

Post Office Limited – Strictly Confidential

POLB 16(7th)
POLB 16/43 – 16/52

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

Minutes of a Board meeting held at 9.30am on 25 July 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Rob Houghton	Chief Information Officer (<i>Minute POLB 16/47</i>)
Nick Kennett	Director of Financial Services (<i>Minute POLB 16/48</i>)
Martin Kearsley	Banking Director (<i>Minute POLB 16/48</i>)

Apologies:

None

POLB 16/43

INTRODUCTION

- (a) The Chairman noted that a quorum was present and opened the meeting.
- (b) Each Director confirmed that they had no conflicts of interest in relation to the business to be considered at the meeting.

POLB 16/44

MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the meeting of the Board meeting held on 24th May 2016 and the Extraordinary meetings held on 29th June and 11th July 2016 were approved as accurate records and the Chairman was authorised to sign them.
- (b) The minutes of the Audit, Risk and Compliance Committee meeting held on 17th March 2016 were noted.
- (c) The minutes of the Post Office Advisory Council meeting held on the 6th July 2016 were noted.

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- (d) The notes of the Board Away Day on 29th and 30th June 2016 were noted.

Status Report

- (e) The Board noted the Status Report dated 18th July 2016.

POLB 16/45

CEO REPORT

CEO Report

- (a) The CEO introduced the CEO Report, focusing on the following key points:
- (b) **Period 3 results.** The results remain on track, but there are risks for the rest of the year, driven by the effects of BREXIT, lower interest rates and continuing world events. Uncertainty in foreign exchange markets, has meant that FRES has introduced cost contingencies into their plan.
- (c) **Industrial Relations.** The CWU has embarked on a campaign to highlight the Directly Managed conversion programme, the Supply Chain changes and the pension proposal, including a 'battle bus' travelling between sites collecting signatures for a letter which has been sent to the Secretary of State. The campaign is built on the premise that the Post Office is in crisis which has led to the changes. The CEO explained that despite continued meetings the CWU were likely to hold a ballot for industrial action and call a strike at the end of August.
- (d) The CFO explained that although IRIS was still in consultation it was progressing well, with 67% of staff taking part in an exercise to establish the appetite for voluntary redundancy should the proposal go ahead. External Customers had not yet been served notice, but to date there was no evidence that they were withdrawing from contracts earlier than expected.
- (e) The Unite union had agreed a pay deal for junior and middle managers, although they continue to challenge the proposal for changes to the DB pension.
- (f) **Pensions.** The Pension Trustee has sent a series of questions to the Business to clarify the recommendation to close the DB pension scheme in March 2017, and to ensure that the analysis and Business Plan presented is robust. The next Trustee Meeting will be held in September.
- (g) **3rd Party Fraud.** The CFO explained the background to the fraud which had taken place over the last 18 months, the detail of which would be discussed at the ARC. The Chairman stressed that the ARC would need to be satisfied that controls were now in place. The CFO promised that the lessons learned from the incident

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would be brought back to the ARC in September.

- (h) **Transformation Report.** The Board noted the red status of the Back Office IT transition. The CFO explained the timing issues and the context of wider Back Office change.
- (i) The Board noted the CEO report and the Transformation Report.

POLB 16/46

FINANCIAL REPORT

ACTION: CFO

- (a) The CFO introduced the Financial Performance Report for Period 3, June 2016, and reiterated the emerging risks which the CEO had highlighted. An example being the predicted interest rate cut which could cost the Business £5m pa in POca interest.
- (b) **The Board recognised the opportunities in the re-mortgage market and asked the CFO to ensure that pressure was kept on the FS targets.**
- (c) The CFO explained the movement in cash flow driven by the additional £265m prefunded cash in the network as a contingency ahead of IRIS. Tighter cash flow forecasting controls were now in place which had led to a reduction of c.£40m in future borrowing requirements.
- (d) The Board discussed the scorecard, and the measure of internal senior manager appointments. The CEO supported the intention of the measure but stressed that some specialist areas, where the Business needed to strengthen its capability, would continue to require external recruitment. The Board asked if the external recruitment would put pressure on the staff costs budget but were reassured that this would not be the case as in most cases the new recruits would be replacing interim appointments. The Board recognised that the measure could be helpful for management but did not consider it a primary measure on the scorecard.
- (e) The Board noted the financial performance report.

POLB 16/47

TECHNOLOGY STRATEGY

- (a) The Chairman welcomed Rob Houghton, CIO, to the meeting.
- (b) The CIO introduced the Technology Strategy for January 2017, highlighting the three areas on which he was focusing: improving IT functionality; reducing cost; and enabling the wider Business strategy. The CIO explained the immediate need to improve the performance of IT by greater visibility of live performance an understanding of the risks and an improvement in controls.
- (c) The Board discussed the operating model and asked the CIO his opinion on the outsourced model and the service provided by the suppliers. The CIO believed that some control had been lost by

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outsourcing and would like to bring back in house control of IT security, architecture and delivery. The CFO explained that the ATOS integrator contract was due for renewal next year, which would give an opportunity to change. The Board asked for more clarity on the commoditised areas which remain outsourced, and the areas which require more control and should be insourced.

- (d) The CIO recognised that the £104m cost base was too high and that he would be looking for opportunities to reduce the cost but explained that there was little leverage in the existing contracts and any changes would be difficult to negotiate. However there were areas where specifications could be changed to reduce the cost and the ongoing cost base. The Board would welcome a business case which invested money upfront to reduce future cash flows.
- (e) The Board recognised the size and complexity of the Fujitsu (FJ) contract and believed that this should be an area of focus. The CFO agreed and explained that he and the CIO were escalating conversations within FJ to look at the speed of change and the run costs. The CFO reminded the Board of the procurement risk discussed during the Trinity process and the lack of flexibility around the FJ contract which needed to be carefully managed.
- (f) The Board discussed the digital developments and the need to focus on business propositions which deliver value. There was agreement that the core digital proposition and customer journeys needed to improve before the Business should consider My Post Office and cross sell activity. It was acknowledged that the Business had delivered some good FS growth through the online channel.
- (g) **The Board asked the CIO to update the principles highlighted in the paper to ensure they were business focussed; based on reducing costs; were clear on security; and improving customer journeys.**
- (h) **The CIO agreed to present a paper on IT security and IT risk appetite to the ARC.**
- (i) **The CIO explained his plan to work to closer 6 month time horizons. The Board asked the CIO to come to the Board every 6 months to ensure they are updated on the progress**
- (j) The CIO recognised that his team was currently under strength but gave assurance that good progress was being made to introduce new people and strengthen the capability.

ACTION CIO

ACTION: CIO

ACTION: CoSec/CIO

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- (k) The Board supported the direction set out in the Technology Strategy document, requesting an update on IT security (at the ARC), and a further strategy update in January 2017.
- (l) The CIO left the meeting.

POLB 16/48

BANKING FRAMEWORK

- (a) The Chairman welcomed Nick Kennett, Group Director of Financial Services, and Martin Kearsley, Banking Director, to the meeting.
- (b) Nick Kennett explained the progress to date and updated the report by announcing that Lloyds Bank had now returned a signed letter and that he was confident that HSBC were about to the same. The Head of the Retail Bank at RBS had also given his internal sign off. Nick Kennett assured the Board that the set of terms and services applied to all participants and that the side letter gave the Post Office no additional liabilities.
- (c) The Board congratulated the team for the work and asked them to ensure effective communications at the appropriate time. The CEO would also mention the progress to The Minister at their meeting.
- (d)

The Board approved that the Banking Framework be established, operating from 1st January 2017 and delegated authority to the CEO (or in her absence, the CFO) to:

- approve:
 - (i) the pro forma Framework contract to be entered into with each bank that wishes to become part of the Banking Services Framework; and
 - (ii) any Side Letters relating to the Framework contracts with each such bank;
- in particular, approve the entry into the Framework contract and Side Letter between Post Office and the banks whose projected commission to Post Office exceeds £5.0 million per annum (anticipated to be HSBC, Santander, Barclays and Lloyds) as well as other banks that wish to join the Banking Services Framework; and
- authorise the execution of each of those Framework Contracts and Side Letters by Post Office Limited in accordance with Post Office Limited's normal signing processes.
- (e)

Martin Kearsley left the meeting.

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PROJECT PEREGRINE

- (a) Nick Kennett presented the Project Peregrine negotiation mandate as set out in the paper circulated to the Board. He explained the areas which Bank of Ireland (BoI) would want from

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the negotiation along with those which were important for Post Office. Nick Kennett clarified that Post Office would not seek to renegotiate the complete FSJVA but make amendments as required to reflect an agreed position with Bol; as a result the change of control and termination and exit clauses would remain unchanged. Nick Kennett added, however, that Bol would potentially seek to make changes to those provisions.

- (b) The Board recognised that the value of FRES would likely be the most contentious issue in the negotiation but that is critical for Post Office to achieve a significant increase in value from the business.
- (c) Nick Kennett was asked to ensure that Bol understood the importance to Post Office of getting the right value from FRES in return for changes to the banking contract, especially extending the term beyond 2023.
- (d) The Board noted that a failure to reach an acceptable outcome to both Parties would likely result in the relationship with Bol stagnating and Post Office generating lower income through to 2023. Nick Kennett reiterated the potential implications set out in the documents shared with the Board at the June strategy away day.
- (e)

The Board supported the approach. The Chairman and CEO offered to meet with their Bol counterparts to initiate the negotiation.

POLB 16/50

UPDATE FROM BOARD COMMITTEES (VERBAL)

- (a) **Audit Risk and Compliance Committee**
The Chairman of the ARC updated the meeting on the areas which the ARC had discussed including the Horizon outage and the fraud which had delayed the signing of the Annual Report and Accounts (ARA). It was hoped that the ARA could be signed at the ARC meeting following the Board, after feedback from EY on their additional work. Lessons learned from both issues would be presented at the September ARC.
- (b) **Remuneration Committee**
The Chairman of the RemCo updated the meeting and explained that the 2016/17 STiP conditions had been agreed by the Minister but were still awaiting Treasury sign off. The recalibration of the LTiP for 2016/17 and agreement for 2018/19 still needed to be done.

The Chairman of the Remco stressed the need for rigour in the accuracy of the 2016/17 final EBITDAS outturn as this would drive the LTiP and STiP bonuses paid and asked whether the external auditors be asked to sign off the fact that the bonuses had been earned.

It was agreed that the CFO would prepare a RemCo paper on

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ACTION: CFO

this issue.

POLB 16/51

ANY OTHER BUSINESS

ACTION: CEO

(a) Health & Safety

The Board noted the current safety and wellbeing performance and risk reduction opportunities. **The Board asked for more detail at the next meeting on the fire risk highlighted in the report. The CEO promised to update the Board by email in the interim.**

(b) Sealings

The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1422 to 1431 inclusive in the seal register was confirmed.

(c) Confirmation of 2017 Board and Committee dates

The Board confirmed the Board and Committee dates for 2017, with the exception of May 30th which would be changed. Board dinners would be held on the evening preceding the Board in January, March, May, July, September and November.

ACTION: CoSec

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CLOSE

- (a) There being no further business, the Chairman declared the meeting close.**

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Chairman

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Date