

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

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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.

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CEO REPORT

CEO Report

- (a) The CEO introduced the CEO Report, focusing on the following key points:

Irrelevant

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- (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 Irrelevant 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 Irrelevant 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 Irrelevant 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 and 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 outsourcing and would like to bring back in house control of IT security, architecture and delivery. The CFO explained that the

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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 **Irrelevant** 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.**
- ACTION CIO**
- (h) **The CIO agreed to present a paper on IT security and IT risk appetite to the ARC.**
- ACTION: CIO**
- (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**
- ACTION: CoSec/CIO**
- (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.

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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

Irrelevant

POLB 16/49

Irrelevant

- (a) Nick Kennett presented the Project Peregrine negotiation mandate as set out in the paper circulated to the Board. He explained the areas which **Irrelevant** would want from the negotiation along with those which were important for Post Office **Irrelevant**

Irrelevant

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(b)

(c)

(d)

Irrelevant

- (e) The Board supported the approach. The Chairman and CEO offered to meet with their BoI counterparts to initiate the negotiation.

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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 this issue.

ACTION: CFO

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ANY OTHER BUSINESS

(a)

Irrelevant

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ACTION: CEO

Irrelevant

- (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.

GRO

Chairman

Date

29/09/2016

