POST OFFICE LIMITED BOARD MEETING
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MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON WEDNESDAY 03 NOVEMBER 2021 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AND VIA MICROSOFT TEAMS AT 09:00 AM

Present:	Tim Parker	Chairman **(TP)**
	Tom Cooper	Non-Executive Director **(TC)** (Items 1. & 2.1)
	Ken McCall	Senior Independent Director **(KM)**
	Carla Stent	Non-Executive Director **(CS)**
	Lisa Harrington	Non-Executive Director **(LH)**
	Zarin Patel	Non-Executive Director **(ZP)**
	Saf Ismail	Non-Executive Director **(SI)**
	Elliot Jacobs	Non-Executive Director **(EJ)**
	Ben Tidswell	Non-Executive Director **(BT)**
	Nick Read	Group Chief Executive Officer **(NR)**
	Alisdair Cameron	Group Chief Finance Officer **(AC)**
In attendance:	Veronica Branton	Company Secretary **(VB)**
	Tim McInnes	Strategy and Transformation Director **(TM)**
	Dan Zinner	Group Chief Operating Officer **(DZ)**
	Max Jacobi	Strategic Financial Planning & Analysis Director **(MJ)**
	Tom Lee	Group Financial Controller **(TL)**
Apologies:	N/A	

Action

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. Tom Cooper recused himself from the discussion on the Board's response to the funding settlement because of his role as the Shareholder Representative.

Otherwise, 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. 2021 Budget and Spending Review Board Discussion Materials (draft)

2.1 Position with a IRRELEVANT spending envelope

Nick Read reported that we had received a verbal communication from BEIS on our funding settlement figure of IRRELEVANT over the next three years. Our assessment of the implications of this was work in progress but it would result in Post Office Limited (POL) being a very different business. Our trading position post Covid did not bring us back to 2019/ 20 trading position. With the funding settlement proposed we were unlikely to be able to commit to maintaining 11,500 branches and that had political ramifications and for the position with the network. We would talk through what we could do in the circumstances and be rational about this.

Tim McInnes took the Board through the slides prepared for the discussion and set out the matters that needed to be decided over the next few weeks. We would need to engage with BEIS and they would take some time to work through the implications of this sharp reduction in settlement against our funding request.

In August 2021 we had requested a IRRELEVANT funding settlement which was designed to deliver the network commitments, improve Postmaster profitability, invest in 21st century technology and enhance shareholder value (completing the exit from our DMB estate and realising technology-enabled headcount savings to drive efficiency and lower costs). The verbal steer from BEIS was that our settlement was IRRELEVANT of investment spend in 2023/24. We would need a different plan, with different objectives and could not sign up to the criteria were had signed up to in the past with this settlement.

We were not facing an immediate risk of wrongful trading but the accounts could be qualified on a going concern basis, depending on a number of issues such as BEIS's position on POL breaching security headroom. We would keep monitoring the wrongful trading position and Al Cameron reported that he had spoken with PwC and Linklaters on 2nd November 2021.

AC set out the main areas of spend. TM reported that we could not support a network of 11,500 branches with this settlement but only needed c7,500 to meet the network criteria. We were developing a plan that was somewhere between the two figures.

The funding assumptions for the IRRELEVANT settlement were explained. There was a significant uncommercial part of network which we were characterising as unsupportable branches. We had looked at closing c400 branches and investing these savings in branches we wanted to maintain. We still needed to make progress with Postmaster remuneration. We would expect network churn to increase and assumed that 1,600 branches would close over the three years but that we would not replace them all and would focus on replacing the profitable branches.

There was a pressing urgency around our plans, our discussions with BEIS and what we would be communicating. The communication approach would need to be discussed with the Minister and Carl Cresswell at BEIS.

TM reported that we were likely to breach security headroom in the early part of the funding period and recover to IRRELEVANT at the back end of the plan. AC highlighted that there could be swings of IRRELEVANT in a month so we would breach Security Headroom on a stress test model. PwC could therefore decide to qualify POL as a going concern but might alternatively work through a plan with us. TM added that we needed to work through the issues and figures a number of layers down in the budget and that could affect the picture. The position overall was a loss of IRRELEVANT in revenue and IRRELEVANT in EBITDAS over the period. We could continue trading over the next three years but would not be developing a commercially sustainable business. This draft plan took out IRRELEVANT of spend. Spend would still be required on IT and historical matters; we would be releasing IRRELEVANT from SPM; we still had some commercial investments but these were mainly focussed on finishing off what we were already doing; there was some equipment we would have to replace such as vehicles. We had also built in some funding for claims for constructive dismissal. AC explained that we would not be making people redundant because we could not afford to but more employees would want to leave and in some instances their contracts would have changed so much that they could sue for constructive dismissal. There would also be some elements of spend that we could not predict currently.

TM described the areas of spend that would not be undertaking and the associated drop in benefits. We had assumed a 75% drop in procurement costs and an increase in risk appetite in connection with Public Contract Regulations.

TM described the key impacts set out on the final slide. The steps proposed would be interpreted as a closure programme. The mix of the network would change. There would be an impact on access to cash. We would not be addressing automation which would impact on Banking Framework 4 which in turn would impact HM Treasury's access to cash campaign. We would not implement SPM. There would be an impact on people. People would not be able to do the things they had joined POL to do so we risked losing good employees. There would be an impact on risk, both our going concern status, and our position with counter parties. We would have to increase our risk tolerance and do things

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at lower cost. However, we wanted to be constructive and avoid being hyperbolic. We would have a conversation with BEIS on what we could do with IRRELEVANT funding settlement.

A number of points were raised and addressed, including:

- Carla Stent asked how we were running cashflow and whether there were any major pieces of spend coming up, for example for the Strategic Platform Modernisation Programme (SPM). AC reported that his initial view was that SPM could not proceed with the funding settlement as it stood but we would still have to spend a significant amount of money to support the Horizon system. We were being careful and would have to work out how to stop SPM, the DMB programme and so forth. CS asked if delegated spend needed to be revoked and AC explained that spend was approved through the Investment Committee so could be controlled
- Ken McCall asked whether shutting down the SPM programme would affect PUDO. AC reported that our revenue forecast was predicated on gaining a much bigger share of the parcels market and his initial view was that the PUDO and ATM programmes would continue as these were important to the network and if seeking partnerships with third parties, we needed to be able to offer these services. We were considering whether we could continue with some parts of SPM to enable certain initiatives like "Click and Collect" to be completed. KM asked about the sustainability of the position with the funding settlement proposed. AC noted that ultimately this was the Shareholder's money so we were looking at how we could make this work. We thought there were steps we could take to keep the network running over the next three years but not with 11,500 branches. We would not be making the investment to grow the business and make it commercially sustainable. NR added that this was affected Postmasters who were expecting investment in automation
- Zarin Patel asked how a IRRELEVANT funding settlement affected the Historical Shortfall Scheme (HSS) and legal costs. AC reported that our assumption continued to be that we would spend the IRRELEVANT allocated to these matters and were still on track in our discussions for government on funding for the compensation settlements. Tom Cooper asked whether the delays in the HSS claim settlement offers, resulting in some of these costs being pushed into the next funding period, had been factored in. AC reported that this was reflected in forecasts but a lot of detail needed to be worked through, for example, on other areas of potential Postmaster detriment. We might not be able sign the accounts on time
- Lisa Harrington asked what we thought we would do from an SPM perspective. TM explained that we needed to work through this but the assumption was that we would insource Horizon at a cost of IRRELEVANT and proceed with some elements of SPM that needed to be completed. NR cautioned that these issues had not yet been shared with the teams

Ken McCall left the meeting.

- Dan Zinner noted that we were assuming a 4% increase in Postmaster remuneration rather than 6%. Elliot Jacobs asked whether this took into account the effect of the increases in the living wage over the period. EJ thought that churn would be much higher than we were assuming, especially in Mains branches. Saf Ismail shared this view and thought the churn rates would be higher overall
- LH thought we would have to take meaningful action to adapt the organisation to its new shape. NR agreed but we had not undertaken that piece of work yet. LH added that there would be parts of our business that were no longer needed and we would need to be clear what they were. AC advised that the Board could not sign off a redundancy programme for spend we could not commit to at the moment
- EJ noted that there was no mention of the Banking Framework. There was more volume in banking transactions for Postmasters but if we were not investing in

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automation for cash, we would be expecting the work to be undertaken for less. AC explained that we were not suggesting that this was a sustainable business model and there were risks to the Banking Framework as well as other areas. EJ added that there would be an 11% increase in living wage over the period

- DZ described the network assumptions. There were branches that lost money. We had selected 400 to look at the figures but this could be more. Under the revised plan we would not extend the hard to reach provisions. We assumed a more than doubled rate of churn for Mains branches. It cost IRRELEVANT to open a Local branch so there would be more outreach branches. We would not have the money to support Postmasters in the ways we wished to. They would be significant external criticism of branch closures, many of which would be the "last shop" in the village
- Tom Cooper thought we should focus on fewer points when presenting the position to BEIS as that would be more impactful. He did not think the implications of the spending settlement were fully understood by BEIS or HMT. They would ask what we needed and the "middle path" option would be important for both parties. Branch numbers, SPM and hard to place branches would all be important for the department
- CS asked whether the fact we would be unable to maintain 11,500 branches with the current settlement presented us with the opportunity to move to a network that was more sustainable. CS would prioritise SPM and Postmaster remuneration ahead of branch numbers but understood the political dimension for the latter. TC thought that a reduction in branch numbers was very difficult because it undermined the case for POL in the political world and would be especially problematic in the coming weeks when we needed to resolve the funding issues. TC thought we should set out what was needed to maintain 11,500 branches. An approval to change branch numbers would not be resolved by the end of the calendar year
- EJ noted that we were working on the basis that SPM would not be going ahead but he would be interested to understand if there was any way of retaining SPM but look at how we dealt with sequencing and spend, for example, leasing rather than buying the equipment. These were fundamental issues for Postmasters and we would lose their respect if we did not do the things we had said we were going to do. We had to convey to HM Treasury and BEIS that we relied on the Postmasters at the frontline to do the job
- TP noted that there were two themes to focus on: 1) the number of Post Offices, where there would be no appetite from Government for dealing with criticism associated with branch closures; and 2) politicians were interested in the position of Postmasters so we needed to articulate the implications of not proceeding with SPM and Postmaster remuneration issues. This was an early stage of our discussions and thoughts on the approach we might take, we would work up our evidence base and have a "menu" of the things we wanted to do. From a commercial perspective we should be finishing off the DMB franchising and reducing the uncommercial part of the network but this might need to take second place to other priorities.

Tim Parker thanked Tim McInnes and the team for pulling this information together in a few days. We did not want to act hastily, we wanted to be constructive but also evidence the consequences of this spending envelope.

2.2 How we are going to react

Nick Read referred to the alternative funding scenarios. A reduction in branch numbers and access criteria changes were likely to be unpalatable to BEIS and had implications for the Banking Framework.

Tim McInnes described the "middle way" scenario in which there would be more investment in new formats, automation and addressing churn.

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A number of points were raised and addressed:

- Al Cameron noted that to pick up on Elliot Jacob's point we had looked at halving SPM spend but it would be very bad commercially to break up the spend in this way. Tim Parker noted that we had to think through how we presented this to the department carefully so they understood that the settlement meant that Horizon would need to continue in some ways. We should consider whether we should be saying that SPM was essential. AC reported that we had not said this and the problem was that it entailed a spend of IRRELEVANT The swing factor on all of these plans was the issue. We had been looking at a 3 year survival plan but if we did not implement SPM over a 10 year period the position would not be sustainable. EJ noted that this would lead to Postmasters being on Horizon for the next 6 years and with no automation. Dan Zinner noted that part of our job was instilling this understanding with Government. Carla Stent added that the Statutory Inquiry would be running at the same time and Horizon was linked to this and we needed to bring this out. TP added that part of the closure of the historical matters could been seen as moving off Horizon. NR noted that these issues had been set out in the 60 page comprehensive plan submitted to BEIS in August 2021 but HM Treasury did not appear to have been briefed on this in a meaningful way
- TP noted that we needed to avoid BEIS thinking that a "middle way" plan allowed SPM to be delivered. We should avoid too many messages and stick to two or three key points. NR agreed and we would produce a single sheet for the meeting with the Minister.

Lisa Harrington left the meeting.

- AC suggested that we rechristen SPM as Mails because this also covered the automation elements in this area
- TP noted that a "middle way" plan suggested being half-way between what we asked for and what we had been offered and it might be better to frame this around non-negotiable outcomes rather than a middle number
- Saf Ismail observed that without SPM Postmasters could not become self-sustainable and this would increase the subsidy required from Government. It would be helpful to set out the roadmap for automation
- Zarin Patel asked whether we should we be thinking harder about asset sales. ZP also thought we should we be bolder about the need to implement SPM
- Elliot Jacobs noted that the bottom line was that we were asking 9,000 entrepreneurs to do more for less. There was no other part of the Government infrastructure that appeared to have reliance on individuals in this way. At a minimum, Postmasters had to keep parity with increased costs. The position for Postmaster would be unsustainable without at least this and automation. TP agreed that these points needed to be highlighted. We needed to deliver a sustainable living for Postmasters
- TP asked whether there was argument for including all the legal costs in the BEIS budget. AC thought there was and it would allow POL to access more money from BEIS but it was complicated because of the Government spending rules in this area
- CS noted that we needed to be able to dispel any perception that there had been "fat" built into the original funding request. TP agreed that we should identify from the original funding request how much was in contingency to address this issue. We also needed to evidence assumptions such as the churn figures as far as this was possible. CS added that we should set out the problems we would encounter with an unamended settlement: not getting off Horizon; not sustaining branch numbers; not generating enough income for Postmasters to meet the increases in the living wage
- AC noted that we would work through a number of scenarios including with IRRELEVANT in funding, proceeding with SPM and a plan that supported commercially sustainability.

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Tim Parker summarised the position. This discussion was about informing the Board of the situation and what the next steps might be. After the meeting with the Minister we would need to think through how we might approach BEIS about revisiting the settlement, such as the consequence for Postmasters, and this would need to be brought to life. TP and NR would discuss after position after the meeting with the Minister, would keep the Board informed and a further Board discussion would take place after further work had been done on the implications of the proposed funding settlement.

Actions: Executive and NR/ TP

3. Any Other Business

There being no other business the Chairman declared the meeting closed at 10:45 hrs.

4. Date of next scheduled meeting

30th November 2021.

Tim Parker

Chairman 17/02/2022 09:37

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Voting Results for Additional Board Minutes from 03.11.2021 (approved on 30.11.2021)

The signature vote has been passed. 1 votes are required to pass the vote, of which 0 must be independent.

Vote Response	Count (%)
For	1 (100%)
Against	0 (0%)
Abstained	0 (0%)
Not Cast	0 (0%)

Voter Status

Name	Vote	Voted On
Parker, Tim	For	17/02/2022 09:37