

Post Office Limited – Strictly ConfidentialPOLB(12)4th
POLB12/28-43

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 15th March 2012

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Lesley Sewell	Interim Chief Operating Officer (item POLB 12/28)
Kevin Gilliland	Sales and Network Director (item POLB 12/29 & 30)
Nick Kennett	Financial Services Director (item POLB 12/30 & 36)
Susan Crichton	Legal and Compliance Director (item POLB 12/39 & 40)
Sarah Hall	Financial Controller (item POLB 12/39)
Martin Lacey	Pensions Specialist (item POLB 12/39)

POLB12/28**INFRASTRUCTURE (IT AND PROCUREMENT)**

- (a) Lesley Sewell explained the IT Strategy for the next 3 years which will support the wider business activity, procure circa 60 IT contracts and deliver the cost reduction challenge. The Board discussed the Strategy which involves the proposed introduction of a Service Integrator (SI) to manage IT providers. Les Owen asked if the SI would be allowed to provide any of the work towers in the framework of suppliers. **(POL(12)28 Appendix 2)**. Lesley Sewell explained that the SI would only supply the service desk but no other tower;
- (b) Lesley Sewell emphasised that the business lacked the capability and maturity to manage the changes required to deliver the future IT infrastructure. This work was not a core competency and it made more sense to outsource. She stressed the importance of getting the SI contract terms correct and getting good governance in place to manage that contract;
- (c) Chris Day assured the Board that the SI and contracts would include efficiency targets which were already assumed in the budget;
- (d) Neil McCausland had suggested at a pre-meet that the SI approach be tested to give the Board some assurance that it was the best solution. Lesley Sewell reported that Berkeley Partnership had reviewed the SI strategy and were supportive of the approach agreeing that the SI would bring the required capabilities to the business;

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- (e) Paula Vennells questioned whether the SI would in fact raise capability, as the same POL staff who were currently working in this area of the business would be TUPE'd over to the SI. Lesley Sewell assured the Board that the contract would insist on raised capability and people would not be retained if they did not achieve the required level. Paula Vennells flagged to the Board that the redundancy cost could return to POL under TUPE rules;
- (f) Les Owen asked the business to ensure that POL retained the procurement decisions for the tower contracts. Lesley Sewell assured him this was the way the SI contract would be structured. She emphasised that the SI contract negotiation was vital and the business would need to buy-in consultancy support for this work;
- (g) Lesley Sewell assured the Board that the business would retain and strengthen its in-house resource which would focus on the IT changes needed for new products and services;
- (h) the Chairman understood that Berkeley Partnership had challenged the concept of the towers within the framework, Lesley Sewell explained that the Berkeley Partnership have suggested other solutions and proposed that the framework could be structured around the business applications. She would take a further look at a different approach but thought it would be too radical a change for the business in one go. However, Lesley Sewell assured the Board that changes could be made to the proposal as it developed and the team would keep an open mind;
- (i) Les Owen asked if the model had been successfully deployed in other organisations. Lesley Sewell reported that she had visited Rolls Royce who were currently moving to the model. She agreed to find a business who are already successfully using the SI and similar structure to benchmark. She would look at retail / services sector as well;
- (j) Neil McCausland asked for an explanation of the Financial overview (POL(12)28 APPENDIX 1) and why the costs were so high for 13/14 and 14/15. Lesley Sewell explained that the optimised baseline was based on existing contracts including RPI increases and also included the projects involved in business transformation. Neil McCausland challenged the additional costs. He agreed the expenditure of £13.38m to implement the programme, but stated that this did not mean he agreed the targets for subsequent years. The Chairman clarified that the Board were not being asked to approve the IT Budget for subsequent years and asked Lesley Sewell and Chris Day to provide a breakdown and explanation of the optimised expected cost scenarios for the Board;
- (k) the board endorsed the proposed strategy subject to the points made and authorised expenditure of £13.8m for the implementation of the programme.

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell
Chris Day

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POLB12/29

NETWORK TRANSFORMATION

- (a) Agency
Les Owen asked if the business had the necessary skills to assess Subpostmaster business plans submitted for Network Transformation. Kevin Gilliland assured the Board that the business was experienced in these assessments as 10% of branches change every year and the business plans for all these changes were put through a retail assessment and then a financial assessment led by Chris Day's team;
- (b) the Chairman emphasised the importance of the selection criteria used to prioritise branches and the need for them to be fairly and robustly applied. Neil McCausland suggested a further criteria to look at the benefit for the Subpostmaster as this could provide advocacy for the change;
- (c) Kevin Gilliland explained that most of the negative press for Network Transformation was focused on locals and a previous 'down-grading' of service. He reported that 'locals' could carry out 98% of the core business carried out by the whole Network which would move closer to 100% once a manual solution was in place for business banking.
- (d) Crowns
The Chairman congratulated Kevin Gilliland on the progress being made. Neil McCausland encouraged the business to push for more trials. Kevin Gilliland explained that the most difficult area of the plan was the staff savings and that achieving the targets would rely on engaging the front line staff. This was why more time had been spent on the initial trial at Birmingham. Some of the staff at this office are now being used as advocates in the next trial offices. The Chairman reiterated that the Board was pleased with what it had seen and understood that cultural change was needed, but encouraged the business to keep pushing for faster deployment. Paula Vennells agreed and suggested that six to ten pilots are now needed instead of the couple which are planned;
- (e) Neil McCausland asked for a reconciliation between the numbers in the paper and the Crown P&L.

ACTION:
Kevin Gilliland
Chris Day

POLB12/30

(a)

Irrelevant

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ACTION:
Kevin Gilliland

(b)

(c)

(d)

Irrelevant

POLB12/31

MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 9th February 2012 were agreed;
- (b) the Minutes of the POFS Board Meeting (POFS(12)1st) were noted. Paula Vennells challenged the minuting of the MDA Commercial Contract; she will ensure it is challenged at the next Midasgrange Board.

POLB12/32

MATTERS ARISING – Status Report

ACTION:
Nick Kennett

ACTION:
Neil McCausland

(a)

Irrelevant

POLB12/33

MANAGING DIRECTOR'S REPORT

- (a) Paula Vennells updated the Board that cheques would now be acceptable at 'locals' as a new manual process had been agreed;
- (b) Paula Vennells told the board about the successful BIS week where 500 Senior Civil Servants attended meetings and seminars with the Front Office of Government (FOoG) team with very positive feedback.

POLB12/34

HEALTH AND SAFETY UPDATE

- (a) The Health & Safety Update (POLB(12)34) was noted.

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POLB12/35

FINANCE/PERFORMANCE REPORT

- (a) Chris Day presented the period 10 performance which continued to show strong sales in FS and Mails as well as accelerated spend in key investment expenditure. He also reported that period 11 continued the strong performance. The Full Year interim forecast was now £65 - £70m "profit" including the network subsidy payment of £180m. Les Owen asked if there was a risk that the Government would reduce the Network Payment because of the good performance. Chris Day reported that this had been a concern especially around cash flow, but was unlikely because the business had already made the case for next year.

POLB12/36

ACTION:
Les OwenACTION:
Nick KennettACTION:
Nick Kennett

(a)

IRRELEVANT

(b)

POLB12/37

RESIGNATION OF DIRECTOR - LES OWEN

The Board noted the resignation of Les Owen as Non Executive Director effective 15 March 2012 and the Company Secretary was authorised to file the necessary TM01 form with Companies House. The Chairman thanked Les Owen for his contribution to the Board.

ACTION:
Alwen Lyons

POLB12/38

BUDGET AND OPERATIONAL PLAN 2012-13

- (a) Chris Day took the Board through the budget and operating plan. He explained that he had incorporated the feedback from the budget workshop into the adjusted budget figures. He stressed that the business was not building in costs for independence without due scrutiny, but recognised the concern about the existing base costs. He explained that the non-staff costs already included a considerable stretch challenge of £15m unidentified savings and suggested a stretch of £8m in the staff and agents costs to be held centrally as a contingency;
- (b) Neil McCausland challenged the increase in staff costs and Les Owen supported his challenge as the 12/13 staff cost budget was above the strategic plan agreed with SHEX. Chris Day explained that the increase in costs driven by separation had been shared with SHEX who accepted them but obliged the business to find a way to cover the costs. Les Owen suggested that the business

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consider using a cost reduction firm to look at the staff costs in the business. The Chairman agreed that the business should look hard at its costs but noted that it would need to balance this work against the importance of delivering Network change and revenue growth;

- (c) Chris Day emphasised the need for short term increases in costs but also acknowledged the requirement for an efficiency agenda with forward looking productivity measures. He explained that a company called Vanguard are looking at working practices and re-engineering processes in the Network;
- (d) the Chairman suggested that Paula Vennells and Chris Day discuss the medium term cost reduction challenge with the Executive Team to decide how they will improve productivity without jeopardising the major transformation programmes, and report back to the Board. Neil McCausland supported this approach;
- (e) Chris Day to circulate to the Board the updated budget figures including contingency;
- (f) the 2012-13 budget was approved.

ACTION:
Paula Vennells
Chris Day

ACTION:
Chris Day

POLB12/39

PENSIONS - NEXT STEPS

(a)

ACTION:
Martin Lacey

ACTION:
Susan Crichton

Irrelevant

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ACTION:
Chris Day

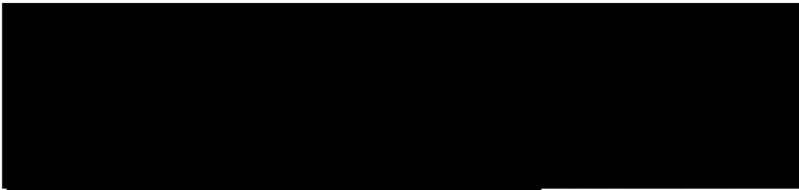
ACTION:
Susan Crichton

ACTION:
Martin Lacey


Irrelevant

POLB12/40

BOARD GOVERNANCE UPDATE

(a)  Chris Day having reviewed POL's financial position was content with the support from SHEX. The Board took comfort from the assurance and deemed it was not necessary to write to SHEX at this point;

(b) 

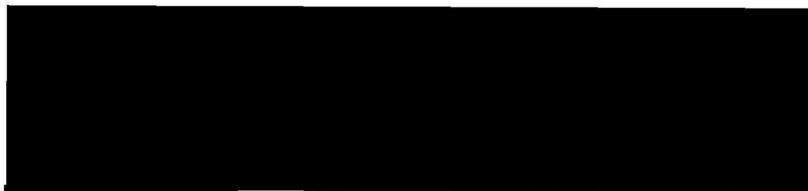
(c)  Susan Crichton and Chris Day were asked to update and circulate a

ACTION:
Chris Day
Susan Crichton

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proposal for Delegated Authorities below SHEX level;

(d)



ACTION:
Susan Crichton/
Paula Vennells

The Chairman was comfortable to leave Susan Crichton and Paula Vennells to come to a working accommodation on this with BIS;

- (e) the Board resolved that a sub committee be formed to give effect to the legal requirements necessary for the Transaction to move Post Office Limited to become a sister company of Royal Mail Group Limited (the "Transaction"). This sub committee comprising of Paula Vennells and Chris Day would execute the documents required to give effect to the Transaction including, but not limited to, the secondment termination agreement; the new Articles of the Company; the Shareholder approvals and the subscription letter in connection with the special share. Minutes of this sub committee would be circulated to the Board;

ACTION:
Alwen Lyons

- (f) **POL Sealing Authorities**



The Board approved that the affixing of the company seal may be authenticated by any current Director of the Company or the Company Secretary or Assistant Company Secretary or the following signatory:

- Susan Crichton

- (g) **Appointment of Alice Perkins to the Royal Mail Holdings Board**

The Board noted the appointment of Alice Perkins to the RMH Board;

it was noted that Alice Perkins had notified the Board in accordance with article 89(B) of the Company's Articles of Association that she was proposing to take up a position as a director of Royal Mail Holdings plc ("**RMH**") and that this could be regarded as reasonably likely to give rise to a conflict of interest for the purposes of section 175 of the Companies Act 2006 (the "**Act**"). The Board considered this interest and position and noted the potential for certain situations to give rise to a conflict of interest or conflict of duty. The Board also noted the terms of the Letter Agreement from the Department of Business, Innovation and Skills to Alice Perkins dated 15th March 2012 regarding the structure of the RMH group, corporate governance arrangements and the Crown indemnity in favour of Alice Perkins;

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it was resolved that it would promote the success of the Company for Alice Perkins to remain a director of the Company notwithstanding her position and interest as a director of RMH and accordingly that such position and interest shall be authorised for the purposes of section 175 of the Act and in accordance with article 89 of the Articles of Association, and that such authorisation shall extend to any actual or potential conflict which may arise out of the matter so authorised;

the Board may notify Alice Perkins from time to time of any additional obligations or restrictions that it considers appropriate for her to observe in order to manage the conflict situation;

in respect of a matter to which this authority relates, Alice Perkins shall not be obliged to disclose to the Company any information in respect of which she owes a duty of confidentiality to a person other than the Company;

this authority may be terminated by the Board at any time;

subject to any duty of confidentiality, Alice Perkins shall be required to notify the Board as soon as reasonably practicable if there occurs any other material change of circumstances of which in her reasonable opinion the Board should be aware if it were considering granting or renewing any such authorisation;

it was noted that, pursuant to Article 89 and section 175(6) of the Act, the meeting was quorate without counting Alice Perkins and Alice Perkins did not vote on the foregoing resolution.

POLB12/41

ANY OTHER BUSINESS

- (a) **Irrelevant**
- (b) the Chairman informed the Board that, following their recommendation to the Shareholder Executive, Virginia Holmes had been given Ministerial approval to become a POL Non-Executive Director and would join the Board in April;
- (c) the Chairman explained that she and the Company Secretary had met James Arbuthnot MP, at his request to discuss the Subpostmaster cases questioning the integrity of the Horizon system. The Chairman hoped that she could find a way to convince him and other MPs that the system was not at fault. This might mean looking at a further independent study of the issues.

ACTION:
Paula Vennells

POLB12/42

NOTING PAPERS

- (a) Significant Litigation Report (POLB(12)42) was noted.
- (b) Post Office Sealings (POLB(12)43) was noted.
- (c) Communication Action Group Minutes (POLB(12)44) were noted.
- (d) Olympics (POLB(12)45) was noted.
- (e) Privacy Compliance Strategy (POLB(12)46) was noted.
- (f) Verification of Telecoms Supplier (POLB(12)47) was noted.
- (g) Treasury – Authority Levels (POLB(12)48) was noted.

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- (h) RMG Price Changes (POLB(12)49) was noted.
- (i) **Horizon Update (POLB(12)50) was noted.**
 - a) Lesley Sewell reported that a tactical review was underway to understand the single points of failure within the system. A more strategic review was also needed for re-visiting decisions made on critical back-up for system failures. Lesley Sewell would return to the Board with the outcome of the two reviews and the options available for the future.
 - b) the Chairman informed the Board that she and Paula Vennells were meeting with Duncan Tait (CEO Fujitsu) and Rod Vawdry (Vice chairman of Fujitsu) that evening.

ACTION:
Lesley Sewell

POLB12/43

CLOSE

- (a) There being no other business, the Chairman closed the meeting.

GRO