

Post Office Limited – Strictly Confidential

**POLB 14(8<sup>th</sup>)**  
**POLB 14/103-14/117**

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

Minutes of a Board meeting held on 25 September 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 (minutes 14/103 – 14/105)
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
Nick Kennett	Director, Financial Services (minute 14/105)
Sameer Gulati	Partner, McKinsey & Co (minute 14/105)
Zubin Taraporevala	Partner, McKinsey & Co (minute 14/105)
Martin George	Chief Marketing and Commercial Officer (minute 14/106)
Kevin Gilliland	Network & Sales Director (minute 14/106)
Kim Lindsey	Product Manager (minutes 14/106)
David Ryan	Business Transformation Director (minute 14/107)
Neil Hayward	Group People Director (minute 14/107)
Chris Aujard	General Counsel (minute 14/109)
Belinda Crowe	Programme Director, Project Sparrow (minute 14/109)

**POLB 14/103**

**INTRODUCTION**

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

**POLB 14/104**

**CEO'S REPORT**

- (a) The CEO introduced her report by recognising the number of complex and immediate challenges facing the Business. She focused on three areas for comment:
1. The Business remained committed to delivering the in-year profit target and recognised the importance of cost reduction to mitigate the reduction in income.
  2. Transformation in our heavily unionised business would inevitably cause disruption and the CEO emphasised the risks that the Business would have to manage.
  3. Improving the partnership with Royal Mail Group (RMG) and

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aligning the both Businesses' visions and strategies was vital and urgent.

**ACTION:**  
**CEO**

(b) The CEO explained that the new style report was not intended to be a risk management report and that she would provide her view on risk management at the October Board.

**ACTION:**  
**David Ryan/  
Neil Hayward**

(c) The Board welcomed the new style Chief Executive's report and discussed the challenges faced by the Business taking into consideration the IR, political, stakeholder environment and the profound changes taking place in the external market place. The CEO explained that Board would receive the full Business Transformation proposal at the November meeting, which would include the stakeholder and IR plan. However, before November there could be unrest from the CWU and NFSP as the Business progresses its plans for Supply Chain and Network Extension.

**POLB 14/105**

(a)

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(d)

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(f)

**ACTION:**  
**Nick Kennett**

**ACTION:**  
**Nick Kennett**

# Irrelevant

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(g)

**ACTION:**  
Nick Kennett

(h)

(i)

**ACTION:**  
Nick Kennett

(j)

# Irrelevant

(k)

(l)

**POLB 14/106**

(a)

(b)

(c)

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**ACTION:**  
Martin George

**ACTION:**  
Martin George

**ACTION:**  
Kevin Gilliland

**ACTION:**  
CFO

**ACTION:**  
Richard Callard/  
Martin George

(d)

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# Irrelevant



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POLB 14/107

**BUSINESS TRANSFORMATION UPDATE****ACTION:  
CFO****ACTION:  
CFO**

- (a) The Board welcomed David Ryan, Business Transformation Director, and Neil Hayward, Group People Director to the meeting.
- (b) David Ryan presented an update on the key findings from Stage II of the Business Transformation design phase; next steps to conclude the design phase; and progress with the delivery of immediate cost savings for 2014/15.
- (c) The Board discussed the near and mid-term savings projected to be £100m by the end of 2015/16. David Ryan explained that there was still a gap of £10.2m to find in the £60m savings for 14/15, but that he expected the Business to reach this target. The CFO stressed the importance of finding at least £53m recurring savings as part of this target. The Board agreed this priority and asked for a regular update. The CFO confirmed this would now appear in his regular Performance Report.
- (d) David Ryan explained the key findings of the work to define the new Target Operating Model (TOM) and the route to delivering the £200m improvement to EBITDAS. He explained the effect of delivering the new TOM, with projected figures of circa £233m EBITDAS by 2020.
- (e) David Ryan clarified that the plan ring-fenced the funding for the social network provision which could in the future be developed into a commercial contract. The transformation would need to be delivered within the existing funding envelope. The Board agreed that the Business needed to be mindful of the funding envelope but asked that any significant opportunity that needed capital beyond the current limits be highlighted and discussed with the Board before being discounted.
- (f) The Board recognised the challenge and complexity in the transformation plan and the need to coordinate the stakeholder communications. The CEO stressed the need to understand the whole picture before approaching the unions as it was likely this level of savings would require the Business to move to compulsory redundancy, which it had not done before.
- (g) Neil Hayward explained that the Business managed any redundancy through the Managing the Surplus Framework (MTSF) union agreement. The Business had taken legal opinion from two sources both of which supported the interpretation that MTSF allows for compulsory redundancy after a 90 day consultation period. The unions hold a different view based on custom and practice operated previously (under RMG) so this move would be very unpopular and likely to trigger industrial action, starting in Supply Chain.
- (h) Neil Hayward reported that the leadership of the supply chain had been a concern and that the Business had tested the market for a replacement. Although the current incumbent had a good track record of operational delivery, especially in times of IR unrest, he needed more strategic support. Therefore, it had been decided to put Harry

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**ACTION:**  
Neil Hayward/  
Kevin Gilliland

Clarke in as the line management to oversee the supply chain. The CEO promised to provide an update on the Supply Chain IR contingency plans.

**ACTION:**  
Neil Hayward

- (i) Neil Hayward would return to the Board in October to discuss the broader IR challenge, the nature of the union agreements and possible changes to the relationship.
- (j) The Business would return to the Board in November with the 'high level' implementation plan, with a recommendation on what the focus for the next 18 months would be, in the context of the longer journey to end state. This plan would include the narrative for the compelling case for change to be used in stakeholder engagement. At that point, when it fully understood the proposals in the round, the Board would need to decide which aspects of them to pursue and which, if any, needed to be modified or dropped.
- (l) Neil Hayward and David Ryan left the meeting.

POLB 14/108

**FINANCIAL PERFORMANCE UPDATE**

- (a) The CFO presented a financial performance update for August 2014.
- (b) He explained that income continued to track below budget putting additional pressure on the delivery of the EBITDAS target.
- (c) The Board discussed the Mails initiatives which to date had not produced the returns that had been hoped. The CFO recognised that if the Mails income trend continued to decline there was a possibility that the outturn would be lower than the 2013/14 number of £343m. It was currently projected to be in the £350- £354m range. The Business was investing in sales training for the largest 4000 agency branches which could deliver an additional £6m income, this additional £6m income was included in the CFO report but depended on the effective rollout of the initiative. Actions to boost income from Collections and Returns by £7.2m were also in train. The CEO stressed that both initiatives were not without a major delivery risk.
- (d) Financial Services was tracking ahead of budget and although the targets get more stretching in the second half of the year, the CFO thought they were achievable. However scope to stretch the targets further to compensate for underperformance elsewhere was limited.
- (e) The CFO reported that the Business had been joined by a new senior telecom professional. Despite a disappointing Q1 marketing campaign and 30k fewer customers than anticipated, he was more optimistic about delivering a turnaround in the economics of the Telephony in the second half of the year.
- (f) The Government Services performance was also disappointing, with the impact of POca issues, together with lower than anticipated volumes on passports, likely to lead to a full year forecast reduction of circa 8-9% compared with last year.

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- (g) The CFO acknowledged that there was now no contingency in the £900m income forecast and stated that the underlying trend suggested a likely P6 half year projection closer to £890m. He explained the risk in the second half of the year if the income trend continued but did at the moment feel that with the additional cost savings planned that the Business could still deliver £95m EBITDAS.
- (h) The CFO reported that he was now less confident about hitting the Crown breakeven run rate by the end of the financial year. He explained that the adverse income variance had had a significant impact on the Crown P&L and despite additional staff cost savings the target was become very challenging. He told the Board that the Network team were still determined to deliver the target but that he personally thought it would be 6 to 9 months late. The CFO promised to revisit the Crown P&L and provide a narrative to the Board to show how much has been achieved even if the target is narrowly missed

**ACTION:**  
**CFO/**  
**Kevin Gilliland**

- (i) The Board stated the challenging trading conditions, especially in mails, compounded by the dependency on RMG to support any product changes. Nonetheless they were disappointed that the Business was failing so many of its financial targets and asked the CFO to provide a detailed forecast at the half year which would be used to support the challenging messages in the interim report and accounts. The Board acknowledged the importance of hitting at least 2 of the 4 key financial/operational measures.

**ACTION:**  
**CFO**

**POLB 14/109**

**SPARROW UPDATE**

- (a) Chris Aujard, General Counsel (the GC), and Belinda Crowe, Programme Director, Project Sparrow, joined the meeting.
- (b) The GC and Belinda Crowe presented an update on progress under the Initial Complaints Review and Mediation Scheme (the 'Scheme').
- (c) The GC reported negotiations with Second Sight to move them onto a much reduced payment arrangement based on a piece rate tied to productivity and quality.
- (d) The Board was encouraged by the recent progress and the fact that all the Post Office investigations should be finished by December. The Board members understood that the next few weeks could be controversial as the Business was about to refuse to put cases involving criminal convictions into mediation.

**ACTION: Belinda**  
**Crowe/General**  
**Counsel/Richard**  
**Callard**

- (e) The Board asked the Business to work with ShEx to update the Minister on the Post Office position regarding the investigations, the Scheme and Second Sight.
- (f) The Board noted the update on the Scheme.
- (g) The General Counsel and Belinda Crowe left the meeting.

**POLB 14/110**

(a)

**Irrelevant**



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(b)

(c)

# Irrelevant

**POLB 14/111**

## **MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING**

- (a) The minutes of the Board meetings held on 16 July 2014 were approved for signature by the Chairman.
- (b) There were no matters arising

**POLB 14/112**

## **COMMITTEE MEETING MINUTES FOR NOTING**

- (a) The Board noted the minutes of:
  - the Financial Services Sub-Committee meeting held on 15 July 2014; and
  - the Pensions Sub-Committee meetings held on 25 June 2014 and 22 July 2014.

**POLB 14/113**

## **STATUS REPORT**

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

**POLB 14/114**

## **ITEMS FOR NOTING**

**ACTION:**  
**Martin George**

- (a) The Board noted the update on Digital and asked for clarification on the impact of the Common Digital Platform on the Horizon system and any possible cost savings.

**ACTIONS:**  
**Martin George**  
**Nick Kennett**

- (b) The Board noted the update on SME and asked the Business to ensure that customer satisfaction was included as part of the proposition which will come back to the Board. It was also suggested that changes in the pensions environment may offer an SME opportunity for FS.
- (c) The Board noted the Internal Audit Action Status report.
- (d) The Board noted the Significant Litigation report.

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- (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 1192 to 1222 inclusive in the seal register was hereby confirmed.

POLB 14/115

(a)

(b)

(c)

**Irrelevant**

POLB 14/116

**AUTHENTICATION OF THE COMPANY SEAL**

- (a) After due consideration, the Board approved that the affixing of the Company seal could be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Deputy Company Secretary; the General Counsel; and Piero D'Agostino.

POLB 14/117

**DATES OF NEXT MEETINGS**

- (a) It was noted that the next Board meeting would be held on 29 October 2014.

**GRO**