

Post Office Limited – Strictly Confidential

POLB (12)9th
POLB 12/88-98

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a Board meeting held on 19th September 2012
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director (items 12/88-12/93)
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (item 12/89 only)
Charles Colquhoun (CC)	Head of Corporate Finance (items 12/94 and 12/95 only)
Susan Crichton	HR and Corporate Services Director (item 12/91 only)
Nick Kennett	Financial Services Director (item 12/90 only)
Ken Potter	Pensions Consultant (item 12/91 only)
Nick Farhi	OC&C Strategy Consultants (item 12/89 only)
Vivek Madan	OC&C Strategy Consultants (item 12/89 only)

POLB 12/88

APPOINTMENT OF DIRECTOR

- (a) The Chairman opened the meeting and introduced Tim Franklin, who absented himself whilst his appointment was approved.
- (b) Approval from the Shareholder having been obtained, it was resolved that Tim Franklin is appointed as a non-executive director of the Company with immediate effect. Tim Franklin joined the meeting

ACTION:
Company
Secretary

- (c) The Company Secretary was instructed to arrange all relevant statutory and regulatory filings, including filing form AP01 at Companies House.

POLB 12/89

STRATEGIC COST REDUCTION

- (a) The CFO introduced the Strategic Cost Reduction paper. Two consultants had been considered before the selection of OC&C Strategy Consultants. Their remit was to present a perspective on strategic cost reduction, to encourage the Business to take a more radical approach.

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The Board emphasised the need to ensure that this work was aligned with the strategy, funding and transformation agenda and considered alongside the Rothschild's work on mutualisation, but stressed the urgency required.

- (b) Sue Barton, Strategy Director, and representatives from OC&C were welcomed to the meeting.

OC&C circulated their report to the Board and presented their recommended approach to strategic cost reduction, highlighting the possible levers they would consider available to the Business to drive a step-change in the cost base.

The report documented the need to redesign the operating model and to start developing a 'future proof' sustainable cost base, but also recognised that, whilst the Business wanted to develop this longer term strategic work, it also had a desire to implement more immediate cost savings.

The Chairman thanked OC&C and they left the meeting

- (c) During the debate which followed, Sue Barton explained that work was already underway to identify some areas for cost savings, including the Cash and Supply Chain strategy and the Call Centre strategy, but acknowledged that using an external consultant like OC&C for a short period of time could challenge and stretch thinking within the Business.

The Board recognised the value of using OC&C but asked the Business to be very clear about their remit and ensure they demonstrate how they could add value in the medium term, in redefining the operating model appropriately to meet the key requirements for the Business in the future.

- (d) The Board also emphasised the urgent need for cost reduction and asked the Business to implement savings in the areas it had already identified, alongside the strategic review. It was agreed that a list of these savings should be provided for the October Board meeting. An implementation plan for the work with OC&C should then be prepared for the November Board meeting, committing to cost reductions and setting milestones for delivery.

ACTION: SB

POLB 12/90

FINANCIAL SERVICES UPDATE

- (a) **Eagle (Bank of Ireland Contract)**

The Chairman congratulated Nick Kennett on behalf of the Board for delivering the new contract with the Bank of Ireland.

The Eagle paper was noted. Nick Kennett was asked to provide a paper for the ARCC, highlighting the key points of Governance arising from completion of the Eagle contract.

ACTION: NK

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(b) Project Polo

Nick Kennett explained to the Board the rationale behind introducing a current account and the opportunities and risks to the Business, as presented in the paper.

The Board discussed the current account; the pressures the introductory costs would put on BoI; the appropriateness of the Post Office being the first provider to be transparent in charging fees; and the possible reaction from partner banks.

The Board agreed that the decision on whether to proceed would be discussed at the November strategy session. Nick Kennett was asked to provide research on customer appetite for fees, more information on the implications of the change (including on our partner banks); and to raise any contingency issues in his next paper.

ACTION:NK

POLB 12/91

(a)

(b)

(c)

Irrelevant

(d)

Irrelevant

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Irrelevant

ACTION: VH/SC/CD

POLB 12/91

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the meetings held on 4 July 2012 and 17 July 2012 were approved for signature by the Chairman
- (b) The Status Report, showing matters outstanding from previous Board meetings, was noted.

(c)

Irrelevant

ACTION: MM

POLB 12/92

CHIEF EXECUTIVE'S REPORT

The Board noted the CEO's report and discussed three specific items:

(a) Network Transformation

The CEO drew the Board's attention to the new Network Transformation report appended to her report. She explained that the financial assessment of the subpostmasters' business plans had created a bottleneck but this financial rigour was essential and the Business had provided more field advisors to help facilitate the process.

The Board found the report helpful but asked for each quarter to be shown separately rather than cumulatively.

ACTION: CD

The Board expressed that it would feel more confident when the Business began to deliver the higher volume weekly conversion rate. The CEO assured the Board that the Business had experience of delivering this rate of change. She was confident that her team would deliver and she would be in a position to confirm this at the next Board.

ACTION:
Company
Secretary

The Chairman asked that if the necessary run-rate had not been achieved by mid-October, the Board agenda should allow for a full discussion on Network Transformation.

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The CFO explained that there was a possibility for confusion over the definition of 'completed'. Some of the conversions took 8-12 weeks to complete after contract signature. The CEO stressed that the Business was aiming to deliver 6,000 open offices by the end of the three year plan. However, some of the conversions in year one might be 'contract signed' but not open by the end of the year.

ACTION: CFO

The Chairman asked that ShEx should be fully briefed about this point so that there were no surprises at the end of 2012/13.

(b)

Irrelevant

(c)

Irrelevant

(d)

POLB 12/93

FINANCE AND PERFORMANCE UPDATE

(a) Profit and Loss Statement

The CFO presented his report and explained that there would be a full review and reforecast at the half year, which would be presented at the October Board meeting. It was likely that the deficit (PBIT) would be lower than budget and this might present an opportunity for additional revenue- generating investment.

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ACTION: CD

The Board expressed concern about the programme investment (which was currently above budget) and asked for detail of this investment against the original budget of £39m. The CFO pointed out that the plan had always included spend of £53m. The CFO was asked to provide an analysis for the Board of the programme investment spend for the year to date against the budget.

ACTION: CD

The CFO was asked, as part of the half year review, to provide a paper setting out the options available if the forecast deficit was less than target.

Virginia Holmes left the meeting.

(b)

Irrelevant

(c) Transformation

ACTION: CD

The Board asked for a more dynamic RAG status report, with red highlighting 'urgent action needed' and a monetary risk value put on items marked as amber, to help monitor and prioritise action.

POLB12/94

(a)

Irrelevant

ACTION:CD

ACTION:CD

(b)

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ACTION: CD

POLB 12/95

Irrelevant

ACTION: CD

POLB 12/96

ANY OTHER BUSINESS

Tax Losses

The CFO reported that the Business had sold its tax losses to RMG at 50% of their value, generating income of £2m for 2011/12 and £10m for 2012/13. This sale had been made possible by the negotiations during separation and the Board congratulated the Business for securing this additional income.

POLB 12/97

ITEMS FOR NOTING

- (a) The Update on IT&C Transformation was noted
- (b) The Risk/Resilience Review was noted.
- (c) The paper on Horizon Evolution was noted
- (d) The Significant Litigation report was noted
- (e) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 802 to 817 inclusive in the seal register is hereby confirmed.
- (f) The minutes of the June and July meetings of the Communications Action Group were received
- (g) The minutes of the latest Health and Safety meeting were received.

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CLOSE

There being no further business, the meeting was then closed.

GRO