

Post Office Limited – Strictly Confidential

POLB 14(10th)
POLB 14/127 -14/141

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

Minutes of a Board meeting held on 29 October 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
Mark Davies	Communications & Corporate Affairs Director (minutes POLB 14/128 - 129)
Neil Hayward	Group People Director (minutes POLB 14/128 - 129)
David Ryan	Business Transformation Director (minute POLB 14/128)
Nick Kennett	Director, Financial Services (minute POLB 14/133)
Paul Havenhand	General Manager POMS (minute POLB 14/133)
Kevin Gilliland	Network & Sales Director (minute POLB 14/134)
Lesley Sewell	Chief Information Officer (minute POLB 14/139)

POLB 14/127**INTRODUCTION**

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

POLB 14/128**CEO'S REPORT**

- (a) The CEO introduced her report and thanked the Board for convening for the additional Board call on the 21st October. The CEO focused on three key areas for discussion with the Board:

1. There was agreement that the Royal Mail Group (RMG) meeting taking place on the 30th October was vital and an opportunity to debate the changes in the market and each business's priorities. The Board recognised the changes required by Post Office would require a radical restructure for RMG, and asked the Business to ensure that if RMG was committed to these changes they understood the aggressive timeline that was required. The Board asked for an update after the RMG meeting.
2. The CEO emphasised that, whilst the Business remained committed to the existing plan, work was underway on an

**ACTION:
CEO**

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alternative plan (Plan B) which would include operating as an aggregator for other mails providers. It was acknowledged that this would need a renegotiation of the RMG MDA and that whilst the Business did not start from a strong negotiating position it needed to; protect sales volumes from RMG and not trigger a renegotiation from them; and reduce the complexity of the RMG product suits which would not switch easily to another provider. Plan B was also dependent on changes to the Network which would require Government support. The Board asked if the Business had the right resource working on Plan B. The CEO reported that she had approached Sue Barton, Strategy Director, currently on a sabbatical, but that she was unavailable until the New Year and that Martin Edwards was currently leading this work. Plan B was on the agenda for discussion at the November Board meeting.

ACTION:
Nick Kennett

3. The Board noted the improvement in the FS video mystery shopping to 80% compliance, and asked the FS sub committee to continue to monitor. The Board asked for an update on the mortgage sales and pipeline to give them comfort that the full year forecast was robust. The CEO explained that from next month Financial Services would be monitored as a key change programme in section 3 of her report.

ACTION:
Chris Aujard

- (b) The CEO updated the Board on Sparrow and an antagonistic conversation with James Arbuthnot MP about the Business' approach to the Mediation Scheme. She reiterated that the investigations were progressing well. The Business was refusing to progress all cases into mediation, although it was offering to meet and go through each case with the applicant. The Chairman offered to reconvene the Sparrow Board Sub Committee if required.

POLB 14/129

CEO RISK REPORT

- (a) The Board welcomed Neil Hayward, Group People Director, Mark Davies, Communications & Corporate Affairs Director and David Ryan, Business Transformation Director, to the meeting.
- (b) The CEO introduced the risk paper and explained that the Business intended to have the necessary systems in place before the end of the financial year to enable it to comply with the UK Corporate Governance Code as it applies to risk management and report this in next year's Report & Accounts.
- (c) The CEO explained that her report focussed on the areas highlighted in Sir Christopher Kelly's report on the Co-operative Bank, using his themes of Culture; Governance; Risk Management; and Capability. She believed that Capability was the biggest area of risk for the Business followed by the Culture of the organisation. In many areas these two themes were linked for example in risk management where the Business was increasing its capability at a senior level to lead the change in attitude and culture.
- (d) The CEO reported that the recent PwC work to analyse the Business'

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ACTION:
Chris Aujard

risk management had concluded that the Business capability was 'satisfactory' in steady state but 'inadequate' as the Business moved into transformation. The Board asked for a summary of the report to be circulated with the full report sent to those Board members who were interviewed.

- (e) The CEO recognised that, as the Business accelerated the transformation and moved from design to implementation that the structure of the transformation team would need to change. She explained that the transformation office led by Alison Thompson would move to work for David Ryan, who would then lead the whole transformation agenda.
- (f) The CEO assured the Board that the Business would only use consultants when absolutely necessary and that the CFO monitored this area. However, she recognised that especially in risk and change there was an urgency to get these areas in the position to be capable to deal with the transformation and this would need external resource.
- (g) The CEO explained that enterprise risk, including the top 6+3 Business risks, would return to the January Board for discussion.
- (h) The Board asked for updated forward agendas for Board and Sub Committee meetings
- (i) The Board noted the Risk Report.
- (j) David Ryan left the meeting.

ACTION:
Company
Secretary

POLB 14/130

PEOPLE AND ENGAGEMENT UPDATE

- (a) Neil Hayward, Group People Director, introduced the update on the People and Engagement strategy, including the Plan for the next 12 – 18 months, changing the way that the Business works with the unions and the NFSP and stakeholder analysis and critical path.
- (b) The Board recognised the challenge of people engagement during a period of significant transformation and cost reduction. Neil Hayward accepted that this would be challenging but reassured the Board that he had past experience of similar circumstances. He emphasised the need for a compelling narrative to help people understand why the changes were best for the organisation. Mark Davies explained that the tone of internal communications had already changed and people appreciated the honesty.
- (c) Neil Hayward recognised that people needed to understand what the Business would be in 2020. He acknowledged that, as yet, the Business had not explained what a transformed and commercially sustainable Post Office would be like. He recognised that people would find the changes painful and agreed that the Business had to remain honest and consistent in its communication and paint a compelling picture of the future.
- (d) The Board asked Neil Hayward if he was constrained by the resource in his team and which areas he would like to accelerate work on. He

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explained that he kept the resource in the Industrial Relations Team under review, but acknowledged that his two areas of concern were refreshing the Senior Leadership Team which took a lot of his and Fay Healey's personal time and senior leadership development.

ACTION:
Neil Hayward

- (e) The Board asked for an update at the end of the Financial Year to review the roadmap for the next 12-18 months and the senior leadership training and development.

- (f) Neil Hayward explained that Wave 1 of the new organisational design would be presented to the Nominations Committee on the 10th November. He reported that the Business has also recognised that retention may become an issue for specialist areas and that his team was considering a very small number of people who may require retention payments.

ACTION:
Chris Aujard

- (g) The CEO emphasised the need to focus more on subpostmasters but stressed the need to keep them as agents and not employees. The Board were concerned that these definitions should not be blurred. The CEO agreed and promised a note to the Board from the General Counsel (GC) to give them comfort.

- (h) The Board discussed and supported the proposed changes to collective bargaining and was reassured by the Business' plans. Neil Hayward stressed the need to get down to the right level of representation for the Business with a formula that reduces in line with headcount.

- (i) The Board considered the detail of possible simultaneous CWU and NFSP disputes and the likely reaction of stakeholders. Mark Davies explained the worst case scenario and although he did not underestimate how difficult it would be, believed the Business had the capability to handle both the operational and media battles. The Board asked for assurance that the Business could manage the operational consequences of a strike. This issue would be raised with Kevin Gilliland, Network Director later in the meeting.

- (j) The CEO assured the Board that the plans were already in place for Christmas and that any NFSP dispute was likely to be after the Christmas period. Neil Hayward explained that the next contentious point of negotiation with the NFSP was likely to be the Memorandum of Understanding and grant agreement, the principles and price of which he was still discussing.

- (k) The Board asked Richard Callard for his opinion of the Minister's likely response to any disputes. He explained that the Minister had already been briefed regarding the CWU Supply Chain dispute and considered it an operational issue in which she should not get involved, although she was supportive of the Business and understood the possible need to use compulsory redundancy. He suggested that the relationship with the NFSP was more complicated. The Minister understood the need to manage Network Transformation within the current funding envelope, which would be impossible if additional compensation was paid to subpostmasters for network extension. He could not promise how the Minister would respond but

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promised the Shareholder team, ShEx and the Treasury support.

ACTION:
Mark Davies

- (l) The Board asked Richard Callard to ensure that any Ministerial briefing made clear the financial consequences of failure. The CEO explained that she had a meeting with the Minister in the next two weeks at which she would be able to explain the position.
- (m) The Board asked the Business to refresh the stakeholder plan, and produce a high level heat map/stakeholder grid to keep the Board updated. The Chairman recognised that the Board does not have a meeting in December but asked the CEO to keep the Board informed and if necessary call an emergency Board meeting
- (n) The Board noted the update on People and Engagement, and supported the proposals presented.
- (o) Neil Hayward and Mark Davies left the meeting.

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FINANCIAL PERFORMANCE UPDATE

- (a) The CFO presented a financial performance update for September 2014.
- (b) He explained that his report would cover the changes in forecast since period 5; the full year outlook including key dependencies and assumptions for H2 performance; a year on year comparison of H1 performance; and external messaging for the interim statements.
- (c) The CFO full year forecast for income had worsened from the £890m in period 5 flagged by the CFO at the last Board meeting, down to £880m, £45m behind budget and £13m up on the previous year. This was driven by two areas where the CFO had taken a more prudent approach to the forecast.
- (d) The Mails income had been reduced to include a more realistic return for the ebay and mails coaching initiatives, but still contained growth for the Christmas campaign which the Business supported.
- (e) In addition Government Services net income had been reduced by £10m to recognise the liability for deceased customers. The CFO explained that the Business continued to hope it can offset this liability with the income for 'ring-fenced' customers but this had not proved possible to date so it was necessary to recognise the liability at P6. The Board discussed the possible pricing true-up issues and supported the CFO's prudent approach in recognising the liability whilst not including any benefit for the undercharging for ring-fenced customers.
- (f) The CEO assured the Board that the inaccuracies caused by the DWP and Business systems had not led to any customer detriment.
- (g) It was noted that Government Services income was down 10% on last year at the half year and likely to be similar at full year.

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ACTION:
Chris Aujard/
Alasdair Marnoch

- (h) The Board were concerned about the effect of the new telephony contract. The CFO explained that a new plan was now in place which had taken down the expected customer numbers as well as the average revenue per user. He considered that there was still £3m risk in the telephony numbers despite a price rise in January which should improve the position by £2m. The telephony contract was due to come to the Risk & Compliance Committee and then the ARC for a deep dive in the New Year.

- (i) The CFO explained that significant challenge had gone into scrutinising the income numbers through a formal review process and that the Commercial and FS teams were signed up to delivering the new forecast.

- (j) The CFO reported the changes to the cost forecast and the current gap of £15m against the adjusted target of £60m required to protect the original EBITDAS. He still believed the Business would get near to the £60m target if one off savings such as releasing the bonus accrual were included. However, the forecast had been reduced to include the £45m he was certain the Business could deliver.

- (k) He stressed the importance of finding sustainable savings in the year and was hopeful the Business would get to near its adjusted target of £53m, which was required to underpin the £100m cumulative sustainable saving required by the end of 2015/16.

- (l) The CFO concluded that, taking into consideration the changes to income and costs, he had reduced his EBITDAS forecast to £85m, including a £5m contingency. He explained that the likely year on year improvement in EBITDAS (after allowing for material one off adjustments) was circa £20m, which would deliver a projected EBITDAS of circa minus £75m this year and a likely trajectory to breakeven in 2 to 3 years' time, rather than 1 year indicated in the 2013 funding request.

- (m) The Board was concerned by the status of the Business scorecard and asked specifically about the Easy to do business with (ETDBW) decline and whether this was a reflection on cost cutting. The CFO explained that very few front line jobs had been cut, but accepted that there seemed to be a disparity between ETDBW and the customer research undertaken after network transformation. The CEO explained that the two measures were very different and promised to return to the Board for a discussion on ETDBW.

ACTION:
Martin George

POLB 14/132

INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS FOR 2014-15

- (a) Mark Davies joined the meeting.
- (b) The Board reviewed the Company's draft interim report for the 2014-15 half year.
- (c) The Board agreed that the statement should explain the journey the Business was on and the turnaround taking place. It should show that the Business is doing the right things and has taken some pain in the

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first half of the year but that the rate of improvement is getting better. It needs to explain the cost story, including necessary investment, and why the Business needs to go harder and faster.

ACTION:
Mark Davies

- (d) Mark Davies agreed to provide a revised draft for the Chairman and CEO.
- (e) Mark Davies left the meeting

POLB 14/133

(a)

(b)

(c)

Irrelevant

ACTION:
Chris Aujard

(d)

(e)

(f)

(g)

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(h)

Irrelevant

(i)

ACTION:
Nick Kennett/
Chris Day

(j)

POLB 14/134

NETWORK UPDATE

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, to the meeting, and received an update on Network Transformation, performance of the new models and progress on Crown Transformation.
- (b) The Board were encouraged by the progress and thanked Kevin Gilliland for the strong Network Transformation performance.
- (c) The Board discussed Crown Transformation and the likely profit and loss run rate at year end. Kevin Gilliland explained that the Business may miss the breakeven target by 6 months but that the Crown Transformation was still a remarkable turnaround. The Board agreed and was sympathetic to the position and discussed the additional actions which could be taken. The Board asked the Business to ensure that all legitimate actions were delivered including recognition of the additional profit in the franchise network. Kevin Gilliland was asked to provide a narrative to explain the transformation delivered in the Crown network to be used to support the year end run rate.
- (d) The Chairman explained the earlier Board discussion, POLB 14/13 (i), and asked Kevin Gilliland to reiterate his contingency plans in the event of Supply Chain industrial action, specifically to give the Board comfort that the Business could manage both discontinuous and

ACTION:
CFO/Kevin
Gilliland

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continuous action with little customer detriment.

- (e) Kevin Gilliland explained the process of pre-funding the network and the use of the rapid deployment force (250 trained managers) to manage any difficult parts of the country.
- (f) He believed that continuous action was highly unlikely but in this event the network would be pre-funded with the 3000 more remote branches getting 5-10 weeks cash. He remained confident that the Business could manage any action with little disruption to customer service. The Board asked the Business to be ready to handle the PR around any closed branches.
- (g) The Board affirmed its support for the approach to the Supply Chain negotiations and any subsequent industrial action.
- (h) The Board noted the Network update.
- (i) Kevin Gilliland left the meeting.

POLB 14/135

ACTION:
Chairman

(a)

Irrelevant

POLB 14/136

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meetings held on 25 September 2014 were approved for signature by the Chairman.

POLB 14/137

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
 - the Audit, Risk and Compliance Committee held by correspondence on 16 September 2014; and
 - the Financial Services Sub-Committee meeting held on 16 September 2014.

POLB 14/138

STATUS REPORT

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

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- (b) The Board noted the update on the Facilities Management and Grapevine contract awards.

POLB 14/139

END USER COMPUTING (EUC) CONTRACT AWARD

- (a) The Board approved the award of the EUC contract to Computacenter and authorised the CFO to execute the relevant contracts.

POLB 14/140

ITEMS FOR NOTING

- (a) The Board noted the Cyber Security update.
- (b) The Board noted the Significant Litigation report.
- (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 1123 to 1230 inclusive in the seal register was hereby confirmed.

POLB 14/141

DATES OF NEXT MEETINGS

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

GRO