being overturned the case would need to be re-prosecuted. The prosecutor must follow the Crown Court guidance for prosecutors which includes an evidential test and a public interest test. In the former, POL has to consider factors such as how long ago the cases were prosecuted and how much evidence is available; in the latter, POL has to

consider factors such as whether it would be in the public interest to re-prosecute, which could, for example, include that an individual had already served a sentence. In cases dependent on Horizon data the Board would not seek to oppose given the judgment's findings on the potential unreliability of the system.

In most instances referrals for Crown Court cases will be made by the CCRC but cases previously tried in the criminal court will normally be referred direct to the CACD. A further 672 cases were prosecuted so there is a large pool of Potential Future Appellants (PFAs) and the Board will not oppose any cases which are Horizon dependent on either limb 1 or limb 2 grounds.

Civil claims

Following the overturning of cases in the CACD and the Crown Court POL will face civil claims. This could include claims for malicious prosecution and breach of good faith duties⁹. The Board will continue to receive legal advice and has received initial advice from Counsel in respect of malicious prosecutions. The Board has made plain that where an injustice has been suffered an individual should have access to recompense. Alan Watts of HSF has been in close contact with Hudgells, the solicitors representing many of the claimants, to discuss the claims, approaches to compensation and the interim payments. The first settlement offer has recently been made. The Board has also invited and made interim payments of up to (and usually) £100k (funded by Government) to those individuals whose cases were overturned by the CACD on grounds of limb 1 and limb 2 abuse of process. 66 applications for interim payments have been made for the 72 overturned cases and in most cases payments have been agreed and made.

The size of the claims collectively (including those for the HSS) means that POL will not be able to meet the costs and Government will need to meet the costs of the claims, though POL continues to pay its legal costs. This has naturally impacted on the funding position and consideration of the going concern status of POL, as well as the funding discussions with Government, Shareholder oversight of POL and the assurance it needs around decisions being taken, particularly where these set a precedent or are "novel and contentious". A funding commitment letter was approved in December 2021 which confirms that BEIS will provide funding to POL of up to £685.6m to settle Overturned Historical Conviction claims. This is in addition to the £94.4m provided in July 2021 for Interim Payments, such that the funding across both commitments is £780m.

Public Inquiry

An Independent Review into the Post Office Limited Horizon IT System, led by Sir Wyn Williams, a retired judge, was announced on 29th September 2020 ([[HYPERLINK](https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020) "https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020"]).

POL has been responding to now circa 218 questions from the Inquiry Team and providing materials.

On 1 June 2021, the Post Office Horizon IT Inquiry ("The Inquiry") became a statutory inquiry with expanded Terms of Reference ("ToR"). The expanded ToR enable it to consider the recent judgments from the Court of Appeal Criminal Division ("CACD") and other historical practices of Post Office.

On 11 June 2021, Sir Wyn published a new Statement of Approach ("SoA 4") to provide details on how the Inquiry would proceed - a summary for which is provided below.

- The Inquiry will operate under the Inquiries Act and Rules.

⁹ This could include claims for shortfalls, loss of remuneration, personal injury and stigma.

- Segun Jide from the Government Legal Department has been appointed as Solicitor to the Inquiry, with Jason Beer QC of 5 Essex Court and Julian Blake of 11KBW as Counsel.
- There will be an enlarged Inquiry team, an independent website, a document management system for review and disclosure to Core Participants and a venue for the public hearings and for the Inquiry to conduct its work.
- The Inquiry team are drafting 'Protocols' to address outstanding issues such as Redactions and Document Handling, Restriction Orders, Costs, and Anonymity.
- Alongside the formal hearings¹⁰, there will be a process for people to "tell their story" to contribute to a better understanding of the human impact.

Initially, the Inquiry was aiming to submit its findings to the Secretary of State for BEIS in Autumn 2022 but that timetable has moved and it now seeks likely that oral hearings will take place in two stages from April through to July 2022, and from September to October/ November 2022. The report is unlikely to be published in 2022.

The response to the Inquiry will be a major focus for the organisation over the next year and more but this is not just about the past, it is also about making improvements for the future. Whilst conformance with the findings of the judgments is essential and a legal requirement more is being done. A wholesale shift in the ways of working is taking place through a transformation programme that aims to make POL postmaster centric, which in turn promotes a customer centric approach.

The POL Board agreed to waive legal privilege over materials relevant to the Inquiry's Terms of Reference. Other core respondents have also waived privilege.

Starling

3. Core products and services:

Mails & Parcels

IRRELEVANT

IRRELEVANT

A series of engagement events and communications also took place over the summer. Our new Postmaster NEDs, Elliot Jacobs and Saf Ismail, were involved in helping us understand the feedback, shape the communications and consider options to address concerns.

Separate to MDA 2, but also raised as a concern, is the disparity in rates between Post Office “Locals” and “Mains”, with the latter receiving higher rates. Postmaster costs having been increasing because of things like increases in the minimum wage and “Locals” sometimes need to employ staff to run the Post Office side of their business.

IRRELEVANT

IRRELEVANT

4. Other services that support the core:

IRRELEVANT

IRRELEVANT

IRRELEVANT

IRRELEVANT

5. Areas of focus:

Statutory Inquiry

The Statutory Inquiry process has been described above and as well as ensuring conformance with the judgments, POL wants to change its culture to reflect that its employees are here to support the work done by Postmasters and to work with Postmasters to build a modern franchise partnership. This has several strands:

Culture

POL wants to develop a Postmaster centric culture. This is at an early stage and will continue to evolve but the steps towards this include:

- *Postmaster consultation* – this was run at the end of 2020 and the findings were analysed by Quadrangle, the firm supporting the process. Six areas were raised by Postmasters as top priorities for improvement: 1) Remuneration, 2) IT systems and processes, 3) Communication, 4) Training, 5) Access to senior management and 6) Innovation and working groups. Co-creation sessions on the priorities have been held with Postmasters. There will be regular surveys and it will be important to check whether the improvements being made to processes etc are making a positive impact and see where there's work still to be done. A number of forums and co-creation groups have also been set up. Area managers will continue to engage, feedback and seek to resolve issues. Postmaster roadshows and conferences will continue. The Senior Leadership population will continue with the "Adopt an Area" initiative so they can listen, discuss and seek to understand the key issues for Postmasters to factor this into decisions made. All employees have undertaken the "Week in the life of a Postmaster" sessions to build an understanding of what it's like to run a branch. Two Postmasters joining the Board as statutory directors is also helping to apply a Postmaster lens when taking major strategic decisions. In addition to this a Postmaster director (who has been a Postmaster) had to appointed to support the transformation work and Postmaster engagement.
- *Organisational ways of working* have been developed and rolled out, informed by colleague listening groups and Pulse surveys.
- *Postmaster communications and support* - Support materials for Postmasters have been overhauled and the Onboarding process has been streamlined (but with an ongoing drive to reduce the average onboarding time further and keep simplifying the process). The development of Branch Hub (including the "We're Listening" function, an ordering facility and branch MI) is seen as an important resource. A specialist customer service team has been added to the Branch Support Centre and customer satisfaction scores will be included in the metrics. Work on developing new contracts will take place over the next few years.

Developing as a modern franchise

The Board discussed the network strategy in depth in its strategy sessions in July 2020 and has had regular updates and discussions since then. The principles underpinning the changes include:

¹¹ Partly linked to termination fees in the contract with Fujitsu, the provider.

- **continue to meet the six access criteria** to safeguard access across the UK, maintaining a commitment to rural & urban deprived communities. Prior to COVID the plan was to expand the network to circa 12,000 branches as the new formats come into place and the new definition of a Post Office agreed with our Shareholder gives us the scope to open new express formats which can offer a smaller range of services; this has been challenged by COVID and further put under pressure by the (yet to be concluded) funding settlement for three years from April 2022. Branch numbers are close to 11,500 again but with greater use of outreach services
- **rebalance the network to areas of higher customer demand**, partly funded by a shift away from c.2000 loss-making branches which account for 1% of total customer visits (75% of income is concentrated in 4000 branches)
- **run on a fully franchised basis**, with the remaining DMBs replaced to meet customer demand (currently paused because of funding constraints and discussions with the CWU on a range of issues)
- **greater flexibility** in how the product offering, technology solutions & operating model for each branch is tailored to the needs of the postmaster and the local market
- **a compelling overall franchise proposition.**

The focus will be on delivering mails, banking and other essential services to customers and small business across the UK.

Levers to deliver the strategy:

A new network blueprint – geospatial modelling has been used to help plan the network with an initial focus on expanding coverage in over 1,800 identified ‘whitespace’ locations, which will allow us to move away from the c2000 loss-making branches that only account for 1% of customer visits

A more flexible formats range – addressing the retailer wish for simplicity, ability to integrate better with their business and remove the need for dedicated staff and counters

Modern franchise arrangements - underpinned by a tiered operational model with different levels of account management, planning, training and marketing support to allow both sides to reduce costs and increase sale.

Stronger strategic partnerships – with major retailers but also including the upgrading of suitable Payzone partners.

The priorities set for 2021/22 were:

- Meeting our network obligations and managing churn as efficiently as possible in the context of continued coronavirus uncertainty**, offsetting forecast churn of over 350 branches and minimising the number of ‘regretted’ solutions (like outreach) ahead of the new formats coming on stream from Q3.
- Delivering the first phase of expansion into new locations using our new SPM-enabled propositions**, thereby supporting our PUDO growth ambitions and providing the headroom we need to manage churn more effectively and tackle legacy formats with 400 ‘Express’ outlets by March 2022.
- Work was proposed on **reshaping the existing network to address ‘wrong format’ branches, including**, closing & replacing a further 84 DMBs [now paused], replacing over 200 existing legacy contract branches, converting around 30 Mains to Locals (instigated by the postmaster) and starting the process of optimising the outreach network but some of this work may be delayed, partly due to funding constraints, partly because of our discussions with the CWU on the owner/ worker contract and partly because closing DMBs is always contentious with the public and MPs.

Thought is also being given to how we better categorise our products and offerings:

1. 'Core' products are mass-market and sold face-to-face by our Postmasters. These deliver our Government mandate for universal services, and are primarily made up of Mails, Banking Services, Bill Payments and Travel. Key features include clear customer propositions, intuitive end-to-end Postmaster journeys, and replicated systems and processes across multiple branch products to minimise training and points of failure.
2. 'Range' products improve the attractiveness of the Post Office franchise to existing and prospective Postmasters or franchisees. These drive Postmaster economics either directly (through commission) or indirectly (through footfall). Examples of 'Range' products are: Lottery, Gift cards, MoneyGram, and Postal Orders. Key features of these products include minimal financial investment and focus on Postmaster benefits such as footfall, income and simplicity.
3. 'Platform' products are primarily digital or online propositions, managed by suppliers or partners, which drive Post Office contribution and require minimal management bandwidth and/or investment. There is flexibility for Post Office to build, maintain or sell 'Platform' assets depending on requirements. Examples of 'Platform' products are: Insurance, Retail Banking and Digital Identity. Key features include low/no effort for Postmasters, driving income to re-invest in 'Core' products/Postmasters, and leveraging of Post Office brand equity.

DMB franchising

A moratorium was placed on DMB franchising during the pandemic and continues to be paused in the 2021/22 financial year. There are 115 DMBs and the timeline for completion of franchising depends on being able to meet customer needs, whether through a new franchise arrangement or provision of services through existing branches and having the funding to make closures.

Network

POL's strategy includes increasing the Post Office network to more than 12,000 branches. The Funding Agreement for 2021/22 included a new definition of a Post Office branch "

Branch means any outlet of POL that makes it possible for customers to access the Services of Public Economic Interest set out in row 1 of Schedule 6 (*SPEI Services*). An outlet of POL shall include any post office counter or any means of transacting one, some or all of the Services of Public Economic Interest at a third party premises and any other facility (including an "outreach" facility) designated for the transaction of business with members of the public by or on behalf of POL".

POL will not seek to remove services provided by existing branches but where branches are set up in new locations under the express format not all the services currently provided as core, such as cash, need to be provided. 400 express formats were originally targeted for March 2022. These have been re-branded as Drop & Go and a more modest 25 branches is now targeted for the end of the financial year. The express format will allow the network to expand and make running a Post Office more attractive for some retailers who may wish to provide a smaller range of services. We hope that some of our Payzone outlets will be able to benefit from this.

Funding

POL has a Funding Agreement with BEIS, its Shareholder¹², which sets out the access criteria POL must meet, such as having a network of at least 11,500 branches and providing access to core services, to secure the network subsidy¹³ and any additional Government funding to support investment.

BEIS approves the annual budget and plan and the four-year plan. A quarterly accountability meeting is held with BEIS and there are regular conversations with UKGI and BEIS as budget and strategic plans are developed. The Funding Agreement discussions align with the Government Spending Review which normally spans a three-year period but for 2021/22 the Funding Agreement reached was for one year only. This reflected the funding uncertainties across the public sector and by extension to government owned businesses as we emerged from the pandemic. The Funding settlement for 2021/22 was £227m. That was seen as a reflection of Government support for POL with Postmasters demonstrating the value of the services offered to so many people during the lockdowns as demand for Mails & Parcels grew and as Post Office was relied on more for banking services with bank branches closing. 90% plus of the network remained open through the period and by the end of the financial year 99% of the network was operating with 97% of the working hours of the pre-Covid period.

The draft funding plan for the three years from April 2022 was considered by the Board on 27th July 2021 before submission to UKGI/ BEIS in August. Further iterations were worked out prior to submission for the funding round in Autumn 2021. The ultimate funding request was for £415m but the Funding Settlement offered in November 2021 was £205m, which is far below the sum required to deliver Strategic Platform Modernisation and maintain a branch network of 11,500 and halts investment and development in a number of areas such as automation and franchising the remaining DMBs. Additional funding would need to be provided by our Shareholder, BEIS, at this point rather than HM Treasury, unless the restrictions on POL being able to borrow funds were lifted. A revised funding request for £380m [\[link to 30 November Board paper\]](#) was submitted following discussions with BEIS, whose policy objectives for Post Office include maintaining the current branch network and moving off the Horizon system to the cloud. We have explained that this won't be possible without the additional funding requests and why that's the case. The position is currently unresolved and has been escalated, including a letter from the Chairman and CEO, to the Secretary of State. It also means that the Annual Report and Accounts for 2020/21 have yet to be signed (a three month extension was obtained to 31 March 2021) and

Budget planning

Normally the executive start budget planning discussions in the Autumn with a draft budget and plan coming to the Board each January and a final version for approval each March. That pattern was

¹² Although BEIS is our Shareholder, UKGI is responsible for managing the relationship day-to-day and has a team that focusses on Post Office issues. Tom Cooper, the Non-Executive Director appointed by the Shareholder is a director at UKGI.

¹³ The payment is to cover the costs associated with meeting the access criteria and a Network Report is produced and laid in Parliament each year showing how the access criteria has been met. At certain points in the 2020/21 financial year a waiver was granted by Government on branch network numbers and on the security headroom buffer that would normally apply because of the impact of lockdowns on the trading position.

upset by Covid-19, lockdowns and the trading uncertainties that ensued, particularly with the collapse of the travel market (down 85% for POL at P11). The position with the funding of the litigation has also driven considerable uncertainties and the Annual Report and Accounts for 2019/20 were only signed on 25th March 2021 at which point a provision of £153m had been included for the HSS payments. As mentioned above, the 2020/21 accounts will not be signed until the end of March 2022. The 2022/23 draft budget will be considered at an additional Board meeting on 22nd February 2022 but the unresolved funding position makes drafting the budget a challenge.

Solvency

The combination of the impact of Covid-19 on trading performance, particularly in our FX and insurance businesses, and the costs associated with the litigation with a provision needing to be made retrospectively in the 2019/20 accounts as some of those costs crystallised, led to discussions about POL's going concern status and the danger of triggering a wrongful trading event. Close and careful attention has been paid to these matters and advice received.

The funding agreement for 2021/22 referred to above and a letter of comfort from BEIS meant that POL could still be regarded as a going concern. The position on going concern would be different for a company not owned by Government but the backing of Government carries a level of security that would not apply to a private backer. BEIS have also provided a letter of support which may be provided to any third parties with whom POL has a contractual relationship if they raise concerns about POL's financial position, providing that consent is obtained from Carl Cresswell at BEIS before doing so. As noted, the unresolved funding position for the three years from April 2022 means that these concerns are ongoing. We are operating from a position in which POL's liabilities exceed its assets on the balance sheet and are likely to do so for some time.

[REDACTED]

[REDACTED] However, Government has agreed to provide up to £685.6m to settle Overturned Historical Conviction claims. This is in addition to the £94.4m provided in July 2021 for Interim Payments, such that the funding across both commitments is £780m.

Facility Headroom and Security Headroom

We supply the cash for branches as well as our own working capital. Our borrowing capacity has three primary limits: a hard limit on what we can borrow from BEIS (a facility headroom of £950m but in practice £750m because the Board wishes to maintain a £200m buffer), a security headroom limit which ensures that branch cash and client debtors exceed borrowing from BEIS, and a limit on BoE borrowing based on cash withdrawals.

This security headroom is important to Government as it means that our borrowing is accounted for on their balance sheet as working capital not debt. We continue to seek to improve cash efficiencies but this has an adverse effect on our security headroom because less cash is held in branches. The security headroom position has been difficult over the past year when banking transactions have fallen etc. and we have obtained a waiver from BEIS twice. Security headroom will continue to be monitored closely.

Investment spend

The net result of litigation costs, the reduction in trading profits last year, trading uncertainties and a lower funding settlement than bid for in 2021 means that investment spend is limited and that will continue to be the case with a reduced funding settlement for the three years from April 2022. The Board considered strategic priorities in July but there is limited room for manoeuvre both because of the restricted funds available and some essential spend on “big ticket” items. This means that some investments POL would like to make have been paused and hard choices on priorities and sequencing have been made and will continue to need to be made.

Organisational design and right sizing

A new structure at Group Executive (GE) level and for their direct reports was introduced in April 2020. This was designed to support the strategy to build a modern franchise, be postmaster and customer focussed and also to avoid silo working. A new role of Chief Commercial Officer was created and Owen Woodley moved into this post. This brought together all of the business areas of Mails & Parcels, Banking, Financial Services and Identity Services. Ed Dutton, the MD of Post Office Insurance, is also part of Owen’s lead team. Previously the Retail and FS areas were managed separately but the new structure brings everything together and includes Chrysanthi Pispinis as the Commercial Strategy and Planning Director. At the same time Dan Zinner became Chief Operating Officer (n.b. Dan is leaving the business at the end of March 2022) and within his area a Retail and Franchise Directorate has been established led by Amanda Jones within which Tracy Marshall has been appointed as the Postmaster Effectiveness Director to support the Postmaster centric focus.

Two waves of organisational design changes with a reduction of 134 FTE with a **IRRELEVANT** benefit associated with Tranche 1 and 83 FTEs removed in Tranche 2 with an annualised benefit of **IRRELEVANT**. Ultimately the headcount will be significantly lower after the DMB franchising programme has concluded and after the technological and process changes needed to reduce headcount requirements in support functions have been implemented but this will only happen when funding allows for these redundancies. There will also be some areas where we need to build capability, particularly in IT with the SPM programme and developments in the digital space, and in contract management.

The focus for the 2021/22 FY and the 2022/23 FY is the Statutory Inquiry and the responses that will be required when it issues its recommendations, as well as the changes needed to better support Postmasters and built a modern franchise partnership. This means that any further reductions in head count will be managed on a departmental level in the short-term.

Belfast Exit and Strategic Platform Modernisation (SPM)

POL has a long-term contract in place with Fujitsu for the Horizon platform which, amongst other things, processes POL’s branch transaction data out of two dedicated data centres in Belfast. POL will migrate the hosting of the Horizon platform from these Belfast data centres to a modern cloud hosting environment and has set up an SPM programme to improve the quality, functionality and cost of our branch IT platform, ultimately delivering a next generation core IT platform to enable the digital transformation of our branch and on-line 23 operations.

A contract extension has been negotiated with Fujitsu for Horizon support beyond March 2023 on a 1+1-year extension. The approach to migration is not a “big bang”; elements will move off the Horizon onto the SPM platform in advance of the Horizon system being replaced fully. BAU work and Belfast Exit is being managed by Jeff Smyth, CIO, and his team. An SPM team has been set up

¹⁴ But with redundancy and programmes costs exceed the savings in the first year.

and is led by Zdravko Mladenov. Both teams meet regularly and are integrated with the business and its projects and plans to ensure alignment and effective prioritisation.

IT Towers

In addition to the Fujitsu Horizon contract, POL has in place contracts for: (i) End User Computing (**EUC**) with Computacenter which provides branch counter kit and support and computers and printers in our support centres (n.b. this is moving to DXC in March 2022); (ii) Network services with Verizon which provide connectivity to branches and contact centres for all our network traffic and network security; and (iii) Back Office services with Accenture supporting, developing and hosting certain back end systems other than Horizon. These arrangements were procured a number of years ago following the split of POL from Royal Mail Group, where POL had to quickly stand up its own enterprise-wide IT infrastructure and it did so in part by implementing a Towers model for these key IT service requirements just listed. These Tower services and providers were managed by a Services Integrator and Service Desk (**SISD**) provider, Atos. The SISD service expired last year, with POL taking in-house much of the services and functionality that Atos had been delivering. The EUC contract term has recently expired, although EUC services are continuing to be provided by Computacenter for a number of months as part of a contractual managed exit arrangement enabling POL to re-procure EUC services from the market. Aside from the Horizon and Tower contracts, there are a number of other strategically important IT contracts (e.g. Microsoft Enterprise agreement for all POL's Microsoft software, NCR for supply, support and maintenance of self-service kiosks (**SSKs**) etc).