

**Post Office Limited
Group Executive Tactical Meeting**

5th May 2021, 10:30 – 12:00

Via Microsoft Teams

Attending:		
Al Cameron (Chair) Ben Foat, Amanda Jones, Jeff Smyth, Richard Taylor, Owen Woodley, Dan Zinner		
Other attendees: Veronica Branton and as shown under agenda items		
Apologies: Nick Read, Lisa Cherry		
Topic (Decision/Discussion/Noting)	Output (if applicable)	Deadline & Reporting Requirements (if applicable)
Pre-discussion		
Dan Zinner would update the GE on the Starling mediation in due course.		
Strategic Plan Discussion		
<p>Al Cameron introduced the discussion noting that this was not to reopen a conversation on costs but we were deciding what to include in the Plan. The profit slide showed the position as £58m lower on EBITDAS cumulatively.</p> <p>A number of points were raised and questions asked:</p> <ul style="list-style-type: none"> • Dan Zinner reported that he had had a conversation with KPMG on Postmaster remuneration. and he questioned whether we had included enough in the Plan for Postmaster remuneration. Tim McInnes noted that an anecdotal view from Postmasters was that they were not seeing much happening today. The focus was on fixing the past and changes to IT etc but these were not due to come to fruition until 2023/24 • Angela Williams asked about our overall assumptions on pay over the next few years for the employee population and whether this was aligned with Postmaster remuneration. DZ noted that we needed to be clear that Postmasters were not employees. Max Jacobi reported that we had included a [IRRELEVANT] assumption for employees with Postmaster remuneration increases slightly higher. Owen Woodley asked what the rationale was for keeping the profit share fairly flat. AC noted that the Shareholder had always wanted us to be able to pay for our own investments and to do this we would need an EBITDAS of at least [IRRELEVANT] per annum. We needed to be clear whether our ambition was to be able to do this after accounting for the Postmaster share within the plan period. We could answer this question in different ways and 		

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<p>with a spectrum ranging from this being our aspiration subject to funding requirements being met through to not thinking that commercial sustainability was possible within this timeframe</p> <ul style="list-style-type: none"> • AW noted that last week we had announced the seven strategic areas we were committing to and asked how our budget was aligned to this. AC noted that we only had funding agreed until next year so our budget was not aligned but it was a good question and we could see how much of our revenue we were spending on Mails and Cash • DZ noted that our EBITDAS made it difficult for us to see how much was being spent on Postmaster remuneration and what the Government was funding. AC noted that we could say we wanted to spend £100m more over the period and that this would give us confidence that we would be commercially sustainable by being able to right-size, outsource supply chain etc. TM noted that we also needed products/ services to sell through the network as well as fixing the infrastructure to be able to do so efficiently. • AW asked whether the strategic decision had been made on our main area of focus e.g. reputation, Postmaster remuneration, right sizing. TM explained that this discussion was taking place and would be factored into the June Board paper • Richard Taylor asked about the narrative for the Postmaster profit share. • AC noted that the GE could recommend to Nick Read and the Board its view on whether we would reach commercial sustainability or not during the Plan period and what funding we would need to do so. DZ thought we should include more money for Postmaster remuneration and did not think we could achieve commercial sustainability by 2023/24; however, before asking for more money to right size etc. we would need to work through whether we had the change capacity and capability. We knew that it would be unwise to change too much at once. MJ noted that headcount reduction was included in the plan with a figure of 2,100 – 2,200 FTE at the end of the period (working to a longer-term figure of 1,600 – 1,800). OW didn't see why we would not pitch for the capacity to do this work. AC noted that the main difference in numbers was functional heads but we would need to be focussed on what technological changes could be implemented etc. AC thought we could outsource supply chain without disrupting the rest of the business too much. • AW noted that to be able to deliver this Plan we would need the right capability, talent and succession planning and that wasn't referred to. Was this about FTE or costs? E.g. IT heads would be costly. Was the key driver financial or to deliver a head count target? AC explained that we were not fixated on a particular number and that this was about reducing costs and achieving simplicity. If we franchised DMBs and outsourced Supply Chain we could have an agile centre that then allowed Postmasters to profit more. We had a choice as to whether to 		
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<p>build capability in IT, take out lower level roles that could be automated and so forth. AW noted that her question was about sequencing. AC agreed that this had to be reflected on</p> <ul style="list-style-type: none"> • Amanda Jones asked about the reference to a 2% profit share. Organisations like the John Lewis Partnership did not state a figure as this was linked to the success of the business and driving aligned objectives. AC agreed that this was the desired approach and the figure included was a planning assumption. AJ asked about funding for developing partnerships with multiples. DZ noted that a number was included for planning purposes but we needed to develop the narrative and proposition. TM thought there would be merit in stripping out the Postmaster remuneration through normal activities and that earned through performance. AC confirmed that we would include both figures. TM noted that we needed to make clear what the sharing element was and DZ thought it would be helpful to show the remuneration by product lines. • DZ asked whether the funding needed to outsource Supply Chain could be linked to government demand for cash. The market was oversupplied but no provider had made a first move to exit. AC noted that we had to be careful because the Bank of England was proposing a collective approach and we were not sure that it would be beneficial for POL to be part of this • DZ asked about the cost for automation, where those FTEs might be and where the capability was in these areas. We needed to understand this at a high level and be able to understand what we could do and why. AC noted that we could do this and had a high-level hypothesis on this issue. Ben Foat noted that he supported the aim but this was about timing and sequencing. With the range of issues we had to traverse it was hard to see the scope for reductions in headcount over the next 2-3 years. We had to be legally and regulatory conformant in the 2-3 year timeframe and there was a risk that costs would be attached to implementing the recommendations from the Public Inquiry. AC noted that if we included numbers but had caveats attached those caveats tended to be ignored; however, we could add up all elements of the budget associated with conformance and improvement work, see whether this was sufficient and if not increase the sum included in the Plan • Jeff Smyth noted that we needed to capture the costs associated with a number of investments on MDMs etc. We also needed to consider Non-staff costs versus staff cost reductions. This needed to be addressed because we had choices we could make around investing in capability for SPM or not. We would have to take a position and explain that. AC noted that it would be helpful to bring back the back office/ system costs and the drivers for change, noting that we had a lot of manual processes in place and system dependencies. That narrative would help us to prioritise. JS thought we needed to look at this from a control perspective and how it would 		
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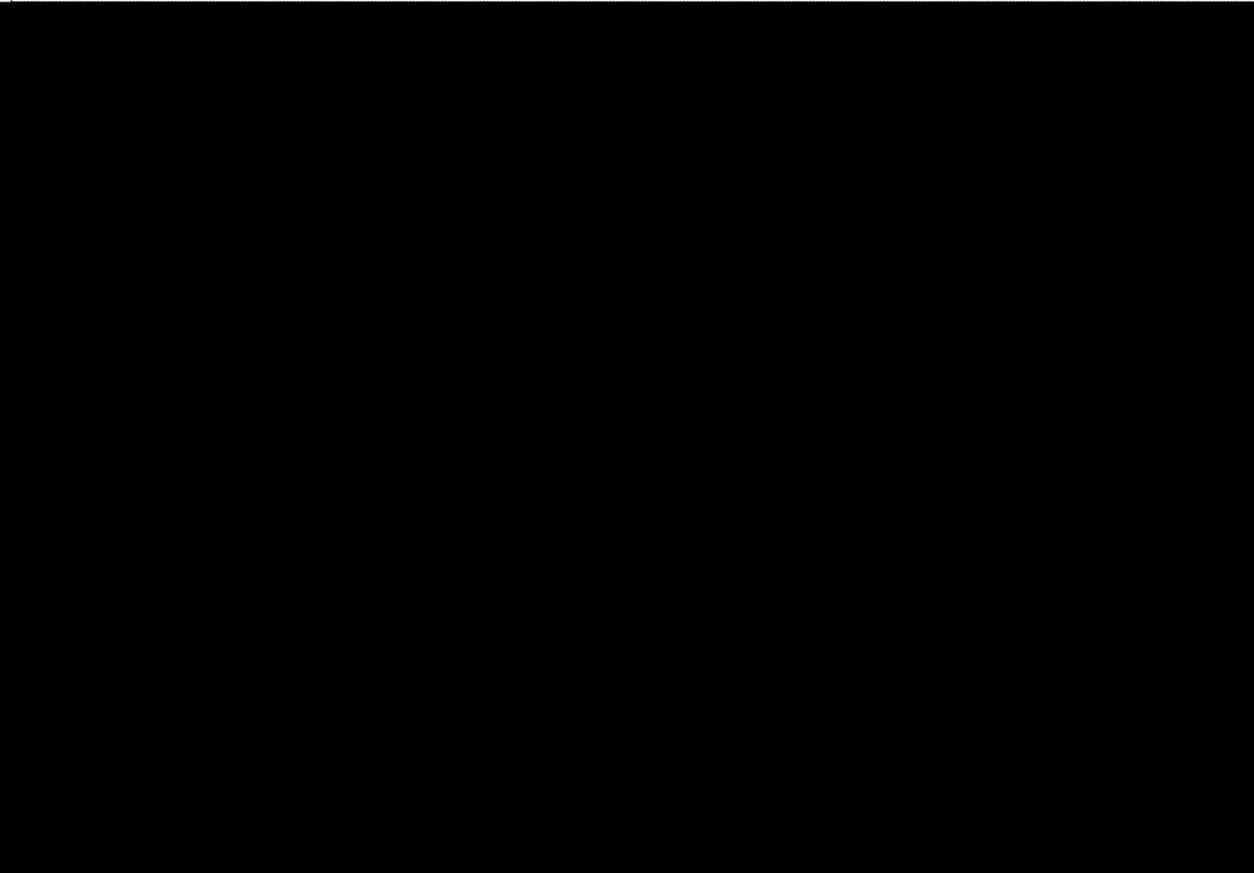
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<p>affect Postmasters as well but he could provide the technology perspective. JS added that we had to reflect in the notes to the Plan if we were proposing to postpone inevitable system changes</p> <ul style="list-style-type: none"> • JS noted that needed to take a view on Verizon where the costs would depend on the size of the network. We needed to make an assumption on the replacement of PEDs as well. AC thought that it would be helpful for JS to help us see these choices • AW noted that we didn't have a strategic people plan designed to deliver these choices and thought this work needed to be undertaken. A full people and capability analysis needed to be produced. AC agreed that this view had not been refreshed recently and suggested that AW discuss with Nick Read and then seek the funding required through the Investment Committee. AW would take this work forward but noted that she would need support from other GE members. DZ cautioned that a many aspects of the plan were likely to change over the period because we operated in a political environment and we had to adapt our plans. AW thought that we still needed a model but one that it was possible to flex. • AC noted that the plan assumed exiting all the DMBs by 2022/23 and asked whether this was achievable or whether we should we allow 3–4 years. DZ noted that he had been reflecting on that question and there was not a significant financial impact associated with retaining a "rump" of DMBs and some DMBs were profitable. DZ would think about whether we should extend the timeline for franchising DMBs. OW noted that it would be useful for the GE to see the figures on DMBs and what activities could not go until all the DMBs had been franchised. Dan agreed to bring this back. AC added that there was a question of the role POL would play as a brand manager and product manager without DMBs and what that would mean for its management structure and how that could change the position on costs. <p>AC summarised and set out the next steps:</p> <ul style="list-style-type: none"> - we would bring back staff costs - outsourcing Supply Chain was a choice to be made if Government were willing to fund the associated costs - the choices and approach to function cost reduction needed to be considered further and how this might be that this was split across years. It would be helpful for AW to look at the options with Max Jacobi and Daisie Jope. AW agreed to take that would forward but would need the assumptions from the business end. 	<p>Action: JS</p> <p>Action: JS</p> <p>Action: AW</p> <p>Action: DZ</p>	
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MJ reported that Finance were undertaking individual business reviews and there would then be a final submission next Thursday, with a paper coming to GE the following week in advance of the Board meeting on 3 rd June 2021.		
Post Office Investigations Review		
	Action: AJ?	

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<p>Jeff Smyth noted that he was fully supportive of this work and that it was important for compliance with the Horizon Issues Judgment. We also needed to think about third parties and our reliance on them in investigations (e.g. Fujitsu historically). We had discussed previously with KMPG their ability to carry out forensic data checks.</p> <p>The GE APPROVED the submission of a business case to the Project Review Board (PRB) to provide funding for the project and the appointment of an external consultant.</p>		
<p>AOB/ Round the Table</p>		
<p>Amendment to the Bank of Ireland (BoI) deal</p> <p>Owen Woodley explained that the amendment to the deal with the Bank of Ireland would underpin the income we received over the next couple of years and would include a IRRELEVANT IRRELEVANT. We thought it likely that we would exceed the income secured through the underpin but it made sense to obtain the underpin.</p> <p>The GE APPROVED a IRRELEVANT IRRELEVANT guaranteeing Post Office a minimum IRRELEVANT in exchange for supporting them optimising margin and balance sheet by IRRELEVANT IRRELEVANT. This removed significant downside risk for IRRELEVANT.</p>		