



Post Office Limited
Board Meeting

**MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED
HELD ON TUESDAY 27th MARCH 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ
AT 11.20AM**

| | | | |
|----------------|---------------------|---|-------------|
| Present: | Tim Parker | Chairman (TP) | |
| | Richard Callard | Non-Executive Director (RC) | |
| | Tom Cooper | Non-Executive Director (TC) | |
| | Tim Franklin | Non-Executive Director (TF) | |
| | Ken McCall | Senior Independent Director (KM) | |
| | Carla Stent | Non-Executive Director (CS) | |
| | Virginia Holmes | Non-Executive Director (VH) | |
| | Paula Vennells | Group Chief Executive (CEO) | |
| | Alisdair Cameron | Chief Financial and Operations Officer (CFOO) | |
| In Attendance: | Jane MacLeod | General Counsel & Company Secretary (JM) | |
| | Veronica Branton | Minute Secretary (VB) | item 5 |
| | Micheal Passmore | Finance Director (MP) | item 5 |
| | Cem Oztoprak | Finance (CO) | item 6 |
| | Mark Ellis | Network Operations Director (ME) | item 6 |
| | Russell Hancock | Supply Chair Director (RH) | items 7 & 8 |
| | Owen Woodley | CEO – FS&T (OW) | item 7 |
| | Colin Stuart | Finance Director, FS&T (CS) | item 10 |
| | Martin Edwards | MD, Identity Services (ME) | item 10 |
| | Elinor Hull | Identity Services (EH) | Item 10 |
| | Bryn Robinson | Identity Services (BRM) | item 8 |
| | Morgan | | item 9 |
| | Chrysanthy Pispinis | Head of Post Office Money (CP) | item 9 |
| | Debbie Smith | Chief Executive, Retail (DS) | item 9 |
| | Andrew Goddard | Head of Payment Services (AG) | item 9 |
| | Paul Squire | Programme Manager (PS) | item 9 |
| | Mark Davies | Group Director of Communications, Brand and Corporate Affairs | item 11 |
| | Rob Houghton | Group Chief Information Officer (RH) | item 11 |
| | Catherine Hamilton | IT Business Performance Manager (CH) | |

Apologies: None

ACTION

1. INTRODUCTION, CONFLICTS OF INTEREST, MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

- 1.1 A quorum being present, the Chairman opened the meeting.
- 1.2 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.
- 1.3 Minutes of the meeting of the Board held on 29th January 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.
- 1.4 The actions status report was **NOTED** as accurate.

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2. POL Board and subsidiary board appointments

2.1 The Board **NOTED** the paper from the Company Secretary setting out membership changes to the Boards of POL and POMS and **RESOLVED** to **RATIFY**:

- a) the appointment of Tom Cooper as a Non-Executive Director of POL with effect from 27 March 2018 and until such as time as the Secretary of State BEIS shall determine. It was noted that the contractual terms of appointment remained to be finalised
- b) the appointment of Tim Franklin as a Non-Executive Director of Post Office Management Services for a period of three years from 20 March 2018
- c) the appointment of Andrew Torrance as Senior Independent Director of Post Office Management Services for a period of three years from 20 March 2018
- d) the appointment of Debbie Smith, CEO – Retail, as a POL Director of FRES for the duration of her time in post
- e) the appointment of Owen Woodley, CEO – FS &T, as:
 - a non-independent Non-Executive Director of Post Office Management Services for the duration of his time in post following FCA clearance
 - a POL Director of the FRES Board for the duration of his time in post.

2.2 The Board **RESOLVED** to **APPROVE**:

- the appointment of Tom Cooper as a member of the Audit and Risk Committee for an initial period of three years with effect from 27 March 2018.

2.3 The Board **NOTED** the resignations of Virginia Holmes and Richard Callard with effect from end of meeting and thanked them for their contribution.

3. CEO's REPORT

3.1 The Board **NOTED** the CEO report.

3.2 The CEO updated the Board on a number of recent issues and answered a number of questions:

- a customer had been taken by ambulance from a post office branch in Paisley and had died overnight on Sunday. Two employees from the retail outlet in which the post office was situated had been arrested on a charge of murder; the situation was being monitored
- Conviviality was experiencing financial difficulties and seeking to raise additional funds. The company ran 700 outlets which included 50 post offices for which contracts were being novated; the position was being kept under review
- PV had met with Andrew Griffiths, the new PO minister. The Minister had been well briefed on the PO and had been supportive of progress made in the PO over the past few years

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- PV had attended the first Financial Inclusion Policy Forum. The thinking across DWP, HM Treasury and DCMS had been joined up and the three main items discussed had been setting up basic bank accounts, affordable credit and affordable insurance. There had also been discussion on whether insurance could be tied into Housing Association fees and the use of funds from dormant bank accounts. PV had flagged the PO's role in financial inclusion, including the proposed provision of digital identities. PV had written to the Treasury following the meeting to find out what the next steps would be. It was noted that while PO had the potential to play a useful role, the services we delivered needed to be provided on commercial terms
- the decision not to proceed with the second phase of branch technology simplification at this stage was discussed. It was noted that the Board would be considering the broader simplification agenda at its June away day which would include HNGT. It was agreed that it was important not to lose the sight of the main objective to create a simpler system that required fewer resources and less money from PO, even if that required having a different system for small Post Offices. Phase 1 of simplification had focussed on a number of transactional items that did not take out cost and had been unpopular with Postmasters. It was now proposed to pause development while considering the overall approach to simplification. A number of points were raised in connection with the simplification agenda:
 - it was suggested that it would be helpful to understand better the different types of post offices; how cash was distributed between different types of post offices; the operational relationship between POL and small branch models; the limits to the variable pay approach and the economics of smaller branches. All of these issues fed into the white space discussion on what our ideal network would look like
 - we also needed to consider whether we were leveraging the size of our network sufficiently e.g. the potential opportunities for shared usage. It would be helpful to see a granular analysis of what sharing opportunities there were and what the network would look like over the next 10 years
 - it was noted that the CEO Retail was preparing a paper for the Board away day in June, which would consider this issue.
- it was noted that work was underway to review our data strategy and capability. This work would enable better insight into branch operations, however, it was not yet fully developed. **VB**
- partnering opportunities with RM were discussed and it was noted that an update on Mails Strategy would be discussed at the May Board. It was recognised that whatever opportunities we sought to pursue we needed to be careful not to lose the benefits of exclusivity within our deal with RM.
- POL Non-Executive Directors would be sent the press cuttings.

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4. FINANCIAL PERFORMANCE REPORT

4.1 AC and MP introduced the P11 financial performance report and Scorecard covering February 2018 which the Board **NOTED**. A number of points were highlighted:

- network numbers had been uncomfortably low but there had been a number of branch openings over the last couple of weeks and we were on track to be over 11,500 at the end of March 2018. It was noted that failure to meet 11,500 figure would result in a remediation plan to drive up numbers. Work was underway to enhance branch reporting, as well as reviewing the rules and assumptions around branch numbers
- more audits had been undertaken this year, leading to more suspensions but the position was reasonably stable. We signposted customers to other branches and explored options for temporary Postmasters to be placed in store where this happened; however, this was more difficult to do in retail stores than in stand-alone post offices
- we looked set to exceed the EBITDAS target for 2017/18 even taking into account that £4m of this was the unspent sum from the Growth Fund.

4.2 A number of points were raised:

- it would be preferable to see growth initiatives planned in advance and disappointing that we hadn't managed to spend all of the Growth Fund. With our brand strength we should be able to invest money today in, say, PO Insurance and grow that product well. We should re-consider an acquisition to increase market share. This led to a broader discussion on PO Insurance and it was noted that this was a topic for the June away day.

PV would consider the issues raised to make sure that the away day delivered the discussions needed on PO Insurance. Directors were asked to feed in any questions /challenges they had to be covered at the away day

PV
All
AC

- it was suggested that it would be helpful to include standing slots on material projects in the report
- the continued decline in Government business was noted. The potential to offer other services to Government was discussed and it was agreed that a recap of the ideas we had considered previously (e.g. a prescription collection service) but had decided not to pursue, and why, should be provided for the June away day. It was noted that digital alternatives, including for POCa, were a potential growth area. Other opportunities might be available but we would need to consider which would generate profit and draw on our key assets of distribution and goodwill. We also needed to consider whether to engage a senior business services strategist to get traction on this and whether we needed to link up with senior people in government to discuss growth opportunities

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- the development of the banking framework was discussed and whether we should be charging the banks more for use of our services. There were some tactical timing issues on charging but the service should offer a medium term profit opportunity.

5. ANNUAL STRATEGIC PLAN 2018/19 & QUARTERLY FUNDING

5.1 The CFOO presented the Annual Strategic Plan 2018/19 which was **NOTED** by the Board. A number of points were raised:

- the EBITDAS target of £50m for 2018/19 was halfway to the objective of achieving a £100m EBITDAS profit; this was encouraging, however, we needed to look at growth opportunities at the away day in June as well as continuing to drive cost out of the business. It was noted that costs would reduce as the number of DMBs reduced; however, we were not driving big opex savings this year because we needed to move off POLSAP and did not have bandwidth to drive major cost savings in tandem. More resource was being secured in the finance area in the short term but in future years we would be seeking to digitise more of the finance function where possible to drive cost savings
- there had been discussions with UKGI about whether it was appropriate to exclude Peregrine and Panther from the Annual Strategic Plan. The rationale for these exclusions was that Panther would need to go through the CMA process and that the deal for Peregrine had not been concluded. The figures in the plan would be adjusted on conclusion of these deals
- we had not experienced a significant disruption to our market but agents' pay was a potential issue for us. We had a framework in place that allowed us to pay over scale where we had difficulty appointing Postmasters; however, these individual decisions were not part of a strategy
- our forecasting appeared to be robust but we faced the challenge of the pace of change within the business. Focus needed to be given to executing our key projects successfully. Planned changes included IT migrations and we also carried key person risks
- the scope to expand PO services within the community was discussed. Leveraging our goodwill and getting Government buy-in to do more within communities would be beneficial. Part of the purpose of having a profitable PO was being able to plough money back into communities. We needed to make sure that we were socialising what we did already, such as putting money into community schemes; having a UKGI appointed Board director gave us a beneficial feedback channel.

The Board **APPROVED** the Annual Strategic Plan for 2018/19 for submission to Government.

The Board thanked the executive for a very good piece of work.

5.2 The CFOO presented the Quarterly Funding Request which was **NOTED** by the Board and approved for submission to UKGI.

The Board **APPROVED** that a request of £35m of funding from Government be submitted for Q1.

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6. CASH EFFICIENCY

- 6.1 The CFOO introduced the paper which was **NOTED** by the Board. A significant reduction in the amount of cash held in branch had been achieved over a short period of time. The Board congratulated the executive on this achievement.

A number of points were raised:

- we were looking at how to drive down the amount of cash held in branches. There were longer term technical solutions that would enable us to reduce the handling of cash significantly and minimise the risks of fraud and error. It was a question of finding the right and most cost effective technical solutions for PO
- from July branches would have to make a cash declaration to be able to log on to the system each morning. This change required amendments to the "back end" of Horizon which took time. We were also explaining to branches the impact of holding too much cash in branch and what they needed to do to help avoid that happening
- it was noted that the numbers of identified frauds had increased through the increased number of audits. The PO's inherent risk profile was growing as access to cash decreased generally. This made reducing the opportunities for fraud and theft even more important
- it was noted that there were some threats and uncertainties to the business that meant seeking to tighten the headroom was not currently an objective.

**DS/RH –
to do**

It was proposed that we explore developing a small number of post offices "of the future" in which we could pilot new technology solutions.

7. FS&T PERFORMANCE

- 7.1 OW introduced the paper which the Board **NOTED**. The format of the paper was being developed and now included an individual P&L view to give more visibility of what the businesses were delivering.

OW highlighted a number of points from the report:

- there had been good growth in mortgages recently and telecoms sales had increased. The strategic direction of FRES and TravelMoney was under discussion and the decline in MoneyGram had led to a drag on performance. The overall position was slightly above forecast
- Customer Hub was on-track for launch in May. It was proving an effective way of introducing agile working into the organisation and the Board would be shown the app once it had been launched
- the relationship with BoI was developing and we were likely to come back to Board in May with a revised deal. BoI's position had shifted a long way, including on exclusivity

A number of points were raised, including:

- the strategic options on the PO Insurance business. OW was requested to consider what would drive a step change in ambition and this should

OW

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feed into the thinking and preparation for the June away day discussions.

8. INTERNATIONAL REMITTANCES

- 8.1 OW and CP introduced the paper, noting that the recommendation to extend the contract with MoneyGram by two years had been finely balanced. The deal included additional guaranteed payments totalling £6m gross to the end of the contract extension in September 2021. MoneyGram would also remove its exclusivity requirement from purely digital offerings.

A key driver was being able to develop a digital offering quickly. The digital market had grown significantly over the last three years and it was important to move into that space quickly. It would also make PO a more interesting partner for future bidders when we went out to a request for proposal (RFP). The main potential downside of extending the contract would be if we then failed to develop a digital offering quickly. Management was requested to explore market options and come back to Board with proposals.

The Board was advised that the contract was profitable and that there was an existing £8m mutual indemnity within the extension of the contract would not change.

The Board **RESOLVED** to **APPROVE** the extension of our existing agreement with MoneyGram through to September 2021 and noted the next steps, as set out in the paper.

9. PROJECT PANTHER

- 9.1 DS introduced the paper. It was noted that KPMG had reconfirmed the valuation of the Payzone business. Heads of Terms had been agreed and work was underway on the CMA submissions. The communications plan was being developed and we expected to be in a position to exchange contracts by late April.

A number of points were raised:

- the Shareholder view of the acquisition was discussed. It was noted that the Shareholder had wanted reassurance that we had a walk away right after phase one if the CMA findings meant a deal was not viable. Tom Cooper reported that the Shareholder was supportive of the transition, however, he had suggested that the Subcommittee should have a session with the lawyers and transaction specialists before agreeing that the contract be signed to ask them directly if they had any issues to flag integration requirements were discussed and it was noted that the physical estates would remain separate but there were integration issues around elements like bank accounts. The synergies we sought from the deal were revenue driven rather than cost driven it was noted that the utility companies' reaction to the deal was important and,

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ideally, we would like to be able to advise British Gas about the Payzone deal as part of their tender process.

The Board **NOTED** the progress made in planning and negotiating the deal and **RESOLVED** to **APPROVE** setting up a Board Subcommittee to which it delegated the authority to approve an exchange of contracts for the Payzone deal. The CEO and CFOO would confirm the membership of the Subcommittee.

PV/AC

10. IDENTITY

10.1 ME and BRM introduced the paper which the Board **NOTED**. ME explained how the product would work.

A number of points were raised:

- the process PO used to create a digital identity was discussed and it was noted that the criticism of Verify had been that the bar was set too high as not everyone could comply with the system's requirements
- the points that differentiated PO's digital identity service were discussed. It was noted that PO did not sell its data and would be able to keep adding more sources of identity. PO was a trusted brand and would be adding in the ability to set up a digital identity in branch with an end-to-end verification process
- the risks associated with providing the service were discussed. The principal risk was seen as process failure. If an individual used a digital identity to claim to be somebody else PO would not accept liability any more than DVLA would accept liability for someone using a stolen or faked driving licence. The position could be different if we had failed to follow our own processes when setting up an account so we needed to be able to have robust process and be able to evidence compliance with these
- the current service provision was discussed. PO had a white label service from Digidentity but had worked with them to develop the service as we wanted it.

Verify had been a good market entry point, both low cost and low risk. It was noted that DWP was interested in using digital identity for universal credit

- the development of the service was discussed. This year we planned to get more control over our data to be able to own the customer interface. More could be plugged into the system but to make that work we needed to be a customer facing brand and market that. We needed to develop the architecture and product, then allow the customer to use the service as they wished, on-line or in branch, and be able to use their digital identity in a range of situations (e.g. when needing to prove age). This kind of service was not yet offered in the UK but digital services were being used widely in the Nordic countries, including across Government
- the advantage of speed was discussed. Early development would create first mover advantage. We would need to market the advantages of

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the service effectively, including security¹, time savings and the ability to use a digital identity multiple times in multiple situations. Education and marketing would be needed on both the client and consumer side. PO had the advantage of providing a digital identity service and needing to make use of digital identity services

- the scope for generating profit was discussed. It was noted that customers would not pay for their digital identity as this was provided by Government without charge but there was a significant client market, for example in providing employment checks. Banks were seen as a significant source of new digital identity business for PO.

The Board encouraged the executive to continue the work outlined in the paper and to bring a recommendation to the Board on the investment required, covering supplier engagement and the value model. To be convinced of the investment potential the Board would need to receive robust assessments of where value could be created, where PO could add value and how profit would be generated. Expert assessments would be needed on how to ensure first mover advantage. Reasonable objectives would be needed on value and market share.

11. MICROSOFT ENTERPRISE AGREEMENT RENEWAL

- 11.1 The Board **RESOLVED** to **APPROVE** the renewal of POL's 3 year Microsoft Enterprise Software Agreement at c. £2.5m per annum, noting the associated risks and accepting the mitigations set out in the report.

12. POSTMASTER LITIGATION

- 12.1 The Board **NOTED** that the Subcommittee established at the previous meeting had met the previous day and had been updated on the case.
- 12.2 The Board **RESOLVED** to **APPROVE** the terms of reference for the Postmaster Litigation Subcommittee.

13. Board Governance items**13.1.1 Delegated Authorities and Authorised Signatories**

The Board **RESOLVED** to **APPROVE** the following delegated authorities:

- CEO (£5m); CFO (£4m); other GE members (£2m). GE members were able to determine sub-delegations up to their individual limits
- the delegated authorities as set out in the Treasury Risk Framework Policy (as approved by ARC on 27/03/2018 and as summarised in appendix 4 of the Board paper)
- that the company may enter into unlimited indemnities and liabilities which cannot be limited either as a matter of law or by market practice ("standard practice"). Where there are contracts that require unlimited

¹ PO had the advantage that it had not sold customer data which had tarnished the reputation of some providers.

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indemnities or liabilities that are not standard practice, the CFOO together with the Group Director of LRG be authorised to approve such clauses save for those exceptions set out in the Board paper, which would need to be approved by the Board.

13.1.2 Terms of Reference

The Board **NOTED** the review of performance against terms of reference for the ARC, Remuneration and Nominations Committee in the 2017/18 financial year.

13.1.3 Register of Interests and Conflicts of Interest

The Board NOTED the register of interests for directors and changes advised at the meeting would be made.

VB

14. Items of Noting

14.1 Sealings

It was **RESOLVED** that the affixing of the Common Seal of the Company to documents numbered 1637 to 1657 inclusive in the seal register was confirmed.

14.2 Health & Safety

The Board **NOTED** the report. Health and Safety audit had been very positive. The only point raised was whether we did enough to protect staff from abuse.

14.3 Meeting Dates and Forward Agenda

The Board **NOTED** the future meeting dates and May's draft agenda.

15. AOB

15.1 The Chairman thanked Richard Callard and Virginia Holmes for their excellent contribution to Post Office.

15.2 There being no further business the Chairman declared the meeting closed at 15:30 pm.

GRO

Chairman

24/5/18

Date