

Post Office Limited – Strictly Confidential

**POLB (12)11th
POLB 12/115-127**

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a Board meeting held on 21st November 2012
at 148 Old Street, London EC1V 9HQ**

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day (CMD)	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary
Fay Healey (FH)	Chief HR Officer (item 12/116)
Hugh Flemington (HF)	Head of Legal (item 12/117)
Lesley Sewell (LS)	Chief Information Officer (item 12/117)
Kevin Gilliland (KG)	Network and Sales Director (item 12/118)
Martin Moran	Commercial Director (item 12/119)
Sue Barton	Strategy Director (item 12/119)
Tim Giles	AON Hewitt (item 12/124 only)
Zoe Taylor	AON Hewitt (item 12/124 only)

POLB 12/115

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting. She welcomed Fay Healey, Acting Chief HR Officer, who was deputising for Susan Crichton, HR & Corporate Services Director.

POLB 12/116

PEOPLE UPDATE

- (a) The Chairman updated the Board on the recent Nominations Committee meeting (the minutes of which had been circulated in the Board papers).
- (b) The Committee had discussed its Terms of Reference. It would focus on appointments to the Board and to Executive Committee positions reporting directly to the Chief Executive. The Remuneration Committee would similarly deal with remuneration policy and packages at these most senior levels.
- (c) The Nominations Committee had noted that there was still a considerable gap in succession planning at senior levels and had agreed to take a broader interest in growing talent and diversity within the Business, until the position was materially improved.

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- (d) The Nominations Committee would also make proposals about Board evaluation.
- (e) Neil McCausland, Chairman of the Remuneration Committee, reported progress from that Committee.

Their focus was on the interim STiP and LTIP, which were currently with ShEx and Ministers for approval, as well as designing an appropriate remuneration framework for the future, including benchmarking. The next meeting in December would explore an updated proposal for the short and long term incentive schemes.

ACTION: Company Secretary

- (f) Revised terms of reference for all committees, including the Nominations and Remuneration Committees, would be brought back to the Board for final approval in January.
- (g) Fay Healey gave an overview of the performance measurement exercise which had been undertaken for the Senior Leadership Team (SLT) and the results of the half year reviews for managers across the directorates within the organisation. She explained that there had been a 30% turnover in the last year and that this had led to fewer 'critical issue' 1 ratings in the SLT analysis.
- (h) The Board recognised the changes in the ExCo and SLT and asked if this performance management was replicated throughout the organisation. Fay Healey explained that the framework was in place for all management levels, with levelling to ensure a normal distribution of marks. However the business did not force the distribution, especially at the extremes of excellent and critical performance.
- (i) The Board discussed the approach to performance appraisal and asked the Business to ensure that it set clear objectives for delivery and behaviours before the beginning of the next financial year and introduced more rigorous performance management to ensure extremes of performance were recognised and managed appropriately.

ACTION: FH/SC

ACTION: FH/SC

POLB 12/117

PROJECT RAINBOW

- (a) The Chief Executive gave an update on the current situation. She had invited Hugh Flemington and Lesley Sewell to join the meeting to provide further guidance on the legal discussions which had taken place and which were continuing.
- (b) The ARC had discussed high risk contracts at its recent meeting and had agreed to undertake a more detailed review at the next ARC meeting in February. The Board requested that the contract review include any liability caps in place and the pass through to subcontractors.

ACTION: HF/LS

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**ACTION: Company
Secretary**

POLB 12/118

(c) The Board asked for the ARC papers on Project Rainbow to be circulated to the full Board for their information, and that the CEO keep the Board informed of any major developments.

NETWORK TRANSFORMATION REPORT AND CROWN UPDATE

ACTION: KG

ACTION: KG

(a) Kevin Gilliland (KG) joined the meeting to provide the latest update on the conversion rate and progress within the transformation programme for the wider network and in particular the plans for turning around financial performance within the Crown offices.

(b) Network Transformation Programme
KG reported that the new approach adopted by the team was having an effect and the areas of concern such as property reviews and financial assessments were no longer critical. Contract signature was still causing concern, but he was cautiously optimistic that the Business could still achieve the 1,200 target. He stressed that the voluntary nature of the programme meant that no target could be assured but that he was confident he would deliver at least 900-1,000 conversions, and was still planning to deliver 1,200.

(c) The Board asked if any more could be done to incentivise sub-postmasters to become early adopters. The CEO explained that the Business was investigating a more creative approach, including helping to fund new screens where possible and local PR and advertising for the new branches. Some additional suggestions were made (eg a meeting with the Prime Minister or Vince Cable for a number of subpostmasters of newly-converted branches), which the Business would consider further.

(d) The Board asked if there was any opportunity to get more Multiples into this year's plan. KG explained that there may be a few more opportunities than the 260 reported but he would not want to include them at this point.

(e) The Board asked if the Shareholder had been made aware of the risk to the plan. KG assured the Board that ShEx and the Minister were aware of the risk, and that the Minister had offered to support a communication to the NFSP Branch Secretaries to attempt to get them to support the programme more actively.

The Shareholder understood that the target was "contracts signed" but had asked for an SLA to cover the time gap from signature to conversion to give them some comfort.

(f) The CEO reassured the Board that everything possible was being done to deliver the 1,200 conversions, and she had asked KG to undertake a failure-points analysis for the implementation plan.

(g) The Board thanked KG for the progress being made and asked for an update report to be circulated in the week commencing 17th December and a full report at the next Board meeting in January.

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Crown Transformation Update

- (h) KG was confident that the Business would achieve this year's Crown target but he explained the risk in the following two years of the plan, as set out in the Board paper.
- (i) The Board recognised that the additional risk to the plan was driven by revenue shortfall as FOoG income was squeezed by lower margin contracts.
- (j) KG explained the possible approaches to the unions and the different solutions to closing the £5m gap. The Board asked KG to plan for both scenarios with clear trigger points for switching to the more radical solution.
- (k) The Board asked for assurance that the £5m gap was realistic and unlikely to worsen. The CFO warned that the gap may widen to £10m and the CEO agreed that the Business would carry out risk assessments for each Crown workstream, highlighting sensitivities and milestones which might trigger a move to plan B. This would be available for the January Board meeting.

ACTION: KG

ACTION: KG/CD

The Board was comfortable with the approach but asked that KG keep in mind the pay differential for front line staff, compared with the market.

POLB 12/119

POST OFFICE BASICS

- (a) Martin Moran and Sue Barton joined the meeting.

Sue Barton presented the Basics concept and explained that two scenarios were being considered; basics as an addition to the 11,000 mains and locals, or basics as a replacement for some of the locals. The Board was not convinced that this was a priority for the Business and did not want it to be a priority for management focus.
- (b) The CEO supported the proposal to develop a Business case as the model might be a good replacement for small branches where a local would not be viable.
- (c) The Board agreed that more work should be undertaken in order to provide an update at the February Board meeting.
- (d) The Board formally congratulated Martin Moran and his team on winning the DVLA and DWP contracts.

ACTION: SB/MM

POLB 12/120

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the CEO's report and discussed the following specific items:

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(b) **Royal Mail interaction:** The CEO reported to the Board that changes in the RMG product portfolio were likely to give the Post Office a windfall income of circa £2m per annum.

RMG had asked to renegotiate the rate. This gave the Post Office an opportunity to revisit other parts of the contract including 'click and collect' and mails segregation. It was important to establish that, if RMG could ask to renegotiate part of the agreement, so could the Post Office, in the future.

**ACTION:SB/
Company Secretary**

(c) **Mutualisation:** It was reported that the Stakeholder Forum was progressing well. The CEO would like the Board and ExCo to have more exposure to the people involved and the CEO would present a plan to this effect.

(d) The Health and Safety report appended to the Report was noted.

POLB 12/121

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

**ACTION: Company
Secretary**

(a) Virginia Holmes (VH), Chairman of the Pension Committee, asked for it to be made clear in the minutes of the 23 October 2012 meeting, that Project Robin was the responsibility of ExCo and not the Pensions Committee.. (POLB12/101 (b)). This amendment being made, the minutes were duly approved for signature by the Chairman.

(b) The Status Report, showing matters outstanding from previous Board meetings, was noted.

(c) The Board noted the minutes of the Pensions Committee meeting held on 11 October 2012. The Board also noted the minutes of the Nominations Committee meeting held on 7 November 2012.

(d) Alasdair Marnoch (AM) provided an overview of the matters discussed by the Audit, Risk and Compliance Committee meeting (ARC) held on 13 November. The minutes would, similarly, be included in a future Board pack.

(e) The CFO reported that, after taking into account the comments of the ARC, the half year trading statement for the six months ended 23 September 2012 had been approved by a sub-committee of the Board earlier that morning. Copies of the final statement and press release would be circulated to all Board members. The statement would be released to the press on 22 November for publication on 23 November.

ACTION: MD

(f) The Board agreed that the process of agreeing the full year Trading Statement would need to be much tighter and should be agreed in advance. Time would be allocated at the February Board meeting for a discussion on the tone and messages of the full year Trading Statement. The Chairman asked that the Communication Director lead this agenda item, highlighting the five or six key messages.

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POLB12/122

FINANCIAL PERFORMANCE UPDATE

- (a) The CFO presented the review of financial performance for October 2012, and reported that performance continued in line with the full year forecast. Period 7 had seen an improved cashflow position as the additional cash in the network caused by the Olympics was reduced.
- (b) The Board asked for clarification on the headcount figures presented. The CFO suggested that this was caused by the changes within functions but suggested he include an analysis in his January Board report.

ACTION: CD

- (c) He assured the Board that project spend was now in line with the full year forecast of £40m and that he was producing a project spend benefits realisation analysis for the ARC which would give more detail.

ACTION: CD

POLB 12/123

PROJECT POLO AND BANK OF IRELAND GOVERNANCE

- (a) The Board noted that POLO had not been included on the agenda and asked for an update. The CEO explained that the negotiations were progressing with Bol, but their new Chairman was scrutinising the negotiations because of the high start-up costs for the Bank.
- (b) The CEO explained that she and the CFO, along with her Chief of Staff and Nick Kennett (NK), were working on the negotiation strategy for POLO and that they would report back to the Board in January.

ACTION: NK

**ACTION:
CD/TF/AM/NK**

**ACTION:
PV/TF/NK/SB**

POLB 12/124

PENSIONS: INVESTMENT BELIEFS AND ASSET ALLOCATION

Tim Giles and Zoe Taylor joined the meeting.

- (a) VH explained that the papers contained recommendations from the Pensions Sub-Committee. These took forward the principles agreed at the last Board in relation to the liability hedging element of the Post Office sections of the RMPP in addition to recommendations regarding asset allocation for the growth portfolio which would be proposed to the RMPP Trustee on behalf of the Post Office. It was suggested that authority be delegated by the Board to the Pension Sub-Committee to finalise the approach to RMPP on investment preferences.
- (b) TG summarised the strategy contained in the attached papers recommending that extended hedging be put in place to protect against the risks associated with pension benefits being accrued over the period to the next valuation (31 March 2015) and the adoption of a "trigger-based" strategy for subsequent extensions to the hedging.

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After discussion, the Board delegated authority to the Pensions Sub-Committee to approve the recommendation to implement the strategy and engage with the Trustee of the RMPP, through AON Hewitt.

- (c) VH explained that, in order to meet the request of the Trustee of the RMPP for the Board's preferred asset allocation, it was important for the Pensions Sub-Committee to establish the Board's views on appropriate investment objectives and asset types for the Post Office sections of RMPP.
- (d) It was agreed that the aim should be to build a growth portfolio alongside the index-linked gilts portfolio, based on the following objectives; achieving an expected return for the growth portfolio of around 8% (a target real return of c.5% above cash); minimising the risk of not meeting this objective; investing in assets consistent with the Board's beliefs as expressed through the Pension Sub-Committee; and managing the asset cost effectively.
- (e) The current asset allocation for the Post Office sections was discussed further. TG demonstrated that it should be possible to increase current returns without increasing unduly the risk characteristics of the growth portfolio, by adopting a more diverse portfolio of return seeking assets.
- (f) After discussion of the merits of wider diversification, the long term nature of the portfolio, and an appreciation of the value of active management, it was agreed that authority be delegated to the Pensions Sub-Committee to finalise the investment strategy to be presented to the Trustee of the RMPP, to include diversifying return seeking assets and removing the current restriction on investing in illiquid assets.
- (g) It was noted that the Trustee of RMPP was under no obligation to do more than note the Board's preferences.
- (h) Directors further acknowledged that the investment strategy proposed depended on the implementation of Project Robin. If the buffer to be produced by Project Robin was not forthcoming, the rate of contributions would need to be very different and the investment strategy would be rethought completely because of the different circumstances

Project Robin

- (i) The CFO presented the draft term sheet setting out the current basis under which negotiations were progressing on Project Robin. The Board expressed concern about the 6 year moratorium on change and the ability to agree effective triggers to end such a moratorium if necessary.
- (j) The CFO was asked to return to the Board if he needed to change the mandate or if the negotiations broke down or there was a threat of industrial action. The Board asked the CEO to cover the status of the negotiations in her future updates.

ACTION: CD

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POLB 12/125

ANY OTHER BUSINESS

ACTION: Company Secretary

(a) The Company Secretary confirmed that the dates for Board meetings in 2013 would now be as set out in the document presented to the meeting. Some Committee dates (notably those for ARC) would be changed following further discussions with the respective Committee Chairmen.

ACTION: Company Secretary

(b) The Company Secretary was asked to organise a follow up half day strategy workshop for January.

(c) The Board dinner on 22 January was cancelled but Board members were asked to keep the date in their diaries for drinks with the Chairman.

(d) The Delegated Authorities paper was discussed and the Board challenged the limit of £1m unplanned spend delegated to ExCo members. The Board asked the CFO to consider this specific limit further and, in the light of that consideration, to send a note round to the Board with his recommendation.

ACTION: CD

It was noted that all unlimited indemnities needed to go to the Shareholder. With these two amendments made, the proposal to update and increase the limits of delegated authority was approved.

POLB 12/126

ITEMS FOR NOTING

(a) The Significant Litigation report was noted.

(b) The Board noted the Report on Sealings.

It was resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 823 to 833 inclusive in the seal register is hereby confirmed.

(c) Uncommitted credit facilities

It was noted that the ARC had discussed the proposal set out at the last Board meeting to set up two uncommitted loan facilities of up to £50 million each for short term funding flexibility, such that no more than £50 million would be able to be drawn down at any time.

The proposal had been approved by the ARC but would require a formal resolution by the Board to satisfy the counterparties' requirements.

It was agreed that the following approved wording should be included in the minutes of the meeting:

After due and careful consideration of all the circumstances, the Board expressed the opinion that it was satisfied that it would be most likely to promote the success of the Company for the benefit of its members as a whole to enter into:

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- (i) a letter in the form produced from The Royal Bank of Scotland plc (the "Bank") in respect of the uncommitted revolving credit facility of £50,000,000 made or to be made available to the Company by the Bank; and
- (ii) a similar letter to be issued by Citibank in respect of a further uncommitted revolving credit facility of £50,000,000 to be made available to the Company by Citibank.

It was resolved that, in addition to and without amending, prejudicing or revoking any Bank Mandate / Company Excerpt Minute or any other instruction/s provided or to be provided by the Company to the Bank, the CFO (Chris Day) and the Head of Corporate Finance (Charles Colquhoun) be and are hereby authorised to enter into facilities and to sign and deliver any documents required in connection with loan facilities up to a maximum of £100 million, on behalf of the Company.

POLB12/127

CLOSE

There being no further business, the meeting was then closed.

Alice Perkins