



## POST OFFICE LIMITED BOARD MEETING

## MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 31 JULY 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 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 (by phone) Non-Executive Director **(CS)**  
 Alisdair Cameron Chief Financial and Operations Officer **(AC)**

In Attendance: Jane MacLeod General Counsel & Company Secretary **(JM)**  
 Veronica Branton Minute Secretary **(VB)**  
 Cathy Mayor Finance Director, Retail **(CM)** (items 8&9)  
 Roger Gale Network & Sales Director **(RG)** (item 8)  
 Martin Kearsley Banking Director **(MK)** (item 9)  
 Ben Foat Legal Director **(BF)** (item 10)  
 Jonathan Hill Compliance Director **(JH)** (item 10)  
 Angela Van-Den-Bogerd LRG **(A VDB)** (item 11)  
 Owen Woodley CEO – FS&T **(OW)** (item 12)  
 Jeff Lewis IT **(JL)** (item 13)

Apologies: None

**ACTION**

**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.

**1. BOARD RE-APPOINTMENT**

The Board **NOTED** the decision of the Department of Business, Energy and Industrial Strategy (BEIS) to re-appoint Tim Parker as Chair of Post Office Limited for a four year term until 30 September 2022.

The Board congratulated Tim on his reappointment.

**2. ANNUAL REPORT AND ACCOUNTS 2017/18 (ARA):****a) Report from the Audit, Risk and Compliance Committee (ARC)**

Tim Franklin provided an overview of the discussion at the ARC meeting held earlier in the day. Three adjustments had been approved and the EBITDAS figure for 2017/18 had been confirmed as £35.46m. The wording of the group litigation statement had been discussed and a slightly shortened CEO statement had been received. Discussions had taken place with the auditors in the meeting and in the closed session.

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The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the ARA 2017/18, subject to finalisation of the CEO's report and other minor changes, and to delegate signing authority to the Chairman, Group CEO and CFOO.

b)

# Irrelevant

**3. APPOINTMENT OF EXTERNAL AUDITORS**

AC reported that EY had not participated in the tender process. Only PwC and Deloitte had bid and based on the scoring criteria, PwC had ranked highest on both service quality and cost. The Board noted the following potential conflicts and proposed mitigations:

- PwC were remuneration advisers to Remco – based on the advice of the Chairman of Remco this was not considered to be a material conflict
- The lead partner in the PwC team was also the lead partner at Morrisons where Paula Vennells was a Non-Executive Director. To ensure that PwC retained sufficient independence it had been agreed that an additional partner would attend some PO Limited ARC meetings. PwC were also the auditors for each of BoI and FRES (where Paula Vennells was the Chairman of the Board). It was noted that each of those audits was undertaken by a separate team and accordingly the Board considered that although there was a potential conflict, this could be managed.

It was reported that PwC were not on the government framework so potential conflicts with other advisory work were limited.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the appointment of PwC as the provider of Post Office Limited external audit services and to delegate authority to the CFOO and Micheal Passmore, Finance Director, to resolve the minor outstanding contractual issues prior to signing the contract, and authorised the signing of the Engagement Agreement.

**4. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT**

The minutes of the meeting of the Board held on 24<sup>th</sup> May 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman and the notes taken of the discussions at

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the Strategy Day were **NOTED**.

5. **CEO's REPORT**

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

- the deployment of branch counter hardware was due to be completed in September 2018 in line with the current 95%+ roll-out success rate. Jason Black had driven through much of this work and the Board asked for their thanks to be conveyed to him
- the Everest discussions had moved forward and change control notices were being prepared for signature. Work was underway to operationalise these changes
- a meeting had taken place with the CEO of Verizon who had agreed service credits for delivery failures

**Irrelevant**

- we had advised BoI that we would not discuss the sale of the credit card book until we had agreed the wider negotiations. BoI had agreed that we needed to have signed off a deal by the end of October 2018
- Kelly Tolhurst MP had formally taken on the PO brief

**Irrelevant**

b) A number of points were raised, including:

**Irrelevant**

- next steps for the negotiations with RM. It was reported that Paula Vennells was going to have a follow up meeting<sup>1</sup> with the new Chief Executive of RM to discuss opportunities for developing the contract. PV was also meeting Sue Whalley, the UK Chief Executive of RM, in the next week. RM had its next Board meeting in September 2018 and were keen to have made progress with contract negotiations by then

VB

**Irrelevant**

VB to liaise  
with ME

- whether there had been a full shut down test of the Belfast data centre. It was reported that there had not been a full shut down test and that we did not wish to

RH

<sup>1</sup> The Chairman and Chief Executive had meet the Chief Executive of RM following his appointment to the role.

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do this until we had migrated off POLSAP. Shirine Khoury-Haq would discuss our hot back-up arrangements with Rob Houghton **VB to liaise with RH**

- an item on cyber security would be added to the Board agenda in October or November 2018

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

6. **FINANCIAL PERFORMANCE REPORT**

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

- trading figures were on target taking account of the Telco budgeting error. Mails were holding up well. FS&T should come back on plan. The higher fees for POca had only just been triggered. Verify was trading well but Government had flagged it wanted to reduce the fee. The main concern was IT costs where it had proved harder to drive costs out than we had initially estimated.

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

7. **UKGI QUARTERLY REPORT**

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

- we were around £8m underspent against funding in the last quarter. We had involved the Finance Directors from across the business in planning for the next quarter. The nature of the portfolio was changing and we were aware of the need to improve our change planning processes now that much of the work was cross silo
- funding for Payzone would come out of trading profit and not funds provided by UKGI.

b) The Board **APPROVED** the submission of a request for £50m of Q2 funding from UKGI.

8.

a)

b)

# Irrelevant

<sup>2</sup> It was reported that we had done an interest rate swap in the Spring so that around 50% of the impact of a rate change was hedged; therefore, we would not gain as much from an interest rate rise as we would have done previously.

<sup>3</sup> provided that we were not required to proceed to stage 2 of their process.

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- - 
  -
- # Irrelevant

c) The Board **NOTED** the report.

9. **IRRELEVANT**

a) The Chairman welcomed Martin Kearsley to the meeting. MK introduced the paper and highlighted a number of issues:

- **IRRELEVANT**
- From a timing perspective there was only one opportunity to change the framework every three years and we were proposing to delay the renewal by three months. The contract operated on a rolling three year cycle. The first opportunity for the banks to terminate was **IRRELEVANT**
- **IRRELEVANT**

b) A number of points were raised, including:

- the potential total value of the development of the Banking Framework, and the estimated trading profit per annum. **IRRELEVANT**  
**IRRELEVANT**
- whether there had been similar types of structural changes in other industries and if so, whether there was a model and methodology that could be relevant? For example, **IRRELEVANT**  
**IRRELEVANT**
- knowledge of the marketplace was critical for us at this stage and the team now included individuals with relevant banking experience. **IRRELEVANT**

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**IRRELEVANT**

- the banks would be looking at the end state and we only played a small part in this; however, we needed to understand their end state view. **IRRELEVANT**

**IRRELEVANT**

- it was recognised that this was a complicated piece of work which needed to be properly resourced; however, **IRRELEVANT**

**IRRELEVANT**

- an update was requested for the September Board Meeting and it was noted that it would be helpful to have a timetable against which progress could be measured. Tom Cooper and Tim Franklin should be involved in the discussions as our negotiation proposals were developed.

c) The Board **NOTED** the report.

10.

a)

**Irrelevant**

b)

/ JH

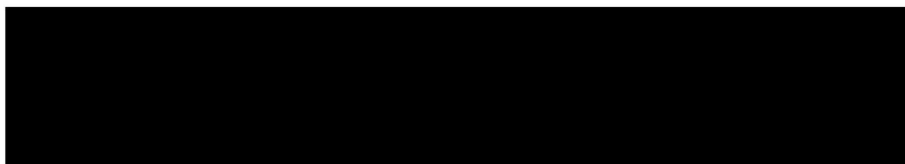
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c)

# Irrelevant

## 11. POSTMASTER LITIGATION (including contingency planning) –Subject to Legal Privilege

a)



In relation to the Postmaster Litigation, the GC provided the following update:

- witness statements were being gathered and were due to be exchanged during early August
- Following receipt and review of the witness statements our QCs would be able to update the Merits Opinion
- The application for Security for Costs (arising from our view of the flawed terms in the Claimants' insurance policy) continued. We expected that this issues would be addressed during September 2018
- the two IT experts continued to review documents relating to the issues to be addressed for the Horizon trial. We expected the scope of the Horizon trail to be agreed in the next month.
- contingency planning was underway stemming from an analysis of the likelihood and impact of any of the implied contractual terms put forward by the claimants being found against us. 'Likelihood' was assessed by reference to the legal advice we had received and 'impact' a business based assessment.

The GC referred to the development of a contingency planning paper – an example of which was shown to the Board. This categorised four potential areas of response to each risk identified: contractual changes; communications; operational changes (e.g. training); and system changes (e.g. Horizon). The contingency planning would identify what responses could and should be implemented ahead of receipt of the trial judgement irrespective of its outcome, as well as those that would only be implemented following receipt of an adverse judgement. The Board would be provided with updates at subsequent meetings.

c)

The Board **NOTED** the update.

## 12.

a)

# IRRELEVANT

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b)

**IRRELEVANT**

c) The Board NOTED the update and next steps.

**13. EVEREST**

- a) The Chairman welcomed Jeff Lewis to the meeting. JL introduced the report and highlighted the following:
- The objectives for Project Everest (being the re-negotiation of the Fujitsu relationship) had been delivered and were now being operationalised. In particular:
  - the decision to move from Fujitsu's proposed K5 platform to Microsoft Azure. Change notes had been signed which would begin to deliver savings
  - an update on the move from the Belfast Data Centre would come to the September Board
  - Fujitsu had agreed to move £3m spend from opex to capex although we had been aiming for £5m.

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b) The following points were discussed:

- JL explained that we were working together with Fujitsu to develop digital delivery capability. Fujitsu were not advanced in this area but were developing quickly and bringing in new people with expertise in agile
- JL reported that we were having workshops with Fujitsu regarding the Belfast exit plan. We had received a proposal from Fujitsu which set out a very cautious approach with a long delivery time. We had asked to look at other options.
- The current contract continued until 2023 but moving to cloud architecture and our ownership of the intellectual property gave us much greater scope to choose a different path in the future.
- whether the penalty measures for any failure by Fujitsu to deliver were appropriate and sufficiently onerous. JL reported that we had built in penalty measures/ service credits but that these were not perfect; however, we were in a good position on intellectual property rights. The risk of non-renewal would become a more effective bargaining chip over time
- whether we were ensuring a modular build such that we would transition more easily to one or more new suppliers over time, and whether there were exit provisions that allowed this. It was noted that the exiting the Belfast data centre and moving onto the cloud was a critical component of being able to move to a new provider in the longer term.

JL

c) The Board **NOTED** that we would:

- close Everest as a project, complete transition and embed the new service models and operating processes
- separate out the Belfast data centre refresh/transition to cloud, and run this as a programme for which would seek separate approval from the Board.

The Board had already agreed the principle of moving to variable cost and migration to cloud architecture and the Belfast exit programme would set out how and when this should take place.

#### 14. BACK OFFICE TRANSFORMATION

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

- we had said at the May Board that September 2018 was the earliest feasible migration date from POLSAP and we were now targeting October 2018
- integration testing was underway. Some elements including agents' pay and cash processing had already been transitioned from POLSAP and were now being run on different systems. Issues identified in the internal audit report were being addressed. DMW had not identified any red items and most 'amber' items were turning green. We would be testing against 120% of our peak volumes. Prior to go-live we would be getting additional assurance from Accenture's QA team over the deployment plans and would ask DMW to validate test results against our go/no-go criteria. The go live plan has several roll back opportunities.
- Contingency planning was being addressed. POLSAP was not customer facing and would not impact Horizon performance. There were known manual work arounds in place already to deal with specific types of failures. We therefore anticipated that operational activity could continue through manual interventions and these would allow key processes to continue albeit via labour intensive processes. Cash reconciliations across the Network would become more challenging and in all

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likelihood we would need to further fund the network on a temporary basis in the event of issues. Increased resources in the Bristol cash centre were also being considered, and we were working with Accenture to review whether we could use their offshore resources to build a reconciliation team

- Should it be determined that we could not safely migrate in October, it would be most likely that migration would be delayed until January or February 2019. This was an unattractive proposition as it would cost a further c£5m to run the project that long. We had POLSAP spares for a period of time but would have to look at building more if we were run to February 2019 and this would cost a further £5-6m.

RH/ AC

- the report would be circulated to the Board.

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

**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 1682 to 1696 inclusive in the seal register was confirmed.

**15.2 Health and Safety**

The Health and Safety report was **NOTED**.

**15.3 Future Meeting Dates**

The future meeting dates were **NOTED**.

**15.3 Forward Agenda**

The forward agenda was **NOTED**. An update on the Banking Framework would also be included on the September agenda and Mails Strategy would be covered under the Retail Strategy item.

Meeting closed at 3.30 pm.

**GRO**

Chairman

25/9/18

Date