



**Post Office Limited
Board Meeting**

**MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD
ON MONDAY 29TH JANUARY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT
12.15PM**

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 (JM)	
	Marla Balicao	Minute Secretary (MB)	
	Tom Cooper	UKGI Observer (TC)	
	Debbie Smith	Chief Executive, Retail (DS)	(items 5,6,7&8)
	Cathy Mayor	Finance Director, Retail	(item 5 & 7)
	Martin Kirke	Group HR Director (MK)	(item 6)
	Julie Thomas	DMB Programme Director	(item 6 & 8)
	Tom Wechsler	Programme Manager Mediation Scheme (TW)	(item 7)
	Andrew Goddard	Head of Payment Services (AG)	(item 7)
	Rob Houghton	Group Chief Information Officer (RH)	(item 9)

Apologies: None

ACTION

1. INTRODUCTION, CONFLICTS OF INTEREST, MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

- 1.1 A quorum being present, the Chairman opened the meeting.
- 1.2 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.
- 1.3 Minutes of the meeting of the Board held on 23rd November 2017 were approved and authorised for signature by the Chairman.
- 1.4 The actions status report was noted as accurate.

2. CEO's REPORT

- 2.1 The Board noted the CEO report. In response to questions, the CEO made the following additional points:
- 2.2 (a) PV noted that strong performance overall during Christmas period for retail and that DS would cover in more detail in her report.
- (b) PV gave an update on Peregrine and that negotiations have been positive since the arrival of new Group CEO. They are keen to do a deal and hope to get formalised by the end of February. They have accepted the cost base but



Post Office Limited Board Meeting

- don't want to change the contract but are happy to do work arounds. Also up for discussion is the new commercial construct of FRES.
- (c) PV reported that MK has done a stunning job with Success Factors ("SF") which launched on 8th January with only a few teething problems. Payslips are due to be available on SF this week. Overall feedback has been positive.
 - (d) PV reported that she met with Stephen Jones, CEO UK Finance in December and on 24 January sent a joint response in relation to the Banking Framework.
 - (e) Union Activity – RMG have signed a deal with the unions details of this deal still to be announced.
 - (f) PV noted that L300 event was taking place tomorrow with three main areas of discussion around IT Strategy, wider digitisation and people change. The focus on strategy within the business and key priorities. It was noted that there would be an afternoon session on decoding, to get people comfortable with technology.
 - (g) PV informed the Board that due to Prime Minister's reshuffle, we have a new Postal Minister – Andrew Griffith MP. This is still to be confirmed officially and PV is still to meet him.
 - (h) PV reported some personnel updates. Martin Kirke, Group HR Director is going to retire later this year and a search for his replacement has started. Debbie Smith joined as Chief Executive, Retail on 8th January and has hit the ground running.
 - (i) TP asked if we were to receive compensation from Gemalto in relation to the disruption to our AEI services in December. PV responded that they had been compensated and a paper went to the ARC this morning on this matter.

3. FINANCIAL PERFORMANCE REPORT

- 3.1 The CFOO presented the P9 financial performance report covering December 2017. The Board noted the financial performance report and in discussion the CFOO made the following points:
- 3.2
- (a) Balance sheet headroom in P9 was £127m which was £129m worse than P8 due to Christmas trading, but £36m better than forecast.
 - (b) Strong Christmas trading with £6.8m EBITDAS, giving us a £1.7m upside against forecast.
 - (c) AC noted that POMS were still behind by £(0.5)m predominately due to profit share not being met. Struggling performance of ATMs and availability has fallen. 420 ATMs have been experiencing issues resulting in 65% availability. This is primarily due to cash jams following the introduction of new £10 notes. The Board discussed the future of ATMs and the shrinking industry it was in. AC noted that this was part of the cash strategy which would be coming to back to the Board in May.
 - (d) KM asked about the 'trapped Postmasters' and PV responded that this would be coming back to Board at the end of the financial year.
 - (e) AC noted that white space branches are growing and doing well.
 - (f) Project spend is below forecast as a result of the delay in DMB franchising announcement.
 - (g) KM asked if AC was more confident around staff costs as the cost base looked disappointing. AC responded that there had been a mixture of factors relating to this. Started the year with lower FTE and been maintaining control but some places such as depots we had to put more people in as had cut too much.



Post Office Limited Board Meeting

AC explained that we need to change through technology such as getting POLSAP and HNGX out.

4. ANNUAL BUDGET 2018/19

4.1 The CFOO presented the Annual Budget for 2018/19 and highlighted the following:

- 4.2
- (a) The focus of the paper was on EBITDAS. The GE had reviewed progress in December and January and detailed budget reviews were due to start next week.
 - (b) AC noted that when the 3 year plan was signed off in October, the Board were happy with the EBITDAS of £40m for 2018/19 but due to accounting changes and Sparrow costs now being excluded it has increased. A recommendation of £47m would be consistent with 3 year plan.
 - (c) The Board felt £47m was quite conservative and should be at least £50m. TF commented that the FS&T revenue lines were disappointing. AC noted that POMS have been struggling to meet their numbers but a plan in place to do online marketing and still expect to see growth by next year. PV added that a new marketing director has been appointed and should improve marketing overall for POMS.
 - (d) TF expressed he thought the Mortgage business should be doing better as it other non-brands mortgages were doing better than £1.8M. KM added with these numbers should we be in this business. TP noted it was an intensively competitive market and maybe we should be focusing on the insurance business.
 - (e) TP noted that he would like a 5 at the start of the number and that the growth fund needs to be looked at and to also have a contingency. He went on to say he was encouraged by initiatives and projects planned which will deliver great benefits for the PO and is the way forward.
 - (f) The Board discussed the Retail business and questioned how the Mails business be more profitable. **PV noted that the Mails strategy was being worked on by Debbie Smith who recently joined in place of Kevin Gilliland and would be covered in June for the away days but would also like to bring back in March.**
 - (g) AC noted that with regards to the STIP he wanted to make it different from LTIP and that this proposal would be discussed at RemCo in February and brought back to the Board for March. The GE had debated supplementing a retained EBITDAS with two critical pieces of delivery: getting us off deteriorating infrastructure by replacing POLSAP, HRSAP and HNGX; and creating customer hub functionality with products available for customers in Travel and Identity. The gateway measure could be retaining more than 11,500 Post Offices.

DS

5. CE PERFORMANCE REPORT – RETAIL SBU

- 5.1 The Chairman welcomed Debbie Smith, the new Chief Executive for Retail and Cathy Major to the meeting to introduce the Retail performance report and noted the paper.
- 5.2 DS noted that 2 weeks ago she attended the opening of the first 24 hour branch in New Oxford Street.



**Post Office Limited
Board Meeting**

5.3 CM reported on the following:

- a) Christmas was very strong with a growth rate of 2% which was better than previous year.
- b) Christmas trading came later in week 39 this year as consumers appear to be leaving things later.
- c) Customer services levels improved year on year.
- d) The no queues at Christmas initiative brought wait times down by 2 minutes an improvement by 4%.
- e) Continued growth on home shopping returns and local collect which help offset ongoing decline in stamps.
- f) Trends positive with £3m upside and forecasting £7m ahead of budget this year.
- g) The Board brought up the discussion of Agents pay and it was agreed DS would be looking into this and come back to the Board in June with a strategy.

6. DMB STRATEGY

6.1 The Chairman welcomed Julie Thomas and Martin Kirke to the meeting.

6.2 The following points were highlighted to the Board:

- a) DS noted to the Board that it was clear that DMB's are not profitable or meeting our customers' needs and have looked at options to reduce costs and in particular people costs through Project Jay. DS noted that the DMB strategy proposed today will be over a three year period.
- b) JT reported that the Franchising Programme that they propose today has been designed to franchise all 227 DMB's and staff over a three year period.
- c) JT explained the two stage franchise model. The process would sequence the DMB exit first by using the current DMB property estate with flexible lease terms to host interim franchise branches, managed and staffed by temporary operators. This will enable immediate staff cost savings while the recruitment of the long-term operator and branch location is progressed in parallel.
- d) JT noted that they currently they have 3 temp operators interested who are well established organisations who can manage 30 branches at the same time. It is an attractive proposition for them with low risk and low investment.
- e) The Board asked about the impact on the employees and how much disruption this would cause. JT responded that they would start the staff consultation process by telling them about new Branches being advertised in the area and the strategy of replacement of DMB's over the next three years.
- f) TP noted that structurally this is the right thing to do and would change the nature of the business and benefits to our customers.
- g) JT requested approval from the Board to progress the Franchise Programme with the immediate funding of £23.1m for 2018/19, which would allow us to continue our Franchise Programme in 56 branches.

6.3 It was **RESOLVED** that the progression of the Franchising Programme be approved as well as the drawdown of the first year of funding of £23.1m for 2018/19.

7. PROJECT PANTHER

**Post Office Limited
Board Meeting**

- 7.1 The Chairman welcomed Tom Wechsler and Andrew Goddard to the meeting.
- 7.2 DS started by summarising the benefits of the Project Panther and TW and AG took the Board through the progress of negotiations to date. The following points were discussed:
- TW noted that the biggest hurdle would be CMA submissions as if this deal were to go ahead we would have a greater market share and was working with the legal team in anticipation of this.
 - The technology of Payzone was raised and AG reassured the Board that the due diligence undertaken had been very thorough and there would be added security costs on implementation. There was also potential value add from their technology and an opportunity cost on building on their technology.
 - RC asked if State Aid would be an issue with CMA and JM noted that the PO has enough money coming from revenue to fund this so no State Aid was required.
 - The Board discussed the implications of this deal and were in agreement that this was a rare opportunity for PO and makes sense to go ahead with deal.
 - TW and AG asked the Board's approval to continue working along the lines set out in their paper presented today with a view to an additional Board call in February. This call would, subject to the work underway, seek to confirm the valuation, satisfy outstanding questions and recommend that we proceed to signing Heads of Terms.
- 7.3 It was **RESOLVED** that the Board approved the progression of Project Panther in line with recommendations set out in the Board paper. It was further agreed that once valuation had been confirmed and outstanding questions resolved then a further Board meeting be called in February to sign Heads of Terms.

8. EUM

- 8.1 The Chairman welcomed Julie Thomas back to the meeting to present the replacement business case for EUM paper.
- 8.2
- JT started by explaining that since the Board approved the initial EUM business case of £7.8m in January 2017, it has since become clear that a key design assumption that all training could be delivered through Success Factors is not correct as the current Horizon system does not support web-enabled training.
 - This updated Business Case requests £2.53m of additional funding to deliver: new IT developments needed to ensure EUM will work for agents using the current Horizon system.
 - Approval of funding will allow the programme to rollout to the entire network of c11,600 branches by November 2018 with a workable design, allowing us to be fully compliant with all relevant sales-related regulation.
 - The Board noted their concerns over the delay in the roll out of this programme but also felt lessons have been learnt and this was needed to be done.
- 8.3 It was **RESOLVED** that the Board approved the revised scope and business case which included the funding requested at this stage of £2.53m, including an

**Post Office Limited
Board Meeting**

immediate draw down of £1.3m. The Drawdown of the balance £1.23m in due course should be brought to the Investment Committee.

9. BACK OFFICE TRANSFORMATION

- 9.1 The Chairman welcomed Rob Houghton to the meeting and the CFOO presented the replacement Back Office Transformation business case.
- 9.2
- The CFOO gave an update on the progress of Back Office Transformation since the September update and to explain the proposed changes to the Business Case with a request for the next drawdown of funds that will allow the programme to complete Phase 1.
 - Phase 1 remains focused on ensuring we exit from POLSAP by June 2018, delivering as much transformation as possible. In the next 2 months we expect to deliver: Agent Remuneration process transformation & data migration from HRSAP to CFS and Cash Processing functionality migrated from POLSAP to Transtrack for Belfast cash centre (soft launch).
 - It was noted that while costs have remained relatively flat (up £0.3m), annualised IT benefits have reduced by £0.8m to £3.1m.
 - RH noted that in the CTO space there was a gap in architecture skills and this has been resolved with a much better operational team in house now in place.
- 9.3 It was **RESOLVED** that the Board approve revised business case and additional £5m drawdown of budgeted spend to enable the completion of Phase 1, noting the reduction in IT cost benefits.

10. BOARD COMMITTEE CHAIR UPDATES (VERBAL)**10.1 ARC**

CS provided the following update:

10.2 R&CC

KM provided a update and noted the following:

11. ITEMS FOR NOTING**11.1 Sealings**

It was Resolved that the affixing of the Common Seal of the Company to documents numbered 1604 to 1636 inclusive in the seal register was confirmed.

11.2 Health & Safety

The Board noted the report. The CFOO noted that they were doing more around threats of violence on staff and a deep dive would be undertaken and come back to the Board. Body cameras were being trialled and as result fewer attacks on staff

**Post Office Limited
Board Meeting**

have been observed.

11.3 Conflicts of Interests

The Board noted the future meeting dates and January's agenda.

11.4 Meeting Dates and Forwards Agenda

The Board noted the future meeting dates and January's agenda.

12. AOB**12.1 Bank Ring-Fencing Changes**

The Board previously approved Post Office entering into a Facilities Agreement dated 26 November 2015 with the Royal Bank of Scotland plc (RBS) under which RBS makes available: a £400m intra-day facility; a £350m overnight NRF facility (for the purpose of providing overnight collateral to the Bank of England); and a £1m collateral facility used in connection with our crime insurance (Facilities Arrangement). (See Schedule 1.)

As a result of the UK government's ring-fencing requirements which come into force on 1 January 2019, RBS has to restructure their activities and legal entities (which includes the National Westminster Bank plc (Nat West). Nat West will sit within the ring-fence of retail & business banking within the RBS Group.

Consequently, POL needs to enter into an Amended and Restated Facilities Agreement with RBS and Nat West to allow Nat West to provide the Facilities Arrangement going forward.

IT WAS RESOLVED THAT:

- 1) The terms of and the entry by the Company into the Amended and Restated Facilities Agreement with RBS and Nat West ('ARA') and the other 2018 Ring-fencing Documents, and all other documents which are required to be entered into by the Company from time to time in connection with or pursuant to any of the foregoing (the "Ancillary Documents"), be and are hereby approved;
- 2) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to agree such amendments (whether additions, deletions or other changes) to the ARA and the other Ring-fencing Documents and the Ancillary Documents as they shall deem appropriate subject to them being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity (and whether such amendments are agreed before such documents have been entered into or are agreed after such documents have been entered into and are effected by entering into new documents or otherwise);
- 3) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to execute and enter into (and in the case of any deed, to execute and deliver) the ARA and the other Ring-fencing Documents and the Ancillary Documents (including any and all amendments as detailed in the preceding paragraph);



**Post Office Limited
Board Meeting**

- 4) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to do all such acts and things as may be required in connection with the ARA and the other Ring-fencing Documents and the Ancillary Documents (and any such amendments thereto) and to carry into effect the purposes of the resolutions passed at this meeting, and to give or execute any notices, communications and other documents on behalf of the Company in connection therewith;
- 5) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to approve and execute other documentation with any other UK regulated bank which is of a similar nature and has a similar effect as the ARA and the other Ring-fencing Documents and the Ancillary Documents, and to which the Company and such other UK regulated bank (being one of the Company's bankers) is a party subject to the CFOO being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity, and the terms of these resolutions shall be deemed to apply equally to such other documentation as if passed specifically in respect of thereof.

12.2 Postmaster Litigation Update

JM provided the Board with a verbal update on the Postmaster Litigation. (JM to provide)

There being no further business the Chairman declared the meeting closed at 16:00pm.

.....
Chairman

.....
Date