

In Strictest Confidence

POLB04(6<sup>TH</sup>)  
POLB 04/61 – 04/85

**Post Office Limited**

(company no. 2154540)

**Minutes of the meeting of the Board**  
**held at 148 Old Street, London**  
**on September 1<sup>st</sup> 2004**

**Present:**

Sir Michael  
Hodgkinson  
David Mills  
Ian Anderson  
Peter Corbett  
Brian Goggin  
Graham Halliday  
David Miller  
Gordon Steele  
Elmar Toime

Non-executive Chairman  
Chief Executive  
Human Resources Director  
Finance Director  
Chief Executive, Bank of Ireland  
Banking & Financial Services Director  
Chief Operating Officer  
Sales & Marketing Director  
Executive Deputy Chairman, Royal Mail Holdings

**In attendance:**

Jonathan Evans  
Neil Owen  
David Smith  
Simon Broome  
Martin Gafsen

Company Secretary  
Notes  
Delivery Director (Acting IT Director)  
Programme Director, Crown Office Strategy (for POLB04/66)  
Investment Director, Group Finance (for POLB04/71 –  
POLB04/73)  
Managing Director, First Rate Travel Services (for POLB04/68)

**Apologies:**

Allan Leighton

Chairman, Royal Mail Holdings

**POLB04/61**

**APPOINTMENT OF DIRECTOR POLB(04)48**

The Board noted that the Royal Mail Holdings Board of 4<sup>th</sup> August 2004, had agreed to the nomination of Brian Goggin, Group Chief Executive, Bank of Ireland, as non-Executive Director of the Company and that consent had been obtained from the Secretary of State. The Board unanimously agreed to the appointment of Brian Goggin as non-Executive Director of the Company, with effect from 1<sup>st</sup> September 2004.

**POLB04/62**

**MINUTES OF PREVIOUS MEETING POLB(04)5<sup>TH</sup>**

The Board approved the minutes of the Board meeting of 16<sup>th</sup> June 2004.

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POLB04/63

## STATUS REPORT POLB(04)49

The Board noted the report, and in addition:

- (i) Gordon Steele reported that Michael Keegan would join Post Office Ltd on 13<sup>th</sup> September as a consultant to assist with the Passports and Identity Cards work. A trial in Leicester was now underway, although it had been slightly delayed for technical reasons;
- (ii) Jonathan Evans reported that a paper setting out a revised system of Delegated Authorities would shortly be considered by the Royal Mail Audit Committee;
- (iii) Gordon Steele reported that a Paper had been written for consideration by the Royal Mail Remuneration Committee which proposed a balanced customer service index measure. DTI approval would be required for this measure to be linked to the performance of Executive Directors of Royal Mail Holdings only.

Action:  
David MillerThe Board agreed that a further more detailed update would be provided on the Supermarket Disengagement issue for the next Board meeting.

POLB04/64

## CHAIRMAN'S BUSINESS

Action:  
David MillsSir Michael Hodgkinson reported that a team had been assigned to examine the financial relationship between Post Office Ltd and Royal Mail Group. David Mills would finalise the arrangements for the meeting.

POLB04/65

## CHIEF EXECUTIVE'S REPORT

David Mills reported the following matters to the Board:

- (i) Camelot: Camelot had appointed Sir Peter Middleton from Barclays to their Board of Directors;
- (ii) New Product Launches: The media coverage had been very positive around the launch of Car Insurance and Savings Stamps, and many articles had been printed in the National Press. Since the launch, over £2.5m of Car Insurance and £300k of Savings Stamps had been sold;
- (iii) Executive Committee Off-Site: A meeting had taken place to discuss the build up to the planning session for 2005/06. Measures to close the 2005/06 gap, timetables and functional reviews had been agreed, and potential projects identified;
- (iv) Card Account Outage: A meeting would take

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place with JP Morgan and EDS today, to discuss the reasons for the Card Account Outage which occurred on August 23<sup>rd</sup> 2004 and impacted on approximately 150,000 customers (190,000 transactions);

- (v) Leadership Team Meeting: A stronger emphasis would be placed on sales and this system would be trialled for the remainder of the year;
- (vi) Call Centre: A visit to the Junction Call Centre had revealed a very professional operation, which stood in contrast to the Royal Mail Call Centre. Several areas had been identified where the relationship with Royal Mail Call Centre needed to improve;
- (vii) Michele Castle: Work was being conducted to assist Michele Castle from Group with her work on re-organising the Group Centre;
- (viii) Prisons: A number of senior managers continued their commitments to mentoring.

POLB04/66

**CROWN OFFICE STRATEGY UPDATE POLB(04)50**

David Miller introduced Simon Broome to the Board. Simon Broome circulated a presentation.

The Board noted the paper and presentation, and concluded that, despite the risks that had been outlined, this continued to be a manageable proposition.

The Board agreed that:

**Action:**  
**David Miller**

- (i) the current programme of conversions and closures should continue and be prioritised appropriately. A list of actions against various headings would be produced for consideration at the next Post Office Ltd Board;
- (ii) the programme would tackle the 25 biggest loss makers first;
- (iii) re-sites would be related to property potential;
- (iv) further closures would be considered in the light of likely public and CWU reaction;
- (v) an update would be provided at the next Board on the outcome of the CWU negotiations;
- (vi) a risk assessment would be performed against the list of headings set out in Annex A of the Crown Office Strategy Paper;
- (vii) a contingency plan would be drawn up to contain the risk of Industrial Action;
- (viii) a final proposal would only be put forward to RMH Board once the detail of the proposition had been approved by the Post Office Ltd Board.

**Action:**  
**David Miller**  
**Action:**  
**David Miller**

**Action:**  
**David Miller,**  
**Ian Anderson,**  
**(Peter Corbett)**

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POLB04/67

## RURAL NETWORK UPDATE POLB(04)51

David Miller circulated a presentation to update the Board on the future of the Social Network Payment and the shape of the rural network. The Board noted the presentation, and in particular that:

- (i) a two year roll-over had been agreed in principle until 2008 on similar conditions. There would be no change in current policy until 2006;
- (ii) although the financial position was secure until 2008, the fundamental rural cost and revenue problems remained. The Social Network Payment would need to be used to help deliver a credible 'cost neutral' rural network by 2008;
- (iii) to date, stakeholder acceptability and concepts had been tested, the modelling capability had been developed and the strategy had been proven;
- (iv) the next stage would be to pilot changes on the ground and re-engineer solutions.

**Action:**  
**David Miller**

The Board agreed that the question of regionalising the Social Network Payment would need to be discussed with DTI.

POLB04/68

## FRTS BUSINESS PLAN POLB(04)52

Gordon Steele introduced David Kennedy, Managing Director First Rate Travel Services, to the Board. A presentation was provided, and the Board noted in particular that:

- (i) although the Bureau product was conceived in 1993, the focus brought about by FRTS had ensured the business had substantially grown its market share over 3 years. Market share was averaging 17-18%, and had peaked at 28% in July 2004;
- (ii) With its total travel services business, Post Office Ltd had already become one of the top three providers for Travel Insurance, with a 10% market share;
- (iii) PBT performance for FRTS had far exceeded both the original JV business plan and the market plan;
- (iv) the majority of customers were aged 35-65 and consisted of 'families' and 'post-family groups'. The challenge ahead to grow sales further was to appeal to younger 'pre-families'.
- (v) Further opportunities existed to develop new products and grow revenue streams even further.

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The Board agreed that:

**Action:**  
**Gordon Steele**

- (i) RMH Board would be provided with a similar presentation in November 2004 to highlight the considerable success of FRTS;
- (ii) Peter Corbett would provide the Post Office Ltd Board with an analysis which would illustrate the profitability of the travel products on both marginal and fully costed basis.

**Action:**  
**Peter Corbett**

**POLB04/69**

**POST OFFICE FINANCIAL SERVICES BUSINESS PLAN  
POLB(04)53**

Graham Halliday presented the Post Office Financial Services Business Plan to the Board. The Board noted the business plan.

In addition, it was explained to the Board that the treatment of Travel Insurance remained a subject for discussion between Post Office Ltd and Bank of Ireland with concerns expressed regarding the tight timetable for resolution of issues around regulation;

**Action:**  
**Graham Halliday**

The Board agreed that regulation of Travel Insurance and negotiations with BOI would be re-presented to the next Board for further discussion if the situation could not be resolved.

**POLB04/70**

**CALL CENTRE STRATEGY POLB(04)54**

David Miller presented the Call Centre Strategy paper to the Board.

It was explained to the Board that Post Office Ltd currently subcontracted two call centre campaigns to Royal Mail UK, namely Post Office External Customer Helpline, and Post Office Branch Support line. The relationship had proved difficult, and although improvements had been made, further opportunities to exist advance the productivity of the service by investigating outsourcing opportunities.

The Board noted the paper and further noted that: forecasting volumes had been exceptionally difficult because Government had not been able to share the proper management information.

**Action:**  
**David Miller**

The Board agreed that market testing should now take place, and the results would be presented at the next Board meeting.

**POLB04/71**

**IMPACT PROGRAMME BUSINESS CASE POLB(04)55**

Peter Corbett made a short presentation to highlight the key elements of the Impact Programme Business Case:



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- (i) The programme had now advanced to the stage that a detailed specification requirement through to completion had been produced and costed.
- (ii) the programme showed increasing net benefits. However, there was a modest increase in supplier and change management costs. The need for redundancy provision alongside the headcount reductions, and as a sensible precaution a contingency requirement for £2m;
- (iii) as a result of increased costs, authority was now sought for the Board to endorse an additional £3m of spend to deliver the programme. This spend would feature in 2005/06.

The Board agreed:

**Action:**  
**Peter Corbett**

- (i) the spend would be authorised subject to an ongoing system of Risk Assessment;
- (ii) authority to approve the £2m contingency spend would be delegated to David Mills and Peter Corbett
- (iii) to the approval in principle of £3.1m in severance costs subject to the actual headcount reductions meeting Group's required payback within 3 years, and compliance to the managing the surplus policy and the VR governance process;
- (iv) due to the strategic importance of realising the benefits to achieve the NPV income, the programme will be monitored by Group Investment as part of the monthly strategic programme report to the Holdings Board.

**Action:**  
**Peter Corbett**

**POLB04/72**

**CLS VEHICLE REPLACEMENT BUSINESS CASE**  
**POLB(04)56**

David Miller presented the CLS Vehicle Replacement business case to the Board.

The project represented the annual vehicle replacement schedule for Cash Logistics Services. The original requirement of replacing 136 vehicles had been reduced to 70 vehicles as a result of efficiency savings identified by the Service Specification Programme.

The Board noted that earlier this financial year individual authorities had already been granted to purchase an initial 20 medium value vehicles, followed by an additional 10.

The Board agreed to approve the replacement programme at a total cost of £2.3m of capital expenditure, of which £1.2m would be invested in medium value vehicles, £0.5m in low value vehicles, and £0.6m in Cat V vehicles.

**GRO**

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POLB04/73

**+1 SALES PROMPTS BUSINESS CASE POLB(04)57**

Gordon Steele presented the +1 Sales Prompts Business Case to the Board.

The proposal required modification to the Horizon system to provide sales prompts for counter staff to increase sales of profitable products. As a secondary consideration, this prompts facility would be used to address money laundering compliance issues in Post Office Ltd's counter operations

**Action:**  
**Gordon Steele**

Subject to concurrence from the Banking & Financial Services directorate, the Board approved the business case and agreed to:

- (i) development of the Horizon system to provide the prompts capability;
- (ii) deployment of the completed programme;
- (iii) a total expenditure of £1.9m.

POLB04/74

**REGULATION FOR INSURANCE POLB(04)58**

Graham Halliday presented a paper which set out the steps being taken by Post Office Ltd to meet the requirements arising from the extension of financial services regulation to include the distribution of general insurance products.

The Board noted the paper.

POLB04/75

**RESTRICTIONS POLB(04)59**

David Miller presented a paper to the Board to provide an update on issues surrounding Post Office Ltd's policy of restricting the private business activities of its agents.

The rationale for the current restrictions framework was that it protected the integrity of the total network by prohibiting competitors and clients from cherry picking our branches where they cannot obtain alternative distribution channels and/or piggyback onto our brand. The current scope of restricted products included bill payments services, mails lottery and banking. However, as the Company moved more into financial services market, it would be increasingly important to ensure the brand, product portfolio and customer promise was not diluted by competitor products.

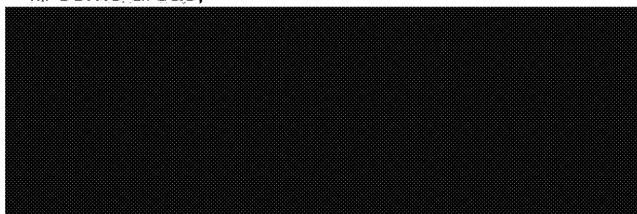
The Board noted that:

- (i) Breaches of restrictions had become more widespread, but enforcement had not been sanctioned, mainly due to uncertainty concerning the legal position, and the granting of waivers to agents because of the need to establish a branch

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in some areas;

(ii)



(iii)

a structured approach was being developed to address the current breaches and determine whether a restrictions policy was tenable after 1<sup>st</sup> May 2005. This approach would likely result in a complaint to the OFT.

The Board agreed that

- (i) there would be no enforcement of Restrictions without the formal approval of the Post Office Ltd Board;
- (ii) Post Office Ltd would need to focus its energies on tackling the right ones.

**POLB04/76**

**CARD ACCOUNT – INTERRUPTION OF SERVICE**

David Miller provided the Board with an oral report on the reasons for the breakdown of the Card Account service on 23<sup>rd</sup> August 2004.

- (i) the total system downtime was 3 hours 50 minutes;
- (ii) the reason for the downtime was that JP Morgan had taken the system off-line to fix a problem with double-payments without the consent of Post Office Ltd;
- (iii) a meeting had been arranged with JP Morgan this evening to provide a full explanation. Post Office Ltd would be pressing for compensation, if appropriate.

The Board agreed that:

- (i) the Disaster Recovery Arrangements for genuinely vulnerable people would be re-examined. A system to identify these groups would be considered, together with the use of a paper-based backup system which could provide emergency cash during system downtime;
- (ii) the contractual obligations with the DWP would be reviewed and presented to the Board;
- (iii) a paper to explain the breakdown of service and the measures taken to ensure there was no repetition, would be provided for the next RMH Board;

**Action:**  
**Graham Halliday**

**Action:**  
**Graham Halliday**

**GRO**



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**Action:**  
**Graham Halliday**  
**David Miller**

- (iv) David Miller and Graham Halliday would provide Chris Pond, the DWP Minister, with the appropriate briefing.

POLB04/77

**FINANCIAL SERVICES PAPERS FOR NOTING**

The Board noted the Post Office Financial Services paper that was provided for RMH Board to note on 4<sup>th</sup> August 2004.

The Board noted the Bill Payments paper, which would be provided for noting at the RMH Board on 5<sup>th</sup> October 2004.

POLB04/78

**SUBSIDIARY / ASSOCIATE COMPANY ITEMS FOR APPROVAL POLB04(60)**

The Board noted the minutes of the Post Office Financial Services Board meetings of 18<sup>th</sup> May 2004, 18<sup>th</sup> June 2004 and 21<sup>st</sup> July 2004.

The Board noted the minutes of the FRTS Ltd and FRTS Holdings Ltd Board meetings of 22<sup>nd</sup> April 2004.

**FUNCTIONAL REPORTS**

POLB04/79

**FINANCE REPORT POLB(04)64**

The Board noted the report.

POLB04/80

**OPERATIONS REPORT POLB(04)65**

The Board noted the report. The Board further noted that:

- (i) as the Urban Reinvention programme drew to a close, attention would be shifted to dealing with the Multiples;
- (ii) Postwatch had started to take an interest in the Directly Managed Branch strategy.

POLB04/81

**SALES & MARKETING REPORT POLB(04)66**

The Board noted the report. The Board further noted that:

- (i) 50% of the Sales & Marketing Directorate resource had now been deployed in supporting Financial Services;
- (ii) a major campaign was being planned to sell Financial Services products to Royal Mail Group employees. A report on progress would be provided for the next Post Office Ltd Board.

**Action:**  
**Gordon Steele**

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**POLB04/82                      BANKING & FINANCIAL SERVICES REPORT POLB(04)67**

The Board noted the report.

**POLB04/83                      IT REPORT POLB(04)68**

The Board noted the report. The Board further noted:

**Action:  
David Smith**

- (i) the Period 4 Delivery Plan Status Report circulated by David Smith;
- (ii) that the Horizon IT Roadmap would be provided for consideration at the next Board meeting.

**POLB04/84                      HUMAN RESOURCES POLB(04)69**

The Board noted the report.

Ian Anderson reported that the monthly Have Your Say results had dropped to 56%, primarily due to a low result in Chesterfield. It was not yet known for certain whether or not this was a temporary 'blip' or a more permanent trend. Measures would be taken to ensure those who wanted to leave the business were identified and helped as plans unfolded. Further investigations would be undertaken in Chesterfield, but it was fairly certain that the score was being influenced by people there who have asked for VR but were refused.

**Action:  
Ian Anderson**

The Board agreed that Ian Anderson would report back to the Board on this matter.

**POLB04/85                      ANY OTHER BUSINESS POLB(04)70**

The Board agreed the revised list of authorised signatories, namely Neil David Owen and Anna Louise Malley, to authenticate the Company Seal, in addition to the Directors and Company Secretary.

**CLOSE**

There being no further business, the meeting was closed.