



## Post Office Limited Group Executive

Minutes of the Group Executive ("GE") meeting held at  
20 Finsbury street, London EC2Y 9AQ on Wednesday 15 July 2020 at 10.30am via Teams/conference call<sup>1</sup>

### Present:

- Nick Read (Chair)
- Alisdair Cameron
- Ben Foat
- Emma Springham
- Jeff Smyth
- Richard Taylor
- Dan Zinner
- Owen Woodley
- Amanda Jones (until 16.30 hrs)
- Lisa Cherry

**Other Attendees:** David Parry (Senior Assistant Company Secretary)

Other attendees as shown against agenda items.

**Apologies:** None

### Action

#### 1. Finance

##### 1.1 Financial Performance Report

Al Cameron/ Max Jacobi/ Dan Zinner/ Cathy Mayor/ Kathryn Sherratt

Al Cameron presented the financial performance report for June. June has seen a trading profit of [IRRELEVANT] for the month and recovery is quicker than expected. Overall our trading is [IRRELEVANT] year to date ahead, but down [IRRELEVANT] year on year.

Some Mails products (Labels and Special Delivery) are now trading at expected pre-covid levels, but many others such as Telco and home insurance remain materially down year on year. The 'new normal levels' are yet to become apparent.

Max Jacobi and Cathy Mayor both remarked that the summer is key in terms of trading, particularly for banking and travel. Whilst trading in travel is reasonable at present, there is concern that H2 levels will be lower than expected - a second lockdown could be catastrophic for the sector, however as Owen Woodley noted, it was hard to predict what will happen and a forced return may be detrimental. The weather could also be key to the sector's recovery.

Regarding Payment Services and Payzone, Cathy Mayor advised the team are monitoring Allpay where payments continue to decrease year on year. This is also being reviewed by Allpay. Payzone trading is 13% favourable to reforecast, but serious consideration should be given to fully integrate Payzone into the Group, following disappointing returns since merger.

Telco's returns are mixed, however we need better levels of insight as we are heavily reliant on information provided by Fujitsu.

##### 1.2 Four Year Plan and Funding Request (summary paper)

Al Cameron/ Max Jacobi/ Dan Zinner/ Cathy Mayor/ Kathryn Sherratt

Al Cameron presented the paper. POL will be requesting [IRRELEVANT] of funding from the shareholder to cover the period 2021 – 2024 and a draft submission will be presented to the Board in July. Final submission is expected in September to UKGI, BEIS and HMT. Any GE comments should be sent to

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

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AI offline and any areas requiring populating such as network outcomes/strategy; change plan will be populated post Board discussions.

Recognising the current strain on the public purse, the amount being requested is significant and shareholder backlash is likely. However, the request has been driven by the impact from (1) Covid19, (2) GLO, and (3) the significant amount of work that POL is continually required to complete, in order to meet shareholder objectives. These are all issues the shareholder is fully aware of.

Nick Read remarked on the repeated Post Master questions he receives at roadshows on what support is being provided by the government, that postmasters are under pressure to perform require more shareholder support.

It was **AGREED** that prior to final submission, Richard Taylor would review the document to ensure that the communication is clear and aligns with the political agenda. Amanda and Richard will review the narrative surrounding the network strategy - the need to meet customer demand against reduced resource, and the cost of not replacing sold/closed assets should be clearly highlighted.

RT  
AJ/RT

Amanda Jones and Richard Taylor would discuss appropriate wording for the network strategy.

It was **AGREED** the version submitted to the Board would:

MJ

- Clarify the network strategy position and ensure the narrative aligned politically.
- Clarify the financial figures required to meet objectives.
- Include extended commentary on cost/revenue bases over the next three years.

## 2. Organisational Design

Caroline Scott

Caroline Scott presented the organisational design paper. She commented that the organisational design needs to modernise its working culture, but also reduce its costs base. 1650 FTE reductions have been targeted for this financial year which will be broken down into three tranches, the first in September consisting of 173 FTE reductions. Lisa Cherry believes this was a realistic number that can be effectively timetabled and managed throughout the year.

An announcement is being planned for 16 September advising of the organisational restructure, but GE members must be prepared from September onwards to hold difficult conversations with colleagues affected. All colleagues affected will be offered the opportunity to hold conversations either via face to face meetings, virtual meetings, or offline.

Ben Foat noted the commercial risk of losing internal/commercial knowledge as well as the difficulty in finding time to hold these conversations, considering current work stretch. Lisa Cherry explained that HR and HR business partners would on hand to advise on the process and that issues can be discussed with the representative HR business partner, Steve O'Reilly or herself. Interim support where required will be brought in, recognising that interim costs may increase for a limited period of time until people understand and can meet their new roles/responsibilities.

Nick Read requested that HR support is provided to affected colleagues, GE members (so that they are adequately prepared to hold these conversations) and also to colleagues who find that their roles/remits have changed.

Disruption is inevitable and the unions will need to be communicated to prior to the cuts. Detailed design work will be presented to GE 12 August, highlighting any key interim roles required.

**Action:**  
CS

### 3. RMG MDA2 (Verbal Update)

Owen Woodley/ Mark Siviter

Owen Woodley and Mark Siviter provided a verbal update on the RMG MDA2 discussions.

Owen commented on the extensive daily discussions on this topic, and that useful conversations had recently been held with a number of NEDs and the Chairman.

There has been delay in signing the contract due to a restructure programme at RMG, however the agreement is expected to be ready for signing on 24 July 2020. As this is POL's **IRRELEVANT** **IRRELEVANT** the legal and commercial teams will review the agreement to identify any gaps that may impact POL, and SteerCo and the Board will also have sight of the agreement prior to execution.

Owen advised that consideration will need to be given to the following:

# IRRELEVANT

Resolutions and an updated legal risk note will be provided to Ben for review.

As part of the agreement, £3m has been set aside for agent remuneration. Inevitably there are some agents who will lose out in the agreement, and those more commercially minded/entrepreneurial likely to benefit the most. Nick Beals' team will communicate the advantages/disadvantages of the agreement to Postmasters, however, it is up-to the Postmasters to take advantage of this agreement.

The following was **AGREED**:

- OW/MS





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### 4. GLO separation solution

Ben Foat

Ben Foat presented the GLO separation paper. He explained there are three options to maintain momentum, these being:



The Committee discussed the advantages of the ring fenced option, with the following comments noted:

- Nick Reed felt BEIS/UKGI would be against a new POL group structure where new stringent governance controls would have to be established.
- The ring fenced division can provide the opportunity for a reset and to establish effective light governance controls.
- Costs can easily be separated/clearly identified.

Ben remarked that costs are being investigated and will be presented to Max Jacobi and Al Cameron for review and comment.

The Chair **AGREED** the recommended approach of ring-fencing was a good opportunity to convince the Board of the benefits of the separate ring-fenced division.

Nick also announced that following discussions with the Chairman, Declan Salter has been appointed to head up GLO from 27 July. He will not be GE member, but will report directly to the Board and Chairman.

### 5. Post GLO implementation plan (including Postmaster Contract reform)

Ben Foat/ Julie Thomas

Ben Foat and Julie Thomas presented the paper.

Ben Foat noted that following the Criminal Cases Review Commission (CCRC) decision to refer 61 cases to the Court of Appeal Criminal Division (CACD), oversight of these cases is being provided by weekly Board and steerco meetings. Approval has been received for further funding governance by the Investment committee on 8 June 2020 and POL is required to formally set out whether it supports, opposes or does not oppose each appeal individually. A holding respondent notice can also be provided.

POL has applied for a four month extension (until 30 October 2020) to the CACD to serve the respondent's notices, which CACD agreed to up-to 2 October 2020 and a two day Board away day is being planned in September to review each case.

#### Malicious prosecution civil claims:

There are c.900 cases for review.

**Historical shortfall scheme:** 744 claims have been received as at 10 July 2020, 219 of these are fully quantified with a value of [IRRELEVANT] 350 are partially quantified with a value of [IRRELEVANT] totaling [IRRELEVANT]. Careful consideration needs to be given to claims received from commercial partners McColls and Coop to understand their reasons for claim.

**ATOS stamps:** a failure by ATOS to follow scripted advice after a late Royal Mail announcement to increase the price of postage stamps, led to 359 branches using incorrect codes. KMPG was asked to investigate and found a number of risks in POL's supply chain and internal processes, and noted



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that some issues may go back as far as 2000. A number of tactical solutions have now been implemented to mitigate any further issues and a proactive approach is being taken to avoid/reduce the number of claims from Post Masters out of pocket. This has been included as part of the mediation scheme.

**Suspense Accounts:** KPMG has completed a review of current suspense accounts and found no instances of POL profiteering. Historical suspense accounts will now be reviewed.

**Post GLO implementation plan:** Julie Thomas and Jeff Smyth provided an update on the work completed Post GLO. Jeff reported that he is in the process of developing an internal Horizon IT team (previously POL did not have dedicated IT resource with this knowledge) and that he is identifying partner organisations to replace Fujitsu following their decision to end their contract with POL.

Julie explained this is an excellent opportunity to re-examine our IT controls environment and also have a greater handle on Horizon - testing updates could be completed in the model office.

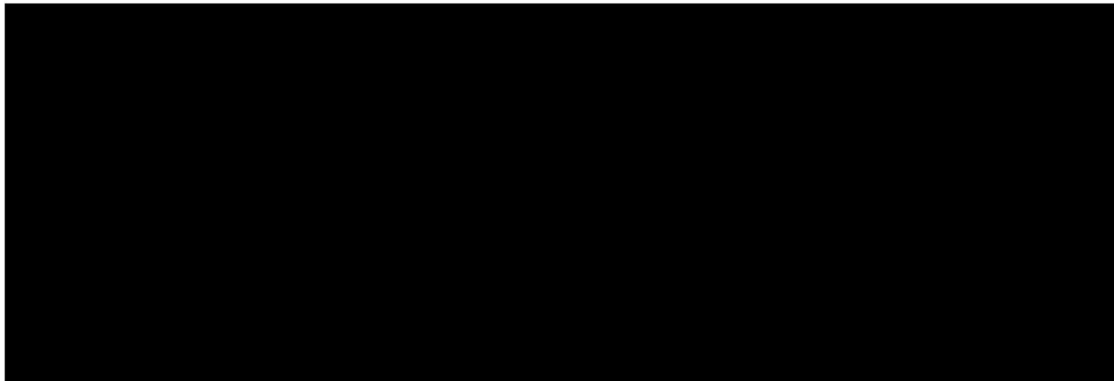
In terms of operational changes, formal policies and operational manuals are being updated following recommendations from Norton Rose and new, simpler and digitised Post Master contracts are also being developed. These contracts are compliant with the GLO judgement, as well as being more strategically aligned to POL.

Tactical fixes and transparency has increased including more quality assurance checks across operations. AC suggested the GE should consider a GE discussion on whether more Post Masters should be limited companies.

Nick congratulated the team on the work to date but recognised this was just the start and requested an update in September/October.

### 6. Law Enforcement Policy

Ben Foat



The GE discussed the paper. It was felt more work was required to highlight that internal testing and processes for Horizon are in place, that Horizon is robust, but is not infallible.

It was **AGREED** the paper would be removed from the Board agenda.

### 7. Strategy

#### 7.1 Network Strategy (Project Neo)

Amanda Jones/ Martin Edwards

Amanda Jones and Martin Edwards presented the network strategy advising a detailed costing model will be presented to GE in September.



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A detailed review and gap analysis of the network identified that the network requires a refresh so that it is flexible, attractive to potential partners (churn is 400-500 per year of postmasters leaving the network) and provides appropriate coverage in both urban and rural areas whilst meeting shareholder objectives.

Martin Edwards explained the 'new' network will introduce new lighter formats, be rationalised, and is designed with win-win franchisees (for post masters and POL) in mind, as well as enhance the current partnership network.

Although Owen Woodley believed the model presented is as complex as the current version, Amanda responded to by advising the model is designed for convenience, flexibility as well as provide POL with a balanced and cost effective but profitable network. Martin also remarked that the 'new' network will empower postmasters to sell more localised products, as well as attract more established commercial retailers with an attractive business proposition.

Noting the complexity of the topic, the Chair requested that Amanda work closely with Richard Taylor to ensure that the correct political message is portrayed. Prioritisation with commercial partners should be clearly explained (i.e. the capability and financial security they can provide as well as the risks) as should the ability the network provides to work with closely community hubs.

Action:  
NR/AJ

Nick thanked the team for their efforts.

### 7.2 Mails including PUDO Strategy

Owen Woodley/ Mark Siviter/ Tom Wasilewski

Tom Wasilewski presented the PUDO strategy update.

Tom remarked that POL's network can play a central role in PUDO (Pick-Up Drop-Off) market – there is minimal dependency and disruption to the work with Royal Mail; it is an area of current market and consumer trend; provides POL with the opportunity for increased footfall and new income; as well as an opportunity to build relationships with UK's younger demographic, who are driven by convenience rather than brand loyalty. However it was key that the proposition is attractive to PostMasters.

The team discussed the position of current market competitors, noting that some competitors had declared their wish to close their shop network and that others are working with all providers and are gradually increasing their market share.

The PUDO market is consolidating, however as POL is in a unique position in terms of the size of its shop network, it could prove to be an extremely profitable additional revenue stream. Further, by working with one long term partner, we could be damaging our long term future and all options should be considered.

The team requested the paper clearly identify the reasons/decisions why POL should take this opportunity, as well as the reasons that would show we would not be exploited by the dominant market player.



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### 7.3 Fujitsu Contract Exit/ SPM Jeff Smyth/ Gareth Clark

Jeff Smyth and Gareth Clark presented the Fujitsu Contract Exit/SPM paper. Jeff explained the project objective is to migrate the services running in the Belfast datacentres to the cloud, and that work was temporarily suspend work for 12 months due to GLO in April 2019 (Board decision). Board funding is now being sought up-to December 2020 to complete the migration progress following approval by the PRB / IC / GE.

Gareth remarked Fujitsu are extremely keen to exit the POL contract in 2023 without entering into the additional two year extension period available. The Committee discussed the progress made, however it was key to give the Board confidence the project could be completed on time and was achievable.

Suggested areas of inclusion into the paper:

- Sequencing of events (timeline).
- What needs to be done before Fujitsu exit.
- Clarity on the strategy dealing with Fujitsu exit and costs involved – to work closely with McKinsey on negotiating the exit. Includes Fujitsu costs should they be required to stay beyond 2023.
- Plan B and options to avoid.
- Hardware/software implications to be aware of.

**Action:**  
JS

### 7.4 Cash & Banking Framework 3

Owen Woodley/ Martin Kearsley

Martin Kearsley presented the Cash & Banking Framework 3 paper.

**Cash:** usage dropped by 50% during the early stages of lockdown, but has since risen to 80-85% and the government/regulator is keen for the industry to step up its efforts in protecting access to cash, particularly in disadvantaged, rural and other underserved communities. Our network can enable us to provide sustainable cash services.

In terms of cash usage in the network, due to many banks being closed during lockdown and required limited social interaction, we have seen increased numbers of new customers making banking deposits, as well as higher amounts (up-to 20% higher) being deposited. This average is expected to decrease as consumer confidence increases.

**Banking Framework 3 (BF3):** CEO level talks are now underway and our policy of full candid talks has been well received by the banks. UK Finance is acting as observer (as it has done previously) to ensure talks are unbiased. There is still a lot of work to be completed but to date the feedback received has been reasonably positive.

Lloyds has requested that the original timetable be pushed back to deal with the impact of Covid - pricing was set for release 31 December 2020, and banks that wished to remain with BF2 pricing had to inform POL by 30/6/21 (POL's preferred single decision date). This delay presents us with a number of opportunities, including understanding the banks expectations, an opportunity to review any covid impacts, and

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**Cash Automation:** due to the success of the banking framework, cash volumes being transacted in the network has increased, along with the demand/pressure placed on our network and staff who deal with cash. To meet increased demand, new cash management solutions will need to be developed to:

- improve our ability to deal with transactions in branch;
- improve the visibility of cash in the network;
- make the overall cash transaction process easier for POL staff to deal with;
- improve customer experience; and
- lowers the costs to banks.

To help/ease the demand, the team are piloting counter cash automation (that can be integrated into our platforms) as well as in-branch self-service devices for customers. Hendersons (major partner in Northern Ireland) are keen to deploy TCRs (teller cash recyclers) at their counters and a funding request to pilot this will be made to PRG.

TCRs can be run without integration into Horizon, however work has commenced with our IT partners to assess the resource and timeframe required for integration into Horizon. The self-service devices will be able to piggyback on the software platform and management services being acquired for the new ATM network.

**Community Access to Cash Pilot (CACP):** this is a new initiative sponsored by UK Finance and governed by a board consisting of Independent Chair (Natalie Ceeney), Banks, FSB, LINK and Fairer Finance, to seek new and existing solutions to support communities and those dependent on cash. POL is seen as central to the provision of sustainable solutions by the Chair and we are engaging with the programme team to ensure our PO branches are fully utilised.

Action:  
MK

GE asked Martin to consider the model without key banking partners and requested he/the team be mindful of our engagement with the regulators.

### 7.5

#### ATM Strategy

Owen Woodley/ Martin Kearsley

Martin Kearsley presented the ATM strategy paper. The Board has previously agreed that we should remain in the ATM agreement with BOI, which is due to end in March 2022, but since cash usage has significantly dropped in the UK during covid, the Board is being asked to re-consider whether we should remain or exit the agreement.

**Remain:** by remaining in the agreement we could see a cumulative cash flow of [IRRELEVANT] in 2020/21 to 2027/28 (figures still to be confirmed) and would:

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**IRRELEVANT**

**Exit:** by exiting the agreement, we could see a cumulative cash flow of [IRRELEVANT] between 2020/21 and 2027/28 although most positive cash flows will be expected in 2023 onwards when customers would interact with counter tellers rather than self-service machines. Exiting the scheme would

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However, Martin pointed out that we would need to see a c.80% migration to the counter to yield the same financial benefits for POL as with the Remain strategy, but c.30% migration to ensure Postmasters earn equivalent remuneration. Removing ATMs from branches would remove the opportunity for attack, but could reduce Post Master remuneration, footfall and would go directly against the government's "access to cash" scheme.

The Committee discussed the advantages and disadvantages noting the difficulty of the decision required.

### **8. Board Approvals**

#### **8.1 Belfast Exit Plan**

The paper was noted and approved, subject to updates discussed.

#### **8.2 Procurement risk exceptions**

The paper was noted and approved.

### **9. Review of GE Action Points and Updates**

Veronica Branton

Progress with actions as shown on the Action Log was **NOTED**.

### **10. Items for Noting**

#### **10.1 Health and Safety Report**

The Health and Safety Report was **NOTED**.

#### **10.2 Forward Agenda**

The Forward Agenda was **NOTED**.

### **11. Any other Business**

Post Office Bank Holiday – A POL bank holiday is to be held on 30 July as a token of appreciation for the work/effort of colleagues during the Covid pandemic. A pre-recorded GE message of thanks in a montage format will be filmed.

### **12. Date of next scheduled meeting:**

12 August 2020.