

Post Office Limited – Strictly Confidential

POLB 13(9th)
POLB 13/59-13/75

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

Minutes of a Board meeting held on 16 July 2013
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer

Apologies for Absence:

Neil McCausland	Senior Independent Director
-----------------	-----------------------------

In Attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 13/61-13/62)
Lesley Sewell	Chief Information Officer (13/61 only)
Nick Kennett	Director of Financial Services (13/64)

POLB 13/59

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.

POLB 13/60

BOARD EFFECTIVENESS REVIEW

- (a) The Board received the report of the Board Effectiveness review carried out in June/July 2013.
- (b) The Chairman thanked the Board for their time and explained the process for one to one feedback. The Board discussed the balance between challenge, rigour and support and the CEO stressed that the Business expected to be challenged. She would be disappointed if the Board did not support through challenge while being open to the Executives challenging back where they thought appropriate.
- (c) The Board discussed the papers received from the Executive Committee members and agreed that in future the content of the papers would not be presented at the Board meeting so as to free

Post Office Limited – Strictly Confidential

**ACTION:
The Board**

up time for discussion. The papers needed to be clear, not overly optimistic, and commercially focussed so questions of fact would not be necessary. They should also arrive in good time. The Chairman asked the Board to contact the ExCo member responsible for a paper before the meeting if they were unclear or didn't have the necessary detail. The Board also asked for earlier warning when risks and issues arise to ensure that they were not 'blindsided'.

- (d) The Board thought that it would be valuable to have some discussions with the minimum of paperwork where the NEDs shared their own thinking rather than reacting to the Executives' proposals e.g. on strategic risk.
- (e) The Board discussed the use of their time and agreed that the frequency and length of Board meetings was right and where possible Sub Committees should not be held on the same day as Board meetings.
- (f) The focus on risks at the September meeting could help form the forward agendas for the following year. It was also agreed that the Board could help with stakeholder engagement, with more exposure to the unions and the shareholder. The Chairman reminded the Board that Mark Russell was to return to a meeting in the autumn and that she had invited Robin Budenberg, Chairman of UKFI and formerly with UBS where he oversaw the banks' relationships with HM Treasury, to the November Board.
- (g) The Board asked for more exposure to the network and expressed a need to understand the economics of the different network models. The Company Secretary was asked to organise individual branch visits for NEDs if required. The Board agreed that a future meeting would be held at the Camden Branch including a discussion with the Branch Manager about the economics of running a Crown Office.

**ACTION:
Company Secretary****ACTION:
CFO**

- (h) The CFO was asked to produce a piece of analysis to explain the economics of the network models and set up a workshop for those NEDs who would find it helpful.

**ACTION:
CFO**

- (i) The Board discussed the use of advisors and the CFO was asked to provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.
- (j) The Board's relationship with the ExCo and the SLT was discussed and it was agreed that Board members would be advised of the

Post Office Limited – Strictly Confidential

ACTION:
Company Secretary

dates of SLT Quarterly Business Updates and they would be welcome if they wanted to attend but no other formal SLT engagement would be put in place.

(k) The Board noted the Board Effectiveness Review and agreed the actions in the paper along with:

- the Board would continue with 2 away days a year
- the Board would be offered opportunities to attend NT openings or meetings with stakeholders if they were available
- the production of a forward look for future agendas
- the addition of an index for the Reading Room and a log of decisions taken at the end of the Board minutes.

ACTION:
Company Secretary

POLB 13/61

IT SUPPLY CHAIN PROCUREMENT ACTIVITY

(a) Sue Barton, Strategy Director, and Lesley Sewell, Chief Information Officer joined the meeting.

IT&C Transformation Programme

(b) Lesley Sewell updated the Board on the current status of the procurements for a Service Integrator (SI) and a Strategic Data Centre. The Board asked if the proposed solution would enable further outsourcing in the future. Lesley Sewell explained that the change would reduce the headcount by 50% whilst giving a foundation for further outsourcing and enable the Business to move to more stable suppliers. The Board questioned the timing and whether the SI could be in place before the sub-contracts are awarded. Lesley Sewell explained that the Business was being pushed by RMG separation deadlines and this was the reason that the SI and sub-contractor had to be done concurrently.

(c) The Board would be asked to approve the award of contracts for the Data Centre and Service Integrator/Strategic Data Centre to the Post Office's selected bidders at the September 2013 meeting. It was noted that the Service Integrator award would also require approval from the Shareholder Executive.

Transitional Support Services with Fujitsu

(d) Lesley Sewell presented a paper on the Transitional Support Services supplied by Fujitsu. She explained that there were few options apart from remaining with Fujitsu in the short term.

(e) The CEO flagged two risks to the Board - the first around RMG and

Post Office Limited – Strictly Confidential

the preparedness for separation and the second the Horizon risk around Fujitsu. She explained that the legacy contract had to be normalised through proper public procurement but that there were short term issues which were difficult to resolve such as IP, ownership of which was mixed between the two businesses.

- (f) Before it could make a decision on the extension of the contract for two years the Board asked for more detail on the economics of the deal being negotiated with Fujitsu, the changes from the current contract, and its impact on the Strategic plan numbers. Lesley Sewell and CFO were asked to circulate a paper seeking agreement by correspondence once the Board members were comfortable.

ACTION:
CFO/Lesley Sewell

POLB 13/62

PROGRESS REPORT ON GOVERNMENT FUNDING AND STRATEGIC PLAN

- (a) The Board received a verbal update from Sue Barton and the CEO on the progress with the Government funding and Strategic Plan. The CEO explained that the meeting with Secretary of State (SOS) and Minister had enabled the Business to explain that inaction or delay was not an option. The feeling was that if the Minister would support mandated exit the SOS would also do so.
- (b) Sue Barton assured the Board that BIS and the Minister realised that a mandatory approach as set out in the strategic plan was still the Board's and the Business's preferred option. She explained that the alternative approach, which the Business had considered after pressure from the NFSP and the shareholder, could have some benefits. Ministers would need to be advised as to whether to alternative approach has the Board's backing before their meeting with officials the following day.
- (c) Sue Barton explained the alternative approach as set out in appendix A of these minutes. The Board agreed to the following recommendations provided they stayed within the Board mandate and were positioned as a last resort:
1. To continue to position £218m as the amount necessary to deliver a mandated exit option
 2. That no deferral be offered as part of the solution, as this would leave the Business exposed in the later years of the plan and put breakeven back by a year.
 3. To position the incremental cost of this alternative option as investment which BIS would need to fund.
- (d) The Board agreed to the principles of the alternative approach subject to the conditions that:
- There is a cliff within the alternative solution. This is transparent, clearly communicated both at a national and

Post Office Limited – Strictly Confidential

individual sub-postmaster level, backed by Government. Individual letters would be sent out to sub-postmasters

- Cost of the option is covered by additional Government funding. A shortfall can be covered by the business within the agreed mandate
- NFSP support must be clearly set out in a MOU and must include agreement to support openly and unconditionally
- Must have a mandate to exit sub-postmasters.

(e) The CFO confirmed that he remained comfortable that the headroom of £40m in 2015/16 and 2016/17 would be available and therefore supported the mandate.

(f) Sue Barton would write to BIS setting out the alternative approach as agreed by the Board. The Chairman offered to write to the SOS at an appropriate time to explain that while the Board understood the political difficulties, this alternative was not our preferred approach and the risks it brought to the business.

ACTION:
Sue Barton

(g) The Board discussed the protection of community offices and Sue Barton explained the conflict for the NFSP as some of their members who run offices which will be designated 'community' would be restricted from exiting. This was still being worked through with the NFSP.

(h) The CEO explained that the Business was working on the proof of concept for network extensions and that although this was politically very attractive there were many interdependencies which needed to be understood and it would be the last quarter of the year before the Business could sign up to any targets.

(i) The Board asked whether the Business could sign up to a conversions target by 2014/15, either a number or percentage of branches converted. Sue Barton said it would be difficult to suggest a target without NFSP co-operation to the programme. The NFSP were calling a special conference to agree any proposal so any agreement was likely to be at the beginning of September.

ACTION:
Company Secretary

(j) The Board agreed to weekly Board calls over the summer whilst the negotiation continues and requested a paper 24 hours before any call setting out an update and the substance of any discussion.

ACTION:
Sue Barton

(k) The Chairman asked for a note setting out the expected timeline and milestones over the next two months.

(l) The Chairman thanked Sue Barton for some excellent work and Sue Barton left the meeting

(m) The Chairman asked the CEO to consider additional support for the Strategy Director during the negotiations. The CEO explained that things had been moving very quickly but accepted that the Business needed to be better at anticipating and 'horizon-scanning'.

Post Office Limited – Strictly Confidential

POLB 13/63

HORIZON UPDATE

- (a) The CEO explained that although the Second Sight report had been challenging it had highlighted some positive things as well as improvement opportunities. The Business had been praised in Parliament for setting up the independent review; the proportionality of the tiny number of cases had been emphasised; and no systemic issues had been found with the Horizon computer system. However there were cultural issues which had to be addressed to improve the support we gave to sub-postmasters. The CEO stressed that this was now a catalyst to make changes in the Business.
- (b) The Board were concerned that the review opened the Business up to claims of wrongful prosecution. The Board asked if Susan Crichton, as General Counsel, was in anyway implicated in the prosecutions. The CEO reported that, up until eighteen months ago, Royal Mail Group Limited (RMG) had run the criminal law team and many of the cases in the review had arisen before separation. The CEO explained that the Business was a prosecuting authority and as such brought its own prosecutions. However since separation the General Counsel had proposed moving to the more normal position of using the CPS for prosecutions; this was being explored.
- (c) The Board expressed strong views that the Business had not managed the Second Sight review well and stressed the need for better management and cost control going forward.
- (d) The Board accepted that this was an independent review and therefore things could happen that were beyond the control of the Business.
- (e) However the things that could be managed by the Business needed to be well managed with strong leadership and the Board asked the CEO if she had considered changing the person leading for the Business.
- (f) The CEO had considered this and recognised that the Business did not have good governance in place around Second Sight, but that the independence of the review, and the input from MPs and Justice for Sub-Postmasters (JFSA) had made this complicated.
- (g) The Chairman asked for a review, a post mortem, to report to the ARC explaining how we awarded and managed the contract. This should be put in hand swiftly.

**ACTION: Susan
Crichton**

Post Office Limited – Strictly Confidential

ACTION: CEO (h) The Board asked the CEO to decide on the way forward in terms of the leadership of this work based on the option which had least risk for the Business.

ACTION: CFO (i) The CFO was asked what the insurance position was. He promised the Board a note on this. He was also asked to ensure the both RMG and the Business' insurers were given notice of the review findings.

POLB 13/64

FINANCIAL SERVICES STRATEGY UPDATE

ACTION:
Nick Kennett (a) Nick Kennett, Financial Services Director, joined the meeting and took questions on the Financial Services Strategy update paper.

(b) The Board asked for a noting paper setting out the Mercer recommendation for the new Financial Services Sales incentive scheme.

(c) The Board congratulated Nick on the pace at which things were changing and suggested that, because of the scale of the contributions to the strategic plan and the reputational risk of the manner of delivery, a Board Sub-Committee be convened to support the executive team.

ACTION:
Nick Kennett

(d) Nick Kennett was asked to work with the Company Secretary and the CFO (with input from Tim Franklin and Virginia Holmes) to draw up Terms of Reference for the FS Board Sub-Committee.

(e) Nick Kennett explained the work being undertaken to enhance the Brand and make the Post Office a destination point for FS products.

(f) The Board asked when the Business would know if the strategy to move up the value chain with its additional benefits, costs and risks was working. Nick Kennett suggested it would be Autumn 2015 before this was clear.

ACTION:
Nick Kennett

(g) Nick Kennett was asked for a note to be circulated to the Board explaining the impact on the strategic plan in 2015/16 and 2016/17 of the transition from Junction for general insurance, and the effect on the bottom line.

The Directors noted the Financial Services Strategy update, and the Success Criteria for Project Polo.

POLB 13/65

FINANCIAL PERFORMANCE UPDATE

(a) The Board received a financial performance update for period 2 2013, and the flash results for Period 3 from the CFO.

(b) The CFO explained that the results for period 3 had seen an

Post Office Limited – Strictly Confidential

improvement on period 2, although the greatest risk to the plan remained in mails income. The Mails team were still comfortable that they would recover the position after what had been a significant downturn in small packets after the price rise.

- (c) The CFO explained that the risk to income has put more pressure on cash and the need to reduce the cost of service delivery support functions by 20% over the next 3 years. He explained that the ExCo were going through a reforecasting exercise and this would make it clearer how much pressure would need to be put on reducing spend.
- (d) The Board asked for visibility of the decisions being taken by the ExCo. The CFO was asked to produce a note to the Board by the end of July beginning of August showing the reforecast and the list of optional spend decisions which the Business has taken, or could take if required. This would be spend which didn't drive revenue this year or next year.

ACTION: CFO

POLB 13/66

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report and discussed the following specific items:
- (b) The CWU had called a half day strike on the 17th July and were holding a rally, with MPs invited at Portcullis House. The feedback has been that, so far, this is not causing any lasting detriment to customers or the Business. There will a full report to the September Board with options on the way forward.

ACTION: Kevin Gilliland

POLB 13/67

- (a)
- (b)
- (c)
- (d)

Irrelevant

POLB 13/68

GROUP STRUCTURE

- (a) The Board received a paper on the planned changes to the structure of the wider Group to facilitate an IPO of RMG.
- (b) The CFO was asked to check with the corporate insurers to ensure this had no detrimental effect to the cover or cost.

ACTION: CFO

Post Office Limited – Strictly Confidential

ACTION: CFO

- (c) The CFO was asked for a note to the Board explaining the implications for Tax and VAT of any structure changes and subsequent total separation
- (d) The Board:-
 - (i) noted the planned changes to the structure of the wider Group to facilitate an IPO of RMG;
 - (ii) noted the anticipated changes to the operation of Royal Mail Holdings plc (RMH);
 - (iii) noted the additional duties that were likely to become Post Office Limited's responsibilities and that they would incur additional cost; and
 - (iv) approved delegation of authority to Alwen Lyons, the Company Secretary, and/or Susan Crichton, HR & Corporate Services Director (in the form set out in Appendix 1) to approve and execute any documents necessary to remove the references to the RMG Special Share and the RMH Special Share in the Company's Articles of Association and to do any act or thing required to be done by the Company to give full effect to, or in connection with, the actions outlined in the Board paper.

**ACTION:
Company Secretary**

POLB 13/69

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 21 May 2013 were approved for signature by the Chairman.
- (b) The notes of the discussions and actions from the Board Awayday held on 18 and 19 June 2013 were noted.

The CFO reported that the work on outsourcing, discussed at the Awayday, was progressing and the India visit was set for September. This would be brought back to the September Board.

POLB 13/70

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of the Remuneration Committee meeting held on 1 May 2013.

POLB 13/71

STATUS REPORT

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

POLB 13/72

ITEMS FOR NOTING

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

The Board asked if there was a reason for the increase in Road Traffic accidents. The CEO explained that this had already been identified by the Business and the issue was being reported back to

Post Office Limited – Strictly Confidential

the September 'Road Forum' for investigation. Any actions would be reported to the Board in a future Health and Safety report.

- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1040 to 1058 inclusive in the seal register was hereby confirmed.

POLB 13/73

PROPOSED BOARD DATES 2014 AND Q1 2015

- (a) The Company Secretary tabled proposed Board, and some Committees, dates for 2014 and Q1 2015. The Board members were asked to feed back any issues by 19th July.

ACTION: ALL

POLB 13/74

ANY OTHER BUSINESS

The CFO reported that the Report & Accounts had been signed with a target date of the 7th August for publication.

POLB 13/75

CLOSE

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

GRO

Post Office Limited – Strictly Confidential

POST OFFICE LIMITED 16 JULY 2013 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	Network Transformation and Crown Offices	
July 2013 POLB 13/66	Full report on Strike Action to September Board.	Kevin Gilliland
	Finance	
July 2013 POLB 13/60(g)	Produce analysis to explain economics of the network models and set up a workshop for those NEDs who would find it helpful.	Chris Day
July 2013 POLB 13/65	Note to the Board by end of July/beginning August showing the reforecast and list of optional spend decisions which the Business has taken, or could take if required.	Chris Day
July 2013 POLB 13/68(b)	Check with corporate insurers to ensure that the planned changes to structure of the wider Group to facilitate an IPO of RMG had no detrimental effect on the cover or cost.	Chris Day
July 2013 POLB 13/68(c)	Note to the Board explaining implications for Tax and CVAT of any structure changes and subsequent total separation.	Chris Day
	Strategy	
July 2013 POLB 13/61(f)	Provide more detail to the Board on the economics of the deal being negotiated with Fujitsu, the changes from the current contract and its impact on the Strategic Plan numbers. Circulate a paper seeking agreement by correspondence once the Board members were comfortable,	Lesley Sewell/ Chris Day
July 2013 POLB 13/62(f)	Write to BIS setting out alternative approach for the strategic plan.	Sue Barton
July 2013 POLB 13/62(j)	Weekly Board calls over the Summer whilst the Government funding and strategic plan negotiations were on-going. Papers to be circulated 24 hours prior to any call.	Alwen Lyons
July 2013 POLB 13/62(k)	Provide note to the Board setting out the expected timeline and milestones over the next two months.	Sue Barton
July 2013 POLB 13/64(b)	Noting paper to the Board setting out the Mercer Recommendation for the new Financial Services Strategy update paper.	Nick Kennett
July 2013 POLB 13/64(d)	Draw up Terms of Reference for FS Board Sub-Committee with input from Tim Franklin and Virginia Holmes	Nick Kennett/Alwen Lyons/Chris Day
July 2013 POLB 13/64(g)	Note to be circulated to Board explaining the impact on the strategic plan in 2015/16 and 2016/17 of the transition from Junction for general insurance and the effect on the bottom line.	Nick Kennett
	Information Security	

Post Office Limited – Strictly Confidential

July 2013 POLB 13/63(g)	Review of Second Sight report to be provided to ARC explaining how we awarded and managed the contract. This should be prepared asap.	Susan Crichton
July 2013 POLB 13/63(h)	Decide on the way forward in terms for leadership for the Horizon work based on the option which had least risk for the Business.	Paula Vennells
July 2013 POLB 13/63(i)	Ensure both RMG and the Business' Insurers were given notice of the Second Sight review findings.	Chris Day
Board Effectiveness		
July 2013 POLB 13/60(f)	Organise individual branch visits for NEDs if required.	Alwen Lyons
	A future Board to be held at Camden Branch	Alwen Lyons
July 2013 POLB 13/60(i)	Advise Board members of dates of SLT Quarterly Business Updates	Alwen Lyons
July 2013 POLB 13/60(j)	Board to continue with 2 awaydays a year	Alwen Lyons
	Board to be offered opportunities to attend NT openings or meetings with stakeholders	Alwen Lyons
	Production of a forward look for future agendas	Alwen Lyons
	Addition of an index for the Reading Room	Alwen Lyons
July 2013 POLB 13/60(h)	Provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.	Chris Day
Other Actions		
July 2013 POLB13/68(d)(iv)	Update POL Articles of Association to remove references to the RMG Special Share and RMH Special Share	Alwen Lyons and Susan Crichton