

OFFICIAL – SENSITIVE



# UKGI Board Meeting - 9th July 2019

MEETING  
9 July 2019 13:00

PUBLISHED  
2 July 2019

OFFICIAL – SENSITIVE

# Agenda

<i>Location</i>	<i>Date</i>	<i>Owner</i>	<i>Time</i>	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.
1 Victoria Street, London, SW1H 0ET. Room UG-H/K	9/07/19		13:00																		
1. Declaration of interest																					
2. Minutes from previous meeting (23rd May 19)			Approval																		
3. Board action log			Update																		
4. UKGI Project Review - Post Office (UKGI-BP-357)		Discussion	13:00																		
5. Chief Executive's report (UKGI-BP-353)		Discussion	14:00																		
6. People Report (UKGI-BP-354, 354a)		Discussion	14:15																		
7. Chief Financial Officer's update (UKGI-BP-355)		Approval	14:30																		
8. UKGI risk register review (UKGI-BP-356, 356a, 356b)		Discussion	14:35																		
9. UKGI Project Review - Homes England (UKGI-BP-358, 358a)	Update	15:05																			
10. Departmental Relationship Review - Cabinet Office (UKGI-BP-359)	Discussion	15:20																			
11. Transaction Committee update (UKGI-BP-360)	Discussion	15:35																			
12. Board forward look - proposed additions/changes (UKGI-BP-361)	Approval																				
13. NED only discussion	Oral																				
14. Dashboard - July 19 (UKGI-BP-362, 362a)	Information																				
15. Draft Audit and Risk committee minutes - 23 May 19 (UKGI-BP-363)	Information																				

# Agenda

*Location*

*Date*

*Owner*

*Time*

1 Victoria Street, London, SW1H 0ET. 9/07/19  
Room UG-H/K

13:00

16. NED project assignments (UKGI-BP-364) Information

17. Board and Committee dates (UKGI-BP-365) Information

18. EDRM summaries (UKGI-BP-366, 366a)) Information

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**UK Government Investments**

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Company No. 9774296

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**UK Government Investments Limited  
(the "Company")**

**27-28 Eastcastle Street, London W1W 8DH**

Minutes of a meeting of the Board of Directors held in

Room UGH, 1 Victoria St, London

On 23 May 2019 at 13.30

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Present: Robert Swannell (in the Chair)  
Alex Chisholm (items 6-8)  
Philip Duffy (items 1-8)  
Jitesh Gadlia  
Jane Guyett  
Clare Hollingsworth  
Robin Lawther  
James Leigh-Pemberton  
Simon Palley  
Mark Russell  
Charles Roxburgh (items 9-16)  
Caroline Thomson

In attendance: James Baggley (item 7)  
Jane Bannan  
Michael Harrison (item 12)  
Jonathan Ingram (item 13)  
David Long (item 8)  
Candida Morley (items 8-9)  
Robert Razzell  
Ceri Smith (item 7)  
Susie Timlin (item 10)

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The ongoing POL litigation was raised, and the severity of the ruling against POL's appeal against the judge's refusal to recuse himself from the case was noted. Whilst the QC and general counsel were being replaced, it was felt that may be necessary to consider wider changes that would effect a change of the culture that had led to this position, especially given the fundamental importance of this case to the Post Office's business model.

**Action:** update on POL to come to the July Board, with a focus on the wider governance considerations.

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# IRRELEVANT

## 13. Risk register review

### IRRELEVANT

IRRELEVANT It was suggested that the position of the MDO project and POL are reviewed, although these projects have been/are being taken to the Transaction Committee and the main Board respectively for a detailed update. IRRELEVANT

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# IRRELEVANT

The meeting duly closed at 16.30

.....  
Chair of the meeting

Current Board actions

| Board action date | Action number | Current actions | Owner | Suggested target date | Notes |
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**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Board of Directors

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**Topic:** UKGI Project Review – Post Office

**Date:** 29 June 2019

**Author:** Tom Aldred

**Email:** GRO

**Endorsed** Tom Cooper  
by:

**Ref:** UKGI-BP-357

**Category:** Paper circulated for discussion

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### **Executive Summary**

- There is heightened interest in POL, following adverse judgments in the litigation case, an ongoing Select Committee inquiry and a recent Daily Mail campaign. POL is also in the latter stages of recruiting a new CEO.
- POL is a complex business that combines a national network of mainly franchised branches focused on letters, parcels and basic banking, with a largely online financial services and telecoms business that leverages the strong Post Office brand.
- POL has made huge strides in its financial performance, recording its third successive year of trading profit, having moved from a loss of £163m in 2013. This has been delivered at the same time as a decline in subsidy from £210m to £50m, and the transformation of both the national network and its corporate IT systems.
- The litigation revolves around a longstanding dispute between POL and postmasters. Ministers have been kept updated throughout and encouraged POL to investigate the issue and resolve the dispute outside the courtroom, while avoiding getting involved directly. UKGI have been involved via our NED on the relevant Board sub-committee.

### **Background**

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1. Post Office Limited (POL) was established as a free-standing public corporation in 2012, although it had operated as a separate entity within Royal Mail for many years. It continues to work through the legacy of this history: an ingrained public sector ethos and culture, a heavily unionised workforce and antiquated IT.
2. POL is 100% owned by BEIS with broad operational freedom, subject to maintaining a network of 11,500 branches and meeting stringent geographical access criteria. It is a national institution that attracts political and media interest. Currently the BEIS Select Committee is undertaking an inquiry, while the Daily Mail is running a 'Save our local post offices' campaign. Both focus on franchising, subsidy and postmaster pay.
3. POL is a complex organisation with an annual turnover approaching £1bn. It combines a 'retail' business, delivered through the branch network, with a largely separate financial services and telecoms business.
4. POL is more a franchisor than a retailer, with the vast majority of post offices run as franchises, as they have been throughout the organisation's 375-year history. The franchise model enables POL to reap the economies of scale from its powerful brand while leveraging local entrepreneurs' drive and knowledge. For postmasters, the value of operating a post office is not just the direct revenue, but also the footfall that it drives into their shop, from where the overwhelming majority sell non-POL products.
5. Letters and parcels continue to be the mainstay of the branch network, but the provision of basic cash banking services has risen rapidly in importance. Government services, especially benefit payments, were once integral to the branch model but have fallen away rapidly (annual income from Government services fell from £576 million in 2005 to £99 million in 2017/18).<sup>1</sup> The network also offers the UK's number one travel money service (run as a JV with Bank of Ireland) and a bill payment service.
6. POL's financial services (including mortgages, savings, credit cards and insurance), telecoms and fledgling digital identity businesses are delivered with partners and are increasingly online. However, even here the long-term success is tied to the brand associated with the branch network, which is arguably POL's greatest asset. The Post Office remains one of the UK's most trusted brands, albeit with considerably less recognition and cachet for younger demographics.

### Strategy, operating model and major operational issues

7. POL has been guided by the 'North Star' strategy it established in 2017. This focused the business on simplifying its retail proposition, modernising IT and digitising the business. An important element of this was reducing headcount and moving away from directly managed branches (DMBs). The bottom line ambition was a trading profit of £100m.
8. Like most franchisors, POL operates a small proportion of its outlets directly, but its heavily-unionised staff means they are considerably more expensive to run. POL has pursued an ambitious programme of replacing its remaining DMBs with local franchise operators and while this continues to attract local resistance, it has delivered significant financial benefits and the Minister has defended it robustly. POL now has 166 DMBs and aspire to replace them all by the end of 2021/22.

<sup>1</sup> Evidence presented by NFSP at the BEIS Select Committee Inquiry

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9. The structure and level of postmaster pay is a critical judgement that must balance the operational and political need to keep postmasters happy with the desire to bear down on costs. At a high level, POL has been successful, having driven postmaster costs down from £478m in 2012/13 to £371m in 2017/18 while meeting the network criteria. While postmaster pay has declined, Post Office products are not the sole, or often even the primary source of revenue for postmasters, and their livelihoods depend on the success of their associated retail business. However, with a survey indicating 22% of postmasters considering leaving or downsizing in the next 12 months, POL has recognised a need to act, and that it has under-invested in the relationship. It is reviewing postmaster pay and increasing the support it provides to franchises, including by expanding its field team.

10. UKGI are working with POL on several major strategic issues including:

- Telecoms. Reviewing strategic options including renewing its contracts, divesting the business or changing partner.
- Bank of Ireland. A new contract is due to be signed imminently. POL will receive lower revenues, but reduced exclusivity and improved termination provisions mean they can offer a wider range of services in partnership with other providers in the medium and long term.
- Banking Framework. Since 2017, post offices have provided basic cash banking services for the customers of all High Street banks. The second period of the Banking Framework (BF2) runs for three years starting 1 January 2020 and POL are increasing their fees to support provision of the service across its network. All 28 banks are now committed to the new deal, with Barclays uniquely choosing not to sign up to the 'cash withdrawal' service for their customers. Despite this, POL's project a growth in annual revenues of around £100m.
- Cash logistics. POL is reviewing its cash logistics strategy, in the context of the Bank of England's work to explore consolidation in the wholesale cash distribution system. Options include short term cost savings and long term partnerships.
- Royal Mail Group (RMG). The existing agreement with RMG ends in January 2022, with exclusivity arrangements due to expire at the end of 2019. RMG are expected to seek cost savings but engagement has been sporadic following restructuring in its business. A temporary rolling over of the existing contract appears increasingly likely.

### **Governance and Leadership**

11. Tim Parker was appointed as Chair in 2015, and re-appointed for a four-year term in 2018. Paula Vennells served as CEO from the separation from Royal Mail in 2012 until April 2019 and a successor will be appointed after the minister has met the three candidates recommended by the selection panel. The CST rejected POL's proposal for an increase in the CEO's remuneration, which means that it remains well below the lower quartile among comparator organisations.

12. POL have a gap at CFO, with the incumbent (Al Cameron) installed as interim CEO. POL's first attempt to recruit an external interim CFO fell through when she accepted another job and they now propose to fill the position via a temporary internal promotion. The gap at CFO highlighted deficiencies in POL's succession planning, which we have raised with the Chair. A paper was brought to the Board in May, with a

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follow-up in July. The planned departure of the Chief Information officer makes this even more relevant.

13. POL's Board has five NEDs, including Tom Cooper as UKGI's representative. Two NEDs were re-appointed for a second term in January 2019, and recruitment has begun to replace Tim Franklin whose second term ends in September.
14. Over the last year, UKGI has worked with POL to strengthen aspects of corporate governance. This includes: an annual Chair's letter, six monthly shareholder meetings, establishing Board Effectiveness Reviews and Chair appraisals as annual requirements, instigation of NED-only meetings and increased Board engagement with the workforce. We are introducing a Framework Document for the first time and revising POL's Articles of Association. We have also increased the frequency of engagement with the Chair and CEO. Finally, we are waiting for a clarification note from HMT regarding POL's compliance with public sector pay guidance.

#### **Financial and investment performance**

15. POL's financial performance has been transformed, from a loss of £163m in 2012/13 to a trading profit of £35m in 2017/18, rising to £61.5m in 2018/19 (unaudited). The improvement is largely a result of reducing costs rather than raising revenue, with a major contribution from the DMB franchise programme. Trading profit is *before* receipt of the annual subsidy (£60m in 2018/19) – ie if subsidy was included, profits for 2019/10 would be £121.5m.
16. POL's budget for 2019/20 targets a trading profit of £74m, with a primary driver of the introduction of higher fees from the Banking Framework from January 2020 onwards. Further benefits from the franchising programme and IT investments will be partly offset by higher expenditure on agent remuneration and agent-related expenses in response to the litigation judgment. The North Star profit target of £100m looks feasible in 2020/21, which will be the first full year of higher Banking Framework fees.
17. POL and BEIS have agreed a 3-year Strategic Plan for the period 2018/19-2020/21, which includes a programme of investment costed at £450m. BEIS allocated grant funding of £210m towards this programme, with £168m available in 2018/19 (which was fully drawn down) and £42m in 2019/20. Some projects have expanded in scope and the cost of the overall portfolio has risen from £450m to £506m. POL will fund the additional expenditure from its profits and more efficient use of cash in its network. In 2018 UKGI asked POL to strengthen its reporting of change spend and to improve its financial controls, and in 2019 POL confirmed that none of the BEIS funding was allocated to defending the litigation.
18. POL is developing a financial plan projecting costs and revenues for the five years up to 2023/24. This builds on work with McKinsey that identified the potential for annual savings of £80-£100m by the end of 2021-22, with a further £50m opportunity as longer-term IT contracts come up for renewal. POL's plan will also incorporate high and low scenarios for the outcome of the litigation.
19. The principal issues for POL in a Spending Review are the level of subsidy, the possibility of a dividend policy and the provision of a facility to cover investments that POL cannot fund from their own surplus:

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- Subsidy. POL receives an annual subsidy to cover the costs of the uncommercial parts of the network. The annual subsidy has fallen from £210m in 2012/13 to £50m in 2019/20 and 2020/21. POL is on course to fulfil the ambition that it be financially self-sustainable after 2021, meaning that it could fund uncommercial branches from its own profits, without any subsidy. However, HMT's Consolidated Budget Guidance suggests that a transparent subsidy should continue to be paid to finance provision of a public service. Various stakeholder and the recent Mail campaign have also argued for the retention of a subsidy.
- Dividend policy. There is currently no mechanism for repaying the subsidy or sharing rising profits with the shareholder and, in any case POL currently has no distributable reserves due to historic losses. The coming months present a good opportunity to address this via a capital reduction as part of POL's planned corporate restructure (required to comply with financial services regulation) and by making provision for a dividend policy in the new Framework Document. Should ministers be attracted to the option, the timing of implementation would need to consider the outcome of the litigation process, as well as the execution of a capital reduction which could take some time to implement.
- Investment facility. We expect POL's profits should be sufficient to fund ongoing BAU investments once the current transformation programme is complete. However, POL cannot borrow externally and may find it difficult to fund major non-BAU outlays, which might include acquisitions or capital investments in its cash logistics activity. UKGI would like to explore options for establishing an investment facility, which would provide loans to POL on a commercial basis, as part of the Spending Review. We have encountered a lack of imagination from BEIS and HMT officials.

### Litigation

20. A dispute between POL and a large group (555) of mainly former subpostmasters (SPMs) about liability for unexplained losses and the reliability of Horizon, an electronic point of sale and accounting system, has been ongoing for over ten years. A full timeline is provided in Annex A. This shows that, ministers have been kept updated throughout the process, and a number of review processes were instigated to both investigate and attempt to resolve the dispute. Throughout, ministers have followed ShEx/UKGI advice for this to be treated as an operational matter for POL.
21. In April 2016, a High Court claim was issued and in March 2017 a Group Litigation Order was made. In order to manage the Group Litigation, it was broken down into four trials scheduled between November 2018 and March 2020. The first "Common Issues" trial focused on the terms and interpretation of the contract(s) and was heard in November and December 2018. It involved consideration of the cases of 6 "test claimants". These covered the broad range of claimants, including those who were already SPMs at the time that Horizon was introduced, and those who had contracted with POL under the terms of different contracts adopted over different periods.
22. Prior to the trial, POL briefed Kelly Tolhurst on the trial, merits opinion and contingency planning for dealing with an adverse judgement. While not expecting to win on every point, POL's legal team expressed a high degree of confidence of a broadly successful outcome. By this point, UKGI had begun to develop concerns about the lack of openness from POL's legal team and a reluctance to conduct detailed contingency planning. These concerns grew following some heavy criticism

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of POL by the judge at an interim hearing. These concerns, as well as the need in our view for a change of approach, were communicated to the Chairman and CEO, well before the Common Issues Trial took place.

23. Judgment was handed down on 15 March 2019 and was considerably more adverse than expected by POL's legal team. The principal legal finding was that the contract is relational and, as a consequence, it contains a number of significant obligations on Post Office which were not apparent until this judgment. Very broadly the burden is now on POL to establish that SPM's were responsible for losses and they have to act reasonably in deciding whether to suspend or terminate contracts and what period of notice to give. The judge was also strongly critical of POL in relation to its dealings with SPM's, its witnesses and its handling of the case.

24. Following the judgment, and having taken additional independent legal advice, POL lodged an application to recuse the judge from subsequent trials on grounds of apparent bias. This application was refused by the judge and the Court of Appeal refused permission to appeal.

25. In parallel, POL sought permission to appeal aspects of the judgment in the first Common Issues Trial. On 23 May, the Judge refused POL permission to appeal and awarded the Claimants their costs for this Trial rather than reserving this judgment until later in the litigation. POL was ordered to pay £5.9 million towards the Claimants' costs. The Judge also expressed concern about the escalating costs of the litigation overall – he puts the figure at over £13m for POL's legal costs, including £500k for the failed attempt to get the judge recused. The Claimants legal costs exceed £12 million.

26. Following the Common Issues judgment, POL's Board decided that new legal leadership and a wider review of its strategy was required. They replaced the company's General Counsel and appointed new legal advisors (Herbert Smith Freehills) to advise them directly on their litigation strategy. A new QC has also been appointed.

27. POL has now applied directly to the Court of Appeal for permission to appeal. This focuses on the correct interpretation of its contracts with SPMs. If the Court grants permission, the appeal will likely be heard within the next 12 months while a refusal will mean that the original judgment stands.

28. The second "Horizon Issues" Trial concerning the function and reliability of the Horizon system used by SPMs had begun in March, but was halted following the recusal appeal. It resumed on 4 June and concluded on 2 July, with the judgment expected in the Autumn.

29. POL's new legal team are reviewing the litigation strategy, the possibility of settlement and likely outcomes from the litigation, including an adverse outcome from the Horizon trial and potential costs.

30. In addition to the litigation, 34 cases (31 of which are part of the group litigation) are currently being reviewed by the Criminal Cases Review Commission (CCRC) to see whether they should be referred to the Court of Appeal to decide whether the convictions are safe. The CCRC's decision is likely to await the outcome of the Horizon trial but has the potential for reputational damage.

31. The Claimants are yet to quantify their claim, but the financial implications could be material. POL is considering the extent to which it is able to quantify the potential cost. The claimants indicated a high level £80-90m claim value last year. While this may

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have been a negotiating position they are now in a stronger position following the adverse judgment. The claimants have indicated informally to journalists that the claim could end up being "hundreds of millions". The annual accounts are currently being agreed, and the Board is deciding the appropriate provisioning.

32. Should POL settle the existing case, additional Claimants may come forward so there may be a further and ongoing liability. In addition, some of the Claimants may not have valid claims; for example, some have criminal convictions (61), others have previously agreed final settlements (112) and other claims are outside the 6-year limitation period (197-351). Therefore, in considering options, including settlement, to resolve the litigation POL will need to consider a process to determine which cases are genuine. With so many claimants, and the strong personal feelings aroused by the cases, it may prove difficult in practice to settle all aspects at acceptable cost without wasting public money on rewarding bad behaviour. Financial payments would have to satisfy Managing Public Money criteria. Any payment over £50m would require ministerial approval. The CCRC process may have additional cost implications.

### Risks and mitigation

33. There are a range of risks to the business:

- **Financial.** There is currently no reliable estimate of the potential claims and we have pressed POL to urgently undertake work to establish an estimate. The changes to operations and SPM pay already announced will increase their cost base.
- **Operational.** If the appeal to the Common Issues judgment fails, POL may need to make significant changes to its operational model and its contract with SPMs. Among other things, this will make it much harder to detect and deal with fraud. An adverse judgment in the Horizon trial could also require wholesale changes to POL's IT systems and processes.
- **Reputational.** The current high degree of trust in the Post Office has considerable business value, particularly in financial services and telecoms.

34. We have identified the following risks to UKGI.

| Risk  | Comment / Mitigation   |
|---|--|
| Reputational (1) Ministers and officials lose trust in UKGI in relation to POL and the wider portfolio. | In June 2018, UKGI and POL agreed a protocol to enable greater information sharing. We have worked closely with Kelly Tolhurst's office and the BEIS policy team to ensure greater responsiveness.                     |
| Reputational (2) Critical NAO inquiry   | Team has produced audit trail of previous ministerial involvement, showing that ministers have been kept informed throughout. POL's Board has also received direct advice from external legal advisors.                |
| Reputational (3). Failure to heed lessons from Magnox   | An extract from the UKGI internal report into the Magnox contract/Litigation is provided at Annex B. These lessons were applied in this case, recognising the differences between this litigation and the Magnox case. |
| Impact on wider delivery (1) Overloading of the shareholder team  | UKGI legal team have provided additional resource which has enabled the shareholder team to keep across the wider activity.  |
| Impact on wider delivery (2) Distraction of ministers and officials from other priorities.              | To date, the increased ministerial interest in Post Office has somewhat improved the speed of ministerial decision-making.   |

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OFFICIAL SENSITIVE

UKGI-BP-357

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| Impact on wider delivery (3)<br>Political interference in running of the company | UKGI advice has highlighted the operational progress made by the current Board and management and the risks of interference. |
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**Annex A: Timeline of Key Events**

**1999-2000:** Horizon POS system rolled out across Post Office network. Post Office Counters Ltd (now Post Office Ltd or POL) was a wholly owned subsidiary of Royal Mail and remained so until 2012.

**2009:** Some (mostly former) subpostmasters (SPMs) grouped together under the banner "Justice for Subpostmasters Alliance" (JFSA) claiming that Horizon bugs had caused branch shortfalls for which POL held SPMs accountable and led to dismissals, convictions and/or recovery of losses.

**2012:** Royal Mail was privatised while POL remained a public corporation with its own Board. The SoS as shareholder appointed a Non-Executive Director (NED) to represent his interests.

**2012:** JFSA, supported by James Arbuthnott MP, complained to Paula Vennells (then-POL CEO) and Alice Perkins (then-POL Chair) about Horizon causing losses that SPMs had to make good and in some cases were prosecuted for. POL briefed Post Office Minister (Ed Davey then Norman Lamb).

**July 2013:** POL and JFSA jointly commissioned independent forensic accountants, Second Sight, to examine Horizon for flaws that could cause accounting discrepancies. Their interim report found no evidence of systemic flaws. Post Office Minister (Jo Swinson) gave an oral statement to parliament.

**Autumn 2013:** POL established a Complaint Review and Mediation Scheme in consultation with JFSA, MPs and Second Sight as an avenue for SPMs to raise individual concerns. 136 individual cases were accepted into the scheme and investigated.

**March 2014:** ShEx (later UKGI) took over the Shareholder Representative role, took the Shareholder NED seat on POL's Board and joined the Board subcommittee dealing with the Horizon complaint.

**17 December 2014:** Westminster Hall Debate on the Horizon issue.

**3 February 2015:** BIS Select Committee hearing on the Horizon issue.

**March 2015:** Complaint Review and Mediation Scheme closed with the JSFA dissatisfied. However, again, no evidence of systemic flaws was found and 41 of the 136 cases had been resolved.

**March 2015:** BIS Select Committee wrote to SoS Vince Cable and received a response.

**April/May 2015:** final Second Sight report still found no evidence of systemic flaws but did find that in some cases POL could have provided more support to SPMs (though POL disputes this).

**7 July 2015:** Minister Baroness Neville-Rolfe (BNR) approved ShEx advice that the dispute was for POL to resolve, and HMG should keep its distance and resist JSFA calls for independent investigation.

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**10/09/2015:** Early Day Motion tabled on this issue.

**October 2015 to April 2016:** New Chair Tim Parker conducted a review of POL's handling of Horizon complaints, assisted by Jonathan Swift QC (ex First Treasury Counsel). Again, no systemic problem with Horizon was found, but the review was halted when the claim was served on POL in April 2016.

**April 2016:** Criminal Cases Review Commission (CCRC) initiates a review of cases submitted by 33 individuals with convictions. BEIS, UKGI and POL disclosed information to CCRC, as required by law.

**April 2016:** A High Court claim was issued against POL after the JSFA lodged proceedings.

**May 2016:** BNR approved ShEx advice for HMG to continue current approach as per 7 July 2015.

**March 2017:** Group Litigation order was made.

**October 2017:** Trial Judge Justice Fraser (JF) held case Management Conference to set out litigation stages (broken down into four trials) and issues to be addressed.

**17 October 2018:** POL's Legal Counsel briefed Kelly Tolhurst (KT) and the Perm Sec on upcoming trial, merits opinion and contingency planning for dealing with an adverse judgement.

**5 November to 6 December 2018:** First ("Common Issues") Trial to determine the contract in force between POL and SPMs, including implied terms, by examining "23 common issues".

**11 March 2019 to xxx 2019:** 2nd ("Horizon Issues") Trial commenced to examine 15 issues in relation to Horizon's reliability and the extent to which it was the root cause of shortfalls in SPM branches.

**15 March 2019:** JF handed down judgment on first trial, finding that POL's contract with SPMs is relational and, as a result, terms must be implied into it, posing significant operational challenges for POL. JF criticised POL for its handling of the case and its conduct in dealing with claimants.

**18 March 2019:** "Dear Colleague" letter from Minister Tolhurst to update Members of the House following the Common Issues judgement, acknowledging criticisms and desire to see justice done.

**21 March 2019:** After seeking additional advice from senior barristers, POL applied to JF for him to recuse himself from the rest of the trial process on the grounds of "apparent bias". On receipt of application, JF suspended the Horizon Issues Trial.

**9 April 2019:** JF handed down judgment on POL's recusal application, refusing to recuse himself and refusing POL's application for permission to appeal.

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**11 April 2019:** POL applied directly to the Court of Appeal for permission to appeal the judge's recusal decision and for the second "Horizon Issues" Trial to be stayed in the meantime.

**11 April 2019:** Horizon Issues Trial resumed briefly to hear the remainder of evidence from POL's final witness, which had been interrupted on 21 March due to POL's recusal application.

**May 2019:** POL restructured its legal team in response to adverse direction of litigation: POL's General Counsel was replaced and new external advisors (Herbert Smith Freehills) were appointed to review POL's strategy and oversee the litigation going forward. A new QC was appointed too.

**9 May 2019:** Court of Appeal refused POL's application for permission to appeal JF's refusal to recuse himself, stating that the application "never had any substance and was rightly rejected by the judge".

**23 May 2019:** At a hearing, JF denied POL permission to appeal his Common Issues judgment and awarded claimants their costs for that trial rather than reserving costs pending completion of the Group Litigation as POL had requested.

**4 June 2019:** In written judgment JF set out reasons for denying POL permission to appeal and for awarding costs. He again criticised POL for its handling of the case and expressed concerns about the escalating cost of the litigation overall, saying POL had spent £13m including £500k on failed recusal.

**4 June 2019:** the part-heard second Horizon Issues Trial resumed with hearing of expert evidence and is expected to conclude on 2 July with the judgement several months later.

**11 June 2019:** BEIS/UKGI submitted options to SoS via Perm Sec in response to SoS' request for advice on how the litigation could be brought to a swift and satisfactory conclusion, ensuring postmasters who had been treated unfairly were appropriately compensated.

**13 June 2019:** POL applied to Court of Appeal for permission to appeal JF's Common Issues judgment regarding the interpretation of its contracts with postmasters. A decision is expected in a month or two.

**24 June:** POL Chair, CEO and Legal Team to brief Minister and Perm Sec on revised litigation strategy.

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-----UPCOMING-----

**September/October:** Judgment in Horizon Trial expected, and Court of Appeal judgment on whether to allow appeal the Common Issues judgment

**4 November:** Third trial scheduled to determine whether POL breached any legal obligations to specific individual test Claimants and, if so, with what financial consequence.

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OFFICIAL SENSITIVE

UKGI-BP-357

**March 2020:** Fourth trial to address issues relevant to the wider group of claimants.

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**Annex B: Extract from UKGI Internal report into the Magnox contract/Litigation****Lessons during the litigation**

**Issue:** The NDA's handling of the legal challenge was not sufficiently scrutinised or challenged.

**Steps UKGI can take to mitigate / address the underlying failings which caused this issue going forward:**

- **Government should be made aware of and approve key steps in substantial litigation.** To ensure the appropriate level of challenge and oversight of any future large-scale litigation the NDA and other assets face in the future, UKGI should recommend that framework documents with assets require immediate notification of, and Government approval for, litigation above an identified threshold of "substantial" liability, set by reference to each asset's risk profile.
- **Establish what oversight will be provided by UKGI and the relevant Government department.** At the outset of any substantial litigation involving an asset, UKGI should agree with the relevant Government department, and its lawyers, how oversight of the litigation will be provided.
- **When, prior to contract award, there is a strong likelihood of a serious challenge, or a challenge to a procurement has already been mounted, the decision to award the contract should be fully tested.** The asset's board should consider obtaining a second, external, legal opinion as a means of fully gauging risks ahead of a recommendation to the Secretary of State to award the contract.
- **Where a substantial legal challenge is mounted against an asset, UKGI should assure itself of the asset's internal legal capability.** NDA's in-house legal team was not sufficiently experienced or staffed for the ES litigation. UKGI insisted on additional internal resource<sup>27</sup> after the judgment was rendered, but this should have been done earlier.
- **In substantial cases, challenging the board on an asset's choice of legal advisers is key.** In this instance, Burges Salmon was in place for two competitions and was also instructed to defend the ES litigation. There are clear risks and potential conflicts of interest in permitting the law firm that designed and assured the evaluation process to advise on how to respond to a legal challenge on the competition. UKGI should also encourage – consistent with best practice for FTSE 100 companies – all assets to regularly change external lawyers, to reduce the risk of "group think".
- **Where the stakes are high, source more than one external legal opinion.** UKGI should insist that the asset consider more than one external legal opinion to ensure that legal advice and identified risks are thoroughly tested. Further, it should ensure that any opinions and their authors appear put before the asset's board so that the board is able to take strategic decisions with proper calibration of legal risk.<sup>28</sup>
- **Legal strategy and mitigation of risk must be challenged.** Throughout, the NDA Executive Team portrayed the litigation as a "try-on" and entirely without merit. However, litigation is universally recognised to be uncertain, and even a small risk of a very significant set-back requires mitigation. UKGI should ensure a full discussion of the legal strategy to ensure risk mitigation has been fully considered.

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- **Attending the hearing.** Going forward, where hearings of important cases take place, UKGI should attend the hearing to gauge risk for itself. If a hearing goes badly, there is an opportunity, ahead of judgment, to settle.

### General lessons learnt

1. UKGI frequently interacted with the NDA on the competition, consolidation and litigation at working and senior levels, both formally and informally, and in several different contexts, for example on the CPB and the NDA ARAC. This provided the opportunity for broad discussion and multi-layered challenge.
2. Despite these safeguards, risks in the competition process were not comprehensively identified (or potentially mitigated) in a timely manner. With hindsight, the NDA Executive and NDA Board underestimated problems, most clearly with respect to litigation and consolidation. As UKGI does not have embedded procurement/litigation/consolidation expertise, it was inevitable that, as regards project design, delivery and governance, UKGI would need to rely on the appropriate project assurances provided by specialist bodies such as the MPA and IUK and relevant external advisers. This did not prevent scrutiny and challenge from a general corporate governance perspective.
3. A central part of UKGI's governance role is to hold boards to account. UKGI needs to ensure that this is done comprehensively, but also needs to balance against excessive intrusiveness and, in doing so, should not seek to substitute itself for, or duplicate the role of, the board itself. One of the Public Accounts Committee's recent conclusions<sup>29</sup> on governance of ALBs is relevant in this regard: "*Departments' existing oversight arrangements can introduce costs and bureaucracy, or duplicate existing governance arrangements in arm's-length bodies. We heard examples of approaches that focus unduly on compliance and control, rather than improving the value contributed by arm's-length bodies.*" UKGI should therefore provide appropriate checks and challenges, without undermining the accountability of the organisation.
4. The general recommendations below are made with this balance in mind:
  - Several of the failings identified indicate that the NDA Board was not sufficiently robust in challenging the NDA Executive or that it was not fully informed of the relevant facts at the appropriate time. This is particularly so, given the importance of the role of the NDA Board in providing governance of large-scale, complex projects. **UKGI should ensure regular board reviews consider whether an asset's board has the complete set of skills and expertise required (e.g. legal and/or procurement or nuclear knowledge).** Where specific NED skills cannot be obtained, additional measures should be considered, including retained specialist advice to the board. **The board review process should also regularly consider the quality and completeness of the executive's communications with an asset's board, including the board papers.**
  - Where large legal risks are involved, UKGI should **ensure that an asset's board has direct access to legal advice and to the in-house legal team. Legal advice should not be relayed to the board by the executive team, as it was in this case.** Misunderstanding/misconstruing legal advice was a material factor which explained why the NDA Board was slow to respond in both the litigation and the consolidation. Ensuring that an asset's board is provided with the opportunity to discuss and challenge legal risk directly with a General Counsel would mitigate this risk, as would ensuring that the General Counsel reports directly to the CEO.

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- **Ensure UKGI's role is clearly defined and that Government stakeholders are not looking for assurance from UKGI on specialist areas beyond UKGI's competence.** When project governance structures (such as the CPB) which involve UKGI are established, UKGI must ensure its own role within that structure is clearly established and is consistent with its role of managing the shareholder function. This should not be at the expense of UKGI being flexible and dynamic in providing assistance, but there should be a proportionate approach to ensure UKGI's role and the expertise it brings (and does not bring) is understood by all.
- **Where internal or external reviews of an asset's governance processes or projects are undertaken,** UKGI must hold the asset to account so that any resulting recommendations are promptly followed up.
- **In holding the NDA Board to account, UKGI should utilise its own board and its in-house legal function on consideration of risks.** To assist and develop its role in holding an asset's boards to account, UKGI could make more use of the UKGI internal risk management process to encourage discussion and debate of the major identified and horizon risks being faced by the assets it manages, especially by drawing on the expertise of the UKGI board and UKGI in-house legal colleagues.
- **Use the Non-Executive Director appointed by Government as a means of obtaining better quality information.** The forthcoming appointment of a UKGI Director as an NDA NED is an opportunity for fuller feedback on board discussions (and the performance of the NDA Board members). To optimise this, specific guidance should be provided to NEDs to enable them to fully inform the shareholder in a way that remains consistent with their obligations to the NDA.

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UK Government  
Investments

Company No. 9774296

UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Board of Directors

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**Topic:** Chief Executive's Report

**Date:** 1 July 2019

**Author:** Mark Russell

**Ref:** UKGI-BP-353

**Category:** Paper circulated, for discussion

**IRRELEVANT**

OFFICIAL-SENSITIVE

UKGI-BP-353

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# IRRELEVANT

Some of this Board meeting will be spent considering the Post Office. Unfortunately, we don't have Tom Cooper, who sits on the Post Office Board, with us so we may want to revisit the subject when he is back for our September meeting.

# IRRELEVANT

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Dashboard – key movements

# IRRELEVANT

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UKGI-BP-354

Company No. 9774296

**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Board of Directors

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**Topic:** People Report

**Date:** 28 June 2019

**Author:** Susie Timlin

**Email:**

**Ref:** UKGI-BP-354, 354a

**Category:** Paper circulated, for discussion

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UK Government  
Investments

# Progress on People Plan 2019

Susie Timlin  
Chief Operating Officer

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Company No. 9774296



**UK Government Investments**

**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Board of Directors

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**Topic:** Chief Financial Officer's update  
**Date:** 27 June 2019  
**Author:** Muiz Agbaje  
**Email:** GRO  
**Endorsed by** Robert Razzell  
**Ref:** UKGI-BP-355  
**Category:** Paper circulated for discussion and endorsement

**IRRELEVANT**

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UKGI-BP-356

Company No. 9774296

UK Government Investments Limited

(the "Company")

1 Victoria Street – SW1H 0ET

Paper for the Board of Directors

---

**Topic:** UKGI Risk Register Review

**Date:** 25 June 2019

**Author:** Alex Cole

**Email:**  GRO

**Endorsed by:** Jon Ingram

**Ref:** UKGI-BP-356, 356a, 356b

**Category:** Paper circulated, for discussion

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**\*OFFICIAL SENSITIVE: RISK SUMMARY \***

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**DATA UP TO 20 JUNE 2019**

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| <b>Overall Risk Profile</b>   |       |    |
| If not managed successfully the risks - including commercial, strategic and stakeholder risks and those linked to management appointments and remuneration - have the potential to significantly impact the financial sustainability of POL and its ability to achieve policy objectives (e.g. transformed network, reduced HMG funding).   |       |    |
| Reputational Risk Profile   | High  |    |
| There is significant political interest in the Post Office network and there are a number of clear policy objectives. Risk is mainly centred on these areas, but it can also be linked to executive management and remuneration issues. There is an ongoing POL litigation case which could potentially generate a high level of negative coverage. The UKGI POL team are aware of the pressures and are working collaboratively with Post Office Limited to manage the risks away. |       |    |

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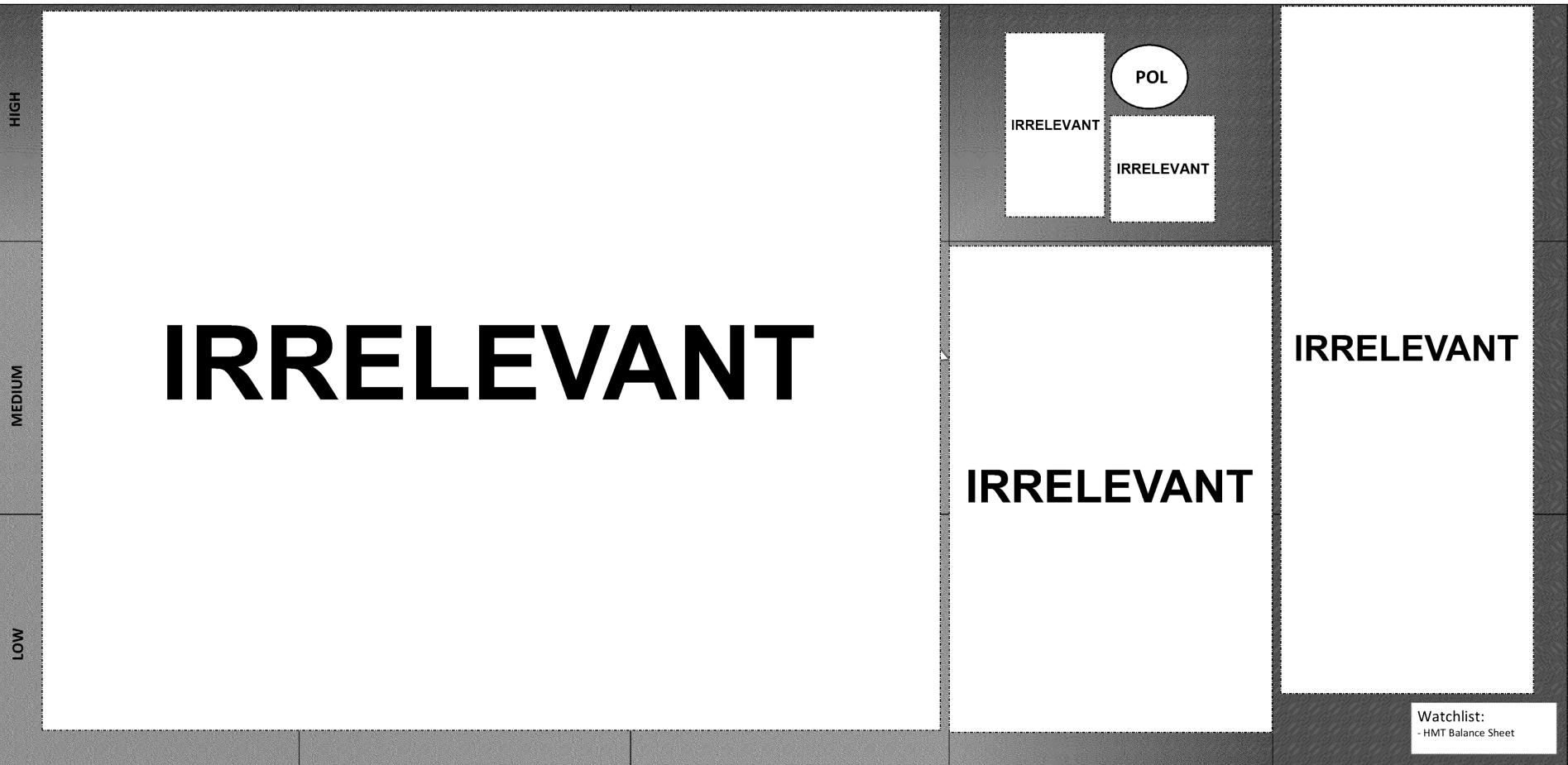
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DATA UP TO 20 JUNE 2019

UKGI REPUTATIONAL RISK



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UKGI-BP-358

Company No. 9774296

UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Board of Directors

**Topic:** UKGI Project Review – Homes England

**Date:** 25 June 2019

**Author:** Annie Carpenter

**Email:**  **GRO**

**Endorsed** Ceri Smith  
by:

**Ref:** UKGI-BP-358, 358a

**Category:** Paper circulated, for update

**IRRELEVANT**

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OFFICIAL-SENSITIVE

UKGI-BP-358

IRRELEVANT

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OFFICIAL-SENSITIVE

UKGI-BP-358

**IRRELEVANT**

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**IRRELEVANT**



UK Government  
Investments

OFFICIAL-SENSITIVE

UKGI-BP-359

Company No. 9774296

**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Board of Directors

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**Topic:** Departmental Relationship Review – Cabinet Office

**Date:** 2 July 2019

**Author:** Alex Reeves

**Email:**

**Ref:** UKGI-BP-359

**Category:** Paper circulated for discussion

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Please note this item will be a verbal update from Alex Reeves.

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**UK Government Investments**

OFFICIAL-SENSITIVE

UKGI-BP-360

Company No. 9774296

**UK Government Investments Limited**

(the "Company")

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Board of Directors

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**Topic:** **Transactions Committee update**

Date: 24 June 2019

Author: Oscar Waller

Email:  **GRO**

Endorsed Charles Donald  
by:

Ref: UKGI-BP-360

Category: Paper circulated, for discussion

**IRRELEVANT**

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OFFICIAL-SENSITIVE

UKGI-BP-360

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OFFICIAL-SENSITIVE

UKGI-BP-360

**UK Government Investments Limited  
(the "Company")**

**27/28 Eastcastle Street, London, W1W 8DH**

Minutes of a meeting of the Transactions Committee  
held at

1 Victoria Street, London, SW1H 0ET

On 28<sup>th</sup> May 2019 at 1:00pm

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Present: James Leigh-Pemberton (*Chair*)  
Charles Donald  
Jitesh Gadhia  
Robert Swannell (*dialled in*)  
Mark Russell

Apologies: Robin Lawther  
Clare Hollingsworth  
Jane Guyett

In attendance: Holger Vieten  
Martin Madsen  
Daniel Okubo  
Rob Elliot  
James Steer  
Simran Dhillon  
Oscar Waller  
Ed Westhead (*item 4*)  
James Coppin (*item 4*)

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UKGI Board - proposed forward look as at July 2019

# IRRELEVANT

IRRELEVANT



UK Government  
Investments

OFFICIAL-SENSITIVE

UKGI-BP-362

Company No. 9774296

UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Board of Directors

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**Topic:** Dashboard – July 2019

**Date:** 24 June 2019

**Author:** Sally Ash

**Email:** GRO

**Endorsed** UKGI ExCo  
by:

**Ref:** UKGI-BP-362, 362a

**Category:** Paper circulated, for information

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# UKGI Dashboard

July 2019



OFFICIAL - SENSITIVE

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**IRRELEVANT**

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OFFICIAL - SENSITIVE

# Governance - Shareholder (3/8)

Asset

Priorities, quarterly objectives, risks and contextual factors

Assessment

Lead

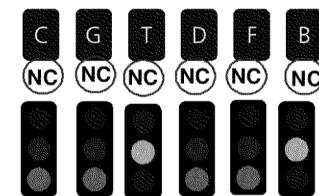


UKGI's overarching objective: Shareholder oversight to ensure it delivers on its strategic objectives of (i) maintaining a network of post offices above the 11,500 branches (ii) compliance with the minimum network access requirements and delivery of Services of General Economic Interest, while (iii) operating as an increasingly profitable commercial business aspiring to zero subsidy post 2021.

Outlook – key issues/upcoming risks, including reputational:

- Kelly Tolhurst accompanied by Tom Cooper and Carl Creswell will give oral evidence to the BEIS Select Committee's enquiry on the Post Office Network on 25 June.
- The assessment panel have identified three candidates for permanent CEO and the Chair is due to meet the minister to discuss the panel's recommendation
- POL continue to have a gap at CFO and propose to fill the position via a temporary internal promotion.
- A new NED is required to replace Tim Franklin whose term expires in September 2019. Recruitment is underway and POL/UKGI is considering a short extension of Tim's tenure, if necessary.
- Litigation: On 13 June POL applied directly to the Court of Appeal for leave to appeal the Common Issues judgment (concerning the terms and interpretation of the contract between postmasters and POL). Meanwhile the 2nd trial will conclude on 2 July with judgment expected some 2-3 months later. A reformulated legal team (new General Counsel, external advisors and QC) has reviewed POL's litigation strategy and contingency planning and will present its findings to Minister Tolhurst and the Perm Sec on 24 June. In response to advice he commissioned, the SoS has approved 7 actions for BEIS/UKGI with a view to bringing the litigation to a swift and satisfactory conclusion.
- POL has been looking at strategic options for its Telecoms business
- Negotiation of contract with Bank of Ireland is due to complete in June. Negotiations with Royal Mail are ongoing, with the current contract expiring in January 2022.
- 27 of 28 banks have signed up to the revised Banking Framework. Barclays are expected by end June.
- POL want to complete a corporate restructure to accommodate financial regulation, and which we have tied to introduction of a Framework Document
- We are agreeing a process for validation of POL's service provision across its network
- Ramping up of the DMB franchising programme may cause some negative stakeholder interest.

BEIS



Tom Cooper

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UK Government Investments

**C** Company Relationship

**G** Governance

**T** Quality of Management Team & Board

**D** Departmental Relationship

**F** Financial Performance

**B** Balance Sheet & Risk

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OFFICIAL - SENSITIVE

## Corporate Finance Advice – Appointments (2/2)

**The overview below should address the following questions:**

- What is UKGI's agreed role/purpose?
- What are the key corporate governance/corporate finance skills required, if any, to fulfil the role?
- What is the time commitment required?
- What is the opportunity for UKGI?
- What are the risks to UKGI, if any?
- What are the priority contributions UKGI should deliver? Is this something UKGI should re-consider its involvement in?

| Name                                   | Department | Overview   | Appointed on   | Lead                   |
|--|------------|--|----------------|------------------------|
| <b>BEIS Performance and risk panel</b> | BEIS       | <p>The Performance and Risk Challenge Panel reviews risks across BEIS and decides what should be escalated to ExCo level. It requires 1.5 hours circa every 6 weeks with circa 2 hours preparation. The panel is chaired by a Grade 3 and is made up of mainly Grade 5 participants representing each directorate in BEIS. It is low-maintenance and a good opportunity for UKGI to participate in discussions on risk at a departmental level. UKGI's priority contribution is to provide input on the BEIS areas on which we work (IRRELEVANT Post Office, IRRELEVANT etc.). Our challenge / input is welcome on any other area. There are no obvious risks to UKGI being involved and there are benefits to us feeding in formally to the risk process through this avenue.</p> | September 2018 | <b>Jonathan Ingram</b> |

**IRRELEVANT**



**IRRELEVANT**

OFFICIAL-SENSITIVE

UKGI-BP-363



**UK Government Investments**

Company No. 9774296

**UK Government Investments Limited  
(the "Company")**

**27-28 Eastcastle Street, London W1W 8DH**

Minutes of a meeting of the Audit and Risk Committee held at  
Room UG-H/K, 1 Victoria Street, London, SW1H 0ET  
On 23 May 2019 at 12.00

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Present: Jane Guyett (in the Chair)  
Robin Lawther  
Simon Palley

In attendance: Jane Bannan  
Neil Chapman  
Clare Hollingsworth  
Jonathan Ingram  
Peter Morland  
Robert Razzell  
Mark Russell  
Ioanna Stefu  
Robert Swannell  
Susie Timlin

**IRRELEVANT**

OFFICIAL-SENSITIVE

UKGI-BP-363

**IRRELEVANT**

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## UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Board of Directors

Topic: NED project assignments

Date: 28 June 2019

Author: Jane Bannan

Email: GRO

Ref: UKGI-BP-364

Category: Paper circulated, for information

This paper provides a summary of the projects and their NED sponsors.

| Project           | Non-Executive Director assigned |
|-------------------|---------------------------------|
| <b>IRRELEVANT</b> |                                 |
| <b>IRRELEVANT</b> | Jane Guyett                     |
| Post Office       |                                 |
| <b>IRRELEVANT</b> |                                 |

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UK Government  
Investments

OFFICIAL-SENSITIVE

UKGI-BP-366

Company No. 9774296

UK Government Investments Limited

(the "Company")

27-28 Eastcastle Street, London W1W 8DH

Paper for the Board of Directors

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**Topic:** EDRM summaries

**Date:** July 2019

**Author:** EDRM Relationship managers

**Ref:** UKGI-BP-366, 366a

**Category:** Paper circulated, for information

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**IRRELEVANT**

OFFICIAL SENSITIVE

UKGI-BP-366a

**IRRELEVANT**

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18

OFFICIAL SENSTIVE

UKGI-BP-366a

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18

**IRRELEVANT**