

Post Office Limited – Strictly Confidential

POLB 14(7th)
POLB 14/87-14/102

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

Minutes of a Board meeting held on 16 July 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
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Sir Charlie Mayfield	Chairman & CEO John Lewis Partnership (minutes 14/87-88)
David Ryan	Business Transformation Director (minute 14/89)
Chris Aujard	General Counsel (minute 14/90)
Martin George	Chief Marketing and Commercial Officer (minute 14/90)
Kevin Gilliland	Network & Sales Director (minute 14/90)
Neil Hayward	Group People Director (minute 14/90)
Nick Kennett	Director, Financial Services (minutes 14/90-91)

POLB 14/87

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Sir Charlie Mayfield, Chairman and CEO John Lewis Partnership.

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SIR CHARLIE MAYFIELD

- (a) Sir Charlie Mayfield explained the governance structure within John Lewis Partnership and its effect on decision making and people engagement.
- (b) The Board thanked Sir Charlie Mayfield for an excellent session.
- (c) Sir Charlie Mayfield left the meeting.

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STRATEGIC AWAY DAY FOLLOW UP ON OPERATING MODEL AND STRATEGIC COST REDUCTION

- (a) The Board welcomed David Ryan, Business Transformation Director, to the meeting.

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ACTION:
David Ryan

- (b) The CEO reported that since the Board Away Day the Business had taken the SLT population through a similar market analysis and review of the mails strategy. The SLT now understood how the market was changing and the challenges which the Business faced. The CEO was pleased with their feedback and recognition that the Business had less than a year to respond to this challenge with agility and pace. The next stage of this cascade into the Business would take place on the 24th July when 2500 colleagues would hear the same message face to face around the country, with the CEO key note speech transmitted from London.
- (c) The CEO shared the 10 accelerators which the Business had produced to cascade the strategy. She explained that the actions to support the accelerators had been finalised and targets with timelines would be agreed by the end of July. The Board would be updated on the progress being made on: channel extension; mails; Business Transformation and People at the September meeting. The Board recommended that the Business focus on 4 or 5 areas and make the actions specific with commercial measures.
- (d) The CEO promised, as part of her report, to review performance and actions against the accelerators at each Board meeting starting in September.
- (e) David Ryan explained the actions being taken to deliver the cost reduction target, the enterprise wide business and operating model (TOM) and the 2014/15 incremental cost saving initiatives.
- (f) David Ryan reported that the in-year cost reduction challenge, which had increased from £46m to £53m, was being managed by identifying specific initiatives with an ExCo member who was accountable. Weekly tracking and trend information would be available by the beginning of August. It was recognised that the Business needed to protect the costs which deliver revenue and accelerate these where possible.
- (g) David Ryan recognised the need to increase the cost reduction target to help mitigate the likely shortfall in 2014/15 revenue and to that end was planning to deliver a stretch target of £100m, within the next 12 to 18 months. The CFO and Board supported this approach and emphasised the need to maintain and hit the EBITDAS target and to ensure that the savings are sustainable.
- (h) The Board discussed the work underway in the design phase for the enterprise wide business and operating model, and debated the key questions being considered by the Business. David Ryan explained that the emerging model had three layers:
- a light corporate centre;
 - a middle core of operating companies; and
 - an utility provider for HR, Finance Customer contact etc.

Once the model was established it would be clearer which work could be outsourced or done with a partner.

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ACTION:
David Ryan

- (i) David Ryan assured the Board that nothing had emerged in the work to date which should be put on hold whilst the TOM is finalised.
- (j) The Board had some questions about the emerging model and the creation of separate operating companies and asked the Business to ensure it considered the opportunities and risks of such a model, including the risk that the interdependencies between the different businesses might receive too little focus. The Board discussed the Public Purpose and how it could relate to the different operating companies and it was suggested that the POAC could be used to input into this debate.
- (k) The Board questioned whether the Business had the specific capability to deliver the design. David Ryan explained that the Business recognised the need to build its capability and to change the organisation to deliver the change. PwC were commissioned to help with this diagnosis and the change capability would be enhanced before October.
- (l) The Board recognised the significant challenge to deliver the Business Transformation alongside the 2014/15 scorecard targets. David Ryan was asked to give the Board early warning if he saw evidence that driving the transformation was putting the performance delivery at risk.
- (m) The CEO explained David Ryan had two separate teams running in parallel to drive in year savings and drive business transformation.
- (n) The Board thanked David Ryan for the work to date and asked for an update on the Business Transformation work at the September Board. An early draft of this update should be shared with Board members in with the offer of individual or group sessions to discuss the detail before the Board.
- (o) David Ryan left the meeting.
- (p) The CEO explained that David Ryan's contract ended in November and that the Business was considering the right approach for the delivery phase of the programme. The Board supported the Business if it decided to extend his contact for an additional six months, recognising that he was an expensive resource.

ACTION:
David Ryan/
Company
Secretary

POLB 14/90

KELLY REPORT DISCUSSION

- (a) The Board welcomed Chris Aujard, General Counsel, Martin George, Chief Marketing and Commercial Officer, Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, and Nick Kennett, Director, Financial Services, to the meeting.
- (b) The CEO introduced the discussion by explaining the process that the Business had undertaken to consider the lessons learned in the Kelly report with particular focus on risk management, culture and governance. It was noted by the CEO that a great deal of work had been undertaken over the past year to put in place appropriate systems and structures for managing risk. The CEO highlighted aspects of this work but recognised that further work was required,

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especially in developing a risk appetite statement.

- (c) The meeting considered the outcome of the ExCo discussion and agreed that the areas highlighted were the right ones on which to focus.
- (d) Neil Hayward, Group People Director, described his view of the culture within the Business and its effect on how risk is managed. He believed that, compared with other organisations, the Business: did not lack realism; was beginning to focus on the right risks as viewed through the Transformation Committee; was encouraging bad news to be brought forward (again at the same forum); but did not always close risks down effectively and did have some skills gaps.
- (e) It was recognised that in some areas of the Business there was a significant focus on delivery risk but that this is not consistent. There was agreement that the risk appetite should vary depending on the issue being considered.

(f)

ACTION:
General Counsel/
Neil Hayward/
Company
Secretary

- (g) The Board was concerned that there seemed to be number of other areas where further quick progress needed to be made. After some discussion, it was agreed that it would be helpful for the Business to consider its top 3 or 4 risk and assurance priorities categorised by reference to the lessons learned from the Kelly Report and the headings Culture, Capability and Governance. These would be presented back to the Board in September. It was anticipated that risk appetite would feature amongst this priority list, as would training and formal clarity over delegated authorities and decision making.

ACTION:
General Counsel

ACTION:
General counsel

- (h) The ARC was also asked to review of the Risk Management process.
- (i) Chris Aujard, Martin George, Kevin Gilliland and Neil Hayward left the meeting.

POLB 14/91

(a)

(b)

Irrelevant

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(c)

(d)

(e)

(f)

(g)

(h)

(i)

Irrelevant

ACTION:
Nick Kennett

POLB 14/92

FINANCIAL PERFORMANCE UPDATE

- (a) The Board received the quarterly report from the CFO. He explained that the full year revenue forecast was now more pessimistic than budget with a £15m gap emerging. He still remained confident of hitting the EBITDAS target but believed the Business needed to deliver more cost savings in order to make this achievable.
- (b) The Board discussed the Mails forecast and whether enough was being done to accelerate the new initiatives. The CEO recognised the need to move quickly and explained that there were three areas of focus.
 - 1. The new sales initiatives discussed at the Board away day.
 - 2. The effect of pricing which Royal Mail now recognised as an issue and one over which they were willing to approach the regulator, albeit in the autumn. In the meantime the Post Office would extend the customer discount until September.
 - 3. The structural changes in the market and the need to respond through product simplification and network extension
- (c) The Government Services income shortfall was mainly due to POca. The CFO explained that negotiations were still underway to try and resolve the position and that following a meeting with the Pensions Minister (Steve Webb) and further meetings with HM Treasury, the business believe DWP has accepted this offer (including the £10m for ring-fenced customers). However, late in the day, HM Treasury have decided they would like to take a portion of the POca overnight balances (50% or c£1bn) into the Government Banking Service. This

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has delayed formal acceptance of the business' offer and a subsequent announcement by the Minister. The Business has a way forward but DWP and HM Treasury need to agree how the additional risk and any subsequent increase in price following the new HM Treasury approach is budgeted within Government.

ACTION:
Martin George

- (d) The CFO explained that the Telephony gap was driven by lower customer numbers and higher broadband usage, which was proving to be an issue in the new contract. The Board asked for a note explaining the lessons learned, which the CEO said would be available after the Risk & Compliance Committee had considered the issue.

ACTION:
CFO/
Company
Secretary

- (e) The Board supported the Business' approach to a prudent revenue forecast but were disappointed that a £15m risk had emerged so early in the year. The Board asked the Business to continue to aim for £925m revenue but to increase its cost reduction target to mitigate the £15m revenue gap and to provide a full update at the September Board, inviting Martin George, Nick Kennett and Kevin Gilliland into the Board for the debate.

ACTION:
Nick Kennett

- (f) The CFO presented the Crown P&L and explained the effect of the reduced revenue on the Crowns. The Board discussed the importance of hitting the breakeven target and the initiatives in place to deliver this target. The Board recognised the importance of FS growth to this channel and asked for a note to update them on the FS incentive scheme.

ACTION: CFO

- (g) The Business was asked to look at the accuracy of the cash flow forecasting.
- (h) The Board were disappointed by the scorecard results at the end of quarter 1 and encouraged the Business to focus on the few things which will have the greatest impact in getting performance back on target.

POLB 14/93

CHIEF EXECUTIVE REPORT

ACTION:
Richard Callard

- (a) Tim Franklin, Chairman of POAC reported on a very successful meeting on the 1st July. Richard Callard agreed to discuss with Jo Swinson her attendance at a future meeting.

(b)

Irrelevant

- (c) Sparrow was progressing with two cases now through mediation, one of which had been resolved but the other where no agreement was reached. The Business was taking opportunities to make things clear to the working group, the first being that no consequential loss would

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be paid.

POLB 14/94

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meetings held on 21 May and 10 June 2014 were approved for signature by the Chairman.

POLB 14/95

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Board Away Day held on 11 June 2014;
 - the Annual Report and Financial Statements Sub-Committee held on 18 June 2014;
 - the Audit, Risk and Compliance Committee meeting held on 15 May 2014;
 - the Financial Services Sub-Committee meetings held on 2 April and 10 June 2014;
 - the Sparrow Sub-Committee meetings held on 30 April and 6 June 2014; and
 - the Remuneration Committee meeting held on 13 May 2014;

POLB 14/96

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

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(a)

ACTION:
Martin George

(b)

Irrelevant

POLB 14/98

(a)

POLB 14/99

PROPOSED BOARD DATES FOR 2015

ACTION:
Company
Secretary

- (a) The Board asked for the proposed Board dates for 2015, to be circulated along with the forward agenda items, and they would then confirm their availability to the Company Secretary.

POLB 14/100

ITEMS FOR NOTING

ACTION:
Lesley Sewell

- (a) The Board noted the Significant Litigation report.
- (b) The Board noted the update on Cyber Security and Information Assurance paper and asked for more granularity on issues and risks.

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- (c) The Board noted the Health & Safety report.
- (d) 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 1168 to 1191 inclusive in the seal register was hereby confirmed.
- (e) The Board noted the current status of colleague offers.
- (f) The Board noted the current status of the End User Compute procurement as part of the new Towers based IT supply chain.
- (g) The Board noted the Internal Audit Action Status report and asked for future reports to include a commentary on any outstanding actions.

ACTION:
Malcolm Zack

POLB 14/101

ANY OTHER BUSINESS

- (a)

Irrelevant
- (b) The Board congratulated the CFO and Business on the publication of the Report & Accounts.

ACTION: Company Secretary

- (c) The Company Secretary was asked to arrange a cyber-security guest speaker to attend a future Board meeting.

ACTION:
Martin George

- (d) It was agreed that the October Board meeting would be held at the Post Office Design Lab at the Southbank University.

POLB 14/102

DATES OF NEXT MEETINGS

- (a) It was noted that the next Board meeting would be held on 25 September 2014.

GRO