

Post Office Limited – Strictly Confidential

POLB 14(12<sup>th</sup>)  
POLB 14/143 -14/157

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

Minutes of a Board meeting held on 26 November 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  |
| David Ryan      | Business Transformation Director (minute POLB 14/145)        |
| Kevin Gilliland | Network & Sales Director (minute POLB 14/145)                |
| Neil Hayward    | Group People Director (minute POLB 14/145)                   |
| Martin Edwards  | Head of Financial Strategy and Planning (minute POLB 14/145) |
| Chris Aujard    | General Counsel (minute POLB 14/145, 14/147-14/148 & 14/156) |
| Nick Kennett    | Director, Financial Services (minute POLB 14/147 -14/148)    |
| Paul Havenhand  | General Manager, POMS (minute POLB 14/147 – 14/148)          |
| Jon Sperrin     | Partner, Grant Thornton (minute POLB 14/148)                 |
| Mark Davies     | Associate Director, Grant Thornton (minute POLB 14/148)      |

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**INTRODUCTION**

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

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**CEO'S REPORT**

- (a) The CEO introduced her report and focused on the following key areas for discussion with the Board:
1. Business Transformation (BTr) was the main focus of the Board meeting and the CEO explained the decision to present a holistic view of the strategy including existing programmes and incorporating the relevant parts of Plan B. She stressed the need for good governance to oversee the BTr but was mindful that this should not become over bureaucratic.
  2. The CEO informed the Board that the Secretary of State (S of S) had written to the major banks promoting Post Office as an

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alternative access point for their customers. A roundtable debate was organised for week commencing 1<sup>st</sup> December at which Nick Kennett would represent Post Office, to ensure that any proposition discussed made commercial sense. The CEO thanked Richard Callard and his team for their work in briefing the SoS.

3. The CEO had briefed the Senior Leadership Team on the Wave 1 headcount reductions and redundancies necessary to deliver the cost reduction target of £53m. She was sure that people were well briefed and realised the sensitive nature of conversations they would have with their teams. The Business had reached agreement with Unite on redundancy but the CWU had as yet refused to meet the Business to discuss the issue.
4. The CEO explained that Fujitsu had withdrawn from the procurement process underway to replace the front office IT equipment, and because of this Accenture had been included back into the tender process. The CFO explained that the Business was trying to extend the Fujitsu contract for a year to give more time to move to an alternative provider. Any renegotiation with Fujitsu added financial risk. The CFO assured the Board that IP ownership was no longer an issue as Post Office owned all the IP post 2008, and the key would be managing the relationship as the Businesses exited the partnership. The Board would be having a substantive discussion of IT at its next meeting.
5. The supply chain CWU strike ballot had returned a yes vote but with considerably lower support than ever before. The CEO reported that Andy Furey had agreed to attend conciliation sessions at ACAS but that this would not necessarily stop the union calling a strike.
6. The CEO was hopeful that the DWP would agree the Post Office Card Account (POCa) contract before the 15<sup>th</sup> December. The contract being proposed was within the mandate agreed by the Board and the Board resolved that approval to enter into the contract would be granted by correspondence.
7. The CEO recounted her meeting with four MPs to discuss the Sparrow mediation scheme. She explained that the Business intended to write to the MPs to explain the Business' position on denying mediation for criminal cases, and that this letter may become public. The Business had taken further advice on the likelihood of a Judicial Review, if JFSA withdrew from the process, and the QC's advice was that the likelihood was low. The Board asked for an update on where cases were in the scheme.
8. The CEO explained that meetings were planned to discuss Network Transformation with the NFSP with the proposal to bring the 'cliff' forward in the plan. She promised to come back

**ACTION:**  
Company  
Secretary

**ACTION:**  
Belinda Crowe

**ACTION:**  
Neil Hayward/

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Kevin Gilliland

to the Board in the New Year to discuss further.

The CEO suggested that she send a written update to the Board in December.

- (b) Tim Franklin, Chairman of the Post Office Advisory Council (POAC), informed the Board about the recent POAC meeting which had been another great success. He explained that individual members of the Council had given their time to help the Business on the SME proposition and on Branding.

The Council had visited the Design Lab and St. James' Church, West Hampstead which includes a new Mains Branch. Tim Franklin and Neil McCausland were both pleased to be involved in the POAC and regarded it as a valuable addition to mutual ways of working.

**ACTION:**  
Tim Franklin

The Chairman asked Tim Franklin to consider how he could involve the Board in future meetings.

**ACTION:**  
Martin George

- (c) The Board discussed the announcements in the telephony market and asked for a paper on the telephony strategy in the New Year.

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**BUSINESS TRANSFORMATION**

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, David Ryan, Business Transformation Director, and Martin Edwards, Head of Financial Strategy and Planning, to the meeting.
- (b) David Ryan summarised the developments in the plan since the Board presentation in September. He explained that there were three phases to the plan: understanding the baseline (how the business operates today); identifying an end state design (delivering a £200-250m p.a. EBITDAS improvement by 2019/20, not including payment for social provision); and designing a plan for implementation. He explained that the work had analysed the interdependencies and investment needed to deliver the BTr within the existing funding envelope.
- (c) David Ryan explained the six themes used to structure the BTr:
1. Reduce Costs
  2. Transform the organisation
  3. Lean IT
  4. Reduce and variabilise network costs
  5. Win in Mail
  6. Grow FS

**ACTION: David**  
**Ryan**

The Board asked for an update of what had changed in the plan since the September Board presentation.

- (d) Network  
The main changes to the Network proposal were discussed. The Board supported the move away from franchising the whole Crown Office network and challenged whether, considering the return on investment and the management effort required, any further franchising made sense. Kevin Gilliland explained that 40% of Crown branches still made a loss and that the proposal was to work on these

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individual branches when opportunities arose, and to keep franchising as a lever to keep a focus on improvements in the Crowns.

Kevin Gilliland explained the rationale for the number of Mains branches in the plan. The initial plan had suggested an end state of 2500 Mains. However, it was now believed that, after product simplification and network extension, the most suitable and commercial route for getting to the 'ideal' state would be through working with agents to help them reduce costs and utilise their footfall.

**ACTION:**  
Kevin Gilliland

- (e) The Board discussed the ruling by HMRC on the tax treatment for subpostmasters. Kevin Gilliland explained that this was not a problem with the new Locals contract, but some existing subpostmasters with Mains contracts would need to change and pay VAT instead of National Insurance. The Board asked for a note explaining the changes.

(f) Supply Chain

**ACTION:**  
Kevin Gilliland

The plan proposed significant cost reduction in the supply chain but retained an insourcing model. Kevin Gilliland explained that the strategy had not changed with an aggressive focus on cost reduction whilst still aiming to grow the business. He believed that before a more radical solution could be considered the Business should drive through self-funding branches and retailer cash. The Board acknowledged the planned improvements but would prefer the plan to include a business case for outsourcing as a future milestone.

(g) Costs

David Ryan presented the costs of BTr and explained the breakdown of the £1.145 billion investment and its effect on EBITDAS, stressing that the promised returns were prudent. He highlighted that the two largest areas of spend were Network and IT transformation.

The Board discussed the overall return on investment of the proposed changes. It was noted that the aggregate figures were distorted by the low return for Network Transformation in absolute terms, although these figures did not capture the wider financial benefits such as the variabilisation of costs; the removal of contingent liabilities related to future compensation payments; and longer opening hours for customers. Network transformation also enabled the introduction of stronger retailing skills which would provide a more sustainable network and help to defend market share. Kevin Gilliland also noted that the Business' preferred compulsory approach would have delivered a different return.

**ACTION:**  
Lesley Sewell

The Board acknowledged that the IT re-platform would be expensive but were surprised by the limited impact on cost reduction. The detail of the IT strategy would be considered at the January Board

**ACTION:**  
David Ryan

The Board challenged the size of the overall investment for what appeared to be a small return. David Ryan explained that the aim of his presentation was to give an overview of BTr and the plan to 2020. The Board were not at this stage being asked to approve any investment, and that the Business would return to the Board

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highlighting the significant transformation programme investment proposals requiring Board approval.

The Board asked the Business to reconsider its approach and strip out the major programmes which were already underway, as business as usual, leaving BTr to focus on fundamental change. The Board asked for priority to given to initiatives based upon their relative return on investment and consider areas where we can leverage partners to execute business outcomes at their risk if this enables management to focus on fundamental change.

**ACTION:**  
**David Ryan**

David Ryan presented the potential central cost reduction to March 2016 and an overview of the 30% central cost reduction by 2020. The Board asked for an extrapolation (by year to 2020) of the indicative cost profile of the business by function (before the uplift in costs to support business growth) with a commentary on the key differences. The analysis should include changes in relative costs, for example: IT in relation to people; and outsourced costs in relation to direct costs.

(h) Innovation and Growth

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

The Board discussed the channel mix and the 25% target for digital transactions. Kevin Gilliland explained the change to a digital mails journey, which would mean that a significant part of the mails income would be for accepting mails items already purchased online. The Board asked for more clarity on innovation and growth and the CEO suggested that would form part of the Operating plan to be brought to the Board in March. The Board would also discuss the progress in digital at the January Meeting.

(i) Cash

**ACTION:**  
**CFO**

The Board discussed the balance sheet position, including working capital, and stressed the importance of controlling the risks to the cash reserves. It was agreed that this would be considered in more detail with the Operating Plan and Budget in March.

(j) EBITDAS Flight path

The Board discussed the flight path of the three proposed scenarios. It was agreed that the 'do nothing' scenario was untenable as the counter-factual and it was suggested that the June awayday plan also be highlighted.

David Ryan explained that the 'full delivery' projection assumed that the FS strategy was delivered in full (reaching £508m of income by 2019/20), alongside full delivery of other cost savings and revenue growth initiatives identified as part of the Business Transformation Programme (with an underlying assumption that 'base' income would remain flat and costs would increase in line with inflation). The 'partial delivery projection' included a 30% reduction in cost savings, a lower projection for FS growth (reaching £459m income by 2019/20) and an assumption that network extension would only serve to defend existing income rather than deliver any incremental growth.

**ACTION:**  
**CFO**

The Board asked for an additional flight path somewhere between the 'full' and 'partial' delivery projections. The CFO expected the initial budget for next year to be discussed at the January Board, by which

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time Christmas trading would provide a clearer view of the possible EBITDAS, and help define the additional flight path.

**ACTION:**  
Chris Aujard

(k) Funding

The plans assumed no change to the funding agreement. Richard Callard suggested that it was unlikely that the current funding agreement would be reopened but that the Business needed to be ready with evidence to support any request for the continued social subsidy after 2017/18. This would be required in time for any spending review undertaken by a new government. The Board asked for a note setting out the precise basis for the promised funding through to 2018.

(l) Governance

David Ryan described the proposed governance and controls to be put in place including the development of a transformation management office (TMO), which he would lead, to provide portfolio management of the transformation. He explained that the TMO needed 4 or 5 additional people in key positions to add more rigour and challenge and help drive the Transformation.

**ACTION:**  
David Ryan

Neil Hayward explained that the Business already manages large scale programmes and that many of the senior people who would deliver the 6 themes in the strategy were already in place. However, he recognised the need to increase the Business knowledge and expertise in 3 or 4 specific areas. The CEO agreed that, as part of the next phase of BTr, the Business would provide information on the clear ownership and accountability of roles, and a view of the additional resource required.

(m) Vision

**ACTION:**  
Neil Hayward/  
Mark Davies

The Board agreed that a clear vision and change narrative would help explain what the Business was trying to build for customers and staff. This would generate an emotional engagement with the end state and help emphasise the importance of BTr. The CEO agreed and suggested that this be discussed at the January Board.

(n) PwC Assurance

**ACTION:**  
Chris Aujard

Chris Aujard introduced the PwC interim report, which highlighted their view of the BTr risks. He gave some comfort that the programme teams had identified many of the risks highlighted by PwC. The biggest risk highlighted had been the lack of a clear vision, an area which the Business was now addressing. Chris Aujard acknowledged that all parties agree that the project carries significant risk and needs appropriate governance and that the final PwC report would be circulated to the Board for their information.

**ACTION:**  
David Ryan

(o) The Board noted the work to date and asked the Business to come back in January on the points raised.

**ACTION: CEO**

(p) The CEO agreed to update the Board in December and include information on the 6 BTr themes in her report.

(q) Chris Aujard, David Ryan, Kevin Gilliland, Neil Hayward and Martin Edwards left the meeting.

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## FINANCIAL PERFORMANCE UPDATE

- (a) The Board received the financial performance update for October 2014.
- (b) The CFO reported that, despite income being below target in period 7, the mails performance had improved and delivered year on year growth. He remained confident in hitting the £880m income and £85m EBITDAS forecasts. If the POca contract was agreed there was the possibility that the outturn would be higher, which would also have a positive effect on the Crown P&L.
- (c) The Board asked for a note explaining the financial effect of the POca payment once the contract was agreed.
- (d) The CFO was confident of delivering the cost reduction target of £53m. Over £50m of this saving would be sustainable, but he acknowledged that there was very little discretionary spend left in this year's budget. He was also optimistic that the Business would reach its cumulative £100m target by March 2016.
- (e) The CEO explained that the Business was bring forward Wave 2 of the management structure changes with further headcount reductions. Tight cost control was now in place with the Cost Reduction Group which she attended and the CFO Chaired.
- (f) The CFO still believed that the Crown P&L would miss breakeven by around £2m, although Kevin Gilliland remained optimistic. The final outcome would depend on the Christmas trading. The Board asked for a reconciliation of the breakeven run-rate for the current position and the full year forecast.

ACTION: CFO

ACTION: CFO

ACTION: CFO

- (g) The Board asked for a separate session on the working capital at the May Board.
- (h) The Board noted the financial performance update.

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## POST OFFICE AND BANK OF IRELAND RELATIONSHIP

- (a) Nick Kennett, Financial Services Director and Chris Aujard, General Counsel joined the meeting.

(b) **IRRELEVANT**

(c) **IRRELEVANT**

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**IRRELEVANT**

(d)

(e)

**IRRELEVANT**

(f)

(g)

(h) The Board thanked Nick Kennett for his update and wished him good luck in the negotiations.

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(a)

**Irrelevant**

(b)

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(c)

(d)

(e)

(f)

(g)

(h)

# Irrelevant

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**ACTION:**  
Chris Aujard/  
POMS Board

(i)

(j)

(k)

# Irrelevant

(l)

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## **UPDATE FROM THE AUDIT, RISK AND COMPLIANCE COMMITTEE**

- (a) Alasdair Marnoch, Chairman of the Audit, Risk and Compliance Committee, gave an update to the Board on the last Committee meeting, the main business of which had been the Interim Report and Accounts.
- (b) He explained that the next meeting in January would discuss the Business Risk Appetite and Statements, which would then be considered at the January Board.

**POLB 14/150**

(a)

(b)

# Irrelevant

**POLB 14/151**

(a)

(b)

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(c)

(d)

(e)

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(a)

(b)

# Irrelevant

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## MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 29 October 2014 were approved for signature by the Chairman.

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## COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Audit, Risk and Compliance Committee held on 21 October 2014; and
  - the Pensions Sub-Committee meeting held on 28 October 2014.

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## STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (b) The Board noted the PwC Post Office Limited Risk Management Capability Report Executive Summary, which would be discussed at the January ARC.

ACTION:ARC

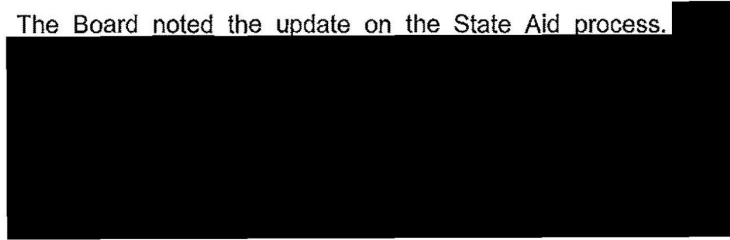
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## ITEMS FOR NOTING

- (a) The Board noted the IA status report summary as at 31 October.

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- (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 1131 to 1240 inclusive in the seal register was hereby confirmed.
- (e) Chris Aujard joined the meeting.
- (f) The Board noted the update on the State Aid process.



**ACTION:**  
Kevin Gilliland

- (g) The Board asked for a note to explain the commission rates paid to a subpostmaster by Paypoint and Post Office.

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**DATE OF NEXT MEETING**

- (a) It was noted that the next Board meeting would be held on 28 January 2014.

**GRO**