



## POST OFFICE LIMITED BOARD REPORT

<b>Title:</b>	Funding Update	<b>Meeting Date:</b>	7 December 2020
<b>Author:</b>		<b>Sponsor:</b>	Al Cameron - Group Chief Finance Officer

### Input Sought

The purpose of this paper is to update the Board on our funding position and the advice from Smith & Williamson. The Board is asked to support the proposed way forward.

### Executive Summary

We continue to believe that HMT supports POL and there is no intention for us to become insolvent.

The decision regarding the de minimis payments has been delayed. A decision on a funding guarantee is not expected until early February. Nick is meeting the Permanent Secretary on Tuesday and we should seek a further meeting with the Minister. If no payments can be made until February, the Board should consider how we best manage HSS and how we should communicate the delay.

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# IRRELEVANT

We have an option for the **IRRELEVANT** more broadly before Christmas that we are seeking your views on.

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**IRRELEVANT** We do not propose starting conversations this year: the event hasn't happened yet and we are some way off reaching any resolution. We will continue to seek legal clarity. **IRRELEVANT**

## IRRELEVANT

Smith & Williamson support the areas we are working on and their recommendations are included in the Report below together with our actions. In addition to the points covered above:

- We are working with **IRRELEVANT**; and
- They have advised that the directors take legal advice separate from POL. Previously the Board members did not feel the need to take that additional step after receiving the Linklaters advice. However, if desired by Board members in respect of their personal positions, one approach would be for Linklaters to share their advice for comment and challenge with an alternative Firm retained by the directors in their personal capacities.

### The Report

#### Context

The Board has recognised that **IRRELEVANT**

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The Board has been closely monitoring our financial viability, seeking to take all reasonable steps to ensure that we do not risk wrongful trading or preferential payments. Advice has been received from Linklaters.

Steps include:

- Seeking to sell the Telco business
- Seeking funding clarity on both BAU and HSS
- Seeking Government intention to support POL through compensation claims arising from the criminal appeals
- Managing our results, limiting spend and forecasting on a continual basis.

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Our [REDACTED] IRRELEVANT  
[REDACTED] IRRELEVANT In the Chairman's letter to the Minister at the end of October and again in the HSS business case, we have shared our understanding, both that "there is no intention for [REDACTED] IRRELEVANT" and that "The historical claims from Postmasters should follow due process and eligible claims should be met."

At no stage have these statements been questioned and indeed we have heard statements to the effect that HMG recognises that it will have to provide funding for BAU, HSS and post-criminal claims.

### What has changed?

#### HSS and De Minimis Payments

The Board continues to believe that a viable HSS is the best option for the business and its shareholder. The alternative of a second group litigation is likely to take longer and be more expensive. It will also be a promise broken and attract public criticism.

The Board has approved making the first payments to increase the chances that the scheme will prove a viable alternative to litigation. These are de minimis payments, less than £8k each, where the cost of investigation is disproportionate to the value of the claim.

[REDACTED]

The Chairman wrote to the Minister on 30 November, saying: "we understand that you are supportive of making the de minimis payments based on our confidence in support from Government..... To the extent that you believe our understanding to be incorrect then please let us know by 5pm on 3 December 2020. Otherwise, we will start sending out offer letters before 11 December."

We heard on 3<sup>rd</sup> December from Carl Cresswell that we should not proceed. Officials have unresolved concerns which they have advised to the Minister. These are, we understand, focused on the precedent setting nature of the interest element of the de minimis payments.

The fact that the claims involved interest was set out in the Board paper on 2 October, which the HMBU considered sufficient. As this pre-dated the discussions of controls and precedent setting, none of us joined the dots. Nick and I became aware of the issue on 27<sup>th</sup> November and flagged it to UKGI and BEIS because we did consider it both precedent setting and material.

Nick has a meeting with the Permanent Secretary on 8<sup>th</sup> December and we will seek an additional call with the Minister to seek support for some payments. Would it be possible to make the payments without interest?



## The HSS Timetable

UKGI has told us that the HMG approval process for an HSS funding guarantee is expected to last until the first week in February.

If the de minimis offers are agreed, to maintain momentum we may wish to seek support for a further set of offer letters to go out in January.

If no payments are agreed, the Board should consider how best we manage HSS and communicate the delay and the reasons for it.

## Our forecasts

We have shared with the Board the last forecast which showed the following:

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obviously hope that this will continue in the New Year.

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## What is our new, expected forward timetable?

Net Liabilities, retrospective and prospective

As noted above, we may

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Both prospectively and in finalising our ARA for 2019-20, we have to consider whether any assets need to have their values impaired, in particular as a result of the CV-19 impact on trading. This seems likely in the case of our acquired Insurance business and is unlikely in the case of FRES. We are also keeping an eye on GE decisions about hard to place branches which could create the need for a different level of provision for Postmaster compensation. These issues will be agreed with PwC and the ARC.

The most material issue is the nature of any net provision for HSS compensation. We are expecting to validate the HSF forecasts with the early panel recommendations in January. The value of the gross provision and the need to reflect that provision in the 2019-20 accounts have been well flagged and should be agreed at the ARC on 26<sup>th</sup> January. Any provision will be recognised in our management accounts from end January.

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Prospectively therefore, we should have a good view when we finalise the January management accounts in early February. We should also know at that point what if any provision should be taken back into the March 2020 balance sheet and whether that **IRRELEVANT** as at that date.

Security Headroom

The forecasts **IRRELEVANT** The forecasts are also **IRRELEVANT**

As a result, while **IRRELEVANT**  
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We have started the discussion with BEIS on the renewal for 2021-22. The Treasury team has identified and shared some uncertainty around how closely the way we do the calculations matches the original wording of the agreements, which are in any case different between the Working Capital Facility and the **IRRELEVANT** These issues have clearly been the subject of past discussions as the reporting was aligned. No concerns were raised when the waivers were granted earlier in the year. Our auditors have worked on the way we do things and have not flagged issues for some years.

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## Clarity on Funding

As set out above, we expect clarity on BAU and HSS funding, the 2021-22 contract and any wording of comfort around the criminal compensation to be available by early February.

## Annual Report & Accounts

We will have an ARC review of issues like HSS provisions on 26<sup>th</sup> January. As funding will not be clear at that point, we will arrange a further ARC for the middle of February where we will seek to finalise going concern and related issues, together with the final wording on the litigations, and on the solvency of the business. We hope to sign and publish the ARA in February.

## Talking to third parties

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The conversations fall into the following groups.

1. **IRRELEVANT** We share important updates and questions as we go along.
2. **IRRELEVANT**

# IRRELEVANT

**IRRELEVANT** We have a standard relationship meeting with them on 14<sup>th</sup> December, where I will lay out the funding situation and timetable, the **IRRELEVANT** We will be **IRRELEVANT**

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I have a briefing call booked with Sarah John, the Chief Cashier at BoE, on 10<sup>th</sup> December.

3. **IRRELEVANT**

We are in ongoing conversations about **IRRELEVANT** Initially they **IRRELEVANT**

Banks have signalled their willingness to support us in this way. However, this is the worst time to ask and I have some nervousness whether we can deliver. **IRRELEVANT**

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**IRRELEVANT** Their approval is now expected in February.

If an easy route through is not available, we can:

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We could leave it until January for further conversations. There has been **IRRELEVANT** Alternatively, given the relationship, we could talk to them before Christmas. A very matter-of-fact signalling by the Treasury team, noting where we are on funding, contingencies, the possibility of net liabilities and sharing the calculation questions might be appropriate, with an offer of a general update with the CFO.

If the Board has strong guidance, it would be appreciated.

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We do not believe it would be helpful to

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We will keep a timetable under review but it is unlikely to be before mid-January and may be later. We have signalled the issue to the Commercial team. Their general reaction is that the

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### Smith & Williamson Review

We agreed to fund an independent, third party review of our financial position and forecasts to make sure that we hadn't missed any key information or actions.

The report was shared with the Board on 3<sup>rd</sup> December, with consistent covering notes provided by Carla and I. This was a helpful exercise and demonstrated that we were managing the right issues. All of the workstreams were already underway. Carla's summary was: "In addition to speaking with Al and Nick last night, I have also spoken with the S&W partner. His view is that there are

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The recommendations, using the order of Carla's note, were:

	Recommendation	Response
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