

Post Office Limited – Strictly Confidential

POLB 14(1st)
POLB 14/1-14/14

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 21 January 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
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 (items 14/2-14/3)
Martin George	Commercial Director (item 14/2-14/6)
Paul Brown	Head of Commercial Development (item 14/4)
Sarah Hall	Head of Financial Control and Compliance (items 14/4-14/6)
Fay Healey	Chief HR Officer (item 14/8)
Mark Davies	Communications Director (item 14/8)
Kevin Gilliland	Network & Sales Director (item 14/8-14/9)
Tom Moran	Head of Industrial Relations and Network Strategy (item 14/9)

POLB 14/1

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Sue Barton, Strategy Director and Martin George, Commercial Director.

POLB 14/2

2013/20 STRATEGIC PLAN

- (a) The Board received a report outlining the Strategic Commitments and Outcomes in relation to the 2013/20 Strategic Plan.
- (b) Sue Barton explained that the Business would monitor progress against the plan at the Transformation Board chaired by the CEO and provide a report highlighting the progress and any risks to the plan to be reviewed at each Board meeting.
- (c) The Board asked that the Network Transformation (NT) targets be shown as target and stretch and not best and worst case. Sue Barton clarified that the funding agreement included Network Transformation

Post Office Limited – Strictly Confidential

target ranges which would be discussed with BiS at the end of February, after the Sub Postmasters' surveys were completed.

ACTION: CFO (d) The Board asked for further discussion on NT targets at the February Board.

ACTION: CoSec (e) The Board noted the key strategic commitments as set out in the paper and agreed that these should be used by Company Secretary to drive the agenda and papers for future Board meetings.

POLB 14/3

BUSINESS TRANSFORMATION

ACTION: CEO (a) The Board discussed the Business Transformation and the work being undertaken by Alsbridge who are scheduled to present to the February Board. The Board agreed that the initial design phase, including defining the operating model, was crucial and supported the appointment of an experienced interim to drive the transformation from within the Business. Tim Franklin and Alasdair Marnoch offered their support to find the right individual.

**ACTION: CFO/
Sue Barton** (b) The Board asked for clarity on the Business Transformation objectives, milestones and timeline, including the impact of public procurement, for discussion at the next Board meeting.

(c) The Chairman thanked Sue Barton for her work as Strategy Director and specifically for leading the 2013/20 strategy development and funding negotiations. The Board looked forward to her return next year. Sue Barton thanked the Board for their support and left the meeting.

POLB 14/4

TRADING PERFORMANCE

ACTION: CFO (a) The Board asked the Business to analyse its products by contribution and to recommend to the Board a list of products which would be deprioritised for the next 18 months, so providing opportunities to reduced costs and focus on the areas of greatest return.

(b) Paul Brown, Head of Commercial Development, and Sarah Hall, Head of Financial Control and Compliance, joined the meeting.

(c) Martin George explained the new role of Head of Commercial Development and the longer term perspective this brought to the Business. He emphasised the changes being made to align the commercial team's resource with the product areas with greatest opportunity and the focus on mails and financial services to support the strategic plan.

(d) Paul Brown acknowledged the gap in the mails income in 2013/14 driven by Royal Mails price increases but reported that the recovery plan was working and that he was confident in hitting the mails forecast. He explained the new partnership approach being developed with Royal Mail with new monthly meetings at a senior level and a desire to share business plans, promotions and targets.

Post Office Limited – Strictly Confidential

ACTION:
Paul Brown

- (e) The Board discussed the Collections and Returns market and the need to move with pace and sign up new contracts. Paul Brown accepted that new retailers had taken longer than he would have liked to sign contracts for the service. Several were now in the pipeline for launch in the first quarter of 2014/15. He explained that the Business were involved in Royal Mail's negotiations with potential clients and with over 4000 branches now offering longer opening hours we were in a strong position to sell the product.
- (f) The Board asked the Business to focus on the Collections and Returns market with pace and vigour. A small increase in this market share would lead to a material increase in revenue. Collections and Returns had been identified during the separation negotiations with Royal Mail as a significant opportunity which remained to be exploited. In particular the Board asked the Business to work with Royal Mail to strengthen the promotional material; develop the links into retailers' websites; and improve the return labels sent to customers to ensure that the Post Office option is more visible.
- (g) The Board noted
 - (i) the impact of market changes and recovery actions on 2013/14 net revenue; and
 - (ii) the progress being made in arriving at a revenue target for 2014/15 which maintains the integrity of the strategic plan.
- (h) Paul Brown left the meeting.

POLB 14/5

2014/15 BUDGET

ACTION: FS
Sub Committee

- (a) The Board received an update on the preparation of the 2014/15 budget.
- (b) The CFO emphasised that the budget numbers aligned with the Strategic Plan and gave the right growth trajectory for the future with the exception of Government Services.
- (c) The Board asked the CFO to consider ways to retain the contingency at £15 million and hold the EBIT number to that in the Strategic plan.
- (d) The CFO stressed that the budget already included £34m of cost reductions but that the required new investment made it difficult to find the additional contingency he would like. The Board asked the Business to consider more radical cost reduction options and the discipline of ensuring that any additional costs were always offset by additional savings. The CEO agreed that the Business needed to look again for a single quick solution which would deliver a cost contingency.
- (e) The income numbers in the budget were discussed and the Business was asked to accelerate work on Financial Services and set higher targets for this area. The Financial Services Board Sub Committee agreed to explore this further at their next meeting. A challenge was also raised to test if there was further opportunity in the Mails area.

Post Office Limited – Strictly Confidential

The CFO stressed the importance of the Business delivering income growth to achieve the budget and EBITDAS.

ACTION: CFO

- (f) The Board discussed the Crown P&L and the breakeven target for March 2015. It was noted that the budget would probably result in a full year Crown loss but that the exit run-rate should be at break even. This will be clear in the final budget presentation used for both the Board and BIS to ensure that there is common understanding of the position and the precise definition of 'break even'.
- (g) The Chairman emphasised the political importance of delivering the agreed plan next year as this would give confidence to any new government that the Post Office could be trusted to deliver its strategy and funding agreement.

ACTION: CFO

- (h) The Board discussed the risks highlighted in the paper and asked the CFO to cover the mitigation for each risk in the Budget book.

ACTION: CFO

- (i) The Board:-
 - (i) Noted that the budget aligned to the Strategic Plan;
 - (ii) Agreed that the CFO would produce and circulate, in approximately 4 weeks, a Budget Book taking into account the discussions at the Board;

ACTION: CoSec

- (iii) A conference call would be offered to those Board members who wished to discuss the Budget Book further; and
- (iv) Noted that Final Board budget approval will be sought in March 2014.

- (j) Martin George and Sarah Hall left the meeting.

POLB 14/6**FINANCIAL PERFORMANCE UPDATE****ACTION: CFO**

- (a) The Board received a financial performance update for December 2013. They appreciated the new cost management update and asked for this to continue with a forward looking narrative as well as the retrospective overview from the CFO.
- (b) The CFO explained the effect of the Industrial Action on the Business Scorecard and annual bonuses.

POLB 14/7**CHIEF EXECUTIVE'S REPORT**

- (a) The Board noted the Chief Executive's report and discussed the following specific items:

**ACTION: Kevin
Gilliland/ Chris
Aujard**

- (c) The CEO and Chairman were asked to consider whether Board members who had not visited India should visit.

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ACTION: CEO

- (d) The CEO was asked to circulate an update on the position on paying rates for ATMs

**ACTION:
Martin George**

- (e) The Board discussed the digital and multi-channel programme and agreed that it should be considered as part of the Business Transformation. The CEO suggested that the new Head of Digital present at a future Board meeting.

**ACTION:
Chris Aujard**

- (f) The CEO explained that Sparrow was taking longer than we had originally expected but that cases should start to go into mediation in March. The Chairman hoped for a clearer picture by the summer but was reassured that Sir Anthony Hooper's governance of the process would give the Business the best hope for closure. The Board asked if the Terms of Reference agreed with 2nd Sight precluded them from working with claimants against the Post Office.

**ACTION: Alasdair
Marnoch/ CoSec**

- (g) The Board agreed that the February ARC would consider an update on Sparrow including lessons learned along with the Prosecuting Authority paper. Papers for this ARC would be circulated to the full Board, and an update on Project Sparrow would then be presented at the full Board in February.

POLB 14/8**SUBPOSTMASTER ENGAGEMENT METRICS****ACTION:
Fay Healey**

- (a) Fay Healey Chief HR Officer, Mark Davies, Communications Director, and Kevin Gilliland, Network Director, joined the meeting.
- (b) Fay Healey updated the Board on the subpostmaster engagement measure, the survey results and the work already underway to improve the engagement.
- (c) Mark Davies updated the Board on the segmented approach to communications to ensure subpostmasters get relevant information for their branches. He acknowledged that the most challenging aspect was how to organise face to face communications with such a geographically spread network, but it was still his aim to reach as many people as possible through sales events and workshops.
- (d) The Board asked the Business to try to benchmark the response rate with other organisation's surveys and to consider setting a target for responses rate.
- (e) The Board were concerned that the survey showed that subpostmasters were reticent to recommend products and asked if we could do more internal product promotions. Fay Healey explained that she was already working with Nick Kennett, Financial Services Director, and Martin George, Commercial Director, to strengthen the colleague offers.
- (f) The Board
- (i) Thanked the business for the work to date;
 - (ii) Noted the survey results and the work underway to increase subpostmaster engagement; and
 - (iii) Agreed the metric of subpostmaster engagement as a suitable

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measure for inclusion in the scorecard for 2014/15.

- (g) Fay Healey and Mark Davies left the meeting.

POLB 14/9

(a)

(b)

(c)

Irrelevant

(d)

(e)

(f)

(g)

ACTION:
Kevin Gilliland

POLB 14/10

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meetings held on 27 November and 4 December 2013 were approved for signature by the Chairman.

POLB 14/11

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board

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meetings, was noted.

POLB 14/12

ITEMS FOR NOTING

ACTION:
Nick Kennett

- (a) The Board noted the planned activities to develop the retail offer, together with the plans to review the way in which retail was currently managed by POL.
- (b) The Board noted the update on the National Savings & Investments contract which was due to expire in March 2015. The Board asked the Business to ensure it has considered the impact on customers' perception before making the final decision to serve notice on NS&I.
- (c) The Board noted the update on UK Cyber Security industry initiatives, the activities of the Information Security and Assurance Group, and the risk reduction activities being implemented at Post Office in Cyber Security.
- (d) The Board noted the Significant Litigation report.
- (e) The Board noted the Health & Safety report.
- (f) 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 1097 to 1117 inclusive in the seal register was hereby confirmed.

POLB 14/13

ACTION: CEO/
Tim Franklin

ACTION:
Virginia Holmes

(a)

(b)

(c)

Irrelevant

POLB14/14

NEXT MEETING

- (a) It was noted that the next Board meeting would be held on 26 February 2014.

GRO

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POST OFFICE LIMITED 21 JANUARY 2014 BOARD ACTION LOG

<u>REFERENCE</u>	<u>ACTION</u>	<u>BY WHOM</u>
	<u>Network Transformation</u>	
January 2014 POLB 14/2(d)	Further discussion on NT targets to come to the February Board.	CFO
	<u>NFSP & Trade Association</u>	
January 2014 POLB 14/8(d)	The Business to try and benchmark the response rate to the subpostmaster engagement survey with other organisation's surveys and to consider setting a target for responses rate.	Fay Healey
	<u>Strategy</u>	
January 2014 POLB 14/2(e)	Key strategic commitments to be used by the Company Secretary to drive the agenda and papers for future Board meetings.	CoSec
January 2014 POLB 14/3(a)	Appoint an experienced interim to drive transformation from within the Business, to be supported by Tim Franklin and Alasdair Marnoch to find the right individual.	CEO
January 2014 POLB 14/3(b)	Clarify Business Transformation Objectives, including the impact of public procurement, for discussion at the next Board meeting.	CFO/Sue Barton
January 2014 POLB 14/4(a)	The Business to analyse its products by contribution and to recommend to the Board a list of products which would be deprioritised for the next 18 months, so providing opportunities to reduced costs and focus on the areas of greatest return.	CFO
January 2014 POLB 14/4(f)	The Business to focus on the Collections and Returns market with pace and vigour.	Paul Brown

Post Office Limited – Strictly Confidential

January 2014 POLB 14/7(d)	Circulate an update on the position on paying rates for ATMs.	CEO
January 2014 POLB 14/7(e)	The digital and multi-channel programme to be considered as part of the Business Transformation. The CEO suggested that the new Head of Digital present at a future Board meeting.	Martin George
January 2014 POLB 14/12(b)	The Business to ensure it has considered the impact on customers' perception before making the final decision to serve notice on NS&I.	Nick Kennett
January 2014 POLB 14/13(a)	Agree the agenda for the inaugural Post Office Advisory Council meeting.	CEO/Tim Franklin
January 2014 POLB 14/13(b)	FS Sub Committee to consider whether Gordon Gourlay, MD FRES should be invited to attend.	Virginia Holmes
	<u>Project Sparrow & Prosecuting Authority</u>	
January 2014 POLB 14/7(f)	Clarification on whether the Terms of Reference agreed with 2 nd Sight precluded them from working with claimants against the Post Office.	Chris Aujard
January 2014 POLB 14/7(g)	February ARC to consider an update on Sparrow including lessons learned along with the Prosecuting Authority paper. Papers for this ARC to be circulated to the full Board, and an update on Project Sparrow to be presented at the full Board in February.	Alasdair Marnoch/CoSec
	<u>Finance</u>	
January 2014 POLB 14/5(e)	The Business was asked to accelerate work on Financial Services and set higher targets for this area.	FS Committee
January 2014 POLB 14/5(f)	Ensure that there is common understanding of the position and the precise definition of 'break even' between the Business and BIS via the final budget presentation.	CFO

Post Office Limited – Strictly Confidential

January 2014 POLB 14/5(h)	The mitigation for each risk contained in the Budget paper to be included in the Budget Book.	CFO
January 2014 POLB 14/5(i)(ii)	Produce and circulate a Budget Book in approximately 4 weeks that took into account discussions that had taken place at the Board.	CFO
January 2014 POLB 14/5(i)(iii)	A conference call to be offered to Board members who wished to discuss the Board Book further.	CoSec
January 2014 POLB 14/6(a)	The cost management update to continue as part of the financial performance update, with a forward looking narrative as well the retrospective overview.	CFO