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POLB 17(4th)
POLB 17/34 – 17/50

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

Minutes of a meeting of the BOARD
held at 10.30am on Thursday 25th May 2017
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Virginia Holmes	Non-Executive Director (VH)
Ken McCall	Senior Independent Director (KM)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Group Chief Executive (CEO) (Except Minute POLB 17/45)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO) (Except Minute POLB 17/45)

In Attendance:

Alwen Lyons	Company Secretary (CoSec)
Martin Edwards	Group Strategy Director (ME) (Minute POLB 17/37)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minutes POLB 17/38 and 17/39)
Kevin Gilliland	Chief Executive Retail (KG) (Minutes POLB 17/38 to POLB 17/40 inclusive)
Mark Siviter	Managing Director, Mails and Retail (MS) (Minute POLB 17/40)
Rob Houghton	Group Chief Information Officer (RH) (Minutes POLB 17/41 and 17/42)

Apologies for Absence: None

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INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

POLB 17/35

MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

- (a) Richard Callard asked that minute (POL17/22(f)) from the previous meeting be clarified. The 2017/18 EBITDAS target would remain at £28m with any possible relief to be discussed at the end of the year.

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- (b) The minutes of the Board meeting held on 28th March 2017 were approved and the Chairman was authorised to sign them as a true record.
- (c) The actions status report was noted as accurate.

POLB 17/36

CEO REPORT

- (a) The CEO introduced her report, focussing on the following key points:

- (b)

- (c)

- (d)

Irrelevant

ACTION: Kevin
Gilliland/ Ken
McCall

- (e)

- (f) NSFP Conference

The CEO had attended the NFSP annual conference and was pleased to report a more commercial focus than in past years, with an alignment to the National Convenience Show giving the retail agenda more prominence. The Executive took the opportunity to discuss the simplification work and there was still an anxiety about the effect of cutting postmasters' remuneration.

- (g) The Board discussed the funding of the NFSP and asked for an update on what they have provided for the investment. The CEO explained that the NFSP were working with the business on simplification and continued to support the Network Transformation programme. Richard Callard reported that the NFSP continued to lobby UKGI against the changes being implemented but it was acknowledged that they continued support the business in the public domain.

Irrelevant

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ACTION: Martin
Kirke

Irrelevant

- (i) IT Security and Stability
The Board noted that the CIO would provide an update later in the meeting.
- (j) The Board noted the report from the CEO.

POLB 17/37

FUNDING PLAN

- (a) The Chairman welcomed Martin Edwards, Group Strategy Director, to the meeting.
- (b) The CFOO introduced the paper which set out the current position with the funding documentation. The General Election had made any decision in May implausible and consequently a meeting had been arranged with the Permanent Secretary at BEIS to reassess timelines.
- (c) The funding document set out that Post Office was requesting additional support over the plan period of £420m, reducing to £290m by 2021.
This was split into three parts:
- Firstly, a further £250m of direct funding: £200m of Government grant together with confirmation of the final year of Network Subsidy Payment of £50m in 2020/21.
 - Secondly, an additional borrowing in recognition of the fact that the changes the Post Office needed to fund were urgent and pressing. Post Office would start repaying this in 2019-20, so the initial commitment of £170m would reduce to a projected net commitment by the end of the plan period of £40m. At no point would the borrowing facilities reach the limit set for 2012-15.
 - Thirdly, the Post Office would ask for BEIS' security over the Revolving Credit Facility to be extended, but disconnected from the level of branch cash held, incentivising Post Office to use its cash efficiently.
- (d) Richard Callard explained the background to the funding discussion and thanked ME and the CFOO for their input to date. He recognised his person conflict of interest and explained the process and expectation from the Minister that his department would carry out due diligence and challenge to the funding proposal before it was submitted.
- (e) The Board discussed the funding proposal and the Board duty to deliver value for the shareholder through a long term sustainable business. The Government funding constraints were acknowledged but the Board recognised that the many

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iteration to the plan had diluted the initial strategy agreed by the Board.

ACTION: Martin Edwards

- (f) The Board asked if the Company would be given freedom to raise money from other sources if the funding received from the Government was inadequate. Richard Callard explained that the Government would not allow Post Office to raise equity in the market at the Group level, as by law it had to remain a wholly owned Government entity, and to raise debt, although not illegal, was also difficult to achieve. **The Board asked if the document could stress the need for access to alternative finance if the adequate funding was not forthcoming.**

- (g) Richard Callard acknowledged the Board's frustration with the process. He explained that the Secretary of State and Permanent Secretary were concerned about the uncertainty of the renegotiation with RMG and Bank of Ireland, and the digital capability and its investment, particularly in financial services. Richard Callard welcomed the revised document which gave a greater degree of granularity on the proposals, which was what Government was looking for.

Richard Callard also set out that the shareholder had affordability constraints to consider, and this would impact the key decision in Government as to whether it wished to invest now to achieve full commercial sustainability, or whether it was more affordable to invest a lower amount and accept longer term subsidy requirements.

The Chairman stressed that the contract negotiation risk was unavoidable but delaying or reducing the investment would increase rather than negate the risk. The IT project delivery risk understandable but the Board had put people in place to deliver the strategy in the way it had delivered the pension scheme closure and supply chain changes. POMS business was delivered entirely digitally.

**ACTION: Richard Callard/
Chairman**

- (h) **The Chairman stressed the need for support for the funding and suggested that he meet with Mark Russell, CEO UKGI to explain the funding requirement, and the Board's reasons for the investment.**

**ACTION:
Martin Edwards**

- (i) **The Board asked the Executive to be more strident in the Executive Summary setting out, why the Board had made the decisions in the paper, and the consequences of the not investing in the options.**

- (j) The Board asked how the report was presented to the Minister and the Chief Secretary of the Treasury. Richard Callard explained the process, and the Board asked for assurance that the UKGI paper accurately represented the Board's views. Richard Callard stressed that the UKGI paper was a factual document setting out the revenue projections and why Post Office needed the investment at this time.

- (k) The Chairman thanked Richard Callard for the work he is doing and recognised the frustration in the Board with the process.

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ACTION: Richard
Callard

The Chairman asked Richard Callard to ensure that UKGI, the Permanent Secretary, and the new SoS all understood that the Board was wholeheartedly behind the strategy as presented, and if a meeting was required to emphasise this, the Chairman and the CEO would be pleased to attend.

- (l) Richard Callard left the meeting.
- (m) After careful consideration and with the amendments proposed, the Board:
 - 1. agreed the Funding document and accompanying slides for presentation to UKGI and BEIS;
 - 2. noted the revised timetable for agreeing the Funding documents;
 - 3. approved the plans for 2018-21 subject to the funding received; and
 - 4. approved the request for further funding as set out in the Funding document.
- (n) The Board received a paper from Martin Edwards which set out the options available to the Business if the necessary funding was not received from the Government. The Board recognised that the options presented were suboptimal but needed to be discussed. The options proposed were set out in three blocks and the paper showed the effect on EBITDAS and cash headroom for each proposal.
- (o) The Board debated the paper and supported the options being proposed.
- (p) ME left the meeting.
- (q) Richard Callard re-joined the meeting.

POLB 17/38

**CHIEF EXECUTIVE FINANCIAL SERVICES AND TELECOMS
PERFORMANCE REPORT**

- (a) Nick Kennett, Chief Executive FS&T, and Kevin Gilliland Chief Executive Retail, joined the meeting.
- (b) NK presented his April 2017 report to the Board and focused on the following key points:
- (c) NK reported that after P1 results FS&T was holding to budget, and although there were some challenges in the Telco area plans were in place to ameliorate the position.
- (d)

IRRELEVANT**IRRELEVANT**

There would be a deep dive on mortgages at the next Board meeting.

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- (e) The CFOO explained the advantages and challenges of the mixed product portfolio within the FS&T portfolio and the choices this enables the Executive to make. NK stressed the opportunities [REDACTED] IRRELEVANT

(f)

IRRELEVANT

(g)

- (h) NK was pleased that POMS was on track in period 1, with the new customer management platform (Zeus) operational enabling changes to pricing and more effective introduction of new products. [REDACTED] IRRELEVANT

[REDACTED] IRRELEVANT
[REDACTED] IRRELEVANT Home and Travel insurance were both performing well.

(i)

IRRELEVANT

- (j) NK reported that Lloyds Bank had signed up to the banking framework for its business banking customers. The CFOO explained that the effect on supply chain was being monitored. NK also noted that discussions were continuing with banks to expand the services [REDACTED] IRRELEVANT

[REDACTED] IRRELEVANT

- (k) The management of regulation and risk remained a key focus for the Executive, with HMRC increasing its regulation on bureau de Change transactions. The level at which a customer's data would need to be recorded was likely to reduce from £2,000 to £850. Which would result in an additional 350,000 data records being captured in branches

(l)

IRRELEVANT

- (m) The Board noted the report.

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POLB 17/39

CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT

- (a) KG introduced the retail commercial performance report for period 1 and focussed on the following key points.
- (b) Retail had finished the year with strong trading and this has continued in P1. KG reported that the decline in branch footfall which had been running at 3% had slowed with the last 10 period to show a decline of 1%. KG explained how footfall was measured and that a piece of work was being undertaken to understand footfall and its effect on cashflows and who is benefiting from the footfall.
- (c) KG reminded the Board that 60% of branch customers were undertaking mails products, 1st Class products were in decline as customers moved to 2nd class which were growing. Home shopping returns continued to increase although the rate of growth had slowed. RMG had introduced a new free tracking service which might reduce the sales of the SignedFor product but there was no evidence of that to date.
- (d) Government services had seen a strong start to the year as the Passport Office's new digital passport service had not seen the growth expected with Post Office retaining the in branch sales. A new Post Office digital service is being developed which will need Passport Office agreement but could be ready in Q4.
- (e) KG reported that following the update to the Board at the last meeting positive progress had been made on Post Office Card account (POCa) procurement. Following a hard line approach DXC (formerly HPE) had submitted a revised proposal removing some of their transfer of costs and risks. We are now working through this and it appears that this has halved the gap. We will now use negotiations and other levers to attempt to fully close the gap and get the contract to break-even.
- (f) KG explained the importance of payments as a footfall driver for the Business and the current bid for the BBC contract. The migration from Paypoint to Post Office may be an issue for the BBC and the BBC announcement was now two months late. The Legal team were ready to make a challenge if it became evident that the due Ojeu process had not been followed.
- (g) KG updated the Board on the mails competitor environment and his meetings with retailers to ensure they understood the effect on their basket spend of footfall driven by RMG products.
- (h) Discussion were also underway with Payzone to understand whether there is a potential partnership in the bill payments market. Once the opportunity is explored and a possible business case developed this would return to the Board for further debate.
- (i) KG was pleased with the progress on Network development with 7200 branches delivered and 350 still to transform.

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Conversions of Directly Managed Branches were taking longer to deliver but 30 would be delivered in the year.

- (j) KG explained the progress with the 'no queues at Christmas' initiative and the focus on moving customers who post more than 5 parcels onto the Drop & Go (D&G) service, enabling their transaction to be completed in the back office. This work could then be completed by casuals at a lower pay rate than a counter clerk.
- (k) The Board asked more could be done to enable customers to drop parcels outside core hours. KG explained that D&G customers were given advice on the best time to drop parcels although they usually wanted to meet the RMG last collection time.
- (l) The Board asked if the Business measured waiting times, KG explained that in the larger branches with queue management systems the wait time was measured but in other branches it was based on analysis of capacity and transactions. Ongoing research is also used to provide waiting times.

ACTION: KG

The Board asked the Executive to consider an adequate sample of large branches measuring queue times to give more rigour to measurement of initiatives.

- (m) The Board asked for assurance that the casual labour used over Christmas and for D&G would not be on zero contracts. KG explained that these were not zero based contracts but were flexible which often suited the Post Office and the employee.

ACTION: KG

- (o) **KG was asked to present the work on whitespace branches at the June away day.**
- (p) The Board noted the report.
- (q) NK left the meeting.

POLB 17/40

Irrelevant

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Irrelevant

POLB 17/41**BACK OFFICE TRANSFORMATION (BOT)**

- (a) Rob Houghton, CIO joined the meeting and introduced the report.
- (b) RH explained the HRSAP and POLSAP migration to CFS and the ongoing risks of running POLSAP on old hardware. RH accepted that the hardware was likely to fail at some point but believed that there was enough resilience in place to continue without triggering the additional cost of early POLSAP infrastructure migration at this point. He would continue to monitor the situation and return to the Board in September at which point the decision could be taken on POLSAP migration.
- (c) The CFOO supported the approach and explained that a fully updated business case with costs and benefits would be presented at the September Board.
- (d) The Board noted the update provided and approved the £7.16m of additional funding drawdown, taking the cumulative investment to £8.91m to progress the programme to September.

POLB 17/42**CYBER ATTACK & HORIZON OUTAGE**

- (a) RH appraised the Board of the action taken following the recent cyber-attack which had notably affecting NHS systems. He reported that the Post Office was in a strong position and that likelihood of a breach had been very low.
- (b) The Board thanked RH and his team for their vigilance.
- (c) RH updated the Board on Horizon outage and explained that the

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root cause had now been identified as engineer failure in Fujitsu. FJ did not believe it was in any way malicious but have put additional controls in place.

- (d) The Board noted the update.
- (f) RH left the meeting.

POLB 17/43

FINANCIAL REPORT

- (a) The CFOO presented the financial performance report for period April 2017/18.
- (b) The CFOO reported that the Group Executive had been allocated budgets for the year and these included many challenges with £13m yet to be grounded in plans.
- (c) Period 1 had produced a strong scorecard, with branch numbers being the only area of slight concern. The numbers had slipped back slightly since year end but KG was confident that with momentum in the white space plan and the whole estate deals with the multiples, albeit towards the end of the year, the numbers would be achieved.
- (d) The Board noted the financial performance report for April 2017/18.

POLB 17/44

ANNUAL REPORT AND ACCOUNTS (ARA)

- (a) The CFOO introduced the paper and explained the delay in signing the ARA because of the lack of clarity about funding. Work was continuing to be ready for a July signing but if this was not possible then it would be likely to be November.
- (b) The Board debated the stakeholder response to a delay in signing the ARA, but agreed that it could not be signed without funding being in place.
- (c) Carla Stent, the Chair of the ARC explained that the ARC were comfortable with the Going Concern statement even if the ARA could not be signed until November, although the delay did not help with the net liabilities position as it had no impact on the balance sheet. The only part of the audit which EY had challenged was the discount rate used for the pensions' calculation, which they considered to be too prudent, but which the ARC were happy to support.
- (d) The CFOO explained that the EY would undertake a subsequent events review and update which would be more complicated with a November signing.
- (e) The Financial Statements were presented with a change to the treatment of fixed assets moving to an impairment basis.

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- (f) The Chair of Audit was pleased to report that EY had recognised the improvement in the Financial Controls which they believed had moved a long way in a year, while recognising the challenges and risks imposed by old systems.
- (g) The Chair of Audit explained that the front half of the ARA had not been written as the narrative would depend on the funding agreement.
- (h) The Board noted the draft financial statements and POL Briefing Book for the year ended March 2017.

POLB 17/45

Irrelevant

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**ACTION: Natasha
Wilson**

(h)

(i)

**ACTION: Ken
McCall**

(j)

(k)

Irrelevant

(l)

(m)

(n)

POLB 17/46

BOARD COMMITTEE CHAIR VERBAL UPDATES

(a) The CEO and CFOO re-joined the meeting.

(b) Audit, Risk and Compliance Committee

The ARC Chair provided an update on the business of the ARC which had met a week before the Board. Four points were noted:

1. The Tax Strategy would come back to ARC in the autumn including the treatment of R & D credits as the Business moves into profit

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2. The IT audit report had revealed a lack of ownership and control for joiners, movers and leavers.
 3. A small amendment had been made to the Modern Slavery Statement which would be published on the Post Office website. The ARC had challenged the Executive to be more proactive where possible especially with postmaster assistants
- (c) The CEO assured the Board that she now had a detailed plan to mitigate the risk highlighted by the IT audit. The CFOO acknowledged that the position was not good enough but reported that of the 1000 people who had left the Business through OSOP a very few had been left on the system for a short period of time, 4-5 days. A small overpayment of £23k gross and £12k nett had been made through payroll which was being recovered.
The problem had arisen because line managers had not completed the correct leavers' procedure but additional plans were now being put in place for all joiners, movers and leavers.
- (d) Remuneration Committee
KM provided an update on the Remuneration Committee which had met earlier in the morning.
- (e) Nominations Committee
TP provided an update on the Nominations Committee which had met earlier in the morning

POLB 17/47

Irrelevant

POLB 17/48

POLB 17/49

ITEMS FOR NOTING

(a)

Irrelevant

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Irrelevant

- (b) Register of Sealings
The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1502 to 1521 inclusive in the seal register was confirmed.

(c) **Irrelevant**

- (d) Meeting Dates and Forward Agenda for June 2017 Away Day
The Board noted the future meeting dates and proposed forward agenda.

POLB 17/50

ANY OTHER BUSINESS

- (a) There being no further business the Chairman closed the meeting.

GRO

Chairman

Date

25.7.2017