



Post Office Limited Board Meeting

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY HELD ON TUESDAY 31ST OCTOBER 2017 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 09:35AM

Present:	Tim Parker	Chairman (TP)	
	Richard Callard	Non-Executive Director (RC)	
	Tim Franklin	Non-Executive Director (TF)	
	Ken McCall	Senior Independent Director (KM)	
	Carla Stent	Non-Executive Director (CS)	
	Virginia Holmes	Non-Executive Director (VH)	
	Paula Vennells	Group Chief Executive (CEO)	
	Alisdair Cameron	Chief Financial and Operations Officer (CFOO)	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary (Secretary) (JM)	
	Marla Balicao	Minute Secretary (MB)	
	Martin Edwards	Group Strategy Director (ME)	(item 4&6)
	Rob Houghton	Group Chief Information Officer (RH)	(item 8 &9)
	Owen Woodley	Managing Director, Post Office Money (OW)	(item 5&8)
	Henk Van Hulle	Business Innovation Director (HVH)	(item 8)
	Jeff Smyth	CIO, Financial Services, Telecoms & Digital (JS)	(item 8)
	Jeff Lewis	IT Procurement (JL)	(item 9.1)
	Martin Hopcroft	Head of Health & Safety (MH)	(item 10)
Apologies:	None		

ACTION

INTRODUCTION AND CONFLICTS OF INTEREST

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.

1. MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

Minutes of the meeting of the Board held on 26th September 2017 were approved and authorised for signature by the Chairman.

The actions status report was noted as accurate.

2. CEO's REPORT

The Board noted the CEO report. In response to questions, the CEO made the following additional points:

- The strategic plan had been finalised and work was now underway on developing the 2018/19 operating plan. The CEO noted that Martin Edwards was over stretched and consideration was being given to providing further resource to support on the operational side. The Board discussed the additional skills set that would be required.
- Phase 1 of the Branch simplification went live on 19th September with little resistance and the benefits of efficiencies are being shared with Postmasters. Phase 2 is planned to go live in March 2018.
- The CEO and Public Affairs team had hosted the annual drop in session for MP's at the House of Commons on 18th October. The response from MPs was very positive with a significant change in tone as compared with previous events.

- The CEO also reported that she had met with the Secretary of State for Scotland and had discussed future plans for Scotland and 'Trapped Postmasters'. There are approximately 500 postmasters - predominantly in small communities - who wish to retire however no successor can be found to take on the post office, and they therefore do not qualify for payments under the Network Transformation programme. Further, they are unable to sell their retail business. It was noted that in these circumstances tax payer money cannot be used to fund retirement payments. The CEO advised that options were being considered as to how to address these postmasters as part of the network strategy, and the Chairman encouraged the CEO to consider commercial solutions could be as well as how social needs could be met in these circumstances, as well as continuing to meet the access criteria. He also queried whether there is an option to provide termination payments other than from tax payer funded sources.
- The CFOO reported that the Credence transition was improving however there were still material concerns. As daily sales data from Credence was critical across the peak Christmas trading season, transition activity would, if necessary, be halted until January in order to ensure continuity of data.
- The CEO noted that in her report she had flagged a recent colleague question regarding the commercial experience of the Board, and advised that this was a genuine question as many colleagues have little engagement with Board members other than the Chairman.
- There is ongoing engagement with Royal Mail to understand the likely impact of industrial action and the options to mitigate this impact. The Board queried whether collections by third parties had been considered. The CEO advised that space constraints in branches was a major issue which was being considered however we were struggling to get the right level of focus from RMG. The CEO stated that in her view the CWU would not be able to support an extended strike, however repeated short strikes would be possible.

3. FINANCIAL PERFORMANCE REPORT

The CFOO presented the P6 financial performance report covering September 2017.

The Board noted the financial performance report and in discussion the CFOO made the following points:

- Performance was in line with prior months and marginally ahead of budget.
- We are back on track to deliver full year EBITDAS of £28m, albeit with a different shape.
- Balance sheet headroom in P6 was £36m, £71m lower than budget with higher drawings on loans offset by lower NRF usage.
- Branch numbers were reduced by 16 this month and is now at 11,558 which is 75 behind target. YTD there have been 102 unplanned closures of which 55% are due to suspension over losses identified at audit. Still progressing 60/70 rolling audits as part of the branch technology roll-out, and to date there have been no material losses identified through this process.
- Of the £9m targeted for the 'growth fund' investable business cases had been received representing about half the fund.
- The performance of Moneygram was discussed and the CFOO commented that immigration patterns were changing as a result of Brexit impacting the pattern of remittances. Work is underway to review the strategy for the Moneygram relationship.
- The question was posed as to the expectations for the balance of the year. The CFOO noted that the budget gets harder in the second half of the year, however work undertaken recently supported the achievement of the £28m EBITDAS target. The Chairman noted that the Board needed better visibility of the delivery of major projects and the impact on expected performance in the current year and next year. The CFOO confirmed that programme spend had been delayed although the quantum had not changed.

The Chairman asked for the Board to be provided with a better view on the status of **AC**
current projects.

- The Board queried how the costs of the Postmaster litigation were being accounted for and whether these should be treated as exceptional. **The CFOO noted he would consider whether these could be shown so as not to adversely impact operational costs and will consult with the auditors on this.** **AC**
- The Chairman queried why performance was behind on mortgages, savings and Insurance. The CFOO noted that mortgages had improved during the month however we were dependent on BOI pricing models. The CEO added that she had requested that POMs develop an end to end plan now that they have a marketing director in place and right capabilities, as well as access to additional investment from the growth fund. She reiterated her view that the POMS Chief Executive had the right capabilities, however he needed more support. The Chairman noted that the insurance division should have big strategic goals in order to capitalise on the brand value and that he wanted to see more being done to ensure the benefits could be realised.
- The Chairman noted that the Board needed better visibility of the major business lines across Post Office as these were currently subsumed within the BU reporting. **The CEO noted that she was reviewing the current organisational structure and would provide a further update in November.** **PV**

4. STRATEGY UPDATE

The Chairman welcomed ME to the meeting to present the 3 year Strategic Plan for 2018-21. ME explained that the purpose of the Strategic Plan is to set out the overall financial and strategic outcomes we expect to deliver over the three years in return for £210m investment funding from the Government. The focus of the current update was to highlight changes since the draft discussed with the Board and UKGI in May. The following points were highlighted:

IRRELEVANT

- The Board discussed the need to focus on revenue drivers as well as the cost base, noting that a number of core products and markets are in decline so there needs to be a focus on new products that will address these gaps. The Chairman requested that management focus on both revenue drivers as well as costs ensuring that we have the necessary capabilities to deliver these. The main changes to the cost base would be driven by IT, simplification of the network, further franchising of the DMBs, and digital initiatives. He noted that these were the right areas of focus but queried whether more could be done in other areas. The CFOO noted that any further material reductions in the cost base must be driven by digitisation. The CEO flagged that two acquisitions opportunities were currently being considered, however reliance only on organic growth would not deliver sufficient change in the period.

- The Chairman noted that he would like more visibility of the separate businesses within in Financial Services such as Banking Services, Insurance, Payments and Travel Money and there should be increased focus on products that could deliver growth opportunities such as insurance. He also added it would be beneficial to have regular updates from the heads of these business lines, not just from the respective Chief Executives.
- Minor changes were suggested to certain of the slides within the pack.
- The Chairman noted it was a good plan and thanked ME for the good work done on this.

It was **Resolved** that the plan be **Approved** and submitted to the Shareholder.

The Board then went on to discuss the approach for setting STIP targets as well as the performance targets for the 2016-19 and 2017-20 LTIP schemes (both of which were midway through the performance period) and the schemes that underpinned the period for the 3 years strategic plan.

- The Board discussed a range of possible LTIP performance measures (which could include EBITDAS, free cash flow and/or IT transformation measures) noting that there was not yet agreement on these. It was noted that a further debate was required and that the Remco had not yet had a full discussion on the possible measures.
- **The Board requested that these be discussed at the next Remco and brought back to the Board for discussion and approval.**

AC

5. CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT

The Chairman welcomed Owen Woodley to provide the update on the Financial Services & Telecoms Performance Report.

The Chairman requested OW to focus on the areas of concern.

OW reported:

- At P6 FS&T is slightly behind budget (£4.5m, 2.5%) however is up 9% year on year. Key risks are the transparency requirements relating to POMS insurance premiums, and the Ofcom review and the consequential impacts on fixed line prices.

IRRELEVANT

IRRELEVANT The Chairman noted he would like to strategic options presented to the Board and that this should include an overview of this market. OW confirmed that he would be taking a paper to GE before the end of December and an update to Board would follow thereafter.

OW

- OW also reported that although delays in completing the New Call acquisition had impacted performance, migration has now been completed and overall the transaction had been successful.
- Travel Money Card relaunch was successful and the forex summer campaign in branch had been a success. However more work was required to understand the impact of FRES pricing in the online channel on overall performance and the resulting profit share to POL.

- The Chairman reiterated his previous concern that the performance reporting needed to be improved to provide greater clarity around activities. He noted that the reporting across different products was not on a like for like basis and this makes it difficult for the Board to get a view on product related costs, profit or contribution. **The Chairman asked for each key business line to be reported separately with specific commentary, and more information about competitor activity and market developments.** AC
- OW advised that the Banking Framework was performing well with Lloyd's business banking now having gone live. The Board queried the nature of the customer experience – for example on deferred checking. The Board also queried what impact the new business would have on margins and whether Post Office is making a sufficient return on the service taking into account the costs such as supply chain etc and the risk profile?
- **The Board requested the ARC to consider the systems and controls around the banking framework, and requested an update from the ARC in relation to the money laundering audit and the remediation work that had been undertaken.** CS/JM

6. IDENTITY STRATEGY

The Chairman welcomed back Martin Edwards with Jason Sheehy and Jon Evans to report on the progress on development of the digital identity services strategy. ME took the Board through the paper and reported on the following changes since the June away day:

- Digital identity is an example of a two sided market – an economic platform with two distinct sets of users (providers and consumers) who provide benefit to each other. Such markets are difficult to create and will require a proactive role to stimulate adoption on both sides. At the Board's request, we have engaged and worked with two leading external consultants, met with over 30 different organisations including prospective clients and partners, as well as reviewing the competitive landscape.
- We are developing the operating and delivery plans. Key to delivery will be to ensure that we have access to the necessary capabilities, and aligning with a partner that can deliver these is seen as key to implementation. There are a number of options as to how such a 'partnership' could work and we are considering what would be most viable.
- As set out in the paper there are a range of target markets for provision of a digital identity services, however banking and travel-related identity services are seen as key. TF noted that organisations such as the Land Registry also be considered given their need to validate identity to prevent fraud. In response to a challenge as to why Post Office considered it could make an impact in this market, ME noted the following 'reasons to believe':
 - Trust in the Post Office brand, as evidenced by the c50% market share which Post Office has on the government's Verify service;
 - Size and reach of the Branch network – 20% of the UK population still relies on paper documentation. Increasing requirements to validate identities will drive the need for physical/face to face identification, e.g. where an actual signature was required, biometrics such as finger print ID etc;
 - Post Office is seen as a 'neutral' participant as compared to other organisations such as the banks.
- ME noted that the initial proposition was based on 3 propositions:
 1. Travel – covering travel money (for AML purposes) and advanced passenger information;
 2. Banking - new account openings for immigrants;
 3. Government Services – universal credit groups, verify self-assessment returns.
- The board noted that the range of potential applications identified in the paper was very wide but all depended on being able to prove the proposition. ME noted that the Post Office

use case would be relevant given the need to be able to verify the identity of its own staff and agents.

- The Chairman summarised the Board view which was supportive of the proposal, however noted the need to move forward quickly to determine the necessary capabilities and how best to develop these with potential partners. **ME was asked to come back to the Board in March 2018, with an update on progress, including a tangible proposition.** ME

7.

8.

Irrelevant

9. IT UPDATE

9.1 Everest Update

Rob Houghton presented his paper with Jeff Lewis which proposed the realignment of the Post Office relationship with Fujitsu through the signature of a Memorandum of Understanding (MoU). He highlighted the following points:

- The current contract with Fujitsu commits us to £195m costs over the next 6 years. The proposed MOU allows Post Office to move away from fixed pricing and onto a variable arrangement for hosting and maintenance. Post Office remains committed to the total spend with Fujitsu, however savings from the move to variable pricing will be available for investment principally to fund the transition to cloud architecture and the development of HNGT. Where Fujitsu are unable to deliver an appropriate technical solution (such as for cloud architecture) Post Office would be able to source solutions from other third parties.

- RH noted that parts of the MOU are expressed to be binding, however these obligations are mainly applicable to Fujitsu. Further the tone of engagement within Fujitsu has been very positive and we are seeing increasing willingness to work proactively with us.
- RH noted that once the MOU was signed, we would then work to deliver the necessary contractual changes
- The Chairman thanked both RH and JL for the work to date and noted that this revised arrangements puts Post Office in a much better position and will have a major impact on the restructure of the cost base.

It was **Resolved** that the Board **approve** the signature of the MoU and authorised the negotiations of the detailed contract changes to support the agreed principles, including the creation of Digital Delivery Services.

9.2 Security Operations Centre (SOC)

Rob Houghton tabled the business case for the implementation of Security Operations Centre (SOC) to be sourced through Verizon and which will enable the Post office to develop and deploy cybersecurity capability across the IT estate, including all of the outsourced IT and network supply chain. The Chairman asked if the Board had a choice and if it was necessary. RH stated that the Post Office needed a SOC and that it would proactively protect Post Office against any cybersecurity threat.

KM asked why was it managed in Germany. RH replied that Verizon's first line defence team was based in Germany and that his team had visited the Verizon operations in Germany as part of the assessment. It was noted that the impact of Brexit on European based services would need to be considered.

It was **Resolved** that the business case for the implementation of SOC be **approved**.

10.

Irrelevant

Irrelevant

11. ITEMS FOR NOTING

11.1 Sealings

It was **Resolved** that the affixing of the Common Seal of the Company to documents numbered 1576 to 1591 inclusive in the seal register was confirmed.

11.2 Future Meeting Dates

The Board noted the future meeting dates.

12. AOB

- 12.1** There being no further business the Chairman declared the meeting closed at 13:04pm.

GRO

Chairman

23/11/17
Date