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Post Office Limited
Board Meeting

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON THURSDAY 24 MAY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 11.15AM

Present:	Tim Parker	Chairman **(TP)**	
	Alisdair Cameron	Chief Financial and Operations Officer **(CFOO)**	
	Tom Cooper	Non-Executive Director **(TC)**	
	Tim Franklin	Non-Executive Director **(TF)**	
	Shirine Khoury-Haq	Non-Executive Director **(SK)**	
	Ken McCall	Senior Independent Director **(KM)**	
	Carla Stent	Non-Executive Director **(CS)**	
	Paula Vennells	Group Chief Executive **(CEO)**	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary **(JM)**	
	Veronica Branton	Minute Secretary **(VB)**	
	Debbie Smith	Chief Executive, Retail **(DS)**	item 9
	Martin Kearsley	Banking Director **(MK)**	item 7
	Owen Woodley	CEO – FS&T **(OW)**	item 8
	Rob Houghton	Group Chief Information Officer **(RH)**	items 9 & 10
	Martin Hopcroft	Head of Health and Safety **(MH)**	item 13
Apologies:	None		

ACTION

1. DECLARATIONS OF CONFLICTS OF INTEREST

Tim Franklin noted, in relation to the item requesting a capital injection into PO Insurance (item 5.), that he sat on the PO Insurance Board.

2. PO LIMITED BOARD APPOINTMENT AND COMMITTEE APPOINTMENTS

The Board **RESOLVED** to appoint Shirine Khoury-Haq as a Non-Executive Director of Post Office Limited for an initial period of three years with effect from 24 May 2018, subject to the usual clearances.

The Board **RESOLVED**, on the recommendation of the Nominations Committee:

- to appoint Tom Cooper as a member of the Remuneration Committee
- to appoint Shirine Khoury-Haq as a member of the Nominations Committee and the Remuneration Committee.

3. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes of the meeting of the Board held on 27th March 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

4. CEO's REPORT

4.1 The Board **NOTED** the CEO's report.

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

- there had been 4 outages with Verizon which was unacceptable and the CEO would be meeting the Verizon CEO. An additional back-up centre was being set

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up for us. The outages had affected a lot of branches sometimes in the middle of the day
- preparation for GDPR continued as it came into force on 25 May 2018. PWC's view was that PO Limited was further progressed than many organisations; however, we had not yet revised all of our contracts to be GDPR compliant and in some instances other parties to a contract were requesting changes to the liabilities in the contract. This had been reported at the last ARC meeting
- work on Project Panther was on track and contracts should be ready for signature next week
- Unite had voted in favour of a 2.6% pay deal for the manager population the previous day
- the PO Graduates had given an excellent presentation to the GE on their projects and we would like them to present to June or July Board
- McColl's had reported that they were not making a profit in their branches containing POs; however, we had worked on some pilot stores with McColl's which had been successful.

5. FINANCIAL PERFORMANCE REPORT

5.1 The Board **NOTED** the Financial Performance Report.

5.2 The CFOO reported that:
- our figures were better than budget by about £1m but that some of the Telco error would need to be reflected in our figures
- Easter cash was coming back in
- the rate of change we needed to deliver this year was behind but we would be focussing on that at the next Investment Committee meeting
- BoI was seeking to exit the ATM market and we would need to consider the strategic issues linked to this for us.

5.3 A number of issues were raised:

- whether the parcels market was robust. It was reported that the only significant risk flagged to us by RM was GDPR but this mostly affected junk mail and this was not where PO generated trading profit
- that it would be helpful to have an explanation of the economics of ATMs and how the market operated. Tim Franklin noted that he had run the ATM network at Barclays and had offered support to Owen Woodley as he considered BoI's proposals. It was noted that the discussions on ATMs needed to be linked to the discussions on the Banking Framework. The longer term need for access to cash was also discussed, including whether we needed to be cautious about investing in an ATM network if we were moving quickly to being a cashless society (discussed further under item 8. below) **(see 8. Below)**
- that it would be helpful to receive more information and graphs that showed the indicative growth and profitability of the business looking at performance for the previous period and where we were heading. It was suggested that this could be structured like a balanced scorecard looking at each product group. **CFOO**

6. POST OFFICE INSURANCE REGULATORY CAPITAL

6.1 It was noted that we did not currently charge for capital provided to PO Insurance but did charge for the services we provided. It was thought that it would be

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worthwhile considering the approach for future, especially as we began to set up additional subsidiaries.

6.2 The Board **RESOLVED** to:

1. grant written consent to the allotment by Post Office Management Services Limited of 5,000,000 ordinary shares of £1.00 each
2. approve the subscription of 5,000,000 ordinary shares of £1.00 each in POI, for a total consideration of £5,000,000
3. authorise any one Director or the Secretary to execute on behalf of the Company any documentation in connection with the allotment of the shares.

7. ANNUAL REPORT & ACCOUNTS 2017/18 (ARA)

7.1 The CFOO updated the Board on the work required to complete the ARA.

Firstly, it had been agreed with the ARC that we would not seek to finalise the ARA until the end of June given the delay in POLSAP migration and the further post balance sheet event work required.

Secondly, we were still confirming with EY that we remained correct in holding the NCS borrowing off balance sheet.

Thirdly, and most seriously, the day after the ARC, an issue had been identified by the Telco Team in which we had overstated accrued, unbilled income by c. £5.2m: £0.4m in 2016-17 and £4.8m in 2017-18. The error had been made within reporting received from Fujitsu, who ran the billing systems. We believed that £5.2m was a prudent figure but revised reporting from Fujitsu was expected within the next few days and the number might change.

The 2016-17 error was small and EY had already identified a larger credit adjustment: as a result so no change was required to previously published financial statements.

For 2017-18, AC noted that we had identified some credits in our work relating to 2017-18 trading that might, at least in part, offset the impact of the error. He recognised that this was uncomfortable although the Board would also remember that we had been explicit about managing our judgements prudently because of the risks we ran.

The Board asked a number of questions and AC clarified that:

- we were considering two trading related areas of possible mitigation, the BoI settlement and agents' pay accruals, where the situation had been changing towards year-end and we now had more information to base our judgements on
- this was not a general round of small judgements
- old credits or provision releases retained because of risk in POLSAP would not be released and if they were, there would be no impact on 2017-18 EBITDAS because they could not be considered part of last year's trading
- the process for all adjustments would be for the executive to write a paper on each proposed item. EY would reach its own judgement. Management, ARC, Board and EY would all need to agree our 2017/18 trading figure which was specifically disclosed in our audited financial statements.

For the other outstanding items, the POLSAP work was underway and given the

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Telco issue, we were working through all the balance sheet accounts to identify and work through any further high risk items.

A call had been arranged with the Bank of England for the following week to discuss whether NCS borrowing should be included on our balance sheet or not.

7.2 The issues raised were discussed in detail, including the following:

- what controls existed on checking and testing accruals. AC reported that there were several controls to ensure that we accrued the number in line with the reporting, supported by monthly business and financial balance sheet reviews. The increase in unbilled income had been questioned and had been attributed to a number of factors including the New Call acquisition, price increases and increases in customer numbers. This had not been proven and we should have spotted the issue on the balance sheet well before the £5m accrual had been reached
- how we would assure ourselves that we were still holding appropriate provisions if we were stripping some of our prudence out. A question was asked about whether this was an instance of weak controls and systems for which we had been holding the provisions. AC re-confirmed that old provisions etc. relating to POLSAP were fully retained. We would only adjust for items that were directly related to 2017-18 trading where the evidence was improved
- it was noted that we were comfortable having a prudent approach but our incentive plan was based on trading performance and if that had been overstated that needed to be considered when determining the bonus payments to be made. The Chair of ARC would need to be comfortable that the figures were right and that all the necessary work had been done to support using some of our provisions. AC agreed – our core bonus measure was EBITDAS which would be agreed by the Board and EY as part of finalising the financial statements. Any related bonus payments should flow from that published, audited measure. Clearly, with an opportunity to make changes to the personal element of bonuses as required
- the Board then discussed how accountability for the error should be reflected in bonus payments to specific individuals, noting that there was a chain of responsibility. Board Members were broadly comfortable with the trading figure in the ARA being the basis of bonus payments for staff other than those identified as having specific accountability for the error but this would be a matter for discussion at the Remuneration Committee once further work had been done, considering both causation and fairness. It was noted that EY had concerns about the risks associated with the migration from POLSAP and would be more comfortable to sign-off the accounts post migration in the autumn to make sure we understand the full picture
- independent review of our controls was supported in addition to management actions and learnings but there was concern that this might not be quick enough if we waited for a new firm. It was agreed that we should we do a deep dive into certain areas that could be more targeted with the current Internal Audit team leading
- everyone agreed that there were lessons that needed to be learnt. We were a business with a billion pound turnover but which did not generate significant trading profit currently so an over accrual of £5m was a significant issue.

7.3 The next steps **AGREED** were:

1. the extended post balance sheet events reviews of POLSAP balances, which were already underway, would be completed to ensure we had not missed any liabilities or had unsupported assets on our balance sheet
2. a review would take place of any other high risks accounts that might exist
3. we would prove and document the loss of income for prior years on the Telco error
4. we would assess and separately document potential credits for two items: the main BoI profit share and agents' pay. Before recommending any adjustment the documentation would need to prove not only that credit should be taken but that it developed late in 2017-18, was trading and that we were more comfortable with it now post balance sheet than we had been at the time
5. the meeting would take place with BoE to discuss whether NCS should be on or off balance sheet
6. a series of reviews to provide further assurance over the financial control framework – for example, on revenue recognition, would be agreed with Internal Audit
7. an additional ARC call and Board call would be set up for the end of June or very early July
8. a RemCo meeting would be set up, with the timetable and structure agreed with the Chair of RemCo. The issues noted in relation to the RemCo discussions on bonus were that:
   - we were not seeking to unfairly penalise individuals or "set an example" but those with some accountability in the process needed to understand that controls for which they were partly responsible had led to a significant failing
   - the Committee would need to receive recommendations on the approach it should consider taking informed by the work being undertaken to understand the error.
9. a decision would need to be reached by 6 June 2018 on whether bonuses should be paid at our best view for June explaining that more might be payable later or to defer payments. This decision would need to reflect the possibility that the ARC might wish to defer the signing the accounts until we had migrated from POLSAP, which would probably be October/November 2018.

8. FUTURE OF BANKING FRAMEWORK

8.1 Debbie Smith introduced the paper. Responsibility for the Banking Framework had moved to the Retail Business unit in March 2018. Work had also been taking place on POCa and ATMs, looking at the strategic links between these and the Banking Framework. This review had led us to conclude that cash would still have a role in the future; it would keep cash in our communities; drive footfall in branch; and drive social inclusion. We had been considering what more we could do with our Banking Framework.

Martin Kearsley provided an overview of the developing strategy:

- we wanted to encourage IRRELEVANT to get more of their customers to use PO
- we would be developing a plan and coming back to the Board which would inform Framework 2
- we intended to IRRELEVANT IRRELEVANT for PO

- we were bringing in additional resource through an individual who had run the IRRELEVANT network for a number of years
- we wanted to get all the banks to go with us into Framework 2
- the opex IRRELEVANT but we could still make the business case work.

8.2 A number of points were raised, including:

- the more structured approach was welcomed and the development of banking services linked to the Banking Framework was seen as a good opportunity
- the impact on customers of expanding our banking services was discussed, including whether there could be any negative impacts on existing customers, such as increased queue times. It was noted that that could be the result if we did nothing to speed up the transaction processes; however, we were tackling a number of transactional elements such as introducing money counters. The development of our banking services was seen as commercially viable and with social purpose. It linked into our wider retail strategy giving customers greater choice in how they interacted with us, while automating and simplifying processes to help reduce queue times
- whether the capex figure was IRRELEVANT including for the investment which would be needed to increase security in branches as access to cash on the high street continued to reduce. It was suggested that the banks IRRELEVANT IRRELEVANT We needed clarity on where we would IRRELEVANT and the cost of IRRELEVANT needed to be reflected as well as the risks and costs associated with increased security requirements
- that we needed to re-assess regularly what was needed to keep our branches secure, for example supplying cameras when cash was being counted. The Board would need to be assured that appropriate security measures were in place, including in branches in rural communities which could be more vulnerable
- it was noted that a visit to Norway was taking place in a couple of weeks to see the equipment in place in their branches to minimise the handling of cash and improve security. It was reported that a business case was being developed around investing in improved security in branches but thought would be given to how to join this up with the development of the Banking Framework and the IRRELEVANT
- whether we had the right range of skills and experience in the team to get the best possible deal or if any additional support was needed both on negotiating and landing the deal. For example, did we need external advisers who had expertise in determining costs and charges?
- whether the figures included in the paper were sufficiently robust. It was noted that the costs might be IRRELEVANT, noting the earlier discussion on investment in improved security, but that we had not yet looked at how we IRRELEVANT The development of the Banking Framework was a growth area for the business and needed to address how IRRELEVANT
- that the deal struck with the first party was critical because it would provide the benchmark for subsequent deals
- we had to be clear what we were asking from Postmasters offering a banking service and what we were offering them in return. Agents' pay was clearly an issue
- that it would be helpful to have a refresher on ATMS and the history of POCa before coming back to the Board on our developing strategy on these issues. **MK**

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9. PEREGRINE UPDATE

9.1 Owen Woodley introduced the paper which provided an update on our re-negotiations with BoI and highlighted a number of issues:

- we had engaged Fenchurch to do some modelling work for us, looking at the cost of doing a deal/ not doing a deal with BoI, including the IRRELEVANT deal with FRES. Currently, we had a 50/50 deal with FRES on foreign currency but BoI IRRELEVANT
- the signals on achieving a positive deal remained good; the only note of caution was that BoI's latest figures had been weak and they had been IRRELEVANT IRRELEVANT It was noted that the BoI Group CEO would be setting out the Group Strategy publically in about 3 weeks' time.

9.2 A number of points were raised, including:

- it was noted that in the event of BoI wanting to end its deal with us, it would be IRRELEVANT They would have to be able to IRRELEVANT
- our dialogue with BoI would be different if we were looking to IRRELEVANT IRRELEVANT IRRELEVANT The work done by Fenchurch suggested a IRRELEVANT but a lot would hinge on whether BoI wanted to IRRELEVANT and many issues needed to be considered. For example, we would need to understand IRRELEVANT IRRELEVANT IRRELEVANT
- that it would be helpful if the next Board report could set out what our plan B would be if IRRELEVANT IRRELEVANT

9.3 The Board supported the approach set out in the paper of pursuing Option 2 while keeping Option 3 open in the short term.

The Board **RESOLVED** to:

- allow the executive more time to conclude the re-negotiations
- delegate authority to the executive to agree a 9-month IRRELEVANT
- support further advisory firm engagement.

In addition, it was **AGREED** that OW would: **OW**

- come back to the Board with a fact list on our contractual terms
- circulate by email a summary of BoI's Group Strategy announcements on 13 June 2018 and our take on what this meant for our negotiations
- include a "Plan B" in the next Peregrine Board report on our options should we not to able to re-negotiate the deal with BoI to our satisfaction.

10. EVEREST

10.1 Rob Houghton introduced the paper, highlighting a number of issues:

- we had a fixed price contract with Fujitsu over the next five years but were trying to get better value from this by trying to offset some opex spending with capex

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spending. To make the best use of the options available to us we needed to increase our total contract spend by around £10 m
- we did not think there were significant procurement risks because the additional spend related to hosting services which were within the existing scope of the "Trinity" services. Anything outside this would have to be tendered for and Fujitsu would need to be competitive to win any additional work
- the relationship with Fujitsu had been developing positively but we still had concerns about their capability delivery in some areas, especially digital. They had not performed well on agile delivery but some capable individuals had been assigned to our account and the situation was improving (e.g. the acknowledgement that our cloud service should be on the Azure platform and not K5)
- RH was comfortable with the Azure platform but was going to link in more with Government CIOs who had more experience of the platform. Shirine Khoury-Haq also offered to introduce RH to people to Lloyds who worked with Azure
- RH had been concerned about recent outages. Around 2,500 branches had been down for part of the afternoon of the previous day. The problem had been a digital certificate that had been configured incorrectly due to human error. In response to this we had sought assurance on the control measures they had in place and the reasons that the problem resolution diagnosis had taken longer than it should have
- there had been Verizon failure this morning. This was more concerning to us than the Horizon outages. There were two core hubs in London and Manchester but a third NetWare hub was being built that came on stream in June. However, the failure that had occurred would not have been prevented by a third hub and the fit for service check that was issued each morning had been green. It was noted that the contract had been signed in 2013/14 when the trading situation had been different and had been significantly cheaper than the next provider in the tender process. We had already warned that we would consider going out to tender if performance did not improve
- we were also concerned about the potential loss of senior technical people as Fujitsu switched more of its business offshore
- the June IT strategy discussions would give these issues a fuller airing.

In order to secure net operating expense reductions of £30m over the period 2018/19 to 2022/23, the Board **RESOLVED** to approve that the executive continue with negotiations to:

1. sign contract change notes, in June, with Fujitsu to "switch" £30m of operating expenses to capital investment and
2. sign incremental contracts change commitment of up to £10m (subject to telecoms review and negotiation).

11. BACK OFFICE TRANSFORMATION

11.1 The CFOO introduced the paper and highlighted a number of issues:

- the plan had been late, over budget and a number of things had not worked first time. We now had suitably skilled people in post and were being thorough in our approach. Migrating from POLSAP entailed risk and we were taking on lessons learned from previous exercises and reporting back on this to the ARC. A fundamental learning for us was the need to do much more testing as we went and include much more user acceptance testing, including front line uses

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- we had been taking more people out of the business from cash and finance and back filling these roles to allow more testing deploying people who understood the business. All the changes had been made and end to end re-testing was taking place
- at best the migration would be delayed until September 2018, at worse we would need to defer migration until after the Christmas period, if we could not migrate safely enough or quickly enough. There were concerns about using POLSAP for longer than absolutely necessary. The funds being sought today were to make the existing infrastructure as secure as possible
- Internal Audit and Deloitte had been re-testing the plan
- that we would need to know by July whether we would be proceeding with the migration in September/October 2018.

A number of issues were raised, including:

- that it was a programme management issue as well as a testing issue and whether we had the right Programme Management resource in place. It was reported that we had considered this issue seriously and had hired the best resource we had been able to in December 2017
- that while we had changed our approach to testing it might not cover everything, for example, we had not yet fully tested our interfaces with HMRC.

Rob Houghton and Shirine Khoury-Haq would discuss the migration in more detail outside the meeting.

The Board **RESOLVED** to **APPROVE** an additional £4.9m drawdown and a potential further £1.7m to enable the completion of Phase 1 of the Back Office Transformation.

12. CONTRACTS

12.1 **Print Management Contract Award**

The Board **RESOLVED** to **APPROVE** the award of a two year contract for IRRELEVANT with HH Global including ring fencing £100k of the saving for the recruitment of additional resource in Marketing.

13. POSTMASTER LITIGATION – LEGALLY PRIVILEGED

13.1 Jane MacLeod provided an update on the Postmaster Litigation and the Subcommittee meeting held on 15 May 2018, including the sequence of trials and the focus of each:

- the first trial (November 2018) would focus on the meaning of the contract and the second (March 2019) on how Horizon operated
- a piece of work was being led internally on contingency planning
- we would get an updated view from the QCs in September 2018
- £3m had been spent on the case last year and forecasting £9m for this year.

It was noted that the case had reputational implications and that while there were 560 claimants in this case, in absence of a conclusive judgment, there was nothing to stop there being further cohorts of claimants in the future.

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14. Performance Report – Health & Safety, including review of Robbery Risk and Violence

14.1 The CFOO introduced the report and Martin Hopcroft provided an overview of the work being done to increase security in branches, including that:

- violence and robbery risks were growing, even where there were limited goods to shop lift
- we did not have a lot fogging technology in branches currently but would like to invest more here because it had been very effective where it had been used
- our guidance to Postmasters was not to fight back if provoked but people sometimes did when placed in that situation
- we were working with the British Retail Consortium on safety initiatives
- we had rated 4 out of 5 on our H&S audit. Our systems were robust and we were taking a proactive approach to investigating low level incidents.

A number of points were raised, including:

- that it would be helpful to understand how branches were classified as high risk
- that we should be over protecting rather than under protecting and it would be helpful to have a count on safety measure like how many cameras were in branches
- it would be helpful to understand the costs associated with putting cameras in rural branches
- that a statistic of 0.3 Lost Time/ Hours Worked (LTIFR) per 1000 employees would be considered world class. The figure for our supply chain was 0.6.

It was **AGREED** that the Board would receive a review of robbery risk and violence in the network twice a year. **AC/ MH (to do)**

15. ITEMS FOR NOTING

15.1 **Sealings**

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1658 to 1681 inclusive in the seal register was confirmed.

15.2 **Future Meeting Dates**

The future meeting dates were noted.

15.3 **Forward Agenda**

The forward agenda was noted.

Meeting closed at 14.37 pm.

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Chairman **Date**