

In Strictest Confidence

POLB05(1<sup>st</sup>)  
POLB 05/01 – 05/19

**Post Office Limited**

(company no. 2154540)

**Minutes of the meeting of the Board**  
**held at 80-86 Old Street, London**  
**on February 23<sup>rd</sup> 2005**

**Present:**

Sir Michael Hodgkinson	Non-executive Chairman
David Mills	Chief Executive
Ian Anderson	Human Resources Director
Alan Cook	Non-Executive Director
Peter Corbett	Finance Director
Graham Halliday	Banking & Financial Services Director
Allan Leighton	Chairman, Royal Mail Holdings
David Miller	Chief Operating Officer
Gordon Steele	Marketing & Direct Sales Director

**In attendance:**

Jonathan Evans	Company Secretary
Neil Owen	Notes
Ric Francis	Operations Director

**Apologies:**

Brian Goggin	Chief Executive, Bank of Ireland
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POLB05/01

**APPOINTMENT OF DIRECTORS**

- (a) The Board noted that the Royal Mail Holdings Board of February 2005 had agreed to the nomination of Alan Cook Chief Executive, National Savings and Investments, as non-Executive Director of the Company and that consent had been obtained from the Secretary of State. The Board unanimously agreed to the appointment of Alan Cook as Non-Executive Director of the Company, with effect from 23<sup>rd</sup> February 2005.
- (b) The Board agreed that, consent having been received from the Secretary of State for Trade and Industry, Allan Leighton be re-appointed as a Director of Post Office Limited for a three-year period with effect from 25 March 2005 until 25 March 2008.
- (c) The Chairman reported that he had become aware that a suggestion may have been made by a DTI Minister that Mr Colin Baker, General Secretary of the NFSP, should become a Non-executive director of Post Office Ltd. After careful consideration the Board agreed that it would reject the proposal, if made, for the following reasons:
  - (i) Colin Baker's position within the union would be compromised by his closer relationship with

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- management;
- (ii) a non-executive director would need to be independent of the day to day executive affairs of the Company, and Colin Baker would not be able to satisfy this requirement;
- (iii) the correct process would need to be followed to nominate and authorise the appointment of a director, including the involvement of the Royal Mail Holdings Board Nominations Committee, and adherence to the Nolan rules governing public appointments;

**POLB05/02 MINUTES OF PREVIOUS MEETING POLB(04)8<sup>TH</sup>**

- (a) The Board approved the minutes of the Board meeting of 15<sup>th</sup> December 2004.

**POLB05/03 STATUS REPORT POLB(05)01**

- (a) The Board noted the report, and in addition:

**Irrelevant**

- (e) Financial Position of Post Office Ltd: Further to the Chairman's correspondence the Shareholder Executive had accepted that action needed to be taken to address Post Office Ltd's urgent balance sheet issues, but appeared indecisive. A meeting with

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**Action:**  
**Peter Corbett**

Richard Gillingwater would take place the following week which would attempt to agree an interim solution. The long-term solution would be a bigger discussion and was unlikely to be agreed before the expected general election in May 2005. Peter Corbett would ensure that the appropriate correspondence were made with Government to highlight the need for action;

# Irrelevant

**POLB05/04**

**CHAIRMAN'S BUSINESS**

- (a) Sir Michael Hodgkinson reported the following matters to the Board:

# Irrelevant

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# Irrelevant

POLB04/05

## CHIEF EXECUTIVE'S REPORT

- (a) David Mills reported the following matters to the Board:
- (b) Face to Face Event at Telford: A series of face to face events had taken place over 3 consecutive days which had reached an audience of over 1800 managers and colleagues. Another 524 smaller events would follow to communicate to 15,000 subpostmasters. The feedback had been very positive with over 83% expressing the opinion that it was a good use of their time;
- (c) Post Office Ltd Budget: The budgets would be presented to the Royal Mail Holdings Board on 2<sup>nd</sup> March;
- (d) Stakeholder Off-site: An off-site meeting with Treasury, DTI, Postcomm and Postwatch would take place on 14<sup>th</sup> March;
- (e) EC Off-Site: An Executive Committee off-site meeting would take place on 11<sup>th</sup> April 2005 to discuss the 5 year aspirational vision of Post Office Ltd achieving £150m PBIT;
- (f) NFSP Off-Site: On 25<sup>th</sup> April an NFSP off-site meeting would take place between the Executive Committee and Colin Baker, Cyril Jones, John Peberdy, Alan Butlin, Mervyn Jones and Sally Reeves;
- (g) NFSP Conference: The NFSP Conference would take place in Scarborough on 15<sup>th</sup> – 18<sup>th</sup> May.

POLB05/06

## DIRECTLY MANAGED BRANCH STRATEGY POLB(05)02

- (a) David Miller presented the Board with a paper on Directly Managed Branch Strategy. The Board noted the paper, and in particular that:
- (b) a number of operational efficiency improvements had been implemented including 67 sets of new branch duties (406 by

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March 2006), and a 10% staff hours saving. 30% of staff had expressed an interest in voluntary redundancy;

- (c) 18 large loss making branches were under scrutiny to improve their Profit & Loss by utilising better staff/workload scheduling and changes to operational processes within the branch;
- (d) trials were being considered at a small number of pilot sites with a view to developing an "enterprise approach". The aim would be to inject a feeling of "local ownership" into Directly Managed Branches;
- (e) a series of property initiatives were taking place including 10 re-sites, compulsory purchase orders and merger solutions;
- (f) Franchise discussions have commenced with Tesco, Sainsbury, Marks and Spencer, Budgens, Somerfield, WH Smith, Woolworths and Wilkinsons. Contact had also been made with existing multiple partners, including Co-Op and TM Retail;
- (g) two meetings had been diarised with the CWU before the end of February with the aim of putting forward a formal pay offer. This would include the implementation of a sales-focused incentive scheme;
- (h) The Board agreed that Dave Miller (Christopher Jonas) would examine the possibility of extending the opening hours of branches by refurbishing them in such a way as to allow part of the branch to remain open outside normal hours. The possibility of phasing in franchising over a period of time would also be explored.

**Action:**  
**David Miller**

**POLB05/07**

**RURAL STRATEGY UPDATE POLB(05)03**

- (a) David Miller introduced Sue Huggins and Mike Granville to the Board who circulated a presentation on Rural Strategy. The Board noted that:
- (b) The Rural Strategy Programme had been set up to resolve the post-2008 rural network and financing issues. The strategy had been approved by the Post Office Ltd Board last year, and a report would be required by Government that outlined the available options by December 2005;
- (c) The intention would be for Post Office Ltd to develop a 'flexible framework' for future rural service delivery comprising revenue growth, infrastructure cost reduction and development of customer access based on 'core and outreach';
- (d) Post Office Ltd would need to establish from Government the level of rural provision required for policy reasons over and above what could be provided commercially. A value for money solution could then be developed to meet Government needs.

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- (e) Current activity involved testing the strategy, producing a financial model, and preparing the ground with stakeholders. A high level report detailing the options would be required for Ministers by June 2005.
- (f) The Board agreed that:
  - (i) all meetings and conversations with Government regarding Rural Strategy would be recorded, and Government would be provided with copies of these records;
  - (ii) pilot activity would commence in uncontentious areas to avoid results being skewed by the heightened political sensitivities in the run up to a general election;
  - (iii) a letter would be sent to Government explaining that a reduced pilot scheme would be implemented so as not to be politically controversial. However, this could effect the quality information required by the DTI in June 2005.

**POLB05/08****HORIZON – NEXT GENERATION POLB(05)04**

- (a) Ric Francis circulated a presentation which outlined the strategy being pursued for the development of the Next Generation of Horizon. A business case would be presented to the April Board meeting. The Board noted that:
- (b) the current contract with Fujitsu was scheduled to terminate in 2010, and the replacement of existing Horizon could extend the contract to 2016;
- (c) a 30% reduction in IT costs would be required by 2008. This would be a key enabler for Post Office Ltd to meet its Rural and Directly Managed saving targets;
- (d) Authority was provided in 2004 to complete the requirements phase. Gartner have evaluated and reported and benchmarked Fujitsu's priced proposal;
- (e) Alan Cook commented that in practical terms contracts of this scope and length would require renegotiation every 2-3 years because the business models changed so rapidly.
- (f) Assurance was provided to the Board that the new system would have at least a similar standard of current capability.
- (g) The Board agreed that:
  - (i) the 'proceed with caution' approach should be followed to help put pressure on Fujitsu in negotiations;

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- (ii) an estimate of the reduction in technology costs would be calculated, given the anticipated reduction in branch network numbers.

# Irrelevant

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# Irrelevant



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# Irrelevant

**POLB05/12**

**FINANCIAL REPORT POLB(05)08**

- (a) Peter Corbett circulated the Financial Report to the Board. The Board noted the report.
- (b) Profit/Loss from operations are both projected to be in line with plan and target for the full year.

**POLB05/13**

**SOLVENCY POLB(05)09**

- (a) Peter Corbett circulated the latest cashflow figures and schedule. The Business Plan presented to the Royal Mail Holdings Board in December showed that Post Office Ltd would become insolvent again unless balance sheet refinancing was put into place. A solution with Royal Mail Group and the DTI would be pursued along the following lines.
  - (i) agreement of a shared vision that Post Office Ltd would become a profitable entity, earning a commercial rate of return on invested capital – aspirational target circa £150m p.a.;
  - (ii) agreement to pursue together a refinancing and capitalisation of the business in accordance with the vision above;
  - (iii) short to medium term cash outflows will be covered by making available the “mails reserve” on the Group balance sheet to POL, and by Group paying POL for utilisation of its tax losses;
- (b) The mechanics to ensure (i) – (iii) took place were currently under development;

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- (c) The solution assumed that RMG would have sufficient profits to utilise Post Office Ltd's tax losses and pay for them as per the circulated schedule;
- (d) RMG would need to confirm that the Mails reserve would be made available to Post Office Ltd and DTI consent would be required;
- (e) The cashflow figures assumed State Aids clearance would be obtained. As this clearance would not have been obtained before the accounts were signed at financial year end, Post Office Ltd would need comfort that the mails reserve from which these monies are funded would also be available for this purpose in the event that State Aid clearance was refused;
- (f) Final confirmation regarding the position would be available at the April Board meeting before the accounts had been finalised. Jeff Triggs (Slaughter and May) would attend the meeting to [REDACTED]

**POLB05/14****CASH CYCLE PAPER POLB(05)10**

- (a) Peter Corbett presented the Cash Cycle paper to the Board. The paper provided an update on the impact of the cash benefits payment migrating to bank transfers. The Board noted that:-
- (b) for a number of years the branches had a net deficit of £20b in cash. The major customer business which had driven this had been encashment of benefits net of small business cash deposits in Alliance & Leicester (Girobank) accounts.
- (c) as a result, of the changes to benefits payments, the profile had changed from a deficit of £16.8b in 2004/05 to a surplus of £7.9b in 2005/06. This surplus would be removed from the balance sheet by selling it to other Banks. This is expected to provide a resolution to the cash surplus issue for the foreseeable future but will continue to be closely monitored.
- (d) An alternative strategy if required, would be to reduce the level of the cash deposits business. This would require a corresponding reduction in fixed overheads. Ric Francis would review what level of fixed overheads could be eliminated if the cash deposits business was reduced.

**Action:  
Ric Francis****POLB05/15****ASSOCIATE COMPANY MINUTES POLB(05)11**

- (a) The Board noted the minutes of the Post Office Financial Services Board meetings of 7<sup>th</sup> – 8<sup>th</sup> December 2004.
- (b) The Board noted the minutes of the First Rate Travel Services Ltd and First Rate Travel Services Holdings Ltd Board meetings

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of 19<sup>th</sup> August 2004.

**FUNCTIONAL REPORTS**

**POLB05/16 FINANCE REPORT POLB(05)12**

- (a) The Board noted the report.
- (b) The Board approved the Strategic Plan (as appended to the Board papers).

**POLB05/17 CHIEF OPERATING OFFICER'S REPORT POLB(05)13**

- (a) The Board noted the report. The Board further noted that:

**Irrelevant**

- (d) Surgery with MPs: At the request of Gerry Sutcliffe a surgery had been held between MPs and key operational managers. Although the surgery had gone well, the number of MPs that attended had been disappointing. Half-day surgeries would be the norm in future.

**Action:**  
**David Miller**

**Irrelevant**

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# Irrelevant

POLB05/16

OPERATIONS REPORT POLB(05)16

- (a) The Board noted the report. The Board further noted:
- (b) Cash Logistics: 14 of the 29 route revisions in the cash in transit depots had been implemented and the closure of Bristol Cash Centre by the end of the year was on schedule. The Bureau cash continued to drive retail foreign currency holdings down to an acceptable level - currently £54m. Pay negotiations for 2005/06 were now underway and may threaten the stability of the cash in transit efficiency work. An initiative to determine the strategic direction for the cash operation would report by end of March.
- (c) Chip and Pin: Chip and Pin had been delivered to the timescale and success criteria set by Government. At the same time the IBM banking engine had been replaced and had delivered a £6m per annum bottom line benefit. The new engine had also supported growing volumes of transactions.
- (d) Impact: The accounting release was largely developed and the testing phase was now underway.

# IRRELEVANT

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**Irrelevant**

**POLB05/18**

**ANY OTHER BUSINESS**

(a) No further business to report.

**POLB05/19**

**CLOSE**

(a) There being no further business, the meeting was closed.

**Sir Michael Hodgkinson**