**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 26 JANUARY 2021 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ BY CONFERENCE CALL AT 11:45 AM[1]**

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| **Present:** | Tim Parker | Chairman **(TP)** |
| | Nick Read | Group Chief Executive Officer **(NR)** |
| | Ken McCall | Senior Independent Director **(KM)** |
| | Tom Cooper | Non-Executive Director **(TC)** |
| | Carla Stent | Non-Executive Director **(CS)** |
| | Lisa Harrington | Non-Executive Director **(LH)** |
| | Alisdair Cameron | Group Chief Finance Officer **(AC)** |
| | Zarin Patel (from 15:00) | Non-Executive Director **(ZP)** |
| **In attendance:** | Rebecca Whibley | Senior Assistant Company Secretary **(RW)** |
| | Max Jacobi | Head of Financial Planning and Analysis **(MJ)** (Item 4.) |
| | Dan Zinner | Group Chief Operating Officer **(DZ)** (Items 4, 5., 6., 9.2) |
| | Owen Woodley | Group Chief Commercial Officer **(OW)** (Items 5. & 7.) |
| | Jeff Smyth | Group Chief Information Officer **(JS)** (Item 5.1 & 9.1) |
| | Zdravko Mladenov | McKinsey/ Head of Business Transformation Unit **(ZM)** (Item 5.1) |
| | Martin Edwards | Network Strategy & Delivery Director **(ME)** (Item 5.2) |
| | Tom Wasilewski | Head of Commercial Development **(TW)** (Item 5.3) |
| | Amanda Jones | Retail & Franchise Network Director **(AJ)** (Item 6.) |
| | Meredith Sharples | Director of Telecoms **(MS)** (Item 7.) |
| | Christian Spelzini | Senior Legal Counsel - Corporate and Commercial **(CSP)** (Item 7.) |
| | Victoria Scopes | Senior Associate, Norton Rose Fulbright **(VS)** (Item 7.) |
| | Colin Stuart | Finance Director **(CS)** (Item 7.) |
| | Declan Salter | Historical Matters Unit Director **(DS)** (Item 9.) |
| | Catherine Stalker | Independent Audit (Observer) |
| | Richard Sheath | Independent Audit (Observer) |
| **Apologies:** | Zarin Patel (until 15:00) | Non-Executive Director **(ZP)** |

**Action**

**1. Welcome and Conflicts of Interest**

A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

**2. Minutes and Matters Arising**

The Board **APPROVED** the minutes of the Board meetings held on 24th November, 1st December, 2nd December, 7th December and 22nd December 2020, to be signed electronically by the Chairman.

The Board **NOTED** the action log and status of the actions shown. The actions recommended for closure were closed.

**3. CEO Report**

Nick Read introduced the paper, which had been circulated previously and was taken as read. The key points were highlighted as:

[1] Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.

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- Before Christmas, eight targets were set which were believed to materially change the outlook of the business: deliver the Master Distribution Agreement 2 (MDA2) with Royal Mail, agree an extension with Fujitsu, formalise an agreement with Amazon, finalise the Telco deal, secure a contract with Yoti for Identity, start making Historical Shortfalls Scheme (HSS) payments, secure a successful Funding deal with the Department of Business, Energy & Industrial Strategy (BEIS) and deliver a great Christmas. All have been achieved apart from starting to make HSS payments (but discussions were positive and the funding request was due to be laid before Parliament in mid-February 2021) and the finalisation of the Telco deal (but this was discussed further at paragraph 7 below).
- Christmas trading saw a 31% increase in mails and parcels, such that trading profit for the year currently stood at IRRELEVANT and the latest full year outlook was in the range of IRRELEVANT Many colleagues went out to support in branches and initial feedback was that area manager support had been vital in helping the Postmasters to deliver services over Christmas.
- The next six to nine months would be dominated by the Post Office Horizon IT Inquiry 2020 (the Inquiry), with management focus on delivering the necessary operational and cultural change demanded by the Common Issues Judgment (CIJ), Horizon Issues Judgment (HIJ), the Inquiry terms of reference and learnings from interactions with the Inquiry Secretariat.
- This work kicked off with a Senior Leadership Group (SLG) away day on 19 January 2021. There was some shock amongst colleagues as to the issues faced by Postmasters and it was a good chance to explain the Group Litigation Order (GLO) and the review of criminal convictions. This was a significant mobilisation.
- The role of the Historical Matters Unit (HMU) and individual Group Executive (GE) members had also been clearly defined: the HMU was to look backwards (covering HSS, criminal convictions and Inquiry disclosures), whilst operational change was the accountability of the relevant GE member. HMU would then check the business had done what it said it would. The work was focussed on identifying the gaps between legal compliance and "good" as well as how to measure the improvements. The key was to be transparent about the gaps and what was being done to fill them.
- On colleagues, attendance and COVID-19 impact had been good compared to anecdotal evidence from peers. However, thought was being given to the engagement strategy to April, given that many colleagues were reporting that they were worn out.

The Board then discussed the following matters:

- <u>Inquiry</u>: In response to questions from Lisa Harrington, Nick Read explained it was not yet clear who would be called to give evidence to the Inquiry, but it was thought Fraser J's judgment would be a starting point so it was expected to include Jeff Smyth, Amanda Jones, Ben Foat (Group General Counsel) and Dan Zinner. Lexington (political and media comms support company) were running a session with the GE on 27 January 2021. For ex-employees, there have been discussions about how to support them with the Inquiry process and currently, management was considering a scheme to support them in obtaining their own advice. Tom Cooper highlighted that Alice Perkins (ex-Chair) had not had a response from the HMU team on Inquiry support and Nick Read was asked to follow this up. **NR**

  Tom Cooper noted the previous mention of making a public statement on the past in the lead up to the Inquiry. Nick Read explained that the GE were to discuss the Post Office Narrative over the next two weeks and this would be fed into the Criminal Cases Review Commission (CCRC) Board in due course. The key being to get a clear, coherent narrative. The Chairman and Tom Cooper highlighted that any statement needed to be consistent across Post Office's approach to the Inquiry and the criminal cases review.

The Chairman also highlighted that the Board needed to be kept abreast of the risks relating to the Inquiry as they arise.

- Post Office Operating Model/Redundancies: Carla Stent recognised the exciting work planned for the next quarter and into 2021/22, but noted that pressure was only increasing on resources (both financial and personnel). Nick Read explained that the first tranche of the reorganisation was paralysing. Tranche 2 was due to see 120-150 colleagues exited which has been reduced to 83 colleagues to avoid the paralysing effect, but this would mean more redundancies in Tranche 3. (See further paragraph 9.2 below)

- Postmasters: Ken McCall questioned whether there were any changes in the responses to the Postmaster Consultation from previously and whether there was any difference in the responses between longstanding Postmasters and more recent recruits. Nick Read explained that to date, around 1500 responses had been received, but the detail of the responses was not yet digested. This would be brought to the Board once ready. Tom Cooper explained that his sense was that Postmasters were not generally in a bad place and the key was to evidence that Postmasters were broadly positive about what Post Office was doing and that the real experience of Postmasters was already better. Nick Read agreed, but also noted that the fear was that something said in the Inquiry could undermine the broad stability and Post Office needed to be prepared for this.

  Ken McCall noted that the two areas of growth were parcels and financial services, but these did not have high margins. The increase in Postmaster remuneration was positive, but it could be that margins needed to be revisited to ensure impact on the bottom line. Al Cameron explained that Postmaster remuneration was a difficult issue. For MDA2, the commercial response was to let the changes flow down to the Postmaster, but this would create some losers at a time of great political sensitivity. The compensation for Postmasters on MDA2 was still being considered. It was expected that this issue would return to the Board in March and May 2021.

- Priorities: Lisa Harrington suggested adding the customer experience to future priorities, noting that Post office was in a very competitive market on certain products.

The Board **NOTED** the CEO Report, congratulating Nick Read on the Christmas trading period and targets achieved.

**4. Finance**

**4.1 Solvency**

Al Cameron introduced four papers to the Board, which had been circulated previously and were taken as read:

1. Bridge to Certainty Financial Update;
2. Financial Forecast Update;
3. Multi-Year Projects Board Response;
4. Treasury Approvals Paper.

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The following points were highlighted:

- The Q4 forecast was a roughly breakeven position from a profitability perspective, due to trading volumes. Whilst Mails was up, other areas were consistently down.
- The combined FRES, insurance and POCA profits were expected to be £14m down year on year in Q4.
- IT Costs were increasing , largely due to the impact of the PCI solution being stood up in Q4.
- The Security Headroom forecast was IRRELEVANT assuming the Telco business was sold and Post Office benefits from slower spending on the HSS (but both of these would be reversed next year).
- There would be net liabilities in the February management accounts and work was continuing to quantify the HSS provision. Provisions were also being calculated for insurance and Hard to Place branches (discussed later at paragraph 5.2). The Audit, Risk & Compliance Committee (ARC) would review the HSS provision. PWC have indicated they want to see a number in the top end of the given range, but management were looking at an assumption led provision based on heads of loss.
- Progress was being made on funding and the intention was to finalise everything before 26 February 2021 to enable the ARC and the Board to approve the Annual Report and Accounts (ARA). The Cabinet Office has required BEIS to circulate the revised definition of a Post Office to ensure no other departments have an issue.
- [redacted]
- Bank of England were providing less and less Note Circulation Scheme (NCS) funding with support based on access to cash rather than withdrawals. A consultation has been announced and Post Office was preparing a reply. This added to the financial uncertainty.
- There were various Treasury approvals requested (see resolution below), noting that some further approvals would be required before 30 March 2021 meeting.
- The auditors have indicated an emphasis of matter paragraph may need to be included in the ARA unless there was a viability statement covering a period of 18 months.
- In conclusion, uncertainty was slowly reducing, but there would still be uncertainty until the three year funding settlement and net liabilities were resolved.

Carla Stent noted that with regards the viability statement, the plan was to draft something that was transparent about Post Office's position. There was also a discussion about whether BAU and GLO could be separated out, but positioning with UK Government Investments (UKGI)/BEIS needed to be considered.

Carla Stent also commented that on the multi-year programmes, there needed to be clear in year benefits and a shorter pay-back period to warrant the level of expenditure. Al Cameron further explained that there had been some debate about the multi-year project definition and Dan Zinner explained that the scrutiny of benefits was increasing, such that teams were reluctant to request change spend approvals. Some benefits were also hard to quantify, particularly with regards the Postmaster changes, and as such the Investment

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Committee were considering qualitative benefits. Spend on Branch Hub was also being slowed down and management were looking to move this to BAU to reduce money spent with Accenture. The link between Branch Hub and SPM was also being considered.

On the HSS funding and provision, Tom Cooper explained that the minister could not express the IRRELEVANT in such a way that it could become a target. The provision needed to be on the lower end of what was reasonable, highlighting that given the nature, distribution of claims and the GLO settlement amount, he thought the figure was more like IRRELEVANT Al Cameron explained that the size of the provision made in the ARA had to be balanced against the detail required in the disclosures, considering what Post Office might wish to disclose commercially. Ken McCall questioned whether Herbert Smith Freehills (HSF) had been challenged on their range for settlement and Al Cameron explained that the HMU Finance team were looking at the range for each head of loss. Any decisions of precedent would involve UKGI at some point (although there was a risk that the panel might then say they were not independent). There was also the issue when the disclosure is made (whatever it is), those who received settlements under GLO could calculate that, after lawyers' fees, they received less than similar HSS claimants. The Chairman noted that it was clear that the disclosure of the global number would cause difficulties and it was important to not allow assumptions made to become public. The provision would be subject to further discussion at the ARC on 26 February 2021.

The Board then considered the Treasury Approvals requests and:

i. **APPROVED** the changes to the finance facilities and / or documentation referred to in this paper, being:
   a. an amendment to the insolvency event of default clause in the Intercompany Loan Agreement between Post Office Management Services Limited and Post Office Limited;
   b. IRRELEVANT
   c.
   d.
   e. the three ISDA facilities, subject to Shareholder Consent (retrospectively);

ii. **DELEGATED AUTHORITY** to the Chief Finance Officer to agree a remedy for clause 13.5 of the NatWest Facilities Agreement; and

iii. **NOTED** that the following approvals would be sought by written resolution before the 30 March 2021 Board meeting:
   a. 3-year extension to the Department of Business, Energy & Industrial Strategy (BEIS) £950m Working Capital Facility;
   b. 3-year extension to the BEIS £50m Short Term Credit Facility; and
   c. New BEIS £52m Term Loan Facility.

**4.2 Financial Performance Report**

Al Cameron introduced the paper, which had been circulated previously and was taken as read. The following points were highlighted:

- Mails profits were IRRELEVANT with increased levels of Labels, Special Delivery and Stamp activity over Christmas.
- Postmaster remuneration has benefitted from the strong Mails Christmas trading, with year to date total remuneration now exceeding prior year to date.

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- Holiday pay accrual has been topped up by IRRELEVANT to be accrued over the remainder of the year (the GE having decided to not withdraw holiday not taken this year).
- Branch numbers increased again in month by 34, now standing at 11,484, which was encouraging.

Tom Cooper highlighted that there was to be a Public Sector Pay Freeze and as such, any pay rises at Post Office could be a problem this year. Al Cameron explained that discussions with Communication Workers Union (CWU) were on-going but were unlikely to not reach an agreement. A pay rise of 1.5% had been offered, with no pay rise in 2021/22. Talks were to continue until February and then the ACAS process would start. The CWU would also try and conjoin the pay rise issue with the upcoming closure of DMBs, which would garner more political sympathy than the pay rise issue. Nick Read highlighted that closing DMBs was part of the commercial strategy to move to a true franchise business and had to be compartmentalised. An offer has been made to back date the pay rise to July last year. This was the right commercial and emotional message.

The Board otherwise **NOTED** the P9 Performance overview.

**4.3 Draft 2021/22 Budget Review and Strategic Plan**

Al Cameron introduced the paper, which had been circulated previously and was taken as read. It was explained that the trading profit was still hard to gauge due to the uncertainties around travel. It was standing at IRRELEVANT which was same as this year but without Telco revenue. It was felt certain areas could be pushed harder so the draft profit outlook was up to IRRELEVANT in principle (being IRRELEVANT underlying submission with IRRELEVANT stretch which was currently being allocated and grounded) .

It was explained that more work was being done to review costs and the change plan, particularly the benefits and priorities within the plan. At this stage, a view could not be given as to whether the numbers would go up or down as there was a lot of uncertainty.

On change spend, the Board highlighted the need to focus on change spend and consider the benefits. Any decisions needed to have a clear rationale and ensure the major investments were presented to the Board. Al Cameron highlighted that there were a lot of choices to be made, particularly with IT change, as this often meant an increase in costs. Tom Cooper also noted that the Shareholder was sensitive to decisions to make cuts/changes that would ultimately cost more in the long run. The Board requested that any trade-offs where made clear.

The Chairman questioned how it was thought more revenue IRRELEVANT of stretch) could be achieved and Al Cameron explained that he had reviewed the budgets of each area and believed that some revenue forecasts were overly prudent. The business had been challenged to consider and further discussions were to be had.

The review and plan would be finalised over the next few weeks and be brought back to the Board in March 2021.

The Board **NOTED** the draft shape of the plan, recognising the work to ground IRRELEVANT of challenges on trading profit and a further rationing and prioritisation of change spend.

**5. Strategy and updates**

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**5.1 Strategic Platform Modernisation (SPM)**

Dan Zinner and Zdravko Mladenov introduced the paper, which had been circulated previously and was taken as read. SPM was the signature programme in the Business Transformation Unit (BTU) for the next three to five years. It was recognised that IT programmes did not always have a good track record and that change was not always fast in Post Office. As such, the programme sought to do things differently with early Postmaster engagement, a SteerCo to integrate with network, Pick Up Drop Off services (PUDO) and banking teams, a work stream linked with branch accounting and engagement with UKGI and BEIS to ensure the correct scrutiny and approvals at the outset to avoid delays.

The challenges facing the programme were also highlighted, being the current Horizon system, the Inquiry and the need to make some more immediate changes to Horizon. The work would reshape the network to become the best in class carrier of agnostic PUDO propositions and ensure Post Office moved away from Horizon. The paper outlined some high level deliverables with some live testing at end of H1 2021/22. However, it was highlighted that there would be trade offs under the programme as all problems could not be solved immediately. The costs of the work were not yet known, but would be provided to the Board in March. Progress updates would be provided to the Board every two months.

The Board discussed the following points:

- Ken McCall noted that the network locations (express format), Amazon pilot and carrier agnostic platform were key for PUDO and questioned what trade-offs would be needed in these areas. Zdravko Mladenov explained that the 400 express locations were to be outside of Horizon, initially using Payzone Android technology which can also have the Amazon app installed (these locations would either be existing Payzone locations or with commercial partners like Tesco). Scaling up beyond this was an open question – there could be integration with Horizon but this was strategically the best option. The alternative was to roll out a new device. For multi/agnostic carriers, initial momentum needed to be gained from the PUDO programme and the vision was that all carriers would be able to have their app on a Post Office device or there would be a simple Horizon integration. The speed at which this could be set up for a carrier was not yet known: the team was considering all avenues. Jeff Smyth also explained that there needed to be a consideration of the offering as the technology was different: Amazon would be click and collect, whilst DPD or Doddle was more about home shopping returns. There was therefore consideration about how to receipt/label parcels and this was being worked through, including considering whether it was tactical to kick start through Horizon.
- Acquisition (for the technological platform), similar to Doddle which had been discussed previously, was an option being considered.
- Tom Cooper highlighted the ARC discussion about getting real time branch data. Jeff Smyth explained that any solution relied upon Post Office having a database for real time branch accounting information as well as a temporal database, allowing past transaction states to be seen.
- In response to further questions from Tom Cooper, Jeff Smyth also explained that Post Office had two extension options available to it for the Fujitsu Horizon contract to March 2024 and then March 2025 if required. Zdravko Mladenov noted that the timetable for the SPM programme ran to the end of 2025, but included a six month buffer and work was being done to move to a 12 month buffer, meaning the Fujitsu contract could be exited in March 2024.
- Lisa Harrington highlighted the need to have a sustainable internal team for this programme that was not reliant on external suppliers. Dan Zinner explained that

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recruitment had already been started but further resources were sought in the area of comms, change and HR. This work was therefore ongoing.

- In response to a question from Carla Stent, Zdravko Mladenov confirmed that the programme included a workstream on Postmaster engagement and they were being treated as "business partner."
- The Chairman highlighted that the technology question lies at the very heart of the Post Office's strategy and decisions made would shape this strategy. The right technology should make the existing Post Office business more profitable than it is today. Current technology was expensive and outdated, but new areas could bring unexpected costs and difficulties. PUDO could be quite simple but if there were lots of different operators, it could become complex. When presented to the Board, there should be a clear articulation of any trade-offs and risks alongside the management recommendation.
- One further consideration flagged by the Chairman was whether there should be a move way from Horizon or if Horizon should be changed. Any assumptions should be checked and flexible thinking was required. This should be brought to the Board to consider, such that management focus could then be given to other areas. Accordingly, Dan Zinner and Zdravko Mladenov were asked to provide more detail to the Board as to why exiting Horizon was the right thing to do, allowing the Board to properly consider this and make a decision. **DZ/ZM**

The Board **NOTED** the progress in establishing the Business Transformation Unit (BTU) and the early progress of the Strategic Platform Modernisation programme as part of BTU.

**5.2 Network Strategy**

Dan Zinner and Martin Edwards introduced the paper, which had been circulated previously and was taken as read. The paper was summarised as follows:

- The Network Strategy was to provide a sustainable branch network to meet the needs of customers, Postmasters and retail partners as well as to ensure Post Office meets its obligations to its Shareholder.
- The Board was asked to approve a recommendation regarding the approach to Hard to Place branches which was urgent as the current contract with Postmasters was due to run out in March 2021. The recommendation was to give Postmasters the option of either staying on their existing contract (like Community branches) or extending their conditional compensation offer for a further 12 months to March 2022.
- In its discussions, the Board was also asked to consider the draft Network Change Plan (to cost a total of IRRELEVANT in 2021/22), including the continuation of Directly Managed Branch (DMB) closures, noting that for every month these closures were delayed there was a IRRELEVANT cost to the bottom line (and a 90 consultation period was required).
- Work was continuing on new light touch branch formats with six up and running, and a further sic due to come online. These were being run on existing technology (as opposed to SPM) and the work was to test whether Postmasters and customer would accept these different formats. Initial insights suggested that they were cheaper to operate, but communication with Postmasters and customers needed to improve.
- The full scale express branch model role out would use SPM and express pilots on existing technology would be explored in Q1 2021/22.
- All changes/new models were part of the Postmaster consultation.
- Work was also continuing with commercial partners to develop the right contractual and strategic model.

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The Board raised significant concerns that the recommended approach to Hard to Place branches amounted to "kicking the can down the road" but recognised the political environment Post Office found itself in (given the Inquiry), meaning that perhaps the best decision was no decision. There was concern that other options (and their cost) had not been presented. Dan Zinner explained that the issue had been debated at the executive level and ultimately, the political environment trumped all other options. There would be an attempt to convert some branches to community branches, [redacted]

Carla Stent and Ken McCall were particularly concerned about the length of time (six to eight years) the Postmasters would have been waiting for a decision in this area and questioned whether these individuals were being treated fairly. Dan Zinner explained that there had been engagement with the National Federation of Sub-Postmasters (NFSP) and made it clear that the situation could not continue. Martin Edwards further explained that management had considered many options and from the Post Office perspective, the idea was to improve profit for these branches (current average was around IRRELEVANT and move to variable pay. Three key options were considered:

- The lead option was to convert all these branches to community branches which would mean they could continue indefinitely on fixed pay IRRELEVANT and can sell on the contract if they wish.
- Postmasters be given the choice between extending the conditional resignation offer for another year or move to community status. It was thought around 1/3 would move to community status.
- Widen the range of exit routes for Postmasters by offering a straight exit, other types of branches etc.

The Chairman and Tom Cooper agreed that this was something that needed to be resolved, however, there was also the cost to consider. Full resolution would put a strain on cash flow and unlikely that Post Office could afford to resolve this year. This was the most compelling argument. Dan Zinner explained that the intention was to resolve in chunks: the thinking was that around 1/3 would move to community branches and it was anticipated that there would be 113 exits in the next year at a cost of IRRELEVANT leaving c.130 Hard to Place Postmasters at the end of March 2022 [redacted] Al Cameron noted that in reality, support might have to be provided in the end, but the messaging was important – it was about making sure it was clear Post Office would work with Postmasters to resolve. Tom Cooper also highlighted that Post Office may come under scrutiny as to how hard it looked to replace Postmasters: had Post Office done enough considering the good faith contract?

The Board agreed, reluctantly, to the recommended approach on Hard to Place branches but made it clear that work needed to be done to resolve the situation once and for all over the next 12 months, including consideration of the political, moral and cash flow implications. This would require a discussion with BEIS on funding. There should be sufficient lead time before a decision was required by the Board. **To do: DZ/ME**

Ken McCall also questioned what was being done to improve the customer experience in the network and questioned what was in the Network Change Plan to deal with an increase in parcels (given other strategic plans regarding PUDO and Amazon). The long term strategic aspirations were clear but the day-to-day BAU work was critical. Dan Zinner and Martin Edwards were asked to bring this work back to the Board in March 2021. **DZ/ME**

The Board also confirmed it supported the move to continue with DMB closures, with announcements to be made in February 2021.

Accordingly, the Board:

i. **APPROVED** the approach of giving the remaining Hard to Place branches the option of either staying on their existing contract (like Community branches) or extending their conditional compensation offer for a further 12 months to March 2022;* and
ii. confirmed its support of the draft Network Change Plan, including the commencement of the work to close and replace a further [redacted] Directly Managed Branches.

**Post meeting note: In approving this approach to Hard to Place branches, the Board was also taken to have approved the IRRELEVANT funding required for this approach as set out in paragraph 14 of the paper.*

**5.3 Pick Up Drop Off Services (PUDO)**

Owen Woodley and Tom Wasilewski introduced the paper, which had been circulated previously and was taken as read. The following summary was outlined:

- The team was working through various dependencies including how to scale up the Amazon trial and what could be achieved with other carriers. A discussion had been held with Hermes who were keen to have more in depth discussions.
- Further updates would be provided to the Board once more detail was understood, but at the moment, the programme was running "at full pelt" and Postmaster feedback indicated they were excited about what the programme might mean for them. Postmasters were also being involved in the design of processes from the start.
- The Amazon trial was a very important learning for the business to consider what offering such services would mean for branches and back office processes, all of which were geared towards supporting the Royal Mail service.
- There was a need to balance getting as much market share as possible against the value of the Post Office brand and the operational impact. As such the process would be to launch, learn and then extend the offering such that nothing was broken unintentionally.

Ken McCall highlighted the importance of scanning compliance, noting that dangerous goods compliance had got worst recently. Putting strategic aspirations aside, it was vital that a solid operational platform was built to ensure compliance requirements were adhered. Owen Woodley agreed operational rigour was vital and Tom Wasilewski explained that unlike with Royal Mail, there was not guaranteed right to offer services of the other carriers. Ultimately, if compliance requirements were not adhered to, carriers could stop using certain branches.

Carla Stent noted the increasing locations by the end of 2021 and questioned how branches would be able to manage the change in volume. Tom Wasilewski explained that there were different requirements for pick up and drop off. Pick up was enabled by the retailer. Drop off was more complicated as parcels would need to be segregated and there was an issue of space. It was envisaged that no more than three carriers could do drop off via a branch. Work was starting with customer pick up and learnings would be taken from this. Tom

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Wasilewski explained that increasing locations was critical to keep Amazon enthused. The target was to reach 3000 branches, which was the minimum for a viable service. This would either be one via a device strategy which was how it was being done for the initial 1300 branches or an API integration with Horizon (and then the service could potentially be offered across the whole network). Which option would be used (device/API) was still a live discussion.

Ken McCall requested that hard to place branches were considered in carrier and network discussions, noting it would be helpful if the carrier approach could offer something to these branches. Dan Zinner was asked to look into this. **DZ**

*Zarin Patel joined the meeting at this point.*

In response to a question from Tom Cooper, it was explained that for the Amazon trial, Post Office had secured a price of IRRELEVANT IRRELEVANT This was a flat fee for the trial but it had been negotiated on the basis of it running through to any main agreement that might be put in place. For Amazon, it was Post Office's operational integrity, reach and importance as an essential service that was the attraction.

The Transport for London and Delivering London initiative (aimed at reducing e-commerce driven congestion and pollution in London by increasing the proportion of out of home (OOH) parcel deliveries from 18% to 50% by 2030) was potentially extremely valuable as 35% of all e-commerce deliveries were in London. Post Office could have the opportunity to provide PUDO locations, but work was on-going to consider the commercial model as lockers might be required to get the necessary density, which would require significant investment.

The Board **NOTED**:

i. the actions taken to date to progress the Pick Up and Drop Off services (PUDO) strategy;
ii. the next steps to accelerate the delivery of non-Royal Mail Group income; and
iii. that a further update will be presented to the Board in March 2021.

**6. Postmaster Experience**

Amanda Jones introduced the paper which had been circulated previously and was taken as read. The paper was summarised as follows:

- Various improvements have been made relating to transaction corrections, branch support and strengthening the role of the area manager. However, there was still significant work to do. Deloitte were supporting on a risk based approach to build roadmap which was to be presented to the Board in March 2021.
- In the short term (0-3 months), the focus was a cultural reset to drive a service mentality. This meant focusing on branch support to improve feedback mechanisms and ensure everything was considered through the Postmaster lens. A Postmaster scorecard has been developed and policies and processes were being reviewed to be more Postmaster centric.
- In the medium term, work would be done to make better use of insights and data, digitising processes and involving Postmasters in development. There would be a continued focus on capability including restarting hot housing and a customer experience programme.
- Some quick wins had also been completed. A " We are listening button" feedback button was put on Branch Hub as a minimum viable product (MVP) and was properly

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launched week commencing 18 January 2021. A dashboard was also up and running showing the eight different channels from which Postmaster feedback could be received to allow trends and themes to be identified.

- The Postmaster consultation had not yet finished and was due to close on 29 January. So far, there were 1519 responses with 800 or so partially completed responses. The very early insights indicated that 21% of Postmasters feel valued and 37% feel optimistic. Areas where Post Office could help were: grow remuneration (80%), simplify Horizon (71%), improve communications (60%) and then lastly, make day-to-day processes more efficient.

The Board made the following comments:

- The Chairman questioned whether any specific feedback was being requested from Postmasters relating to dispute resolution. Amanda Jones explained that the consultation did not include a specific question on this, but there was free text response space. So far, this theme had not come out strong and the prominent theme was that they see an "us and them" culture, which was echoed by the Postmasters who attended the Senior Leadership Group on 19 January 2021. The Chairman noted that the biggest issue arising from GLO was that Post Office was not able to demonstrate that the Horizon issues did not relate to the reason for a shortfall. As such, the key was that if there was a shortfall, it would be fairly investigated and the Postmaster would be given every opportunity to analyse the problem. Amanda Jones concurred noting that this was being ensured by changes to processes as well as underlying cultural change.
- Zarin Patel liked the idea of the performance dashboard for the executive and suggested that performance measures were presented to the Board on the same basis as financial performance. She also questioned whether improvement targets had been agreed and what the dashboard was measuring against. Amanda Jones explained that improvement targets were yet to be agreed but that the dashboard would measure against these once agreed. A scorecard was also being developed but more work needed to be done before this could be shared with the Board. This was likely to be ready for the May 2021 Board and Amanda Jones/Dan Zinner was asked to ensure this was ready for the appointment of the new Postmaster Non-Executive Directors. A "Voice of the Postmaster" meeting had also been set up at the executive level and the terms of reference have been agreed. **AJ/DZ**
- Lisa Harrington noted that the Remuneration Committee was also talking about the remuneration strategy more broadly and how to incentivise colleagues given the new purpose. Amanda Jones also explained she was looking at ways to incentivise the relevant teams to support the cultural shift (i.e. Branch Support Colleague of the Month etc.).
- In response to a question from Lisa Harrington, Amanda Jones also confirmed that all Postmasters and Partners get the same training but their outlook was often different as Postmasters had often invested their own time and money in their business, whilst staff from partners were simply employed by the relevant partner. Lisa Harrington also questioned about how the customer experience was measured and Amanda Jones was asked to consider how to get a combined view of the customer experience alongside the Postmaster and partner experience. **AJ**

The Board, otherwise, **NOTED** the overview on how Post Office was and would be, operationally and culturally, improving the Postmaster experience.

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**7. Telco Sale**

Owen Woodley introduced the paper, which had been circulated previously and was taken as read. It was recommended that Post Office proceeds with the sale of its Telecoms business to Shell Energy Retail Limited (Shell) and that various approvals were required to enable this to proceed. The intention was for the transaction documentation to be signed on 31 January 2021 with simultaneous completion.* The following points were discussed:

- The Chairman highlighted that the business was being sold on a multiple of three: it was a business that made £20m being sold for £60m. This could be questioned, but the comparison between the net present value (NPV) of the sale and the RFP within the report showed that in other conditions, Post Office might be better off pursuing the RFP option, but that this option required high upfront investment. Owen Woodley also noted that the telecoms business no longer formed part of Post Office's core purpose and ultimately, if the business was retained it would require investment and management attention. Meredith Sharples also outlined that only a small amount of Telco customers were contracted in branch. The estimated cost of marketing over the coming years was £135m and there was no appetite to spend this sum. If the RFP was enacted, the business would have to be retained for a further five years. Al Cameron also highlighted that there had been considerable issues with Fujitsu and if the RFP was enacted, Post Office would have to continue to work with them.
- Carla Stent questioned how long the brand could be used by Shell and Meredith Sharples confirmed this was 12 months to allow Shell to migrate from Post Office's Fujitsu platform to their own platform. However, the brand would not actively be in the market, but would remain on existing routers.
- Carla Stent also highlighted the requirement to update the Homephone and Broadband Agreement (HPBBA) to be compliant with the General Data Projection Regulations (GDPR) and questioned whether this could pose an issue for the transaction. Meredith Sharples explained that the service was compliant, but the contract was not. It was critical to Shell that they inherit a compliant contract and it was expected this would be resolved before completion. It was not expected to be a "show stopper."
- In response to a question from the Chairman, Owen Woodley explained that the Postmaster remuneration was estimated at £3.5m which was calculated on the income that would be generated from a customer taking a contract from today, including the income earnt over the lifetime of the contract. This was thought to be a generous offer.
- Al Cameron noted the communications sent to the Board prior to the meeting relating to the sale warranties required within the Business Purchase Agreement. Comments received via email on this topic could be summarised as: (1) Post Office was reliant on warm messaging from BEIS that the Historical Shortfalls Scheme and associated liabilities would be funded, but that it had been demonstrated in previous finance reports that Post Office had a mechanism to fund BAU expenditure; and (2) the Telco sale was required to help support Post Office's financial position. Al Cameron noted that the agreement had been that the sale warranties would not refer to solvency. The Board confirmed it was happy to provide the warranties on this basis.
- Shareholder approval had been provided for the transaction subject to (1) the enterprise value being over £70m (it was confirmed that the enterprise value was £70.6m) and that (2) Nick Read confirms that he believed the transaction to be value for money. A draft letter from Nick Read was included for the Board in the appendices to the paper and the Board confirmed it was content with the letter.

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[redacted]

Victoria Scopes and Christian Spelzini took the Board through the draft Board minute excerpt which had been agreed with Shell.
Accordingly, the Board **APPROVED**:

i. the sale of Post Office Telecoms Business to Shell Energy Retail Ltd;
ii. a delegation of authority to the executive directors to sign the transaction documentation for the sale;
iii. the transaction documentation for the sale of the Post Office Telecoms business (including the provision of the sale warranties as required under the Business Purchase Agreement);
iv. £0.2m for incremental project costs to cover the work completed in January due to the delay in the transaction (retrospectively);
v. [redacted]
vi. the remuneration to Postmasters following the sale of the Telecoms business; and
vii. the minute excerpt (thereby passing the resolutions contained within paragraph 7) to be signed by the Chairman electronically and shared with Shell Energy Retail Limited as part of the finalisation of the transaction.

The Chairman congratulated the Telco team for all their hard work on this transaction.

**Post meeting note: The transaction documents were signed on 1 February 2021 with the completion of the sale being delayed by six weeks from the date of signature due to concern of the Shell Group about Competition and Market Authority intervention. Signature was unconditional with a deposit paid on exchange and the overall price to be paid was still be based on the value of the business at signature. The delayed completion date was explained to the Board via email from Owen Woodley on 29 January 2021.*

**8. Health & Safety Report – including security/ safety review**

Al Cameron introduced the paper, which had been circulated previously and was taken as read. In response to a question from Lisa Harrington, it was explained that there was an increase in hostile incidents, but there had been two recent events involving weaponry. One of these might have been a staged event and the police have made an arrest. The response to these incidents remained the provision of helmets and stab vests and providing training on not responding.

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

**9. Approvals**

**9.1 Belfast Exit funding**

Jeff Smyth introduced the paper, which had been circulated previously and was taken as read. The paper was summarised as follows:

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- The project work had paused but had now restarted. It was vital that this was completed to ensure there was a cloud offering for the SPM. The project was taking longer than expected but the costs were still in the expected range.
- A IRRELEVANT was requested comprising of IRRELEVANT to fund project activity to end April 2021 and IRRELEVANT to fund a one-year lease extension on the Belfast datacentre to mitigate the risk of delivery slipping beyond the current lease expiry of 31 December 2021.
- The biggest risk to the project remained Fujitsu's deliverability. Both Jeff Smyth and Nick Read were working with Fujitsu at CEO level to try and get clearer accountabilities.
- The business case for the project was being re-drafted but the funding was requested in the meantime to ensure the project did not fall out of governance.

The Board made the following points:

- Lisa Harrington was concerned about the large sums being paid to Fujitsu and their lack of engagement, questioning if Amazon Web Services (AWS) could be used as leverage. Jeff Smyth explained that he was working to get AWS to call out Fujitsu's cloud capability.
- Carla Stent questioned what was going to change regarding Fujitsu to ensure the project was not just in the same position further down the line. Nick Read confirmed there had already been a lot of discussions with Fujitsu, but ultimately, Post Office did not have much leverage. Al Cameron was also uncomfortable that the project was taking longer but highlighted that Fujitsu's capability was reducing, questioning what could be done without making too much fuss. It might be that a stand-off moment had arrived.
- Lisa Harrington noted it was prudent to ask for the funding now, but that it a revised business case was required.
- Jeff Smyth further explained that he would ensure the Board had transparency as to the project status, but noted that this might not be the last request for funding.

The Board **APPROVED** IRRELEVANT funding increase for the Belfast Exit programme, comprising;

- IRRELEVANT to fund project activity to end April 2021; and
- IRRELEVANT to fund a one-year lease extension on the Belfast datacentre to mitigate the risk of delivery slipping beyond the current lease expiry of 31 December 2021;

and **NOTED** that:

- the datacentre lease extension negotiations were on-going and that the programme would seek specific Investment Committee approval to sign the lease extension and consume some, or all, of the IRRELEVANT funding set aside for that purpose; and
- the forecast total programme was revised to IRRELEVANT and this included the IRRELEVANT set aside for the lease extension cost.

**9.2 Post Office Operating Model (Organisational Design Project)**

Dan Zinner introduced the paper, which had been circulated previously and was taken as read. It was explained that a further £5.94m was requested for tranche two of the organisational changes. This was to put 250 colleagues at risk of redundancy, with 83 individuals to be exited and continue planning for tranche three of the project. The result would be annualised savings of £4.1m. The cost has been previously approved by the Project Review Board and the Investment Committee.

Accordingly, the Board **APPROVED** an increase to the Post Office Operating Model budget to £18.34m in order to implement Tranche 2 of reorganisation, being an additional £5.94m on top of the £12.40m previously approved by Board.

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**Noting and governance items**

**10.1 Starling**

[redacted]

The Board **NOTED** the update paper on Project Starling, with further approvals to return to the Board as required.

**10.2 Digital Identity**

The Board **NOTED** the paper regarding the signed collaboration license agreement with Yoti Ltd for identity services and the Chairman noted this was a situation where the Post Office brand could be leveraged with little outlay.

**10.3 Banking Framework 3**

The Board **NOTED** the update on progress towards completing Banking Framework 3 negotiations with the banks and issuing the framework proposal by the end of June 2021, prior to formal review and approval expected before the Board from March 2021.

**10.4 Postmaster Non-Executive Director appointment**

Nick Read introduced the paper, which had been circulated previously and was taken as read. It was noted that as of 25 January 2021, 36 candidates had applied for the Non-Executive positions. The following points were discussed:

- Lisa Harrington questioned which committees the new directors would be appointed to. Ken McCall suggested that one option could be that they join the board first, for a period of six months, and were then appointed to committees. However, ultimately, it was felt that the new directors should not be treated any differently to other appointments and should be appointed to committees from the outset.
- Carla Stent highlighted that it might be helpful for the new directors to have a role within the executive level Postmaster Voice committee.
- Zarin Patel requested information on the diversity of the candidates, which Nick Read agreed to provide. **NR/AJ**
- The Board felt that the candidates should meet the Board in small groups, rather than all at once.*

Accordingly, the Board **NOTED** the progress made to finalise the process for appointing up to two Postmaster Non-Executive Directors to the Board, which has enabled the successful launch of the process.

**Post meeting note: Amanda Jones confirmed after the Board meeting that the intention was that the final six candidates would meet members of the Board divided into small groups of two or three existing directors.*

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**10.5 2020 Christmas Business Review**

The 2020 Christmas Business review was **NOTED**, with the Chairman commenting that it was an excellent summary.

**10.6 Mails Regulation consultation**

The Mails Regulation consultation was **NOTED** and Nick Read highlighted that the team was ensuring that Post Office's point of view was put across.

**10.7 Historical Matters Business Unit report**

Declan Slater introduced the paper (including the addendum), which had been circulated previously and was taken as read. The paper was summarised as follows:

- The funding agreement with the BEIS has gone through their Investment Committee and was presently with Treasury. If approval from Treasury comes through, the agreement would need to be laid before Parliament in mid-February 2021.
- Over the last six weeks, the Historical Matters Unit (HMU) have had a lot of meetings with BEIS and UKGI to develop a "Operation Agreement" (mechanism for BEIS to review and approve decisions on award principles and offers under the HSS). The wording and flowchart was being finalised and Declan Salter was asked to circulate the agreement once finalised. **DS**
- The addendum to the paper requests approve to commence of offers to *di minimus* claimants under the HSS up to the amount of £2.5m, subject to Parliamentary approval of up to £285m of funding.

The following points were then discussed:

- Tom Cooper highlighted the ATM issue raised in paragraph 13 of the paper (data files from the Bank of Ireland have not been correctly reviewed by Post Office and as a result machine errors may be causing losses for Postmasters). Declan Salter explained that a standard file comes across to Post Office from Bank of Ireland, which indicates where there had been discrepancies (i.e. due to cash not taken, fraud or machine error). In the case of fraud, Post Office could reclaim the money from Bank of Ireland, but these claims have never been made and the money has been debited from the Postmaster. It seemed that this has been happening since the start of the contract with Bank of Ireland and the issue had been flagged by Post Office's Mails and Banking team. There were also one or two other things that cause a similar deficit such as ATM checks which were done by Postmaster at 4:30pm which was busy period and the data has to be entered twice, meaning there were often a lot of corrections. Work was ongoing to analyse the scope of the problem and look at whether the data files were sufficient to determine branches and Postmasters who may have been adversely affected. This work was being supported by KPMG. The Chairman questioned the amounts involved and Declan Salter explained that, at present, the amounts involved could not be determined as there were a lot of corrections done but it was unclear how many Postmasters were affected. It was confirmed that this was related to some of the ATM balancing issues raised by some claimants in the HSS.
- Carla Stent noted that this was another issue that had arisen, like Lottery, which had not previously been on the radar. Al Cameron explained that with all the reviews being undertaken it was expected that more issues would be found.
- Tom Cooper flagged the loss of data caused by branch power outage which had previously been discussed at the ARC and was keen to understand why this would not affect Postmasters. Declan Salter agreed that he would provide an example to the Board and walk through it, such that they can be reassured. **DS**

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Accordingly, the Board **APPROVED** commencement of offers to *di minimis* claimants under the Historical Shortfall Scheme (HSS) up to the amount of £2.5m, subject to Parliamentary approval of up to £285m of funding.

**10.8 Letter of Comfort from Shareholder**

The letter of Comfort from the Shareholder dated 14 December 2020 was **NOTED**.

**10.9 Sealings**

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 2025, 2027 to 2030 inclusive in the seal register.

**10.10 Future Meeting Dates**

The future meeting dates were **NOTED.**

**10.11 Forward Agenda**

The forward agenda was **NOTED**, with the Chairman highlighted that the Succession piece needed to be brought to the Board as soon as possible.

**11. Any Other Business**

There being no other business the Chairman declared the meeting closed at 16:55.

**12. Date of next scheduled meeting**

26th February 2021 – Additional Board Meeting for approval of ARA
30th March 2021 – Ordinary Board Meeting

GRO

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Chairman 16/04/2021 08:48