

Post Office Board Agenda

Date:	Monday 25 March 2019	Time	08.30 – 12.00 hrs	Location	1.19 Wakefield
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Present		Other Attendees	
• Tim Parker (Chairman)	• Tim Franklin	• Jane MacLeod (Company Secretary)	• Tom Moran (items 6. & 7.) (Network Development Director)
• Alisdair Cameron (CFO)	• Shirine Khoury-Haq	• Veronica Branton (Head of Secretariat)	• Owen Woodley (items 9. – 10.) (CEO - FS&T)
• Ken McCall	• Carla Stent	• Debbie Smith (item 3. & 6. - 8.) (CEO – Retail)	• Chrysanthy Pispinis (item 9.) (Director PO Money)
• Tom Cooper		• Martin Kearsley (item 8) (Banking Director)	• Rob Clarkson (item 10.) (MD – PO Insurance)
Apology: Paula Vennells		• Amanda Jones (item 3.2) (Retail Sales Director)	• Glenn Hall (item 3.) (Norton Rose Fulbright)
		• Julie Thomas (item 3.2) (Network Operations Director)	• Ruth Cowley (item 3.) (Norton Rose Fulbright)

Agenda Item				Action Needed	Lead	Timings
1.	Welcome and Conflicts of Interest	Noting	Chairman	GE Members are aware they you may want to take agenda items in a different order.		08.30 – 08.35
2.	Minutes of Previous Board meetings including Status Report	Approval	Jane MacLeod			
The Board is asked to APPROVE the minutes of the meeting held on 29 January 2019. The Board is asked to NOTE progress with the completion of actions as shown on the action log.						
3.	Postmaster Litigation (to follow) 3.1 Case 3.2 Contingency planning	Noting and Input	Glenn Hall/ Ruth Cowley/ Jane MacLeod/ Mark Davies Julie Thomas/ Amanda Jones	08.35 – 09.35		

The Board is asked to **COMMENT** on the contents of the report on operational responses to the GLO, making recommendations as appropriate and requesting an update at each subsequent Board meeting.

We have set up 8 work streams. We are finalising the governance to ensure we prioritise and do not aim off BAU management or important strategic opportunities. Within the paper, we have set out the questions each work stream is answering. These encompass things we have to do in response to the verdict, things we wanted to do anyway and things which might shift the balance with agents.

Our priorities are:

- Putting project governance and management in place
- Agreeing and rolling out contract variations
- Resolving issues of legal interpretation on BAU processes (new contracts, Branch Trading Statements, Suspensions, Withdrawals) and changing how we work
- Creating, rolling out and staffing a new differences and dispute resolution process
- Creating a plan to manage a bad Horizon outcome.
- Agreeing a set of positive changes for agents to reduce tension in the relationship.

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Our focus is on stopping issues building momentum and undermining agents and customers: if agents remain in BAU mode, largely reassured and pleased with changes, other stakeholders will also relax. At the same time, we mustn't over-react and expend scarce resources in the wrong places. We will revert with recommendations for 2019-20 in April.

The 8 work streams:

- Legal (Ben Foat) (*making changes that are consistent with the Judgement e.g. contract variations*)
- Operations (Julie Thomas) (*new processes e.g. how to proceed if considering suspension or termination; under what circumstances we can retrieve cash; whether the Branch Trading Statement works and what changes are required; process for managing discrepancies; whether our application process is fit for purpose. Focus on training, focus on communications. May accelerate Branch Hub work. May expand the Field Team further by using some ex-DMB and other colleagues who know how to run a Post Office.*)
- Agents (Amanda Jones) (*Work on creating an attractive agent proposition including the balance of remuneration, simplification, support and lower costs*)
- Communications (Mark Davies) (*Minimising the impact of GLO criticisms on agents and customers*)
- Stakeholders (AI and others) (*as above for stakeholders*)
- IT/Horizon verdict (Rob Houghton) (*delivering support to the operations stream to reduce transaction failures and avoid user failure scenarios. Investigations to continue into Horizon front end design, "defensive programming" and resolving high volume transaction corrections*)
- Brand (Emma Springham) (*to explore what sort of brand spend, and at what scale, and how delivered, would help defend us against criticism*)
- Financials (Micheal Passmore) (*Questions for 2019/20 budget as set out in the budget paper at 5.2; options to provide additional funding capacity are as set out in the paper to the Board on 20 March 2019*).

Horizon transaction volumes note (appended to the paper)

Given the very limited amount of time, the data is for the last year and has not been as fully reviewed as normal. We will validate and expand the data set and re-circulate it.

Out of 787m transactions, we identified differences through counting cash in supply chain, reconciling transactions through Horizon versus third party data, receiving phone calls from agents, customers, suppliers (Global Pay) and clients. These differences generated 123k Transaction Corrections, 56K of which related to errors in counting the cash sent to cash centres. c. 103k was due to agent error, e.g. mis-counting or mis-keying and where procedural processes have not been followed.

Privileged Reading Room materials:

- draft Deloitte report on Horizon (January 2018)
- Summary of previous reviews.

The budget discussion questions set out in 5.2 link to the GLO discussion.

4. CEO Report	Noting & Input	CFO	09.35 – 09.55
<p>Re-prioritisation of work following publication of the Judgement to accelerate work on improved engagement with agents and invest more resource on the litigation. Assessment underway of what work could be reduced or postponed to free up this resource as well as considering dialling-down work which could hurt the brand or antagonise agents.</p> <p>Trading profit for the year expected to be in the region of £60m. Use of a temporary cash forecasting solution led to an increase of cash in branch of around £70m but that figure is falling.</p> <p>Increased GE focus on underlying commercial performance: product review each month; outcome scorecards; deep dive reviews of competitors.</p>			

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Back Office Transformation to be discussed at ARC but paper included in Board Reading Room. We may not be back to post Christmas levels of cash held in branch until May 2019. There have been difficulties in processing cash transactions into CFS. Transtrack had been slow in identifying and correcting the underlying causes. Resources are being deployed but we may not be operating cleanly until May/ June 2019. We are working closely with PwC to ensure that timely, audited accounts can be produced.

IT security and the Ofcom response to Text Relay non-compliance are referenced in the CEO report but are covered in more detail on the ARC agenda.

We are winding down a self-insured trust that had provided for our private healthcare commitments and moving to a standard BUPA arrangement from 1 April 2019. We had not been accounting for tax properly on the top up payments and have reported this to HMRC. £546k is payable, plus a potential fine of £80k. Consideration is being given to commissioning a third party to review our tax outcomes to ensure there are no other exposures.

5.	Finance 5.1 Financial Performance Report	Noting & Input	CFO	09.55 – 10.25
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The paper is for noting and discussion.

P11 trading resulted in a profit of £3.5m, in line with forecast. The main drivers were Identity, volume of banking transactions and payment of a £1.3m compensation sum linked to vacating part of the Poplar branch which the landlord wished to redevelop.

P11 revenue was £73.4m, £2.3m favourable to forecast.

The PO Insurance YTD trading profit of £16.9m was in line with forecast, but YoY has declined -3%, despite total revenue showing 13% growth.

Staff costs were £1.3m adverse to forecast because of accrual for stretch bonus. Non staff costs were £2.9m favourable because of uncommitted growth fund.

Network numbers were slightly up at 11,613.

	5.2 Draft 2019/20 Annual Strategic Plan and Budget	Noting & Input		
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The Board is being asked to **APPROVE** returning with a Budget and Annual Strategic Plan for 2019/20 for Board approval either by a Board call at the end of April 2019 or at the Board meeting on 28 May 2019. The Board is asked to comment on the questions that are proposed to help shape this budget.

A budget is no longer being recommended at this stage because of the re-prioritisation work required following publication of the Judgement.

The questions we need to answer are:

- What additional work should be undertaken to create agent processes that are consistent with the new contractual obligations and which demonstrate fairness and transparency?
- Do we want to spend to accelerate change that simplifies processes, designs out errors and reduces differences with agents?
- If we do, to what extent do we want to take cost savings now or improve working with agents?
- Do we want to retain some experienced DMB staff to supplement our regional field teams?
- What are the appropriate budgets now for losses and for the litigation itself?
- Should we spend more in 2019-20 on brand protection and support?
- Should we fund this additional change spend by slowing or stopping other initiatives, perhaps postponing work on franchising DMBs or on Parcelshop, changes that respectively cause brand noise and irritate agents?

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6.	Network reporting	Noting & Input	CFO/ Tom Moran	10.25 – 10.40
<p>The Board is asked to NOTE the paper and endorse the proposed approach to strengthen assurance by asking the Board to review the Network and SGEI reports.</p> <p>Post Office is meeting its targets on branch numbers, access criteria and provision of SGEI (core services such as cash, pensions and bill payment). A recent internal audit of processes has found no significant issues. We are moving to automated branch reporting in April after dual running through the automated and manual systems for a period.</p> <p>The Network Subsidy Payment, up to £60m in 2018-19, is capped at the economic cost of operating loss-making branches. This is currently estimated at just over £70m for the full year. The NSP has reduced by 72% from £215m in 2011-12 to £60m in 2018-19. The Network Report and SGEI Statement will be produced and assured after year end.</p> <p>The costs associated with delivering SGEI are similar to the previous year. We expect to see slight improvements over the next couple of years through increased contributions from Banking Framework 2 and reductions in central costs but do not think this will result in the annual cost being less than the maximum amount provided for in the Funding Agreement for the two remaining years of 2019/20 and 2020/21.</p> <p>We are proposing to submit the draft Network Report and the draft Cumulative SGEI Report to the Board in June for approval; it will then be submitted as part of the account auditing process.</p>				
7.	Retail Network Plan	Noting & Input	Debbie Smith / Tom Moran	10.40 – 11.10
<p>The Board is asked to NOTE the progress made on implementing the Retail Strategy and give feedback on plans for 2019/20 and beyond.</p> <p>There is a re-assessment of priorities and plans for the retail network underway in the light of the Judgement but the responses required is consistent with our plans to be a stronger franchise partner.</p> <p>The pillars of the strategy are: new, segmented formats; stronger franchise relationships; and best in class in core markets through digitisation and automation. Over 300 Locals have been set up and a further 68 DMBs franchised. A new field team has been set up to strengthen our franchise relationships (including visits to branches and greater ability to use data to identify which branches need more support). Cheaper self-service machines are being procured and the digital mails offer is being developed. Next steps include further franchising, trialling Parcelshop, rolling out the next generation of automation across our network, and rolling out 'Branch Hub' for agents (this allows agents to manage IT incidents and reduces IT charges. The next phases will allow digital branch messaging, coin ordering, and the availability of MI).</p> <p>There have been some changes since the June 2018 strategy discussions:</p> <ul style="list-style-type: none"> • we are no longer pursuing standalone self-service kiosks; this proved unattractive to agents because of the need to "host" self-service • we have developed the concept of 'catalogue' products in New Locals. Core services are offered in each Local but agents can "add on" catalogue products • there has been a focus on integrating PZBP and POL and winning new bill pay contracts • a review was undertaken with FS&T which identified the scope to remove rarely sold products (e.g. Telco and Life Insurance) from c7, 800 branches; this will reduce the compliance requirements for those branches. <p>We are projecting an EBITDAS contribution of £251m p.a. from 2020/21 from the Retail Business Unit, compared with an initial 3YP assessment of £127m.</p> <p>The Judgement may accelerate, delay or stop some work streams. Work is being accelerated on changes needed to contracts; improving our relationship with agents; and strengthening our support systems</p>				

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(e.g. the agent helpdesk) and loss prevention processes. Improving recruitment, on-boarding and training of agents is also a priority.

Challenges for us include rising costs for retailers (e.g. impact of increases to the minimum wage), reduced remuneration for some PMs; losing out to other franchise businesses with only a 20% conversion rate for PO potential franchisees. This jeopardises our ability to maintain a network of 11,500 which in turn increases reliance on fixed pay outreaches and entails the risk of "churn" cost (currently 4% across the network as a whole).

It is proposed to return to the Board in October 2019 with proposals on agent reward (noting that the agent proposition is a balance between direct profit (from remuneration), indirect reward (from footfall and associated retail sales) and simplicity (i.e. usability and complexity of our offer); at the same time we will bring back options for further growth.

8.	Banking Framework 2	Approval	CFO/ Martin Kearsley	11.10 – 11.25
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1. Protecting against significant price rises in BF3

After discussion of the proposals, the Board is asked to **APPROVE** embedding two principles into the contracts for BF2:

- a. Any Institution committing to continue participation into BF3 (1.1.23- 31.12.25) before 30.6.21 will continue to be charged in line with BF2 agreed rates throughout the term of BF3, subject to the stated Material Adverse Change (MAC) carve out.
- b. Any Institution that does not commit to BF3 on or before 30.6.21, will be subject to BF3 pricing from 1.1.23, giving the Institution the option to pay at BF3 rates (which may be higher or lower), or Terminate further participation in line with existing Termination rights (12 months' notice, which cannot be served before the end of year 1).

2. Framework Fee cap

The Board is asked to **APPROVE** a Framework Fee cap at 30 million transactions.

Background

The banks have reiterated their desire to protect against significant price increases in BF3. Additionally, Santander (the bank most impacted by our BF2 price changes) has pressed for further concessions on BF2. These have been consistently rejected, but a recent potential further concession – a Framework Fee cap – may be helpful in encouraging further volume growth from Santander, Lloyds and RBSG, without impacting our original baseline.

Our recommended approach to achieve a long-term mutual business commitment, giving us the possibility of increased certainty regarding bank engagement for the medium term (to 2026), is by offering to extend BF2 pricing throughout BF3 in exchange for a firm commitment by 30.6.21 to BF3, with CPI based rises from year 3 onwards. Material Adverse Change (MAC) principles would be embedded into such an offer to ensure the continued ability to change pricing in extremis.

The current revised model has an open-ended fee rising in price with every 2.5m transactions unlimited. Three of the biggest banks already do c.25-28m transactions per annum with us, and due to the open-ended cap, have now planned to manage volumes to *never* exceed 30m, to avoid paying more. We would lose the additional

Framework Fee component as well as the per Transaction amount above that level. Placing a cap at 30m, will encourage them to grow beyond, negate their need to 'aim off' and manage volumes – and will underpin further per transaction revenue.

All other banks are placed anywhere from 1-18m transactions, therefore the proposed cap will never impact more than the top three (or a fourth, if they achieve c.40+% growth in BF2 – unlikely, but possible).

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The proposal does not impact our baseline £194m revenue (profit £148m). The expected growth (without the cap, but incorporating the previous 'vanishing steps' concession) will take that to £260m (profit £188m) into 2022. The impact of the cap will take that profit down to £183m.

IRRELEVANT

10.	PO Insurance Capital Injection	Approval	Owen Woodley/ Rob Clarkson	11.40 – 11.45
<p>The Board is invited to consider and, if thought fit, pass the following resolutions, THAT:</p> <ol style="list-style-type: none"> written consent to the allotment by Post Office Management Services Limited (POI) of 5,000,000 ordinary shares of £1.00 each be granted; the subscription of 5,000,000 ordinary shares of £1.00 each in POI, for a total consideration of £5,000,000.00, be approved; and any one Director or the Secretary be authorised to execute on behalf of the company any documentation in connection with the allotment of the shares. <p>PO Insurance is regulated by the FCA and is required to maintain a minimum amount of capital at all times. As a result of planned investments and to maintain our target capital, a capital injection of £5m is required from PO Limited.</p>				
11.	Contracts/ funding for approval			11.45 – 12.00
	11.1 Global Payments Agreement			

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	<p>The Board is asked:</p> <ol style="list-style-type: none"> 1) to APPROVE the contract extension with Global Payments for 12 months to May 2020 at a cost of around £10.6 million, which includes both GP fees and associated card transaction charges. 2) to DELEGATE AUTHORITY to Al Cameron, CFO, to approve the final costs and terms of the contract extension. 3) to APPROVE the re-procurement of these services via the Crown Commercial Services Payment Acceptance Procurement Framework. <p>11.2 Branch Hub</p> <p>The Board is asked to APPROVE up to £4.8m investment and £0.5m maintenance costs during FY 19-20 to the Branch Hub programme. This is to be drawdown on a 1/4rly basis subject to financial hurdle rates and performance KPIs being achieved.</p> <p>The Branch Hub is focused on providing additional help and simplifying support for our branches. This will enable the Franchisee to be more responsible for all aspects of their operation with reduced central support. Branch Hub is a self-serve portal branch operators and business owners use to access support through their own device. The self-serve functionality aims to reduce the circa 600 roles which support the franchising organisation (£30m per annum), particularly the 250 back office staff overhead dealing with branch enquiry activity across 75,000 contacts per month.</p>		
	<p>Paper authors haven't been asked to attend but if there are any queries I can call them.</p>		
12.	<p>Items for Noting</p> <p>12.1 Belfast Exit Plan</p> <p>12.2 Sealings</p> <p>12.3 Health and Safety Report</p> <p>12.4 Future Meeting Dates</p> <p>12.5 Forward Agendas</p>	Noting	
13.	<p>Any Other Business</p>	Noting and Input	Chairman
14.	<p>Date of next meeting</p> <p>28 May 2019: 11.30 – 16.30 hrs</p>	Noting	Chairman