



POST OFFICE LIMITED BOARD MEETING

MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 30 JUNE 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ BY CONFERENCE CALL AT 09:00 AM¹

Present:	Tim Parker	Chairman (TP)
	Nick Read	Group Chief Executive Officer (NR)
	Ken McCall	Senior Independent Director (KM)
	Tom Cooper	Non-Executive Director (TC)
	Carla Stent	Non-Executive Director (CS)
	Zarin Patel	Non-Executive Director (ZP)
	Lisa Harrington	Non-Executive Director (LH)
	Alisdair Cameron	Group Chief Finance Officer (AC)
In attendance:	Veronica Branton	Group Company Secretary (VB)
	Max Jacobi	Head of Financial Performance and Analysis (MJ) (Item 3.)
	Dan Zinner	Group Chief Strategy and Transformation Officer (DZ)
	Richard Taylor	Group Corporate Affairs and Communications Director (RT) (Item 4.1)
	Alice Hunt	Contractor/ Programme Manager (AH) (Item 4.1)
	Amanda Jones	(Interim) Group Retail and Franchise Network Director (AJ) (Items 4.2 & 4.3)
	Martin Edwards	Managing Director, Identity (ME) (Item 4.2)
	Tracy Marshall	Network Development Director (TM) (Item 4.3)
	Jeff Smyth	Interim Group Chief Information Officer (JS) (Item 4.4)
	Gareth Clark	Portfolio Lead - IT (GC) (Item 4.4)
	Owen Woodley	Group Chief Commercial Officer (OW) (Item 4.)
	Martin Kearsley	Banking Director (MK) (Item 4.5)

Action

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. 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.

Performance and updates

2. CEO Update (verbal)

Irrelevant

¹ Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.



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Irrelevant

Irrelevant

3. Financial Performance Report

Al Cameron provided an update on the funding request timetable. The preliminary funding paper had been presented to the Board in February 2020 and the updated plan in May 2020. An updated plan would be presented to the Board in July 2020 and then shared with the Shareholder. The indications were that Government was likely to require funding submissions during September 2020 with an Autumn statement announcement in November 2020. It was likely to be 3 or 4 year spending round. Following this there would be contractual exchanges of letters between POL and the Shareholder at which point we would be in a position to sign the Annual Report and Accounts 2019/20. A request had been received from the Shareholder on 25th June 2020 for an updated two page funding request. HM Treasury was asking for this from all Government funding requestors. Our submission would need to be heavily caveated but we would be seeking more money than had been the case in February 2020 because of the impact of Covid-19 on trading and we would be seeking the funding in the form of equity.

Al Cameron introduced the Financial Performance Report and highlighted a number of points including that we expected banking volumes to continue to build back to pre Covid-19 levels or thereabouts. Santander volumes were beginning to increase as well as those of the other banks and we hoped to retain some of the customers we had acquired through Covid-19. AC shared the concerns about bills payments volumes and the longer term implications of this. The main variance to planned spending was in marketing where we had not reduced spend as much as originally planned. A full reforecast would be brought to the Board in September 2020.

A number of points were raised, including:

- Ken McCall asked whether the hardship fund figures had been accounted for in the figures presented. It was confirmed that £1.8m was provided for but it was unlikely that this much would be required
- Ken McCall asked whether we should be making some provision for salary increases in case we could not implement a freeze pay for all grades. Al Cameron explained that we were reporting against the budgeting assumptions approved by the Board in May 2020, elements of



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which might change. AC would consider whether we should be providing in the monthly accounts for an element of spend on pay increases

- Tom Cooper asked about Post Office's Verify market share and whether Cabinet Office was still directing individuals to Digidentity. Owen Woodley subsequently confirmed that the volume of transactions was between 15,000 and 20,000 a week and that the Post Office share of Verify was 63%; this should improve further as Cabinet Office was no longer directing customers to Digidentity
- Zarin Patel asked about agent pay and it was confirmed that this was higher because of higher transaction levels.

The Board **NOTED** the Finance Report.

4. Strategy Update

4.1. Purpose

Irrelevant

A number of points were raised, including:

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- Carla Stent asked how the September launch of the purpose would align with the GLO activities. Richard Taylor reported that the precise timings were still being discussed and the "Stronger Together" Roadshows would be taking place in the meantime. We would consider whether a soft launch or a hard launch was appropriate in September 2020 but did not want to delay indefinitely. Nick Read added that we would shape the road map during July 2020 and any overlays, such as GLO, as required

Irrelevant

- Zarin Patel asked how we would approach the cultural and behavioural changes sought and thought it would be worth exploring this further. Richard Taylor noted that the right values and behaviours were essential but must align with the purpose and be enduring. Alice Hunt reported that we were going through a process to define the values, such as simplicity and openness, through July and August 2020 involving the Leadership Council. It needed to be possible to adopt these values and behaviours at team level to make them meaningful and applicable to individuals
- Tim Parker noted that people wanted to see authenticity and that meant action was key. What the senior people did had to align with the purpose. We needed to earn a return to be able to invest more in the business. Postmasters would judge us by our actions.

4.2. Network Policy Report

Martin Edwards introduced the paper in which there were four main components:

- 1) Reviewing the requirement for 11,500 branches, which was driving us to use more outreach branches than optimal
- 2) Obtaining a more flexible definition of a Post Office
- 3) Maintaining the five main access criteria



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- 4) Revising the sixth access criterion. We breached the postcode criterion routinely and would like to align with the more flexible Ofcom criterion for postcode districts.

UKGI/ BEIS had counselled us that the changes we sought would be difficult to negotiate politically.

A number of points were raised, including:

- Tom Cooper noted that he understood the desire to make changes but the extent of the proposals appeared to be getting rid of outreach branches which we thought most people did not value and seeking the flexibility to execute a PUDO strategy which we already had the freedom to execute. TC was concerned that a significant amount of effort would be required for a £20m saving which also expended political capital. It was not ambitious enough for the cost savings it would deliver. We needed to get costs down to make Banking Framework 3 viable. Martin Edwards reported that we would still maintain some outreach services where they were really needed but not in order to hit target numbers. Funding capacity was the issue for PUDO rather than our freedom to execute the strategy. The cash cost of maintaining the current network size was high given churn levels. If ministers were prepared to fund the cost of operating a network of 11,500 that could be a good outcome. TC was not sure that this was the case and was surprised that a different network configuration could not deliver higher savings. Carla Stent was also concerned about expending political capital for limited returns. We also needed to consider what we were giving back in return for concessions. For example, how could we support the Government's "Levelling up" agenda?
- Ken McCall commented that we seemed to be looking at the network in the same way and not considering the formats, services and shape of the network that might emerge if we were starting from scratch. Amanda Jones explained that this paper formed part of a bigger piece of work. 1) making network policy more flexible 2) the network format, including segmentation, if we started with a blank sheet of paper 3) the shape and size of the network which should bring much greater savings than those associated with reducing the outreach service. These more fundamental changes would also be designed to make us a more attractive franchise proposition for Postmasters. Ken McCall noted that we should also be considering who we were trying to attract as customers as part of this work. Carla Stent asked what proposals would be taken to BEIS. Martin Edwards reported that in the proposals for BEIS and Ministers we would include a positive overarching narrative about creating a network that worked better for customers and for our Postmasters. That would be the opening position underpinned by the flexibility we needed to achieve this. Al Cameron noted that we regarded this as a means of flagging that we wanted to have the bigger conversation about flexibility as part of the funding discussions. The underlying logic was that having the branch number target diverted attention to its achievement when we should be focussing on customer needs. The size of the network would not be a problem if we could have city centre locations for parcels which counted as a post office. It was noted that only 1.5% of our transactions were made through the 1,800 outreach branches. We needed a network that worked for customers and Postmasters which was reasonably simple. We had to develop a more attractive proposition for Postmasters
- Tim Parker commented that branch numbers remained a difficult topic politically. We needed to work out the lowest cost way to operate 11,500 branches such as the wholesale conversion of Payzone outlets. We might not propose this as a first step but needed to have developed an option for a basic Post Office to enable us to reach less densely populated communities at lower cost. Nick Read agreed that we needed to have a pared back Post Office model to give us the flexibility to have different models in different areas and we needed to do further work on this. If we could not reduce branch numbers we had to be able to reconfigure branches to make them commercially viable for Postmasters. Tim Parker acknowledged that being there for the people who relied on us while making a profit was a hard challenge to resolve but we had to answer the question of whether we could provide a service to remote areas more economically.

Martin Edwards would not include the removal of the 11,500 branch target within the flexibility proposals. The provision of services more economically in remote locations would be addressed seeking to use hubs wherever this was possible. The broader commercial context and PUDO would also be addressed in the papers to the Board in July 2020.

To do: ME

Tim Parker noted that the Board was supportive of achieving the maximum degree of flexibility but we should revisit access criteria to make sure that our proposals were not restricting our flexibility unduly.

Action: ME



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4.3 Postmaster Engagement/ Representation

Nick Read explained that we were trying to re-balance the relationship between POL and Postmasters recognising the historical position and the GLO. The partnership during the Covid-19 situation had been very positive and built up trust. We wanted to forge a proper partnership and make running a Post Office an attractive proposition. The Roadshows were initiating a more formal engagement process and we wanted to signpost Board membership for one or more Postmasters as the marker of different type of relationship and partnership. The wider Postmaster engagement was designed to help shape strategy rather than for these forums to take decisions.

Amanda Jones noted that the position had been moving quickly and the conversations with the Non-Executive Directors and UKGI had been very helpful. We had taken on the suggestion to extend the consultation period, “institutionalise” regular feedback to Postmasters, and seek the views of the multiples. Further thoughts would be welcomed.

Tracy Marshall explained that we needed to think differently about how we engaged with Postmasters, reflecting the NFSP’s lack of credibility and the CWU’s drive to represent Postmasters. Appointing one or more Postmaster to the Board and doing this as quickly as possible would be beneficial in demonstrating that we wished to develop a genuine partnership. We wanted to make this announcement at Postmaster Roadshows and had socialised our proposals with UKGI and BEIS. We would also announce our plan to launch a consultation in September 2020 for a 12 week period. We proposed to use Branch Hub as the primary tool for feedback from Postmasters. We would launch a number of questions on Branch Hub in July 2020 to test this as a mechanism. The questions on which we would elicit feedback would include the operational improvements made to address the findings of the judgments. Regular feedback would be provided during the consultation period. Nick Beal would be briefing the NFSP on 2nd July and Tracy Marshall would be having the same conversation with the CWU.

A number of points were raised, including:

- Lisa Harrington was supportive of the proposal to include one or more Postmasters on the Board but noted that we needed to recognise that this was a significant time commitment for someone who was working full-time. The appointments needed to be meaningful and not just symbolic. One possibility might be to appoint a retired Postmaster. Nick Read agreed with these observations and noted that at NISA there had been nine Non-Executive Directors who were retail store owners at NISA. We would need to consider the selection process carefully and we had to deliver what we said we were going to. Amanda Jones reported that one of the polling questions would be the degree to which Postmasters wanted to get involved with influencing Post Office strategy. During the Covid-19 crisis a group of ten Postmasters had convened a few times a week to discuss issues such as the provision of PPE with Post Office and this had been beneficial
- Tom Cooper observed that the NFSP’s lack of credibility was a recurring theme and asked whether we would receive a proposal on how the NFSP could improve its support to Postmasters. Nick Read reported that there was a distinction between how the NFSP acted as a trade body with the practical services it provided and how it helped to influence strategy with insights on products and services, marketing and so forth. The trade body role would continue but we would need to consider how we structured the fees. It would not be easy for NFSP to improve their contribution on strategic insights. Tim Parker noted that the judgment had been critical of us maintaining the NFSP. We needed to be able to separate when we were paying NFSP for a commercial service from other elements and present the relationship between the NFSP and POL differently. Tracy Marshall noted that we would like to get feedback on the NFSP as part of wider consultation to better understand what worked for Postmasters and what did not in the role it played
- Tom Cooper noted that it was important to establish that the existing Board was comfortable with the proposals to include one or more Postmasters on the Board. All of the Directors confirmed that they were comfortable with the proposal and would prefer that two Postmasters were appointed to the Board. The Postmaster Board Directors should be Non-Executive Directors and remunerated as such. Terms of office were discussed and it was concluded that this should also align with other Non-Executive Directors. Whilst there were arguments in favour of refreshing membership frequently the time it took for Board induction and the possibility that the Postmasters appointed to the Board might not have served as directors previously supported a three year term. As noted, we would need to think carefully about the selection process and also



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the credibility of the appointees with their constituency. Zarin Patel noted that for those who had not served as a director previously, help would be required to understand their role on the Board, S172 duties under the Companies Act 2006 and so forth. We could learn from other models such as the John Lewis structure, which Zarin Patel was familiar with, Lisa Harrington's previous experience of a Board which held public sessions, and Al Cameron's experience of the Dover Harbour Board which included community members. It was noted that we would also need to address diversity in our appointment process. Nick Read noted that we might wish to combine election and selection. There would need to be a clear hurdle. We did not wish to exclude applicants but needed to attract the right quality of applicant

- Tom Cooper advised that he did not think we were in a position to announce the appointment of Postmasters to the Board and needed to write a letter to the Minister first. This was novel territory for BEIS and announcing too soon could jeopardise the outcome we wished to achieve.

The Board **APPROVED** the proposed approach to improving engagement with Postmasters including:

- launching a consultation in September 2020 which would run for 12 weeks with feedback on emerging views provided during the period to ensure momentum was maintained
- asking Postmasters for their feedback and views on a number of key strategic topics and on improvements already made using the Branch Hub digital platform.

To do: Tim
Parker/ Nick
Read

The proposal to announce our wish to include one or two Postmasters on the Board at the "Stronger Together" Roadshows in July 2020 and issuing a media statement about this on 2 July 2020 would be discussed separately by Tim Parker and Nick Read, noting Tom Cooper's advice.

4.4 Fujitsu Contract/ SPM

Nick Read explained that the principal purpose of the paper was to update the Board on the current situation and options for the Fujitsu contract and strategic platform modernisation (SPM). NR had met the Fujitsu CEO on a number of occasions and the discussions had included the potential for Fujitsu to exit the contract early. It was likely that Post Office would not be in a position to agree to Fujitsu exiting the contract early. We were also seeking the Board's views on whether we could or should stay on the Horizon system. There were a number of options which depended in part on our risk appetite, and complexity and capability issues.

Jeff Smyth introduced the paper and provided a re-cap of the main points. We were seeking input from the Board on the options available to us and the risk and complexity associated with these. The SMP proposals would be presented to the July Board but in parallel we would be undertaking work on whether we should be seeking to extend the contract with Fujitsu, find another SI partner or bring the system in-house. There was a tension between what we wanted and what Fujitsu wanted and we might need help at Board level with those negotiations. Fujitsu might seek to increase the commercial price to extend the contract and it could be difficult to get them to make system changes in addition to which there was a Public Contracts Regulations (PCR) risk. The position by default was that Fujitsu would not extend the contract beyond March 2023. Were this the case our only options would be to find a system integrator (SI) partner or bring the system in-house. In either case we would need to work with Fujitsu on these requirements. Fujitsu had advised us that there were hundreds of employees supporting the Horizon system. There would be TUPE requirements in relation to these employees and knowledge transition requirements in relation to those employees based in India. We estimated that it would take us 12 months to find an SI partner. The knowledge transfer exercise, followed by putting a shadow process in place would take us to the end of the contract in March 2023. We had obligations once we acquired the Horizon system, including a £10m bill and the staff transfer costs. Fujitsu were likely to move the best staff off the contract earlier and a significant number of staff were reaching retirement age. We also had commercial challenges relating to a spend gap of between £9m and £30m depending on whether Fujitsu allowed us to use some of that spend for activities outside that specified in the contract. We did not have a strong record in vendor management and were trying to build that drawing on advice for Lisa Harrington.

A number of points were raised, including:

- Ken McCall asked what the driver was for Fujitsu seeking an early termination and whether it was for tactical or other reasons. Jeff Smyth reported that Fujitsu could be using it as a catalyst for the contract negotiations. The people issues associated with supporting the Horizon system were a further rationale for wishing to agree the future position. Fujitsu might also be thinking of the "contamination" issues associated with their part in the GLO which did not help their case for managing other government contracts. Nick Read added that Fujitsu did not see Post Office as a



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partner past 2023 currently and were wary of the Board's stance in relation to Fujitsu's role in the GLO. Nevertheless there was significant revenue at stake for Fujitsu and it would like to resolve the position

- Carla Stent asked whether we could extend the contract if the relationship with Fujitsu was so tenuous. The position was discussed and it was noted that the contract was a significant revenue generator for Fujitsu and a two year extension could be attractive in practice. Al Cameron noted that we had to be wary of being placed in a position where our options were closed down because we had no time to pursue an alternative route. Fujitsu might either want a longer extension or an early exit to avoid the costs of training a new generation of employees
- migration to a different system, the parts that could be migrated and the timeframes and complexity surrounding this were discussed. Jeff Smyth noted that it was important to understand the history of Horizon and its different iterations over the years. We would need to "strangle out" individual services and put them onto SPM. The main challenge was how we would deal with branch accounting. There would be less to migrate if we were selling fewer products. We would need to be disciplined in how we defined the scope of the project
- whether we needed a specialist negotiating team to work on this now? JS confirmed that we did. Some work had already been undertaken by McKinsey setting out the contractual position and what this meant in practice
- Tim Parker noted that we needed a flexible system that would last for the next 10-15 years. Finding a new partner to run the current system would be unattractive and we should consider how to incentivise Fujitsu to extend the current contract. Investment in a new system was a requirement to underpin our core activity
- Tom Cooper said that he would like to understand the decision timetable. We appeared to be choosing between unpalatable options and would have to deal with uncertainty for some time. We had to take a number of decisions in parallel and needed to have a "Plan B". We needed to understand the impact of failing to take particular decisions
- it was agreed that we would need dedicated teams to work on options A and B and that work should be scoped out over the next few weeks with the options presented to the July Board; the teams' work would be interlinked to some extent
- Zarin Patel asked whether a short term transition to another partner had been ruled out and noted that the Board would need to be comfortable to approve a non-compliant contract extension. Lisa Harrington added that if we considered a short-term partner we would have to flag to them that we were developing an exit route.

The Board **APPROVED**:

- **continuing with the Horizon discovery work** so we could understand our commercial obligations and knowledge transition challenges in more granular detail
- **developing a negotiation position and strategy to obtain a 2-year support extension with Fujitsu for Horizon** so we could deliver our strategic platform modernisation (SPM) activities at the correct pace in line with business strategy and as we enhanced our business and IT capabilities
- **beginning work on the timetable and programme resource requirements for an OJEU procurement of a system integrator (SI) partner** in case Fujitsu was not prepared to sign up to an extension or if the associated costs and/ or terms make it untenable
- **accelerating building the internal capabilities, in both the business and IT domains**, that would be required to perform accelerated agile delivery of SPM
- **immediately mobilising SPM and committing to the first deliverable for PUDO** so we could begin reducing our long-term dependencies on Fujitsu / Horizon and commence delivery of a strategic platform that offered the flexibility that POL would require in our new branch formats.

The paper to the Board in July 2020 should address the comments made by the Board.

To: JS

4.5

Irrelevant



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Irrelevant

A number of points were raised, including:

- Tom Cooper asked what options were in consideration for the Community Access to Cash programme. Martin Kearsley thought that this would include keeping cash as an acceptable means of payment; providing more ways for consumers to get cash out; reflecting on the pressures on ATMs, including the trend to add charges while banks did not want to pay more for the service which drove some unresolvable tensions. The Programme would look at access to cash through convenience stores. If there was a strong drive to make businesses accept cash there would need to be processes for paying cash back in. POL had to be able to accept cash deposits and this was where we should be seeking to increase our charges in BF3
- Ken McCall asked whether the price we paid Bank of Ireland for ATM machines could be indexed to the cash transactions and volumes received over a period of time. Martin Kearsley thought we could explore this option but noted that it was the software that had the value in this transaction
- Tim Parker noted that it was important that we should not be required to deliver cash to all sites. Martin Kearsley reported that our contracts with the banks aligned with the SGEIs. We were looking at how we could thin out the network so that we did not have to provide cash at all sites but linked delivery to where the dominant banking transactions happened. There were 2,200 heavily used branches which was where we would focus our automation work. Moving away from the fixed SGEIs would help us commercially. If we could change the SGEIs these changes would be reflected in the Banking Framework contract. Detaching ourselves from some of the supply chain activity would be important and the banks would want to reduce the charges.

5. Noting Papers

5.1 DMB Closures

The paper on DMB Closures was **NOTED**.

5.2 Post GLO Settlement Programme Update

The Post GLO Settlement Programme Update was **NOTED**.

Tom Cooper asked about the legal fees and would like to hear from Ben Foat how we were going to control the costs for the CCRC process. Nick Read would check the position with Ben Foat and the costs would be discussed at a Board call on the CCRC cases.

Action: Nick
Read



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5.3 Post Office Insurance Options

The paper on Post Office Insurance Options was **NOTED**.

5.4 Health and Safety Report

The Board **NOTED** the Health & Safety Report.

6. Approvals**Procurement update and exceptions**

The Board **REVIEWED** and **APPROVED** the Risk Exceptions set out within Appendix A of the paper presented to the Board:

- PREN 14 – Strategic PR Services (TB Cardew. Value £150k)
- PREN 15 – Content management software (Value £42k)
- PREN 16 – Interim ATM Support Services for Retail Partners & PREN 17 – Interim ATM Support Services for Retail Partners (Aggregate maximum value £260k)
- PREN 18 – the extension of a Bulk Cheque Processing Services with a value of £1.1m for a further 12 months to allow for:
 - Re-procurement via framework or OJEU;
 - Commercial and technical alignment with other expiring cheque processing services;
 - End to end review in line with technical roadmaps and target state for the payments infrastructure.

Carla Stent noted that it would have been helpful to have had a trigger in the procurement process and asked whether Barclays would still provide us with the cheque balancing system. It was reported that we believed so but this point would be confirmed.

Action:
Executive

Tom Cooper asked whether there was any reason that we should not be procuring for the PR service now. Nick Read explained that we wanted continuity with GLO over next 2 -3 months. TC asked that a procurement process was followed next time.

7. Date of next scheduled meeting

Next scheduled meetings on 28 & 29 July 2020.


GRO

26/08/2020 12:20

CHAIRMAN

06/08/2020

DATE

Voting Results for Board Additional Minutes – 30.06.2020

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

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

Voter Status

Name	Vote	Voted On
Parker, Tim	For	26/08/2020 12:20