

Post Office Limited – Strictly Confidential

POLB 16(8th)
POLB 16/62 – 16/71

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

Minutes of a Board meeting held at 9.30am on 25 October 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
Martin Edwards	Director of Strategy (<i>Minute</i> POLB 16/66 and POLB 16/67)
Mark Davies	Corporate Affairs Director (<i>Minute</i> POLB 16/66)
Nick Kennett	Group Financial Services Director (<i>Minute</i> POLB 16/67)
Rob Houghton	Chief Information Officer (<i>Minute</i> POLB 16/67)
Jonathan Hill	Head of Risk, Banking, Regulation and Strategy, Financial Services (<i>Minute</i> POLB 16/67)
Owen Woodley	Sales Director (<i>Minute</i> POLB 16/67)
Chrysanthi Pispinis	Financial Services Corporate Development & Governance (<i>Minute</i> POLB 16/76)
Neil Hayward	Group People Director (<i>Minute</i> POLB 16/68)
Natasha Wilson	Director of Reward and Pensions (<i>Minute</i> POLB 16/68)

Apologies:

None

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INTRODUCTION

- (a) The Chairman noted that a quorum was present and opened the meeting.
- (b) 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 16/63

MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the Board meeting held on 29th September 2016 were approved as an accurate record and the Chairman was authorised to sign them.
- (b) The Board noted the Action Status Report.

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(c)

Irrelevant

(d)

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CEO REPORT

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

(b) Period 6 Results: Performance continued to be challenging and although the CEO remained reasonably confident that the full year EBITDAS target would be delivered, the gross income trend remained a concern.

(c)

Irrelevant

(d)

(e) POca: The CEO explained that the details of the supplier contract would be presented at the November Board meeting. The Board asked the CEO to ensure that a wide range of options for payment provider be considered.

(f)

Irrelevant

(g)

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Irrelevant

Transformation Report

- (h) The Board noted the Transformation Report. Transformation risk would now be included as a standard agenda item for the ARC and **the Board asked that the ARC specifically consider:**

- The aggregated cost and burn rate compared with business cases and budgets; and
- The impact of IR35, 'off payroll' working, the impact and risk mitigation.

ACTION:
David Hussey

- (i) The Board noted the CEO report.

POLB 16/65

FINANCIAL REPORT AND UPDATE ON THE DEVELOPMENT OF THE P6 RESULTS.

- (a) The CFO introduced the Financial Performance Report for Period 6, September 2016. The CFO was forecasting that the Business would hit the EBITDAS target for the year, but good Christmas trading would be key to delivering the £-10 million.
- (b) Cash flow headroom had not improved as predicted in P6 as additional cash had remained in the network after the strike contingency planning. However this position had been recovered during P7.
- (c) The Board discussed the Working Capital Facility and the opportunity to reduce the cash strain on the Government as part of the funding negotiation. The CFO explained that the most difficult areas to manage were coin distribution and Foreign Exchange cash. However if postmasters were incentivised to change their behaviour this could facilitate another change in supply chain demand and free up cash to use elsewhere.
- (d) The CFO explained the additional pressure on the 2017/18 target of £28m, which would flow into the baseline for the strategy and funding plan. The Board agreed that it was important to have a realistic baseline for the plan, and asked the **CFO to provide trend income analysis in the Financial Reports to enable the Board to monitor the income streams**. The Board recommended that the 2017/18 budget should be realistic and based on flow through from the 2016/17 operational outturn, with initiatives to deliver the contingency to get back to the £28m target.
- (e) The Board approved the P6 Income Statement, Balance Sheet, Cash, Headroom and Forecast positions
- (f) The Board noted that external supply chain activities have been reclassified as discontinued operations subject to Ernest Young's (EY) agreement.
- (g) The Board agreed that from P7 Actuals v Forecast comparisons would be monitored.

ACTION: CFO

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STRATEGIC PLAN TO 2020/21 AND FUNDING REQUEST

- (a) The Chairman welcomed Martin Edwards, Director of Strategy and Mark Davies, Corporate Affairs Director, to the meeting.
- (b) Martin Edwards presented an overview of the 2020/21 strategy, explaining the financial consequences of the counterfactual case as opposed to achieving commercial sustainability through funding a major cost base restructure.
- (c) The Board discussed the proposals and stressed the need to strengthen the explanation and narrative behind the counterfactual case and to include ranges within the projections.
- (d) The CEO recognised that because of the good work done to date in delivering Network Transformation, and the current stability of the network, it would potentially be difficult to persuade Ministers that there was still a cost base crisis which needed to be addressed.
- (e) The Board asked for assurance that the necessary evidence was available to support the funding case. The CFO explained that the Group Executive had worked through and agreed the assumptions in the plan, which were supported by market analysis and business cases. The BEIS team had employed KPMG to review the funding request and Martin Edwards would work closely with Richard Callard and his team to present the case.
- (f) The Board discussed the revenue projections and agreed that the business had to aim to be sustainable without relying on FS growth. **The Board asked Martin Edwards to consider how the size of the network could be used to deliver income through an access fee, similar to that for paid for the banking framework or identity products.**
- (g) The Board recognised the uncertainty within the income projections included in the plan, but stressed that the cost base remained more in the control of the business. The funding narrative needed to make it clear that it would be impossible to change legacy IT systems and reduce the cost base without funding support from the Government.
- (h) The Board discussed the segmentation of the network into commercial and social branches and possible changes to how these could be funded. It recognised that product simplifications and a reduction in postmaster remuneration would put pressure on some postmasters, but believed that there could be an opportunity to restructure the franchise to sell it more as a footfall generator.

ACTION:
Martin Edwards

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- (i) The Board agreed with the four success criteria set out in the narrative document, namely that by supporting funding the Government would secure:
- A growing, flourishing network – although not with any binary network number to hit;
 - Permanently lower funding;
 - Indispensable service to customers and communities; and
 - Options on ownership – without referring to a mutual option.
- (j) It was recognised that there would need to be more detail in the funding request with analysis on £320m investment and the resulting deliverables. The Board advised that the funding request had different audiences and would require different explanations to align with their priorities accordingly. The Board recommended that greater focus be given to SME customers.
- ACTION:**
Martin Edwards
- (k) **The Board supported the direction and funding proposal and asked for more information on the investment and returns to be presented at the next Board meeting.**
- ACTIONS:**
Martin Edwards
- (l) **The CEO suggested that Martin Edwards could provide additional information on a one to one basis if any Board member required.**
- (m) The Board approved the strategic plan to 2020/21 and funding request prior to submission to the Government in early November.
- (n) Mark Davies left the meeting.

POLB 16/67

FINANCIAL SERVICES GROWTH STRATEGY

- (a) The Board welcomed Nick Kennett, Group Financial Services Director, Jonathan Hill, Head of Risk, Banking and Strategy Financial Services, Chrysanthy Pispinis, Financial Services Corporate Development and Governance, Owen Woodley, Sales Director, and Rob Houghton CIO to the meeting.
- (b) Nick Kennett reminded the Board of the strategic direction for Post Office Money (POM) approved at the June meeting, with the interdependent key components of:
- The New Normal customer proposition;
 - The 'Strong Integrator' business model; and
 - The re-negotiation with the Bol.
- (c) Nick Kennett stressed that the FS strategy meant a change to focus on the customer relationship and lifetime value, and a move away from the primary delivery in branch to a digital channel. He added that the delivery of the strategy required a significant change in how the business was run, with enhanced capabilities, risk management and governance structures, changed relationships with suppliers and partners, supported by agile technology.

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- (d) Nick Kennett explained that investment, which had been included in the wider 2020/21 strategy plan and funding, would be required for IT development in support of the new model. The CIO stressed that the investment should focus on delivering one product at as low a cost as possible to test the proposition with both customers and revenue earning protection. Further products could then be added incrementally. The CIO believed that the initial investment could be around £8-10m but needed further definition as it depended on the product chosen and the level of systems integration required with the product provider. The Board supported this initial investment.
- (e) Nick Kennett confirmed that the overall funding request was £72.3m over five years, of which £37.4 related to capex. This investment was targeted to deliver gross income in 2020/21 of £156m and EBITDAS of £68m, an increase of £30m. The overall NPV was £181m over five years.
- (f) The Board asked for assurance that the development would not complicate the IT transformation currently underway. The CIO assured the Board that the system would be developed separately and only integrated into the Post Office systems if tests proved it could be incorporated without causing issues.
- (g) The Board agreed to plan to make the full investment as proposed, depending on the success of the initial investment, and discussed the most appropriate structure and governance for its delivery.
- (h) Nick Kennett advised that the paper did not include recommended changes to the organisation structure and regulatory position as this had not been discussed at GE. CS explained that, based on her experience with FinTech companies and major banks, for this new business to work effectively the Board and management should think in a new way, enabling a separate innovation hub supported by people and a new governance environment. Ring-fencing the team working on the business development would assist faster change, particularly if the project deployed a compartmentalised, “test and learn” methodology. There was support of this from across the Board.
- (i) The Board discussed the FS sales model and the move from Financial Specialists in Directly Managed branches to a CRM model training postmasters’ staff to use a portal and tablet to capture customer data. Owen Woodley explained that the CRM model was underway as a trial which would need to prove it was profitable for the business and the postmaster.
- (j) The Board supported the recommended options and direction of travel principles in relation to technology structure, the distribution model and the shape of the funding and emphasised to the executives that it would be important to build momentum into the change programme.
- (k) Nick Kennett, Martin Edwards, Owen Woodley, Jonathan Hill, Chrysanthi Pispinis and Rob Houghton left the meeting.

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ACTION:
Natasha Wilson

POLB 16/69

Irrelevant

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POLB 16/70

ITEMS FOR NOTING

Sealings

- (a) The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1451 to 1453 inclusive in the seal register was confirmed.

Future Meeting Dates

- (b) The Board noted the future meeting dates.

Health and Safety

- (c) The Board noted the Health and Safety report.

POLB 16/71

CLOSE

- (a) There being no further business, the Chairman declared the meeting closed.
- (b) The Board attended a session presented by Linklaters covering, 'The changing regulatory environment – The impact of the senior manager and certification regime, on the Financial Services sector.'

GRO

Chairman

Date

24/11/16