

Post Office Limited – Strictly Confidential

**POLB 13(12<sup>th</sup>)**  
**POLB 13/80-13/96**

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

Minutes of a Board meeting held on 25 September 2013  
at 148 Old Street, London EC1V 9HQ

**Present:**

Neil McCausland	In the Chair
Tim Franklin	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director (items 13/80 - 13/89)
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

**In Attendance:**

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 13/80 - 13/86)
Kevin Gilliland	Network & Sales Director (items 13/80 - 13/84)
Lesley Sewell	Chief Information Officer (items 13/82 - 13/86)

**Apologies for Absence:**

Alice Perkins	Chairman
Virginia Holmes	Non-Executive Director

**POLB 13/80**

**INTRODUCTION**

- (a) A quorum being present, the Chairman opened the meeting and welcomed Sue Barton, Strategy Director and Kevin Gilliland, Network & Sales Director.

**POLB 13/81**

**PROGRESS REPORT ON GOVERNMENT FUNDING AND STRATEGIC PLAN**

- (a) The Board noted the progress report on the Government Funding and Strategic Plan.
- (b) Sue Barton reminded the Board of the device of an explicit cliff in the original strategy and its importance in driving branches to convert in the Network Transformation (NT) programme. She explained that it was now clear that a new approach of a mandated exit with enhanced compensation alongside an implicit cliff, post 2015, should gain NFSP support and enable the Business to deliver the NT.
- (c) The Board discussed the new approach and their concern that post

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**ACTION:**  
**Sue Barton/**  
**Susannah Storey**

the 2015 election a new government may reconsider the introduction of the cliff. Sue Barton explained that the Business and the Shareholder Executive were discussing the possibility of a three year funding deal which would help reduce any political changes post-election and allow the cliff to come into force if required. The Board supported this but suggested an exchange of letters with the Secretary of State to explain the Board's position.

(d) The Board discussed the relationship with the NFSP and their support for the new proposal. Sue Barton explained the Memorandum of Understanding (MoU) being proposed which would require the NFSP not to mobilise a campaign against NT or ask for more money for compensation. However, in return, the NFSP would be looking for financial support from the Business. She described the NFSP's request for a 15 year sponsorship arrangement and explained what services the Business would expect in return.

(e) The Board were very uncomfortable with the longevity of what was being proposed and the level of financial support but recognised the need to be pragmatic and the part the NFSP plays in delivering the NT and funding.

(f) The Board supported the approach outlined in the paper as a mandate for Sue Barton to continue negotiating the MoU, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services provided by the NFSP did not reach desired standards.

**ACTION:**  
**Sue Barton**

(g) The Board discussed the plans for delivering the new NT programme and the speed with which they could be deployed. Kevin Gilliland explained that the time constraints were both internal and external and that finding the right new sub-postmasters was critical to the programme. He assured the Board that he understood and shared their desire to deliver the NT programme as quickly as possible. Sue Barton stressed that the Business was focussing both on delivery of the existing programme whilst planning the new approach, supporting the sub-postmaster by centralising as much of the process as possible.

**ACTION:**  
**Alasdair Marnoch/**  
**Sue Barton/**  
**Kevin Gilliland**

(h) The CEO asked Alasdair Marnoch if he would work with Sue Barton and Kevin Gilliland to critique the delivery plans, on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan would be brought back to the Board in October.

**ACTION:**  
**Sue Barton**

(i) The Board asked for an update to the schedule in 4.3 of the paper, showing the number of sub-postmasters in each category of the table.

(j) The Board asked for confirmation that legal advice supported not paying retrospective enhanced compensation to sub-postmasters who had already exited on the existing scheme. The CEO

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confirmed that this was the advice the Business had been given, although this did not preclude a judicial review of the decision.

- (k) The Board noted the progress report on the Government Funding and Strategic plan, endorsed the work plan that was underway and thanked Sue Barton and Kevin Gilliland for their work to date.

POLB 13/82

**COST FOCUS/VALUE FOR MONEY**

- (a) Lesley Sewell, Chief Information Officer, joined the meeting.
- (b) The CFO and Sue Barton gave the Board an overview of the approach the Business was taking to reduce central costs. The CFO recognised that the Business needed to build a bridge between the tactical day to day cost reduction which continues in the business and the future operating model. He pointed out that there were already substantial savings built into this year's plan and that an estimated additional 200 people would be exiting before the end of the next financial year.

**ACTION:**  
Fay Healey

- (c) The Board recognised that a lot was being done to address the profit gap left by the income decline and asked for assurance that the Business was exiting the right people. The CEO suggested that the Chief HR Officer be invited to the Board to present the approach to performance management below SLT level and the statistics on exiting poor performers.

**ACTION:**  
CFO/  
Alasdair Marnoch

- (d) The Board asked for a note setting out the underlying cost base in the strategic plan and the additional savings which have now been identified to compensate for the income decline. This should show the changed trajectory for costs with additional papers filed in the reading room.
- (e) Sue Barton explained that our 25% cost reduction challenge had been shared with six suppliers and that they had been asked for their unconstrained ideas. The CEO also reported that a fact finding trip to India to look at outsourcing possibilities was taking place in a week's time.

**ACTION: CFO**

- (f) The CFO was asked to report back at the next Board as part of his Financial report. The Board would then decide if it needed a 'deep dive' on cost focus and value for money.

POLB 13/83

**SUPPLY CHAIN STRATEGY**

- (a) The Board received a report on the Supply Chain net cost management programme and future Roadmap.
- (b) Sue Barton explained the findings of the independent consultancy Elix-IRR. The Board supported the view that the Supply Chain is not a core income pillar for the Business and were aligned with the strategy to outsource. However, there were different views on the timing of any outsourcing and the management bandwidth to manage this alongside the other transformation programmes.



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**ACTION:**  
**Kevin Gilliland**

- (c) The Board asked the Business to continue its focus on outsourcing. The CEO reported that she had already decided to bring in a new hire as General Manager for Supply Chain and would want this person to lead the strategic review, possibly to result in a management buyout or outsourcing.
- (d) The Board supported: recruitment of the new General Manager; pushing ahead with controlling the levers which drive the Supply Chain costs; and getting the Supply Chain to a position where it could be outsourced.

**ACTION:**  
**CFO**

- (e) The Board asked the CFO to check if the Supply Chain costs for ATMs were allocated to an ATM provision and charged to the Bank of Ireland.

**POLB 13/84**

**REPORT ON INDUSTRIAL ACTION**

- (a) Kevin Gilliland gave a verbal update on the current position regarding Industrial Action. He explained the Business' response to both strike days and 'action short of a strike'. He explained that he had just notified the unions about the franchising agreement and TUPE and the Voluntary Redundancy exercise the Business is about to undertake.
- (b) He also explained that the CWU had written to the CEO threatening a strike ballot if they did not get agreement for an 'inflation busting' pay rise for the Supply Chain. The CEO explained that a response had been sent to say we would not be opening these negotiations until January. The Board were assured that contingency plans were already in place for any Supply Chain industrial action.
- (c) Kevin Gilliland reported that progress had been made with CMA/Unite and the principle of no consolidated pay until 2015 has been established.
- (d) The Directors noted the Industrial Action update.
- (e) Kevin Gilliland left the meeting.

**POLB 13/85**

**SERVICE INTEGRATOR/SERVICE DESK CONTRACT AWARD**

- (a) The Board received an update on the procurement for a Service Integrator/Service Desk (SISD) provider. It was noted that the Executive Committee had approved the award of the SISD contract to ATOS IT Services Limited.
- (b) Lesley Sewell explained that a full governance structure had been agreed as part of the procurement, that she had personally taken references for ATOS, and that they were already engaged on similar work for HMRC and the Ministry of Defence.
- (c) She reported that Dave Hulbert would be accountable for the contract management and that he had been through a selection



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process as well as an external assessment before being given the role.

- (d) It was agreed that the SISD contract be awarded to ATOS IT Services Limited, and that the CFO be authorised to sign on behalf of the Company.

POLB 13/86

#### IT STRATEGY UPDATE SEPTEMBER 2013

- (a) Lesley Sewell updated the Board on progress made against the Business' key initiatives within the 2020 IT Strategy, demonstrating why it represented value for money and achieved the run-cost reduction targets.
- (b) The Board discussed the Fujitsu costs and the IP risks identified at the July Board meeting. The CFO reported that the Business had discussed the issue with Fujitsu on several occasions but had not reached a satisfactory outcome, although the price had reduced from the original £60m to £25m and was likely to end at between £10 and £20 million pounds, depending on the outcome of a possible offset of non-contractual change spend versus an agreed IPR valuation.
- (c) Lesley Sewell stressed that the Business would go to market in October and that she and the CFO would continue to negotiate to reduce the exposure.
- (d) The Board noted the update and actions as set out in the paper.
- (e) Sue Barton and Lesley Sewell left the meeting.

POLB 13/87

#### CHIEF EXECUTIVE'S REPORT

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

(b)

**Irrelevant**

(c)

**Irrelevant**

- (d) The Board were disappointed with the take up of the Current

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**ACTION:**  
Company Secretary

Account. The CEO explained that she was meeting the Bank of Ireland on Friday to discuss, amongst other things, the account opening process and further roll-out. The CFO also had agreed two deep dives organised with the Bank, the first of which would focus on savings. It was suggested that these issues be reviewed by the Board FS Sub Committee.

**ACTION:**  
Martin George

(e)

**Irrelevant**

(f)

**Irrelevant**

POLB 13/88

**HORIZON UPDATE**

- (a) The CEO updated the Board on the progress made against the list of actions included in the Horizon update paper sent to the Board on 27 July 2013.
- (b) The CEO reported that she and Alasdair Marnoch had had a meeting with Anthony Hooper, a former QC and candidate for the role of Independent Chair of the Horizon Working Group. Subject to agreeing fees they both agreed he would be an excellent choice.
- (c) The Board asked how the Business intended to manage the project after Susan Crichton, General Counsel, has left the Business. The CEO explained that an interim GC would be in place for a hand over but that she also intended to put Belinda Crowe into the role of Project Director to lead on coordinating the programme, with the ExCo accountability sitting with the new GC. She also explained that she had asked Alwen Lyons, Company Secretary, to keep an oversight of the handover as the interim GC joined the Business.
- (d) The Board noted the Horizon progress report.

POLB 13/89

**FINANCIAL PERFORMANCE UPDATE**

- (a) The Board received a financial performance update for August 2013 from the CFO.
- (b) The Board discussed the effect of the revenue shortfall on EBITDA and the mitigating actions to support the underlying profit. The CFO explained that the position should be clearer at the next Board meeting with the Quarter 2 full year forecast but stressed that he was expecting the full year to be broadly flat in revenue but with reduced costs leading to an improvement in profit.
- (c) Susannah Storey left the meeting.

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**ACTION:**  
**CFO**

- (d) The Board recognised that the Business was getting back on track after a difficult first quarter period but stressed the need to hit the required exit rate at year end and to keep the underlying costs under control and within budget.
- (e) The Board asked the CFO to consider how he could improve the cashflow forecasting as the volatility is nowhere near best practice. It was recognised that this was not a current priority but could become so as the Business moves toward financial sustainability.
- (f) The CFO reported that he had reached agreement for the sale of tax losses to RMG for 50 pence in the pound. This was well received by the Board who recognised the work of Charles Colquhoun in this area.

**POLB 13/90**

**RISK**

- (a) Alasdair Marnoch gave a verbal update on the discussions held at the Audit & Risk Committee (ARC) on the issue of Risk and explained that the Business was now distilling their risk register after input from the ARC.
- (b) The risks identified by individual Board members had been circulated to the ARC and the Board and further work on risk would be included in the November Board meeting.

**POLB 13/91**

**MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING**

- (a) The minutes of the Board meetings held on 24 June, 1 July, 9 July, 16 July, 26 July and 31 July 2013 were approved for signature by the Chairman.

**POLB 13/92**

**COMMITTEE MEETING MINUTES FOR NOTING**

- (a) The Board noted the minutes of the Audit Risk & Compliance Committee meetings held on 20 March, 21 May and 6 June; and the Pensions Committee meetings held on 1 May, 6 June and 1 August.

**POLB 13/93**

**STATUS REPORT**

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (b) The Board asked for a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. The CFO, with input from Alasdair Marnoch, would ensure the appropriate notifications were made.

**ACTON:**  
**CFO/**  
**Alasdair Marnoch**

**POLB 13/94**

**ITEMS FOR NOTING**



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**ACTION:**  
**CEO**

- (a) The Board noted the Health and Safety report and the Board asked the CEO to thank Simon Eldridge, National Safety Environment and Wellbeing Manager, for the good progress being made.
- (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 1059 to 1074 inclusive in the seal register was hereby confirmed.
- (d) The Board noted the update on the Post Office Payment Services proposition to SMEs and confirmed the launch strategy as outlined in the paper.

**POLB 13/95**

**ANY OTHER BUSINESS**

**ACTION:**  
**CFO/**  
**Hugh Flemington**

- (a) Following his note to the Board on the tax consequences and impact on the RMG IPO the Board asked the Business to consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.

**ACTION:**  
**Belinda Crowe**

- (b) The CEO explained that an internal 'lessons learned' review, led by Belinda Crowe, would be undertaken for Project Sparrow over the next few weeks.

**ACTION:**  
**CFO**

- (c) The Board discussed the interim statement of accounts and asked the Business to formalise the process and circulate to the Board in advance of the October Board meeting. The CFO recognised that the Board favoured a lighter trading statement.
- (d) The Company Secretary circulated the agenda for the next meeting which would be held at Camden Crown Office and have input from the Branch Manager, as well as include a visit to the Branch.

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**CLOSE**

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

**GRO**

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## POST OFFICE LIMITED 16 JULY 2013 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	<b>Network Transformation and Crown Offices</b>	
September 2013 POLB 13/81(c)	Exchange letters with the Secretary of State to explain the Board's position in relation to Government funding, the strategic plan and the cliff in response to the Board's concern that in 2015 any new Government will reconsider the cliff's introduction.	Sue Barton/ Susannah Storey
September 2013 POLB 13/81(h)	Work with Alasdair Marnoch, who would critique the delivery plans for the NT programme on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan should be brought back to the Board in October.	Alasdair Marnoch/ Sue Barton/ Kevin Gilliland
September 2013 POLB 13/81(i)	Provide an update to the schedule in 4.3 of the paper, showing the number of sub-postmasters in each category of the table.	Sue Barton
	<b>Finance</b>	
September 2013 POLB 13/82(d)	Circulate a note setting out the underlying cost base in the strategic plan and the additional savings which have now been identified to compensate for the income decline. This should show the changed trajectory for costs with additional papers filed in the reading room.	CFO/Alasdair Marnoch
September 2013 POLB 13/82(f)	The CFO was asked to report back on cost focus and value for money at the next Board as part of his Financial report.	CFO
September 2013 POLB 13/89(e)	Consider how the cashflow forecasting could be improved.	CFO
September 2013 POLB 13/95(b)	Formalise the process for the interim statement of accounts and circulate to the Board in advance of the October Board meeting.	CFO
	<b>Strategy</b>	
September 2013 POLB 13/83(c)	The new General Manager for Supply Chain to lead a strategic review post-appointment.	Kevin Gilliland
September 2013	Check if the Supply Chain costs for ATMs were allocated to a specific provision and charged to the	CFO

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POLB 13/83(f)	Bank of Ireland.	
September 2013 POLB 13/87(e)	Provide a noting paper for the next meeting covering the opportunities in the <u>Energy</u> market.	<b>Martin George</b>
	<b>NFSP &amp; Trade Association</b>	
September 2013 POLB 13/81(f)	Continue negotiating the MoU between Post Office and the NFSP, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services provided by the NFSP did not reach desired standards.	<b>Sue Barton</b>
	<b>Information Security</b>	
September 2013 POLB 13/93(b)	Produce a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. Ensure that the appropriate notifications are made.	<b>CFO/Alasdair Marnoch</b>
September 2013 POLB 13/95(b)	Undertake an internal 'lessons learned' review for Project Sparrow.	<b>Belinda Crow</b>
	<b>Other Actions</b>	
September 2013 POLB 13/82(c)	Present to the Board on the approach to performance management below SLT level and the statistics on exiting poor performers.	<b>Fay Healey</b>
September 2013 POLB 13/87(d)	The Board FS Sub-Committee should review the two deep dives organised with the Bank of Ireland, the first of which would focus on savings.	<b>Company Secretary</b>
September 2013 POLB 13/94(a)	Thank Simon Eldridge, National Safety Environment and Wellbeing Manager, for the good progress being made on Health and Safety.	<b>CEO</b>
September 2013 POLB 13/95(a)	Consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.	<b>CFO/Hugh Flemington</b>