

Post Office Limited – Strictly Confidential

POLB 13(3rd)
POLB 13/14-13/25

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a Board meeting held on 20 March 2013
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	Chief Financial Officer

In attendance:

Kevin Gilliland	Network and Sales Director (item 13/14)
Nick Kennett	Financial Services Director (item 13/15)
Paul Havenhand	Head of Insurance and Travel (item 13/15)
Jeremy Law	Head of FS Sales Strategy (item 13/15)
Sue Barton	Strategy Director (item 13/16)
Sarah Hall	Head of Financial Control and Compliance (item 13/18)
Alwen Lyons	Company Secretary

POLB 13/14

INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting and welcomed Kevin Gilliland.

The Board congratulated and thanked Kevin Gilliland and his team for delivering the 1200 Network conversion target. Kevin Gilliland accepted the thanks on behalf of his whole team and recognised the support of the Board through what had been a challenging year.

Kevin Gilliland left the meeting

Susannah Storey informed the meeting that she had resigned from her role in the Department of Business, Innovation and Skills (BIS) to take up the position of Director of Strategy and Change at the Department of Energy and Climate Change (DECC). Her new role would not affect her position on the Post Office Board, but she would relinquish her role at the ARC after today's meeting.

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FINANCIAL SERVICES 2020 STRATEGY

Nick Kennett, Paul Havenhand and Jeremy Law joined the meeting.

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ACTION: Nick Kennett

(a) Nick Kennett introduced the Financial Services 2020 Strategy with the objective of creating a challenge brand in the FS market place. He recognised that the plan was ambitious, but in his view achievable, and explained that the strategy was built in separate steps each of which would return to the Board for sign off as appropriate. His ambition is to build the capability in the Business and take more control of the value chain for products as existing contracts expire and therefore create additional customer benefit and profitability for the Post Office.

(b) The Board discussed the phasing approach using changes in the Travel Insurance model to establish the foundation for the strategy.

(c) Phase 1

The proposal to bring Travel insurance 'in-house' as opposed to outsourcing was debated and the CFO explained that the decision would be part of the wider outsourcing work. The Board discussed and agreed that it might make sense to bring the work in house to resolve any issues before out-sourcing. The Board stressed the need to retain ownership of the Brand and customer but asked the CEO to consider fully whether running such operations were a core competence of the Business, to be reviewed at sign-off for phase 1.

(d) Phase 2

Nick Kennett explained the process for any buy-out of Bank of Ireland's (Bol) interest in insurance which had been agreed as part of the Eagle negotiations. The Board supported early exploratory discussion with the Bol and using KPMG to establish the possible value. Nick Kennett would return to the Board in July having explored the options.

(e) Phase 3

Paul Havenhand explained the advantages of using a standard technology insurance platform and integrating general insurance onto that platform and away from the Junction contract. The Board supported the Insurance phasing and asked for more pace where possible. The Board was disappointed that more cross- pillar products would not be included and asked for more work to be undertaken to accelerate the customer database which was planned for 2020.

ACTION: Sue Barton/Lesley Sewell/ Nick Kennett

It was acknowledged that this was a wider IT and Horizon issue and the Board asked for a paper on IT Architecture and Customer Database Development, with particular focus on future FS requirements.

(f) Sales Capability

Jeremy Law updated the meeting on the new sales structure and the progress made with mortgage specialists and the sales process. He is confident that the new structure will drive the sales capability in the Business. The Board asked for reassurance that the line management structure will still be focussed on compliant sales. It was explained that although the first line manager was part of the FS sales structure and therefore a trained FS specialist, the second line compliance oversight was outside the FS structure and accountable to Susan Crichton, HR and Corporate Service Director

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(g) Regulation

The Board asked if the changes in the Travel insurance structure would change the regulatory environment for the Business. Paul Havenhand explained that the Post Office is not a regulated principal in its own right, and that the plan would not change this position. Tim Franklin stressed that the regulator landscape was not clear and that regulators may at some point deem distributors to be covered by regulation, at which point the Post Office would be included. However any change in regulation would affect the Business irrespective of the proposed plan.

(h) Current Account update

Nick Kennett updated the Board that the Bol have now agreed three out of four of the proposed measures for evaluating the Current Account pilot. The only area still to be agreed is the commercial impact. The Chairman reported a conversation with Christopher Fisher, Chairman of Bank of Ireland UK plc., who explained that this is a big investment for the Bank which still requires Group approval. The CEO stressed the seriousness of the issue and reassured the Board that the Business realised the importance of drawing the negotiations to a speedy conclusion. Tim Franklin proposed that if the negotiations do not reach a satisfactory conclusion, the Business should consider procuring at alternative platform.

(i) Investment requirement

The Board asked for a paper for the July meeting setting out the investment required for the FS strategy, including any effect on self-funding and state aid.

The paper should cover; Brand; IT (including interdependencies with the IT transformation); People and Compliance

The seven year P&L would also be produced showing the investment milestones.

(j) FS strategy

The Board asked Nick Kennett what his level of confidence was in delivering the strategy. He was over 80% certain of delivering the strategy and the revenue targets.

(k) The Board:

- (i) endorsed the overall 2020 Financial Services Strategic Vision;
- (ii) requested that the strategy be refined taking into account the ideas raised at the Board;
- (iii) confirmed that the Business should progress step 1 of the Insurance plan, albeit keeping in mind the out-sourcing option
- (iv) asked the Business to work out their 'Plan B' to take effect if the strategy became impossible to deliver.

Nick Kennett, Paul Havenhand and Jeremy Law left the meeting

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MUTUALISATION

Susan Barton joined the meeting

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- (a) The paper on Mutualisation was discussed by the Board. The Chairman reminded the Board of the Government's policy on Mutualisation, as enshrined in the Postal Services Act, which meant that any strategy and funding request needed to acknowledge this ambition.
- (b) The CEO explained that the strategy and funding document would highlight three areas which needed the Government's support;
 - (i) funding to complete modernisation of the Network;
 - (ii) a long term funding agreement for unprofitable branches; and
 - (iii) a more planned non-voluntary approach to Network Transformation
- (c) She explained that the Post Office's support for mutualisation could be important for achieving the funding agreed. The Board believed that the funding was needed to achieve financial sustainability and turn around irrespective of mutualisation, but accepted the reason for linking the funding and mutualisation.

The Board stressed the need for the Government to agree the definition of 'financial sustainability', and the financial pre-conditions required before mutualisation, and for these to be made public.

ACTION:
Chris Day/ Susan Barton

- (d) It was agreed, that the Business should ask Rothschilds to update their report to include the new strategy and get their view on sustainability and balance sheet requirements in the light of this, within a tightly managed set of Terms of Reference and budget.

Susan Barton explained mutualisation Option 2 in the paper and the areas it covered:

ACTION:
Company Secretary

- (e) Internal Engagement
The Board agreed that the work on engagement should progress with pace
- (f) Stakeholder Forum – Public Purpose of the Post Office
Two draft definitions of the Public Purpose of the Post Office are to be presented to the Stakeholder Forum on the 22nd March for discussion. The CEO assured the Board that the Forum would consider their effectiveness for a successful commercial business. The Board stressed the importance that the Public Purpose statement should not hamper the Business in driving the turn around and achieving financial sustainability. The Board would need sufficient time to consider the proposal during the summer, well before they were asked to agree the draft which resulted from the consultation exercise.

ACTION:
Sue Barton

- (g) Governance
The Business was asked to consider its future stakeholder engagement and the most effective meeting structure to be put in place.

It was agreed that the word 'Trust' in Option 2 be replaced by an 'oversight body', which could possibly be the Board or the ARC.

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(h) The Board confirmed that the strategic plan should be developed around a revised version of Option 2 taking into account the Board's discussions.

POLB 13/17

FINANCIAL PERFORMANCE UPDATE

(a) The CFO presented the monthly finance and performance report for February 2013, which continued to show a strong operating performance in the current year.

(b) He explained that the Crown Offices were on track to deliver their target for this year and that he was now more confident that the Crown loss could be reduced to a breakeven exit rate by the end of 2014/15, following adoption of the 'Plan B' measures.

(c) The Board noted that the Government grant was underspent and asked if this had any implications. The CFO assured the Board it would have no effect on receiving the next funding or the State Aid position.

(d) The Board noted the Financial performance report for February 2013.

POLB 13/18

2013/2014 BUDGET

Sarah Hall joined the meeting

(a) The Board considered the proposed budget for 2013/2014, and noted the actions that had been taken in response to the challenges given to the Business by the Board at the Budget meeting held on 13 February 2013.

(b) The CFO reported that the Business had accepted the additional challenge of keeping income flat despite the 53 week year effect by holding a central target of £5m which would be allocated after the first quarter, and which was counterbalanced by an additional £5m of ring-fenced cost.

(c) The CFO explained that the budget assumed 1800 NT mains and locals conversions next year but that any changes brought about by the McKinsey modelling would not have a significant impact on the 2013/14 profit target.

(d) The Board asked the CFO to consider a measure of the underlying profit/(loss) exit rate at the year-end which flows through into next year, as this would give a good measure of progress and show the size of the challenge in future years.

(e) The Board discussed the fluctuations in the operating cashflow and the ability to forecast future requirements. Sarah Hall explained the volatility caused to network cashflows over Easter and month ends and the CFO assured the Board that he continues to monitor the position.

(f) The Budget for 2013/2014 was approved.

ACTION:
Chris Day

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(g) The development of the Key Performance Indicators for 2012-2013 was noted and would return to the Board for sign off. The Board discussed their preference to use Net Promoter Score (NPS) as the customer measure instead of Easy To Do Business With. The CEO explained that this was a holding position for 2013/14 and that NPS would be tracked through the year for use in 2014/15.
Sarah Hall left the meeting

POLB 13/19

CHIEF EXECUTIVE'S REPORT

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

(b) Project Rainbow
The CEO updated the Board and informed them that no action was to be taken by the ICO, because of the low risk and the actions taken at the time. She assured them that the Business remained prepared to respond if any further action was required.

(c) The CEO shared a letter from a Branch Manager supporting the stance on the Branch pay and possible industrial action. She had also had the same reaction from branch staff during a visit with the Minister.

(d) The quarterly meeting with Moya Greene CEO RMG had taken place and click and collect had been discussed.

(e) The Health and Safety report, which included risk reduction activities, appended to the CEO's report was noted.

POLB 13/20

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

(a) The minutes of the Board meeting held on 23 January 2013 were 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 22 January 2013.

(d) The Board also noted the minutes of the Nominations Committee meeting held on 7 November 2012.

(e) Minutes of the Remuneration Committee meeting held on 5 February 2013 had been circulated to members of the Board who had no personal interest in the matters discussed. The minutes were noted by the Board.

(f) It was noted that the minutes of each of the above Committee meetings, provided for information, had been formally approved by the relevant Committee.

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TREASURY RISK MANAGEMENT

- (a) The Board considered the proposed framework, policies and authorities for Treasury Risk Management, which had been reviewed by the Audit, Risk and Compliance Committee ("ARC") in February 2013 and was being recommended for adoption.
- (b) The Board approved:-
 - (i) the Treasury Risk Management approach;
 - (ii) the Treasury Governance and reporting framework, including the delegation of authorities to enable efficient Treasury operations; and
 - (iii) the Treasury Policies and authorities

POLB 13/22

ITEMS FOR NOTING

- (a) The Board noted the update on the Front Office for Government Programme. It was reported that a full Board Presentation and discussion would be included on the May 2013 Board agenda.
- (b) The Significant Litigation report was noted.
- (c) 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 840 to 864 inclusive in the seal register is hereby confirmed.

POLB 13/23

ANY OTHER BUSINESS

- (a) It was agreed that the Board away day on the 18th and 19th June should commence with a Board dinner on the 18th including a pre-dinner speaker.
The following day would look at three areas:
 - (i) People- organisational design; the structure of the new business model; resource/people and talent management
 - (ii) Mails- what the world will look like in 5 to 10 years and how we will respond to the challenges.
 - (iii) A stakeholder session – involving 4-5 guests including SME representative. To discuss a customer focussed issue.

ACTION:
Company Secretary

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CLOSE

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

Alice Perkins