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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 OCTOBER 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 AM

Present:	Tim Parker	Chairman **(TP)**
	Paula Vennells	Group Chief Executive **(PV)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Shirine Khoury-Haq	Non-Executive Director **(SK)**
	Carla Stent	Non-Executive Director **(CS)**
	Alisdair Cameron	Group Chief Financial and Operating Officer **(AC)**
In Attendance:	Veronica Branton	Head of Secretariat **(VB)**
	David Cavender	QC **(DC)**
	Andy Parsons	Womble Bond Dickinson **(AP)**
	Debbie Smith	Chief Executive Retail **(DS)** (items 6 & 7)
	Cathy Mayor	Finance Director – Retail **(CM)** (item 6)
	Martin Kearsley	Banking Director **(MK)** (item 7)
	Rob Houghton	Group Chief Information Officer **(RH)** (item 9)
Apologies:	Jane MacLeod	Company Secretary **(JM)**

ACTION

1. INTRODUCTION 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 AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

The minutes of the meeting of the Board held on 25th September 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

3. POSTMASTER LITIGATION – Strictly confidential and subject to legal privilege

The Chairman welcomed David Cavender QC and Andy Parsons from Womble Bond Dickinson to the meeting.

David Cavender provided an update on the case. We had lost our application to limit the evidence being presented at the trial to the common issues. This judgement was discussed and it was noted that during the trial we would politely but persistently challenge the claimants' cases where there were inaccuracies or contradictions. Andy Parsons provided an update on the second trial on the Horizon system. The claimants' IT expert had found that Horizon was not a robust system but this assessment was founded on identifying a large number of small problems with the system which our expert was confident could be rebuffed.

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4. CEO's REPORT

a. Paula Vennells updated the Board on the following issues:

- we were about to enter our peak season and weekend training sessions were being run for our agents
- the Edgware deal to franchise 73 DMBs into WH Smith branches had received little coverage so far; however, we did not assume that this would remain the case. Some of the branches we would be franchising were marginally profitable and in some areas there was vociferous opposition from members of the public, local MPs and the unions. We had considered our messaging again but did not want to give too much oxygen to the debate. Our strategy remained the same as we knew that franchising these DMBs, including those generating some profit, would produce higher trading profits, which we needed to be a sustainable business which could still deliver its social purpose
- the branch IT transformation was complete - except for one branch on a Scottish island. *(Post meeting note: now completed.)*
- we were focussing on the Postmaster litigation with the trial starting next week
- PV and OW had met with Francesca McDonagh (FMc), Group CEO of the BoI, and Mark Spain, the Chief negotiator, on 23 October 2018. BoI were very keen to agree a deal and not proceed down an "amicable divorce" route. The UK remained an important market for BoI. We had raised exclusivity and areas where we would like that to be lifted. BoI was reducing its cost base and wanted to exit the credit card market. BOI had raised wanting to end the provision of current accounts two days before our meeting. We expressed concern at this approach, first because this discussion should form part of the main negotiation and second, because BoI should be consulting us properly. Many of the customers to whom we provided current accounts were elderly or vulnerable and from a customer service and reputational perspective any change in provision needed to be considered carefully. Their proposal on current accounts was subsequently withdrawn. FMc stated she viewed Fres as an important business and recognised the need to invest in it
- PV had met with Rico Back, the Group CEO of RM. The conversation had been productive. RM was developing predominantly as a parcels business. RB was very positive about the PO and did not wish to change partner. PV and RB agreed that we needed to show the two brands together more often as confusion between the two persisted. PV and RB agreed that our teams should work together closely. RB was receptive to the idea of opening up Click and Collect so that PO could allow other providers to collect parcels for delivery from branches. PV had also met the new interim Chairman at RM and he had suggested a Chairman and CEO dinner
- the All Party Parliamentary Group for PO has been reconvened. The Group was supported by Lord Arbuthnot of Edrom
- the first Post Office People awards were taking place on 8 November 2018. A brief would be circulated to the Board about the awards which were to celebrate PO employees across a range of categories. Dates for PO Leadership events would also be sent to the Board. **VB**

The Board congratulated the executive on PO Customer Hub winning its first digital innovation award for the fastest go-to-market app.

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b. The Board **NOTED** the CEO's report.

5. FINANCE

Financial Performance Report

a. Al Cameron introduced the report and highlighted a number of issues, including:

- we had just finished the 6+6 plan which was coming slightly ahead of plan. PO Insurance was suggesting it would hit plan but we were holding a £1m reverse as it included a very strong Q4 recovery
- Telco customer numbers had increased during the period but were still behind plan
- the second half would see some reversal of profit versus budget, with the fee cut for Verify impacting us from P7 and IT cost savings being achieved later than plan
- the Group Executive had discussed the 2019/20 plan. There were many elements of uncertainty including the outcome of the Postmaster litigation and the negotiations with BoI. We had a strong focus on the costs base and ensuring we got value from the change plan.

b. A number of points were raised, including:

- that it is was generally hard to deliver returns from growth initiatives but that there were still significant cost saving opportunities
- RM was seeking to reduce its cost base and we needed to be aware of that throughout our negotiations, including the possibility of them seeking a signing-on fee. It was reported that Oliver Wyman had produced a pricing analysis for us on the banking framework and we would being seeking their advice on pricing for the RM negotiations. It was recognised the we had to focus on how we could offer benefits to RM which also benefited Post Office
- whether we had been expecting too much from PO Insurance in the short term and whether we were investing enough in the business? The performance of PO Insurance was high on PV's agenda and she would discuss the strategy further with Tim Franklin.

c. The Board **NOTED** the Financial Performance Report.

UKGI Quarterly Funding Report

AC introduced the change plan by saying that we were working with UKGI to finalise it. He confirmed that the £50m from earlier in the year had been received and thanked UKGI for its help. In Q2, we appeared to have spent more than forecast. AC had reduced the change forecast by almost £20m based on previous experience. The remaining variances were mostly timing differences although there were exceptions, for example back office transformation, where we had overrun. In these instances we could have spent less if we had been prepared to accept more risk but this had not been deemed appropriate. We were still forecasting £39 m of benefits out of a forecast £40 m for the year.

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a. A number of points were raised, including:

- that not enough information was included in the report currently to allow the reader to understand sufficiently the thought processes behind the figures and the business cases coming through
- that where there was uncertainty about timings for the delivery of projects this needed to be clearly understood
- AC and TC agreed that we needed to make the processes work better. Currently a significant amount of time was spent on briefings and producing papers. We needed to stand back and determine how to put the most effective process in place

The requirements for the report were discussed and a number of points made:

- we needed a business planning approach rather than a financial variance report
- we should look at the quarter and the year and it would be helpful to have a clearer view of the next quarter's spending
- a business commentary on the larger projects would be helpful. For example, if there was an overspend in Q3 including an analysis on whether we anticipated being back on track by the end of the financial year
- that to deliver the projects proposed over a 3 year period we would either need to access more investment or decide not to proceed with some projects; this meant that the prioritisation debate was timely
- that we needed to resolve the position with the current report to UKGI so that BEIS finance had sufficient assurance to release the funding. The assurance still required was discussed. TC reported that BEIS still needed to better understand the £20m deduction for the last quarter. The internal audit work could help in understanding how we were tracking the numbers and assuring ourselves on the figures. The internal audit report and the timing of the report were discussed. The proposal had been to present the report to the Audit Committee in January 2019 but the report field work should have been completed by the end of November 2018. It was noted that the internal audit report would not provide any resolution on the numbers we had presented. TC reported that UKGI and BEIS viewed the re-prioritisation work as essential. Reassurance needed to be provided so the PO could remain within the 3 year £350 m deal. BEIS finance might not be prepared to release the funding until early next year so work was still needed on how to resolve this position.

The Board **APPROVED** the report, giving delegated authority to AC to make any final amendments, working with UKGI.

6. RETAIL PERFORMANCE REPORT

a. Debbie Smith and Cathy Mayor joined the meeting. A number of issues were highlighted:

- PO Retail performance was good in the context of the high street generally. No further profit upsides were anticipated in the current financial year
- the Payzone acquisition had been completed successfully. DS and Andrew Goddard had visited the Payzone Team in Northwich last week. The Team was enthusiastic about joining PO and were energetic and ambitious. DS and AG had also visited three Payzone agents and had been impressed by each retailer and their retail offering. PV was to visit before the November Board
- the Edgware deal had been completed successfully

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- work had continued on the Retail Strategy
- only one branch still to go through branch transformation
- Amanda Jones was taking over the running of the network and would be seeking to maximise Christmas performance. Training and communications for the Christmas period were in place.

b. A number of points were raised, including:
- whether we had managed to retain the key people in the business. It was confirmed that we had, including the commercial director who had set up the original bills payment business at Post Office
- that the figures for Lottery appeared to have declined over a period of time. It was confirmed that there was an overall decline but that rollovers led to spikes in volume and made the returns hard to predict. Camelot had a refreshed strategy, including a defined timeline for rollovers. We also sold tickets for the Health Lottery. Gambling was moving online increasingly and lottery tickets were one of our lowest margin products. It was **AGREED** that a note would be circulated on the lottery market **DS/CM**
- it was **AGREED** that a note would be circulated on the options we were looking at for POca **DS/CM**
- whether DHL Parcel was likely to become a big domestic player and could make use of the PO network? It was **AGREED** that more analysis on competitors would be included in the next Retail performance report **DS/CM**
- the position with our partners. It was reported that McColls were taking on new branches but that the Co-op was reporting that it was not generating profit through operating POs. It was noted that the convenience market was set to grow by £44m over the next few years so we needed to tap into this growth and recognise it as a source of potential agents
- that there had been a discussion on WH Smith compliance figures at the ARC meeting earlier in the day. It was **AGREED** that it would be helpful to comment on this in future Retail Performance Reports and link this through to customer service figures. **DS/CM**

c. The Board **NOTED** the Report.

7. FUTURE OF CASH – BANKING FRAMEWORK 2

a. Martin Kearsley joined the meeting and introduced the report:
- under the existing Banking Framework we could re-price for a 3 year period starting in January 2019. The contract only provided a termination right. Our QC had advised us that any features in the current framework could be flexed as required. We had the ability to phase changes in pricing
- Lloyds had switched from paper transactions to electronic transactions recently. Lloyds' customer transactions in POs had increased by 63% last week and that trend was continuing this week
- we were focussing on cash in and cash out of branches to make our processes as efficient as possible; however, we would need additional balance sheet funding from 2022. We had started discussions with the major five banks about balance sheet funding. A meeting had been scheduled with the Chief Cashier of the Bank of England to discuss our balance sheet requirements given the volume of banking activity forecast

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- our proposals on pricing for Banking Framework 2 were expected to add £870 per branch, per year to PM remuneration (although this figure would be subject to further analysis). Potentially, this was an increase from 37p to 80p per transaction. Agent remuneration was a wider question which would be considered as part of the Retail Strategy.
- Oliver Wyman had carried out modelling work to test and challenge our original Rate Card design. We wished to increase our fixed fee significantly as this would assist the longer term sustainability of the provision of banking services through the Banking Framework. We wanted to balance increases across the relevant constituents and were seeking to align with the banks' governance systems by providing them with the new pricing proposals at the end of November 2018 but not requiring a decision until the New Year
- SME cash deposits were about 25% of our total volume of banking business. Our current transaction charge was £1.39 while the banks were charging between £5 and £7 per transaction. The banks had a nil charge for most personal customers
- we provided cash based transaction and electronic payment services for our SME and corporate customers
- there had been an acceleration in bank branch closures over last few years. Barclays and Lloyds were behind this trend and would be making significant savings through branch closures in the next period
- the banking hubs were the only potential alternative provider of scale currently; however, at present the banking hubs appeared to be keen to work with PO co-operatively. The banking hubs charged £4.50 per transaction and Oliver Wyman had been analysing this pricing
- we had gained confidence in our pricing figures from the testing work we had undertaken and external validation of our figures. We had no planned negotiations following the pricing announcement but we could accommodate this depending on the banks' reaction. We would much prefer to retain all the banks but could choose not to provide service to a bank which was not prepared to pay the higher fee
- our view was that cash transactions would peak and if the banks were to develop an alternative to the PO banking provision now they would be investing in a declining market. The Banks might wish to test our nerve, could raise legal challenges and could raise the proposed fee increase with Government; however, the banks were aware that a significant fee rise was justified and Government supported a fair deal for PO which would support the PO network. The pricing analysis produced could only support our case
- our approach over the next 6 months would be to be tough but pragmatic. The Rate Card would apply to all the banks. We would continue to have balance sheet conversations with the larger banks. We were having meetings with the bank CEOs and they understood the value the PO service brought to them
- the next steps were to work through Rate Card and options. We would adhere to the timelines set out, including issuing the pricing proposals to the banks at the end of November 2018.

b. A number of points were raised, including:

- whether all banks would pay the fees associated with the existing framework until the end of the Banking Framework 1 period? It was confirmed that this was the case

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- whether we knew what Paypoint were charging Link? It was reported that we did not have that information; however, the service being offered was as an emergency service rather than a reliable business service
- that the management of Santander would be a key issue because of the volume of transactions that come through them and as they would be hit hardest by the fee increase. It was reported that we were working hard to make sure that the proposed pricing structure was sensible taking the Santander position into account
- whether we had looked at what was needed to fund the network and whether a bank contributing to this could benefit from a fee reduction? It was reported that the Banking Framework worked on a single rate framework and that changing this to provide discounts could be seen as changing the contract. However, this did not prevent us having investment conversations with the larger banks outside of the Banking Framework
- when we would have a reasonable indication of which banks would sign up to Banking Framework 2? It was reported that the conversations with the banks to date had focussed on operational issues, such as how we could help them meet their money laundering obligations in Banking Framework 2. The banks were aware that there would be a significant fee increase. The decision of the largest three or four banks to participate in Banking Framework 2 would influence the other banks.

c. The Board **NOTED** the Report and **APPROVED** delegation of the finalisation of the Rate Card and its issue to the banks to the Chairman, Group CEO and Group CFOO.

d. It was **AGREED** that a separate session on Banking Framework would be scheduled on the afternoon of 26 November 2018 (the day before the Board meeting). (*Post-meeting note: this has since been superseded by a Board call on Monday 19th November 2018.*) **MK/VB**

8. LEGAL ENTERPRISE OPTIMISATION (LEO)

a. The Board discussed the report and TC noted that UKGI would want to discuss further where FRES sat in the structure and approach of leaving Telco as a business line rather than creating a subsidiary. The capital reduction costs would also need to be discussed further.

b. The Board **APPROVED:**
- the creation of the HoldCo above Post Office Limited, and transfer of PO Insurance and Payzone BP, noting that further approval would be sought before operationalising the new structure, e.g. transferring / restructuring employees, assets, governance, subsidiaries etc.
- in principle; the proposed Legal Entity Structure and associated costs
- the detailed planning of Phases 4 & 5, with an exception of further approval prior to their execution.

9. BELFAST EXIT PLAN BUSINESS CASE

a. The Chairman welcomed Rob Houghton to the meeting and he provided an overview of the proposal:
- the Belfast Exit Plan Business Case was linked to the broader Everest deal with Fujitsu through which were we seeking to reduce our opex and replace this with

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capex, including migration to the cloud and digital development. RH was comfortable with the costs we would be committing to until January 2019 but thought the overall cost estimates were high - even accepting that we were paying a premium with Fujitsu

- the Board's approval was sought on the next phase of the migration so that we could move some elements onto the Azure cloud
- staying with Belfast would entail data centre refresh costs and would not allow us to move to a consumption based operating model so this approach had been rejected
- the strategy we were proposing was viewed as the right one given our current contractual position.

b. A number of points were raised,

- what was the cost risk if Fujitsu proved unable deliver? It was reported that we had two principal ways of mitigating the delivery risk. 1) we were putting in place a strong team internally to oversee the delivery and were getting external help from the Hewlett Packard Enterprise to obtain an accurate view of Fujitsu's build costs. 2) we would seek a fixed price for elements of the delivery. RH reported that he had interviewed and assigned the new project director for the Fujitsu team and was bringing in a senior architect and an individual with strong Azure cloud experience.
- that we had no option but to do this work and the operational risk we carried today with a fixed data centre would reduce as we moved to the cloud.

c. The Board:

- **APPROVED** the drawdown of a further £6.7m of funding for the Belfast Exit Plan and **NOTED** an ultimate Programme financial commitment of c£38-46m
- **SUPPORTED** the strategy of engaging Fujitsu to migrate from their fixed Belfast data centre to a managed Microsoft Azure cloud infrastructure and **AGREED** that the alternative options described in the paper should not be pursued.

10. CONFLICTS OF INTEREST POLICY

The Board:

- **APPROVED** the Post Office Group Conflict of Interest Policy
- **APPROVED** the alignment of the policy review and controls review of the register of interests in March 2019.

11. TERMS OF REFERENCE REMUNERATION COMMITTEE

The Board **APPROVED** the revised Terms of Reference on the recommendation of the Remuneration Committee.

12. CONTRACTS

The Board **RATIFIED** its decision to **APPROVE** the new media buying contract with Manning Gottlieb with a value of £71.25m over the term of 3.5 years (minimum 2 years, option to extend for a further 1.5 years).

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13. ITEMS FOR NOTING

13.1 Sealings

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1711 to 1728 inclusive in the seal register was confirmed.

13.2 Health and Safety
The Health and Safety report was **NOTED**.

13.3 Future Meeting Dates
The future meeting dates were **NOTED**.

13.4 Forward Agenda
The forward agenda was **NOTED**.

14. ANY OTHER BUSINESS

It was reported that the FCA had been focussing keenly on operational resilience. The FCA regulated PO Insurance but HMRC regulated PO Limited in relation to money laundering requirements.

The meeting closed at 3.00 pm.

GRO
……………………………………
Chairman

27/11/2018
……………………………
Date