



Post Office Limited
Board Meeting

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 23rd NOVEMBER 2017 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 14.15PM

| | | | |
|----------------|------------------|--|----------------------|
| Present: | Tim Parker | Chairman (TP) | |
| | Richard Callard | Non-Executive Director (RC) | |
| | Tim Franklin | Non-Executive Director (TF) | |
| | Ken McCall | Senior Independent Director (KM) | |
| | Carla Stent | Non-Executive Director (CS) | |
| | Virginia Holmes | Non-Executive Director (VH) | |
| | Paula Vennells | Group Chief Executive (CEO) | |
| | Alisdair Cameron | Chief Financial and Operations Officer (CFOO) | |
| In Attendance: | Jane MacLeod | General Counsel & Company Secretary (JM) | |
| | Marla Balicao | Minute Secretary (MB) | |
| | Heather Jackson | External - Actinista (HJ) | <i>(item 4)</i> |
| | Kirk Winstanley | External - Actinista (KW) | <i>(item 4)</i> |
| | Kevin Gilliland | Chief Executive, Retail (KG) | <i>(items 5,6,7)</i> |
| | Tom Wechsler | Programme Manager Mediation Scheme (TW) | <i>(item 5)</i> |
| | Mark Siviter | Head of Mails, Commercial (MS) | <i>(item 6)</i> |
| | Sue Barton | External - Accenture (SB) | <i>(item 16)</i> |
| | Tom Moran | Network Development Director (TM) | <i>(item 7)</i> |
| | Nick Kennett | Chief Executive Financial Services & Telecommunications, (NK) | <i>(item 8)</i> |
| | Martin Kearsley | Banking Framework Manager (MK2) | <i>(item 8)</i> |
| | Martin Kirke | Group HR Director (MK) | <i>(item 10)</i> |
| | Martyn Lewis | Head of Change Delivery (ML) | <i>(item 10)</i> |
| Apologies: | None | | |

ACTION

1. INTRODUCTION, CONFLICTS OF INTEREST, MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

- 1.1 A quorum being present, the Chairman opened the meeting.
- 1.2 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.
- 1.3 Minutes of the meeting of the Board held on 31st October 2017 were approved and authorised for signature by the Chairman.
- 1.4 The paper from Patrick Bourke on the Impact of the Labour Government was noted.
- 1.5 The actions status report was noted as accurate.

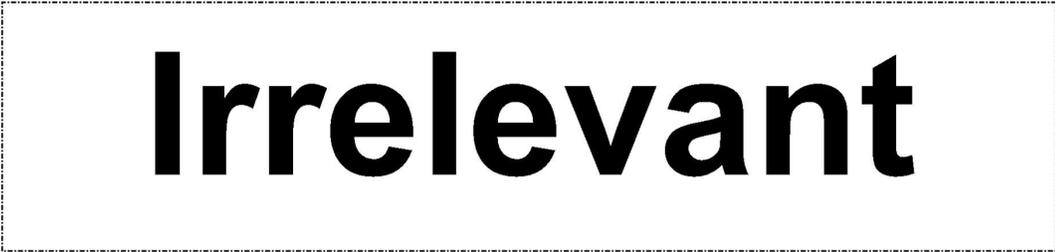
2. CEO's REPORT

- 2.1 The Board noted the CEO report. In response to questions, the CEO made the following additional points:



Post Office Limited
Board Meeting

- (a) PV reported she had had a positive meeting with Francesca McDonagh, the new CEO of Bank of Ireland and had found her dynamic and wanting to make a difference. PV had provided her with feedback on the current relationship and Ms McDonagh reiterated that the Post Office relationship was important to BOI. PV noted that the parties had agreed to re-engage over the next 2 months.

(b) 

(c)

3. FINANCIAL PERFORMANCE REPORT

- 3.1 The CFOO presented the P7 financial performance report covering October 2017.
- 3.2 The Board noted the financial performance report and in discussion the CFOO made the following points:

- (a) Balance sheet headroom in P7 was £162m which was a month on month improvement as a result of better planning around branch forex holdings; improving data analytics to identify excess branch cash holdings, and better management of inward remittances.
- (b) TP asked about the trading performance of POMS. AC reported that POMS were trading below plan and he and PV have spent some time to understand the reasons for this. Resource gaps have contributed although these are now being addressed. The plans are now more ambitious and Post Office has agreed to commit £2.5m from the 'growth fund' to support POMS growth plans.
- (c) **The Board noted that it would be helpful to see more commentary on the performance of projects (eg slide 9 of the report) and why project spend was behind budget (slide 12).** AC noted that a review of change spend and progress was underway including proposals for a stronger portfolio office, improved prioritisation and gating processes, and better visibility of inter-dependencies and impacts on benefits delivery. He noted that the transformation of legacy systems such as back office continued to be challenging due to the lack of documentation and the degree of upgrading. In addition we are behind on the projects where we are replacing kit, networks and software in branches due to the operational challenges of changing such a large number of third party premises. He noted that the New Call acquisition and implementation were broadly on track, and the delay in negotiations with BoI was expected to have an adverse impact on the economics of the customer hub. The Chairman noted that **it would be helpful for the Board to receive a status update as to where Post Office wants to be as at year end.** AC

4. IT ASSURANCE

- 4.1 The Chairman welcomed Heather Jackson and Kirk Winstanley from Actinista who

**Post Office Limited
Board Meeting**

provided the Board with an update on the findings from the review on Post Offices' IT strategy.

HJ confirmed that the independence of Actinista had been discussed with PV given that the firm had previously undertaken work for Rob Houghton in previous roles, and no conflicts were considered to exist with Post Office or any of its current employees..

HJ and KW took the Board through their key findings and highlighted the following:

- (a) Overall the IT direction is right and progress is being made. There is an opportunity to get more value from the IT estate, and avoid mis-alignment. The delivery of the IT strategy is an important contributor to Post Office's wider costs savings ambition.
- (b) It was not clear from the various papers that Actinista had reviewed how the significant amount of IT spend supported the delivery of Post Office's overall strategy. Much of it appeared operational – fixing broken technology - rather than focussing on delivering the longer term strategy and articulating business outcomes.
- (c) The volume of change is significant and Post Office should be satisfied that the level of change can be delivered and absorbed. It was unclear how Post Office could have a reliable forward view of required resources, capital and the potential risks. To do this effectively, Post Office needed to have a better view of the desired business outcomes.
- (d) Overall Actinista was of the view that the strategy was appropriate and proportionate to Post Offices' needs; fixing the foundations was the right thing to do, however in response to a question it was noted that **RH should consider whether further support was required given the volume of activity all of which was fundamental to the delivery of the business strategy.** RH

HJ and KW left the meeting.

5. PROJECT PANTHER

5.1 The Chairman welcomed Kevin Gilliland, Tom Wechsler and Andrew Goddard to provide an update on Project Panther. KG noted that following the June Board strategy discussion on bill payments discussions had been underway with Panther to consider various options to address the long term structural decline in the bill payment business. In particular:

- (a) Post Office have three material gaps in its current bill payment proposition: network, content and good technology. Engagement with Panther may address all three as they have 14,000 outlets, 50 million transactions and their technology is more up to date. It would also facilitate the forthcoming procurement by British Gas, and the increased network size would increase our competitiveness.
- (b) Financial, technical and operational due diligence is underway, however applying conservative forecasts and assumptions it appears the Panther business could be worth up to £38m to Post Office of which half would be represented by the value of new contracts. On this basis, the analysis suggests that a price of between £14.4m and £18.8m represent value for money to acquire the bill payments business.



Post Office Limited
Board Meeting

- (c) It was noted that while this was a very interesting opportunity, an adverse market reaction to an acquisition by Post Office was likely and was the key risk.
- (d) The Board asked why Post Office was an attractive buyer, and KG noted that PO was the only viable buyer. It was noted that the acquisition would support the network development strategy, [REDACTED] **JM**
- (e) KG noted that timing was critical given the expected tender by British Gas for bill payment services.
- (f) The Board noted the update and confirmed that discussions should continue. **KG noted that he hoped to have draft heads of terms to present to the Board in January.** **KG**

TW and AG left the meeting.

6. RM NEGOTIATIONS UPDATE

Irrelevant



Irrelevant

7. NETWORK DEVELOPMENT BUSINESS CASE

- 7.1 The Chairman welcomed Tom Moran to the meeting. KG presented his decision paper asking for the Board to approve £18.71 funding for delivery of the Network Development Programme from April 2018- March 2019. The Network Strategy had been approved by the GE and Board in September and the Post Office Executive Change Group (ECG) previously approved the business case in October.

KG explained that opening new branches was costly and lighter options needed to be considered and options for new models were being explored.

The key proposals set out in the Business Case were

- (a) Small Mains to Locals – transition of 114 small mains to Locals with a £6.5k benefit per branch.
- (b) Managing 'stranded' branches left after NT – it is expected that 46 Traditional branches will be left.
- (c) Replacement of 123 Community branches with new Locals.
- (d) over 2,000 potential sites for new Locals have been identified with the aim to deliver 300 new Locals in mainly urban areas.
- (e) Central London – in addition to DMB programme there will be around 50 new locals in central London to meet customer demand in London and improve ability to compete. There is also a plan to open a further c125 new branches in areas close to DMBs to improve customer.

RC requested that in future business cases should explain how they supported the delivery of the Strategic Plan.

The Chairman also asked that we look at 'stranded' leavers and find a way to compensate them to enable them to leave. Analysis was needed to be reported back to the Board. TM

- 7.2 It was **Resolved** that the Board approved the funding of £18.71m for delivery of the Network Development Programme from April 2018- March 2019.

The Chairman noted that this would be the last Board meeting KG would be attending and conveyed his thanks to KG for his contribution and commitment to the PO for over 30 years, and wished him well for his retirement.

8. CASH SERVICES STRATEGY

- 8.1 The Chairman welcomed Nick Kennett and Martin Kearsley to present the Cash Services Strategy paper.

- (a) NK explained that the value of cash in the UK economy continues to grow whilst the use of cash is expected to decline but will still remain vital to the

**Post Office Limited
Board Meeting**

- UK economy for a significant period. Banks continue to close branches and the continued demand for cash with reduced locations could create a unique opportunity for PO as the counter cash partner for UK banking
- (b) Lloyds has approached us to consider taking over the counter cash transactions and we are having similar conversations with other banks.
 - (c) RC noted that at there had been a lot of interest from Ministers, as the strategy supported the government's financial inclusion strategy.
 - (d) MKe noted that significant work was underway to assess the operational impact of a request to widen the scope of cash services available through post offices. **An update on the implications would be presented to the Board in Spring 2018.** MKe

NK and MK left the meeting.

9. GROUP LITIGATION UPDATE (VERBAL)

JM provided an update on the outcome of the Case Management Conference held on 19 October and outlined the dates set for future hearings. She noted that the judge had indicated that the court dates would not be set by reference to counsel availability. This posed a potential issue for Post Office in relation to the court hearing in November 2018 as the lead counsel may not be available due to another trial, and advised that contingency plans were being developed.

TF left the meeting.

10. SAP HR & PAYROLL REPLACEMENT BUSINESS CASE

The Chairman welcomed Martin Kirke and Martyn Lewis to the meeting who presented the decision paper "Replacement of HR SAP and Payroll Systems". MK explained the reasons for the replacement business case and the additional funding required as follows:

- (a) The programme had been hampered by poor documentation of a very old system;
- (b) testing had indicated a high risk of large numbers of inaccurate payments being made to employees due to the system design not meeting key requirements. The decision was made that reputational risks were too great to risk implementation until the system was fixed. As a result the programme had incurred delays and increased costs while the additional work was undertaken to fix the issues. Go live had been postponed from July 2017 and is now planned for January 2018.
- (c) The request for additional funding to the amount of £4,061k is required to complete delivery of Wave 1 in January 2018. If further testing is required and go-live delayed then a drawdown of a further £1 million would be required to cover the delays through to March 2018, resulting in a total increased spend of £5,061k.
- (d) The Chairman asked did we definitely have to go ahead with this change or could we continue with what we currently have in place. ML noted that support on the current system will stop on 6th April 2018 so we must transition off the current systems. It was noted that RH also supported this view and confirmed that migration off old system was imperative and urgent.
- (e) The Board requested better controls around overruns. AC noted that as a matter of good practice, projects should flag to GE as soon as they are aware they are going to be more than 10% variance from NPV and must give earlier warning.



**Post Office Limited
Board Meeting**

- (f) Independent assurance would be sought to ensure there are no potential risk for the go-live decision, and a review of 'lessons learnt' would be commissioned and presented to the ARC after go-live. **JM**

MK and ML left the meeting.

11. BOARD COMMITTEE CHAIR UPDATES (VERBAL)

11.1 NomCo

TP provided the following update:

- (a) VH will be stepping down from this Board at the end of March 2018. A search has commenced for her successor.
- (b) The POMS Board is recruiting for a further independent non-executive director.
- (c) TF has been nominated to join the POMS Board.

Irrelevant

11.3 ARC

CS provided an update. The key points were:

- (a) IT – The ARC had been concerned at the number of recent major incidents including 3 DDOS attacks, AEI control failure and Contact Centre issues where unexpected high call volumes had led to significant service outages. Generally there was a concern at the volume of change that was dependent on IT and the better visibility had been requested of the delivery of key programs designed to address audit actions, or minimise risk.
- (b) An update had been provided on the discussions with HMRC regarding the proposed eKYC solution for Bureau de Change
- (c) The external audit plan for next year – no material changes to the materiality levels used in the recent audit.
- (d) Approved change implementation plan.



**Post Office Limited
Board Meeting**

12. ITEMS FOR NOTING

12.1 Sealings

It was Resolved that the affixing of the Common Seal of the Company to documents numbered 1592 to 1603 inclusive in the seal register was confirmed.

12.2 Health & Safety

The Board noted the report.

12.3 Meeting Dates and Forwards Agenda

The Board noted the future meeting dates and January's agenda.

13. AOB

There being no further business the Chairman declared the meeting closed at 17:20pm.

GRO

Chairman

Date