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POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 25 SEPTEMBER 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.30 AM

Present:	Tim Parker	Chairman **(TP)**
	Paula Vennells	Group Chief Executive **(PV)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Shirine Khoury-Haq	Non-Executive Director **(SK)**
	Carla Stent	Non-Executive Director **(CS)**
	Alisdair Cameron	Group Chief Financial and Operating Officer **(AC)**
In Attendance:	Jane MacLeod	Company Secretary **(JM)**
	Veronica Branton	Head of Secretariat **(VB)**
	Owen Woodley	CEO – FS&T **(OW)** (item 7)
	Debbie Smith	Chief Executive Retail **(DS)** (items 8, 9 and 10)
	Martin Kearsley	Banking Director **(MK)** (item 8)
	Tom Moran	Network Development Director **(TM)** (items 8, 9 and 10)
	Andrew Clatworthy	Retail **(ACL)** (item 8)
	Mark Siviter	MD Mails & Retail **(MS)** (item 9)
	Rob Houghton	Group Chief Information Officer **(RH)** (item 12)
Apologies:	None	

ACTION

1. INTRODUCTION AND CONFLICTS OF INTEREST

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

b) 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.

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

The minutes of the meeting of the Board held on 31st July 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

3. CEO's REPORT

a) Paula Vennells updated the Board on the following recent issues:

- the Annual Report and Accounts 2017/18 had been published. The coverage had been predominantly positive. One negative story on pay had appeared in Private Eye and a couple of emails had been received following that. The Guardian had published an article on "scruffy" POs to which we had responded
- Rob Houghton had taken charge of resolving the PCI Compliance issue. Some of our credit card data was not encrypted end-to-end. This information included some personal data such as names. 33,000 of our terminals were out of licence but there were reasons not to replace them at this stage. A full report setting out proposed solutions was going to be provided to the ARC in October 2018
- the price reduction on Verify and its impact had been discussed the previous day but a briefing could be provided for any Board Director who had not been at the session

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- a number of new staff had been appointed to the Retail Business Unit, bolstering skills within the organisation, including digital skills
- our negotiations with WH Smith were progressing well. A further payment would be made to WH Smith subject to them meeting their customer service targets
- progress with the acquisition of the Payzone bills payment business was on track and work was taking place to ensure that all necessary arrangements were in place on day 1 of running the business. Ideally, we would complete the acquisition on a month end and were hopeful that this would be the end of October 2018.

b) A number of points were raised, including:

- our position on charging for the use of ATMs. It was reported that ideally we would want ATM use to remain free
- whether there was a systemic issue resulting in our not meeting the ATM target. It was reported that we were achieving the target now but that our partner was not committed to the longer term delivery of this service. We needed a new partner and new ATMs which would require investment, the proposals for which would need to be considered by the Board
- the session on the development of the Identity Business line held the previous day had been worthwhile. It had been helpful to consider the strategic choices we would have to make but a continuation of that discussion would be useful. It was **AGREED** that another session would be scheduled **VB**
- The importance of developing our market in the private sector had been noted. There had also been discussion about whether we had sufficient customer focus currently. The test and learn approach we were taking was seen as appropriate. Consideration should be given to how the development of the Banking Framework might tie in the use of our Identity service by the banks. Board Members discussed whether we were expanding our Identity services business as rapidly as we should. The executive thought that the current approach was correct because we needed to get the front end of the service right
- competition appeared to be increasing in many areas of the business e.g. Travel insurance. Market disruptors were slashing margins and changing the shape of some markets. The attractiveness of a particular business proposition could, therefore, change very quickly. It was thought that we needed to spend more time generally assessing our competitors to provide a thorough understanding of our relative position
- The organisation structure chart would be sent to the Non-Executive Directors. **VB**

c) The Board **NOTED** the CEO's report.

4. FINANCIAL PERFORMANCE REPORT

a) The CFOO introduced the report and highlighted a number of issues:

- we were £4.7m ahead on EBITDA but expected this to reverse in the second half of the year because of the cut in fees for Identity and the cost reductions in IT not coming through in the second half of the year. The latter was partly due to delays in the Belfast exit negotiations. The parcels market had been resilient
- Travel money had underperformed against the plan; this was in part because of period specific issues such as the extended period of warm weather and Brexit that had affected the whole market but we were conscious of market disruptors whose margins were minimal
- Insurance was not achieving the volumes or the returns planned in all areas. There were some specific reasons: the difficult summer in travel and delays in Customer Hub. A review of marketing efficacy was underway

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- Telco was likely to miss its income targets but meet its trading profits. We would be returning to the Board to discuss the longer term strategy for Telco. Pricing was higher out of contract and was going to be increased, while we remained competitive on in-contract pricing. The strategic work would consider a variety of options including sales, partnering, removing Fujitsu and the product range.

b) A number of points were raised, including:

- The position on former agents' losses was discussed. It was noted that we were not bringing prosecutions currently where these related to the Horizon system because of the ongoing litigation. The increase in cash in branches further increased the risks. We had improved our ability to identify branches with potential fraud issues and target them for audits. Prosecutions could potentially start again after the Horizon Trial (assuming a positive outcome), however as matters go "stale" after c6 months, it is unlikely that we would be able to prosecute retrospective cases
- Security in branch and in the supply chain was discussed. Introducing CCTV in high risk branches had been and continued to be considered but there were costs associated with this. Analysis had been done to identify high risk branches but this covered a range of factors such as a branch handling high volumes of cash; however, the correlation between high risk indicators and the location of thefts and fraud was not high in practice
- The physical management of cash in branches was going to be critical to the business and it was thought that we should consider whether security provisions such as CCTV were simply the cost of doing business. ATMs and closed cash systems also formed part of this conversation on security measures and the safety of staff as POs became increasingly the place to go for cash. It was reported that while we hac experienced health and safety improvements overall we had suffered a spate of ATM rip outs. A Business case was being considered to roll out fogging devices to many more branches. It was **AGREED** that an update on security measures would be included in the Health & Safety Report to the Board. We needed to recognise **AC** that this was an investment discussion where there was no immediate prospect of return
- It was reported that a project was being run on closed cash where the safe and till were combined. Feasibility and cost were key issues and to be achievable might require co-funding from the banks. An approach to the banks on investment would have to be considered very carefully as we were proposing a significant increase in fees through Banking Framework 2. We might consider a segmented approach where equipment such as closed cash cartridges could be deployed in the top branches for cash, with cameras for other branches
- Our cash borrowing was discussed. We had made efficiency improvements in branches on cash management but we were borrowing more than we had expected.

c) The Board **NOTED** the Financial Performance Report.

5. FUNDING BEYOND 2021

a) The CFOO introduced the report and highlighted a number of issues:

- we were six months into a three year funding plan and would not normally be starting a conversation about the period beyond that plan at this stage; however, UKGI and BEIS were preparing for the anticipated Government Comprehensive Spending Review and we wished to provide them with some sensible placeholders notwithstanding the significant degree of uncertainty in our plans beyond 2021. Our baseline assumptions were:
    - we should not need substantial investment funding if we are achieving our trading profit targets

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- network subsidy would continue to be needed to keep unprofitable branches open. Network subsidies were currently provided at around £50 m per annum and we had to provide evidence of the costs required to meet the Services of General Economic Interest (SGEI) set out in our Funding Agreement with Government
- that we would need a borrowing facility.

- work was being done on the costs of running the unprofitable branches, our IT costs, the cost of re-investment in the network and regulatory changes etc.

b) A number of points were raised, including:

- that there were a number of moving parts with IT transformation, investment requirements for business developments such as Identity, the need for funding for loss making branches but with the prospect of the EBITDA figure being significantly higher with the increase in fees with Banking Framework 2
- we would need to consider whether we should be asking Government for a contingency fund, how that conversation should be structured and the fund level required
- that we could not expect indefinite funding from the taxpayer other than to run unprofitable branches but that meant we needed to have the capability to borrow. The preference would be to be able to access external funding. We needed to consider our capital investment requirements, the returns we thought we could get from these and any assets we might sell
- whether we should consider a symbolic drop in what we sought as the network subsidy to show our intended direction of travel. It was noted that the reverse argument was that inflation and the cost of managing cash in branches meant that a £50m network subsidy was less in reality anyway and that there should be a fee attached to providing an unprofitable service. To understand this better the Board asked to see the costs associated with running the unprofitable branches. **AC/ DS**

  The scope to retain the network subsidy but look at dividend payments was discussed.

c) The Board **NOTED** the Report and endorsed the proposed approach of having open conversations with BEIS and HMT to seek longer term alignment around future government support.

6. FS&T PERFORMANCE REPORT

a) OW introduced the report and highlighted a number of issues:

- Telco – we were set to deliver on plan on a net basis but were having to account for the FD11 error. The market place was very competitive, with significant customer retention activity, and our assumed net numbers would go down slightly because of the costs associated with implementing project Galaxy. We were considering deploying marketing spend and had engaged consultants to consider a number of issues such as what we might do at the end of the Fujitsu contract
- PO Insurance – the environment was difficult but with signs of encouragement in recent sales. We still needed to build our market capability and were restructuring of our marketing and digital capabilities. We also needed to build our analytics capability
- Ancile – the firm had appointed advisers and would be going to auction; however, we were exploring the possibility of a non-binding bid and would have exclusive access to the data room associated with the sale for a period of time

- Customer Hub – we were building capability and considering a customer home proposition as we had a number of constituent parts which others in the market did not
- there had been a session on Brexit planning at PO Insurance Board more detail of which could be provided to the Board.

b) A number of points were raised, including:

- whether the price increase proposed in Telco was sensible. The executive confirmed that their view was that we should continue to stay in line with the market and that the increase would maintain our income line while treating customers fairly
- that Non-Executive Directors would find it helpful to understand the customer research we had by product. PO was seen as less relevant to the younger demographic and the executive was thinking about increasing this through financial education positioning. Our culture change was directed at having greater focus on customers, which was broader than a product focus. The approach to attracting younger customers was discussed and it was reported that a digital forum was being set up which would help us gain insight and that the on-line registration process for Customer Hub app also gave us insight into customer requirements
- the growth of the insurance business and the investment in marketing related spend was discussed and it was **AGREED** that this would be included as an item on a Board agenda. The newly appointed Chief Marketing Officer (CMO) would be invited to join this discussion **OW/ VB**
- the CMO's role was discussed and whether this involved looking at customer acquisition across the piece. It was confirmed that this was the case but that we needed to adjust the way we worked to maximise these opportunities
- the shortfall in the Customer Hub volumes against plan and whether we had dealt with the issues which had generated this result were discussed. It was reported that we now thought that the original assumptions had been unrealistic but that we had established the case for a digitally integrated proposition and needed to drive the ongoing business. A number of lessons had been learnt in the process. We had not appreciated the operational difficulties of working within a Joint Venture Agreement (JVA) sufficiently nor of migrating from an existing app. Our targets had been too ambitious. Work was taking place to review the CHUB investment and learnings formally. These learnings and the next stage of development of CHUB, including the mails proposition that was due to be launched during the current financial year, would be brought back to the Board. **OW/ VB**

7. PEREGRINE UPDATE

IRRELEVANT

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IRRELEVANT

8. BANKING FRAMEWORK 2

IRRELEVANT

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IRRELEVANT

c) The Board **NOTED** the report and supported the option of allowing the banks until 31 March 2019 to confirm or terminate their inclusion in the Banking Framework 2.

9. PROJECT SOLAR

a) The Chairman welcomed Tom Moran and Rob Houghton to the meeting. TM explained that Project Solar was a strategic initiative to deliver greater access to Post Office products and services through a range of devices owned and operated by retailers, customers and the Post Office. To date, we had been working most closely with McColls on this project.

b) The Board:

- **RESOLVED** to **APPROVE** the £5.995m spent on the project to date to deliver HNGT Lite
- **NOTED** that a costed paper would be provided for the Board on the next phase of the Project once the product roadmap had been developed.

10. MAILS STRATEGY UPDATE

a) Mark Siviter introduced the report and highlighted a number of issues:

- discussions with Royal Mail (RM) would begin formally in October 2018, which would start to confirm our priorities and RM's for the contract. The relationships with RM had strengthened and there was trust between the two parties. We had been having informal discussions about the contract since March 2018
- our main priorities were acquiring the ability to sell Online and freedom to open up the network up for click and collect
- our early view was that RM wanted a fixed fee reduction and the continued benefit of business efficiencies
- the Board would be updated on the discussions with RM and Board approval sought on our final contract proposals.

b) A number of points were raised, including:

- what our current arrangements were for click and collect. It was reported that returns could be made to a PO but not then collected for re-delivery by a competitor of RM. Our view was that at this point RM had already lost the sale to a competitor so it did not make sense to stop consumers using PO for re-delivery via another provider
- what RM's focus was on cost efficiency. It was reported that we had held discussions on aligning up our end-to-end processes and that RM was likely to seek a reduction in the price for the overall contract; however, we did not think it likely that RM would seek a signing fee. RM and PO were in a mutually dependent position without viable alternative partners
- that there had been significant change in the RM leadership team. Nick Landon would be leading the negotiations and was the consistent figure from RM in these discussions
- that we should consider what developments in technology might mean for the supply chain. For example, whether investment would be needed for self-drive vehicles
- that we should be helping RM to understand the benefits of the contract to them to assist their CEO in explaining this to the market
- whether online flexibility included all online options. It was noted that we wanted to be able to create apps and sell online

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- whether retaining exclusivity in some areas of the contract could cause competition challenges. It was reported that we were discussing the relevant clauses of the contract with Linklaters but would not want to lose exclusivity in all areas
- that we needed to avoid locking ourselves into a contract for too long a period as the market was changing so quickly. It was reported that we were considering carefully the break clauses in the contract.

c) The Board **NOTED** the update, the progress made to date and the intent to enter the first round of formal negotiations.

11. PROJECT EDGWARE

IRRELEVANT

12. BACK OFFICE TRANSFORMATION

a) The Chairman welcomed Rob Houghton to the meeting. AC introduced the paper and reported that testing through TRANSAP was taking longer than through SAP. We had considered carefully whether we could migrate off POLSAP and go live in November 2018. However, this would have disrupted the cash forecasting solution before Christmas. We were confident that we could go live with the new system in January 2019 and that the training requirements would have been completed. The only reason we would have considered migrating earlier, given the risks of doing so, would have been experiencing deterioration in POLSAP. The cost of the work from Autumn 2018 to January 2018 was in the region of £10m and the incremental cost from November 2018 to January around £2m.

b) The Board noted that the work was necessary to the running of the business and **RESOLVED** to **APPROVE** the additional £9.4m drawdown.

13. MODERN SLAVERY ACT

a) JM introduced the paper:

- we had an obligation to publish a statement on our compliance with the Modern Slavery Act (MSA) within six months of the end of the financial year. ARC members' comments had been reflected in the statement
- we had taken a range of steps to comply with the MSA, including reviewing agents' contracts, which contained a general obligation to comply with the law and had also provided training for agents
- the agency network risk was our principal risk so the ownership of the MSA policy was likely to sit with the CEO – Retail in future.

b) The number of points were raised, including:

- that we needed traction in the next year on the actions we had identified so clear ownership of the policy was important
- whether we could audit our compliance with the MSA when our network was predominantly operated by agents running their own businesses.
- that we should change the wording of the statement to refer to due diligence for on boarding but not for the subsequent operation of the business **JM**
- whether we carried out subsequent checks when we visited agencies. It was reported that there was a vetting check when PMs took on staff. In order to access Horizon, those checks had to have been completed and included checking that the individual was a real person and eligible to work etc.
- whether there was as retail consortium which produced a standard on modern slavery which we could sign up to. It was noted this would be investigated
- that raising awareness through training was important. It was noted that we would consider whether there was scope to strengthen our existing arrangements.

c) The Board **RESOLVED** to **APPROVE** the 2017/18 Modern Slavery Act Statement, subject to incorporating the change agreed at the meeting, and endorse the proposed actions for the business to take forward in the 2018/2019 financial year.

14. POSTMASTER LITIGATION (Confidential and subject to legal privilege)

a) JM updated the Board on the Postmaster Litigation. The first hearing for the Common Issues would start on 5 November 2018. It was thought that the judgement was likely to be published at the end of December 2018 or the beginning of January 2019. We were preparing in parallel for the second trial on the Horizon system. Two experts (one for each party) had been appointed to provide their view of the Horizon system and had a series of questions to answer from the Judge. In effect the judge's decision would reflect which expert he believed.

We were preparing our communications approach and material. One Freelance journalist was seeking crowd funding to be able to attend the trial.

Work on contingency planning was happening in parallel.

b) The Board **NOTED** the update.

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 1697 to 1710 inclusive in the seal register was confirmed.

15.2 Health and Safety

AC reported that accident levels had decreased but incidents of violence had increased. We were looking at options to mitigate these risks including the roll out of fogging devices in many more branches. There had also been an upsurge in attacks, particularly on crews in Liverpool. Body cameras did not appear to have improved the situation and we were not yet sure of the right response to the increase in ATM rip outs.

KM asked whether we have considered doing more in-night deliveries. It was

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reported that this might be beneficial if it happened some of the time but could prove more dangerous for crews if night time delivery replaced day time though further consideration would be given to the issue.

The Health and Safety report was **NOTED**. An update on security measures in branches and in the supply chain would be included in the Health and Safety report for the Board. **AC**

15.3 Future Meeting Dates

The future meeting dates were **NOTED**.

15.3 Forward Agenda

The forward agenda was **NOTED**.

Meeting closed at 3.00 pm.

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Chairman
Date