

Post Office Limited – Strictly Confidential

POLB 14(5th)
POLB 14/64-14/83

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

Minutes of a Board meeting held on 21 May 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director (minutes 14/64-68)
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive (minutes 14/64-71 and 14/76-82)
Chris Day	Chief Financial Officer (minutes 14/64-71 and 14/76-82)

In Attendance:

Alwen Lyons	Company Secretary
Nick Kennett	Director, Financial Services (minutes 14/64-65)
Paul Havenhand	Head of Travel and Insurance (minutes 14/64-65)
Chris Aujard	General Counsel (minutes 14/64-65 and 14/76)
Martin George	Chief Marketing and Commercial Officer (minute 14/66)
Kevin Gilliland	Network & Sales Director (minutes 14/66-69)
David Ryan	Business Transformation Director (minutes 14/67-69)
Lesley Sewell	Chief Information Officer (minutes 14/67-69 and 14/82)
Neil Hayward	Group People Director (minutes 14/67-69 and 14/72-75)
Belinda Crowe	Programme Director, Project Sparrow (minute 14/76)
Jim Knox	PA Consulting, Partner (minute 14/69)
John McAlister	PA Consulting, Partner (minute 14/69)
Mark Davies	Communications & Corporate Affairs Director (minutes 14/70)

POLB 14/64

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Nick Kennett, Director, Financial Services, Chris Aujard, General Counsel, and Paul Havenhand, Head of Travel and Insurance.

POLB 14/65

(a)

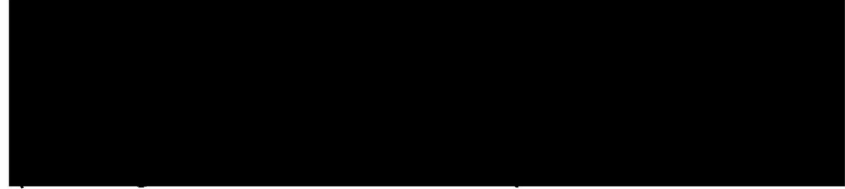
(b)

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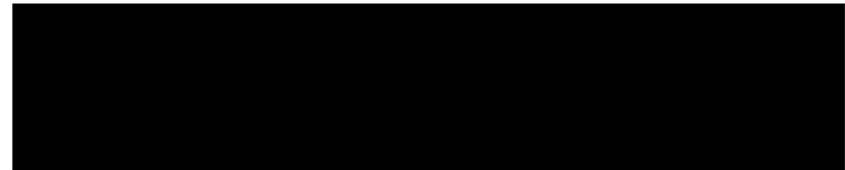
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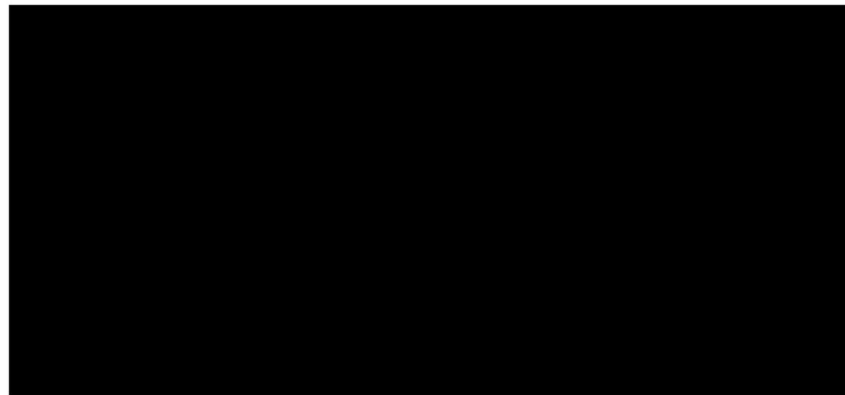
(c)



(d)



(e)



(f)

ACTION:
Company
Secretary

(g)

Irrelevant

(h)

ACTION:
All/Neil Hayward

(i)

ACTION:
General

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**Counsel/Neil
Hayward/
Company
Secretary**

(j)

(k)

**ACTION:
Nick Kennett**

(l)

(m)

POLB 14/66

(a)

(b)

(c)

Irrelevant

(d)

**ACTION:
Martin George
/General Counsel**

(e)

(f)

(g)

(h)

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POLB 14/67

BUSINESS TRANSFORMATION UPDATE

- (a) The Board welcomed Neil Hayward, Group People Director, David Ryan, Business Transformation Director, and Lesley Sewell, Chief Information Officer, to the meeting.
- (b) The CFO explained that the three areas of transformation were being presented together as they now formed part of the wider scope being considered for Business Transformation.
- (c) The Board received an update on the Business Transformation Programme. David Ryan explained that the Programme was entering into the design phase which consisted of three parts: diagnostics of the cost base; an exercise to determine the target operating model (TOM) fit for the business in 2018-20; and development of the transformation blueprint which will describe the plan and journey to deliver this operating model.
- (d) He explained that the Business had chosen McKinsey as the design partner from six possible candidates and that the contract would be agreed before the end of the week. It had been agreed as part of the contract that the Programme would drive costs out of the Business as quickly as possible, without compromising the long term benefits.
- (e) The Board were reassured that sensible assumptions would be taken in areas where the TOM was less clear, maintaining as much flexibility as possible in the design.
- (f) David Ryan explained that it would not be clear until further into the design phase whether the Business needed one or multiple delivery partners, although possible partners were already helping with the Programme.
- (g) The Board sought assurance that the Programme was supported by the best resource in the Business and David Ryan, backed by the CEO, promised that this was the case.
- (h) The Board noted the progress of the Business Transformation Programme and thanked David Ryan for his work to date.

POLB 14/68

IT TRANSFORMATION PROGRAMME

- (a) The Board considered an update on the status of the IT Transformation Programme.
- (b) Lesley Sewell explained that the Business and Royal Mail were working well together on IT separation. She stressed that this was a complicated process, and that the risks were being closely monitored. Both businesses were moving to new suppliers and once these suppliers were known the process would be clearer.
- (c) Alasdair Marnoch, Chairman of the ARC, reported that a paper on the lessons learned after the cancelled Data Centre procurement had

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been discussed at the ARC and that a number of changes had already been implemented.

ACTION:
Neil Hayward

- (d) Lesley Sewell believed that the decision to withdraw the procurement had been correct and stressed that none of the bidders had needed to be compensated. The lessons learned review has highlighted a skills gap in the Business and Neil Hayward reported that he was reviewing the vacancies with Lesley Sewell, which may need to be discussed at the Remuneration Committee, if the appointments were constrained by the salary being offered. He would keep a record of cases where suitable candidates were deterred by the remuneration on offer.
- (e) Lesley Sewell assured the Board that the IT Transformation Programme was fully aligned with the wider Business Transformation Programme and that any changes to the IT architecture would continue to be checked for flexibility to ensure they were consistent with the new operating model.

ACTION:
Lesley Sewell

- (f) She confirmed that each contract would return to the Board for sign off at the point when a preferred bidder had been identified.
- (g) The Board noted the progress of the IT Transformation Programme.
- (h) Tim Franklin left the meeting.

POLB 14/69

SUPPLY CHAIN REVIEW

ACTION:
CFO

- (a) The Board welcomed Jim Knox and John McAlister, PA Consulting, to the meeting.
- (b) The Board received the PA review of Supply Chain and the possible options available to the Business. It discussed the complexity of the Supply Chain Function and agreed that this was not a future core competency for the Business, although having reliable cash supply was a core requirement.
- (c) The Board discussed the proposed options and the likely effect of implementation on the industrial relations environment. It was recognised that these proposals would be unpopular with the unions and employees and Kevin Gilliland reported that a similar proposal had been suggested and withdrawn in the past.
- (d) The Board considered the political environment, the reaction to the options discussed and the timing of any decision.
- (e) The CFO acknowledged that there was a critical path to short and medium term value maximisation. Irrespective of any decision to manage or outsource, it would be necessary to deliver a separate and accurate P&L account and balance sheet for the Supply Chain Business. This would lead to a greater understanding of the profitability of individual external contracts and internal efficiencies.
- (f) The Business recognised the need to review the management structure and capability in this area. The CEO reported that a potential individual had been identified to lead the Supply Chain Business; this

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person was currently being assessed. In parallel an external search had also identified a candidate who will be put through the Hay assessment.

ACTION:
KG/MD

- (g) The Board noted the update and asked the Business to analyse the options further with regard to the political and IR landscapes. The Board asked the Business as part of the Business Transformation programme to consider simplifying the Supply Chain function to see if it could be disaggregated and managed more effectively.

ACTION:
KG/DR

- (h) Neil Hayward, Kevin Gilliland, David Ryan, Lesley Sewell, Jim Knox and John McAlister left the meeting.

POLB 14/70

ANNUAL REPORT AND ACCOUNTS

- (a) Mark Davies, Communications and Corporate Affairs Director, joined the meeting.
- (b) The Board received the Annual Report and Financial Statements for the 2013-2014 financial year and ancillary documents. Alasdair Marnoch, Chairman of the ARC, recommended the Financial Statements to the Board. He reported that there were no substantial issues in the External auditors report; that the Business had received a completely clean bill of health from Ernst & Young; and that the Financial Statements were robust.

ACTION:
AII/CFO/MD

- (c) The Board asked for a final review of the first three sections of the report to ensure that the style was consistent with no duplication. It was suggested that the Financial Services page of the Business Review be used as an exemplar for the other sections and that the Mails page needed a considerable rewrite. The Chairman of the ARC asked the Business to ensure that the clarity and objectivity of the Budget Briefing Book was carried forward into the front half of the report as this would help give a clearer message of the Business' performance.

- (d) The Board agreed that this year's report would encapsulate the 'spirit' of fair, balanced and understandable without making a formal statement, but that the Business would work towards achieving this standard next year.

- (e) The Board were asked to provide any individual feedback to the CFO.

ACTION:
Mark Davies

- (f) The Board discussed the inclusion of Sparrow in the report and agreed that it should be excluded. However the Business agreed that it would be appropriate to include a paragraph in the CEO overview to explain the size of the enterprise risk and the major transformation programmes being undertaken, referring back to the risks already highlighted in the CFO report.

- (g) With due regard to their individual duties and liabilities, the Board:

- approved the approach to Going Concern and agreed the Going Concern status for Post Office Limited at the full year;

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- agreed that it was appropriate for the Directors of Post Office Limited to make the undertakings and statements in the financial statements;
- confirmed that, as individual directors, so far as they were aware, there was no relevant audit information of which the auditor was unaware and that each director had taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor was aware of that information;
- approved the financial statements;
- delegated authority for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch;
- authorised Alwen Lyons to sign the Directors' Report and Chris Day and Paula Vennells (or, in either's absence, Alice Perkins) to sign the balance sheet, each acting on behalf of the Board; and
- approved the Letter of Representation to the auditor and authorised Paula Vennells or Chris Day to sign and issue it on behalf of the Board.

POLB 14/71

ACTION:
Chris Day

(a)

(b)

(c)

Irrelevant

POLB 14/72

(a)

(b)

(c)

Irrelevant

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POLB 14/73

(a)

(b)

POLB 14/74

(a)

(b)

(c)

(d)

(e)

Irrelevant

POLB 14/75

(a)

(b)

(c)

POLB 14/76

CHIEF EXECUTIVE'S REPORT

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

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(b) SEPARATION

The CEO reported a meeting with Moya Greene, CEO of Royal Mail plc, who was concerned about the separation of the two businesses. To ensure any potential problems are mitigated she has asked David Ryan to have a look at separation in the context of Business Transformation. Paula Vennells explained that the Business may need a COO role whilst separation was finalised and was considering possible options for that role.

(c) NFSP CONFERENCE

The CEO told the Board that she had received good feedback from the NFSP conference and that the relationship was in a different place to last year. Richard Callard concurred that the conference had gone well but explained that there had been challenge to the Minister regarding Government Services work, especially DVLA and POCA.

(d)

IRRELEVANT

(e) BBC DOCUMENTARY

The Business had agreed the filming of a BBC documentary to be aired in the spring. The CEO recognised that any such work had an element of risk but the Business had been reassured by the editorial constraints negotiated by Mark Davies. The Board asked the CEO to ascertain if the broadcast could be timed for after the election. The CEO offered to circulate a brief and film trailer to the Board

ACTION:
Mark Davies

(f) SPARROW

Chris Aujard, General Counsel, and Belinda Crowe, Programme Director Project Sparrow, joined the meeting.

ACTION:
General Counsel

The draft executive summary of the Horizon Assurance Review, prepared by Deloitte, had been circulated to the Board. The General Counsel advised that the full Review should be available to the Business on Friday 23rd May. He would circulate it to the full Board as soon as possible, once he was satisfied with its drafting and the clarity of expression. It was agreed that he would escalate within Deloitte if he had concerns about the quality of the product. The Chairman stressed the importance of this Review and the need for it to give the Board assurance that there were (if that be the case) no issues with the system. She also stressed the need for the Review to be written clearly so that it could be used to give assurance to a wider audience. The Review would be considered at the next Board Sparrow Sub Committee (BSSC).

The CEO reported that she and the General Counsel had met Sir Anthony Hooper to understand his appetite for changing the Scheme. Sir Anthony Hooper stressed that the Post Office had agreed to the mediation scheme and believed they now needed to let it run over the next 12-18 months. With this in mind, the Chairman asked the BSSC

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ACTION:
Board Sparrow SC

to decide whether there was an option to change the scheme, before the first case was mediated, which could be as early as the next 4-8 weeks.

The General Counsel explained that ten cases, where the claimant was an existing sub postmaster, had already been resolved outside the scheme at very low cost to the Business. The team were continuing to identify and attempting to resolve cases under the business as usual processes – this included making settlement payments, where doing so was unlikely to set precedents or create problems with either the Working Group or the Network. It was possible that the first case going through the Scheme could also be settled prior to mediation.

ACTION:
Belinda Crowe

The Board asked for a paper to the BSSC explaining the caseload, to include:

- the original number of cases;
- those already resolved outside the Scheme;
- an assessment based on information available (as only 22 have been fully investigated) as to how many cases have so far been identified which could potentially be settled under business as usual without going to mediation;
- identifying the number of criminal cases which Post Office is unlikely to agree to mediate; and
- highlighting how many applications in the Scheme cite issues which relate specifically to the Horizon system.

The CFO explained the cost to the Business of the Sparrow was running at circa £700k a month, excluding payments to claimants. This expenditure was in line with the budget but still a challenge for the Business.

ACTION:
**General Counsel/
Belinda Crowe/
Mark Davies**

The Chairman asked that the next BSSC to consider:

- the options available for the Scheme;
- how cases could be removed from the Scheme into business as usual, based on a narrow definition of Horizon, and how this would be explained to the sub postmasters and other stakeholders;
- the likely response from Sir Anthony Hooper, JFSA and Second Sight to any change; and
- PR scenario planning for all the options being considered.

POLB 14/77

FINANCIAL PERFORMANCE UPDATE

- (a) The Board received a financial performance update for April 2014.

POLB 14/78

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

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- (a) The minutes of the Board meeting held on 30 April 2014 were approved for signature by the Chairman.

POLB 14/79

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of the Project Sparrow Sub-Committee meeting held on 9 April 2014.

POLB 14/80

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an update on Telephony, was noted.

POLB 14/81

ITEMS FOR NOTING

- (a) The Board noted the Project Maypole update. The CFO reported that the DWP had asked for a 10 per cent price reduction in the Maypole contract. The Business has responded by explaining that it cannot take a 10 per cent hit on the income and that what has been proposed is the final offer. The CFO warned the Board that the Business may not be able to negotiate an economic deal.
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the update on Cyber Security and Information Assurance.
- (e) 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 1160 to 1167 inclusive in the seal register was hereby confirmed.

POLB 14/82

ANY OTHER BUSINESS

- (a) The Board considered a proposal to separate IT Network Services from Royal Mail.
- (b) The Board agreed that the Business should proceed to award a direct contract between Post Office and British Telecommunications as outlined in the paper, and authorised the Business to enter into a Transitional Services Agreement with Royal Mail covering joint activities and services necessary to support the commercial separation.

POLB 14/83

DATES OF NEXT MEETINGS

- (a) It was noted that the next Board meeting would be held on 16 July 2014, and that the Board Strategy Awaydays would be held on 10-11 June 2014

GRO

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POST OFFICE LIMITED 21 MAY 2014 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	Strategy	
May 2014 POLB 14/65(f)	Draft necessary amendments to the Remuneration Committee Terms of Reference to enable it to make recommendations to the Post Office Board on appointments to the POMs Board.	Company Secretary
May 2014 POLB 14/65(h)	Provide the names of possible candidates for the position of POMS Chairman to Neil Hayward, Group People Director, who would manage the recruitment process for the Nominations Committee.	All/Neil Hayward
May 2014 POLB 14/65(i)	Provide a paper explaining the milestones to POMS approval, including, in particular, the effect on the Post Office Board Sub-Committees (with input from the Chairman of the Financial Services Board Sub-Committee) and the appointment and ShEx consent process for the POMS Chairman.	General Counsel/Neil Hayward/Company Secretary
May 2014 POLB 14/65(k)	The Business to submit a further paper in Q3 2014-2015 for ratification, prior to any market launch of the MGA services.	Nick Kennett
May 2014 POLB 14/66(e)	A recap of the MDA to be included as part of the June Away Day papers, including the material adverse change clause and when this might be applied.	Martin George/General Counsel
May 2014 POLB 14/68(d)	The lessons learned review of the Data Centre procurement highlighted a skills gap in the Business. Neil Hayward to review the vacancies with Lesley Sewell, which may need to be discussed at the Remuneration Committee, if the appointments were constrained by the salary being offered. He would keep a record of cases where suitable candidates were deterred by the remuneration on offer.	Neil Hayward
May 2014 POLB 14/68(e)	Each IT Transformation contract to return to the Board for sign off at the point when a preferred bidder had been identified.	Lesley Sewell
May 2014 POLB 14/69(e)	Deliver a separate and accurate P&L account and balance sheet for the Supply Chain Business.	CFO

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May 2014 POLB 14/69(g)	The Business to analyse the options for Supply Chain further with regard to the political and IR landscapes.	Kevin Gilliland/Mark Davies
May 2014 POLB 14/69(g)	The Business as part of the Business Transformation programme to consider simplifying the Supply Chain function to see if it could be disaggregated and managed more effectively.	Kevin Gilliland/David Ryan
	Finance	
May 2014 POLB 14/70(c)	Undertake a final review of the first three sections of the report to ensure that the style was consistent with no duplication. It was suggested that the Financial Services page of the Business Review be used as an exemplar for the other sections and that the Mails page needed a considerable rewrite. The Business to ensure that the clarity and objectivity of the Budget Briefing Book was carried forward into the front half of the report as this would help give a clearer message of the Business' performance.	All/CFO/Mark Davies
May 2014 POLB 14/70(f)	Include a paragraph in the CEO overview to explain the size of the enterprise risk and the major transformation programmes being undertaken, referring back to the risks already highlighted in the CFO report.	Mark Davies
	Sparrow	
May 2014 POLB 14/76(f)	The full Deloitte Horizon Assurance Review to be circulated to the Board as soon as possible.	General Counsel
May 2014 POLB 14/76(f)	Decide whether there was an option to change the Mediation Scheme before the first case was mediated.	Sparrow Sub-Committee
May 2014 POLB 14/76(f)	A paper to the Sparrow Sub-Committee explaining the caseload, to include: <ul style="list-style-type: none"> • the original number of cases; • those already resolved outside the Scheme; • an assessment based on information available (as only 22 have been fully investigated) as to how many cases have so far been identified which could potentially be settled under business as usual without going to mediation; • identifying the number of criminal cases which Post Office is unlikely to agree to 	Belinda Crowe

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	<p>mediate; and</p> <ul style="list-style-type: none">• highlighting how many applications in the Scheme cite issues which relate specifically to the Horizon system.	
May 2014 POLB 14/76(f)	<p>The next Sparrow Sub-Committee to consider:</p> <ul style="list-style-type: none">• the options available for the Scheme;• how cases could be removed from the Scheme into business as usual, based on a narrow definition of Horizon, and how this would be explained to the sub postmasters and other stakeholders;• the likely response from Sir Anthony Hooper, JFSA and Second Sight to any change; and• PR scenario planning for all the options being considered.	General Counsel/Belinda Crowe/Mark Davies
	Miscellaneous	
May 2014 POLB 14/71(b)	An update note to be sent to the Board once the Facilities Management and Grapevine contracts were signed.	CFO
May 2014 POLB 14/76(e)	Ascertain if the BBC Documentary broadcast could be timed for after the election.	Mark Davies