

Post Office Limited – Strictly Confidential

**POLB(12)6th
POLB12/58-70**

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 23rd May 2012

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary	
Pauline Holroyd	HR Director	(item POLB12/59)

POLB12/58

APPOINTMENT OF DIRECTOR

- (a) The Chairman welcomed Alasdair Marnoch to the Board as a Non-Executive Director and the Chairman of the Audit, Risk and Compliance Sub-Committee.

It was resolved that Alasdair Marnoch is appointed a Director of the Company with immediate effect.

**ACTION:
Company
Secretary**

- (b) The Company Secretary was authorised to file form AP01 with Companies House and to notify other regulators of the appointment, as required.

POLB12/59

PEOPLE UPDATE

**ACTION:
Pauline Holroyd**

- (a) Pauline Holroyd outlined to the Board the capability gap at senior management level in the business and the lack of ready successors for the Executive Team. She was asked to circulate the current succession plan.

Paula Vennells pointed out that, although the plan showed no immediate successors, it did identify emergency cover and “2 years +” successors.

- (b) Pauline Holroyd highlighted a proposed new approach to identifying and developing talent using a bespoke model for rating individuals’ potential. This would differentiate the Senior Leadership Team (“SLT”- circa 50 people) against performance and potential.

She explained that the SLT would be assessed by their line managers in July. She expected about 40% to be shown as low potential at that point.

The Board asked if the business could manage if it lost 40% of the SLT.

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Paula Vennells said that the business believed it would need to lose about 10% and others would respond to the challenge.

ACTION:
Pauline Holroyd

Pauline Holroyd was asked, once this exercise was completed, to circulate a matrix to the Board plotting potential and performance for the SLT. In the meantime, the current draft matrix would be circulated (without names).

- (c) The Chairman suggested that, if the business already knew the low performers, they should be managing exits and building the potential model around the people remaining. Paula Vennells explained that this was already happening in the business. Over 10% of this group had left last year because of management action. The suggested approach would sit alongside existing performance management and should help to improve performance and accelerate exits, as needed. It was agreed that there was still considerable work to do in this area.

ACTION:
**Pauline Holroyd/
Company Secretary**

- (d) Pauline Holroyd asked the Board to note that this new approach would mean more recruitment into senior roles, alongside development from within. The objective would be always to recruit for high potential. As this might mean a prolonging of the process, the business would need to bring in excellent interim cover. She explained that the business would always be constrained on the salaries it could offer. The intention was to discuss the reward principles at the first Remuneration Committee.

ACTION:
Pauline Holroyd

- (e) The Chairman asked the business to ensure that its recruitment and promotion processes produced a more diverse population. This was a good opportunity to recruit high potential people and improve the diversity of the SLT. The Chairman stressed that diversity should be core to the business and her hope would be a very different feel to the SLT in the next couple of years.

ACTION:
Pauline Holroyd

- (f) Virginia Holmes raised a concern about the language in the model at Appendix 1 and would prefer more commercial language in POL's approach to the 'Emotional' category of the potential model, to cover interpersonal skills, self awareness, capacity to self start and emotional intelligence.

ACTION:
Pauline Holroyd

- (g) The proposals were duly noted. Pauline Holroyd would come back quickly to the Board with a note setting out timelines and milestones to deliver the change discussed and return to the Board in September with an update on implementation.

2012/13 BONUS SCORECARD

- (h) Pauline Holroyd presented a paper on a new Post Office bonus scorecard for 2012/13. She explained that the architecture had remained the same as the current bonus scheme, to help facilitate the staff TUPE move from RMG to POL. However, the scorecard would in the future be focussed purely on POL performance. The results of this scoring, together with an assessment of each individual's performance rating, would determine the level of short term bonus to be awarded to the individual.
- (i) Alasdair Marnoch asked if the performance reviews were rigorous and conformed to the expected normal distribution. Paula Vennells assured

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him that they were and referred the Board to Appendix B of paper POLB12/18 in which this information had previously been set out.

Chris Day explained that the overall bonus pot created through the scorecard would be capped. If more autonomy was given to managers to decide on its distribution to their teams, they would need to remain within the capped amount.

- (j) Virginia Holmes asked if the content of the scorecard was usual for a retail organisation and was given assurance on this by Neil McCausland and Paula Vennells.

- (k) The Board approved the recommendations presented for the 2012/13 scorecard and bonus worthy metrics, weightings and relevant targets, and asked that the principles for future bonus schemes be taken to the Remuneration Committee. For 2012/13 and thereafter, bonus payments for senior employees in POL would be determined by the Remuneration Committee.

**ACTION:
Company Secretary**

- (l) The Company Secretary was asked to set up a meeting of the Remuneration Committee for this purpose in due course.

- (m) Paula Vennells and Chris Day left the room while the percentages of their salaries for future bonus purposes were discussed and agreed.

2011/12 BONUS PAYMENTS APPROVAL

- (n) Proposed bonus payments for the year 2011/12 were then discussed.

It was noted that the bonus payment for the Chief Executive would be approved through the Royal Mail Holdings Remuneration Committee.

Paula Vennells rejoined the meeting.

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- (o) The calculation of bonus payments for the Executive Committee, including the CFO, Remco and the Senior Leadership Population was based on a basket of measures, with 70% of any bonus being based on the Post Office scorecard and 30% on the Royal Mail Group Scorecard.
- (p) It was noted that the outturn of the engagement score had been confirmed as above target. It was further noted that the outturn of the 2011/12 scorecard measures had been subject to an internal audit review.

ACTION:
Pauline Holroyd

- (q) On this basis, the Board approved the payment of a bonus for Chris Day, Chief Financial Officer in respect of the financial year ended 25 March 2012.

ACTION:
Pauline Holroyd

- (r) The Board noted and approved the payment of bonuses to the Senior Leadership Team, to be made in June 2012, in accordance with the outturn of the 2011/12 scorecard.

Post meeting note: The final bonus calculations for (q) and (r) above varied slightly from those included in Board paper POLB (12)69 and are set out in the Attachment to these minutes.

POLB12/60

THE ROLE OF THE NON-EXECUTIVE DIRECTOR REPRESENTING SHEX

- (a) Susannah Storey outlined the reasons for representation of ShEx on the Board of POL. She confirmed that the ShEx representative would have exactly the same legal responsibilities as the other directors and, like all members of the Board, would be acting to promote the success of POL. She clarified that she would not be sharing the Board papers with her colleagues in ShEx.

The Board discussed possible conflicts. Susannah Storey believed that the areas of conflict should be easy to anticipate, funding being a good example.

- (b) The Chairman thanked Susannah Storey for clarifying the role of the director appointed to represent ShEx and asked members of the Board to flag up any concerns, either at the time of the meeting or to her separately if they were more comfortable.

POLB12/61

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the meeting of 18 April 2012 were agreed.
- (b) The status report was noted.
- (c) The Chairman reported her discussion with Donald Brydon, RMG Chairman, and the continued emphasis he placed on the joint collections and returns work. Virginia Holmes reiterated the point as he had also raised the importance of the issue at their meeting.

POLB12/38

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- ACTION:**
Chris Day
- (d) Chris Day sought clarity over the action point and asked the Board to accept two action points on efficiencies – the first, a commitment to produce a paper on Value for Money for the Network Transformation Programme, which he would bring to the Board in July and the second being a separate paper to come to the September Board meeting highlighting the possible efficiencies in the core costs of the business and what could be delivered over the next three years. This was agreed.

POLB12/28

- ACTION:**
Lesley Sewell
- (e) The Board requested further work on benchmarking companies who have successfully used the Service Integrator model, by providing an example of one commercial company who have implemented the solution successfully.

POLB11/62(c)

- ACTION:**
Chris Day
- (f) Chris Day was asked to clarify what would be covered at the procurement workshop. The Chairman suggested that it might include the Government approach to public procurement, how POL was caught by the rules, the business's strategy and the major contracts coming up.

- ACTION:**
Company Secretary
- (g) The Board asked to be given more notice of forthcoming meetings and events.
Paula Vennells explained that a Business Calendar would be produced which would improve planning and enable the Executive Committee to anticipate Board involvement, allowing greater notice to be given.

POLB12/62

MINUTES FOR NOTING

- (a) The minutes of the meeting of the Sub-Committee of the Board held on 26 April 2012 to discuss Project Eagle were noted.
- (b) The minutes of the POFS Board meetings held on 22 and 27 March 2012 and of the General Meeting of POFS held on 27 March 2012 were noted.
- (c) The minutes of the FRES Board meeting held on 26 April 2012 were noted.

POLB12/63

CHIEF EXECUTIVE'S REPORT

- ACTION:**
Pauline Holroyd
- (a) The Chief Executive's report was noted.
- (b) Paula Vennells informed the Board that the employee engagement score for the business had moved to 64% from a score of 39% in February 2010 (58% in September 2011). The Chairman congratulated the business on an excellent result and asked for the report to be circulated to the Board.
- (c)

ACTION:
Susan Crichton/

Paula Vennells reported that the **Project Eagle** contract had yet to be signed and that one significant termination issue was still to be agreed. Virginia Holmes asked why this fundamental issue had arisen at such a late stage. Paula Vennells explained that it had emerged as the detail was finalised.

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Nick Kennett

Virginia Holmes asked if POL was getting the right level of legal advice from Linklaters and if they were working on a fixed fee basis. The business should look at the lessons learned from the process.

ACTION:

Nick Kennett

Alasdair Marnoch asked for a summary of the key commercial points and it was suggested that Nick Kennett brief Alasdair Marnoch.

ACTION:

Paula Vennells

Paula Vennells informed the Board that she would contact Des Crowley to discuss the problem and make him aware that the Board was disappointed that the issue had arisen at such a late stage. She would seek his assurance that there were no other surprises likely to emerge. Paula Vennells was also asked to contact the partner at Linklaters to review progress.

(d)

Paula Vennells reported that she had shared a platform at the **NFSP conference** with the Minister. Their reception had been very good which had enabled her to be quite challenging of their sometimes negative response.

(e)

Paula Vennells updated the Board on the **DVLA tender**. She assured the Board that the team would not be complacent, as everyone knew the importance of winning the contract.

(f)

POLB12/64

Susannah Storey asked for an update on the work done to date on **Crown Transformation**. It was confirmed that Network Transformation, including Crowns, would be an agenda item at the next meeting, in July.

HEALTH AND SAFETY UPDATE

POLB12/65

The Board noted the Health and Safety Report and the Appendix containing information about injuries sustained by staff or agents.

(a) **FINANCE/PERFORMANCE REPORT**

The Board noted the Period 1 finance and performance update.

(b) It was agreed that the normal performance report would be suspended in Period 1 in future, to allow the team to focus on the annual accounts.

(c) Chris Day explained that aggressive project spend had continued in Period 1. He would expect this to slow in the following two months.

Susannah Storey asked if the budget bridge shown in the pack was a one-off reconciliation and asked for assurance that the budget was now as agreed by the Board. Chris Day assured her that this was purely a bridge to get to the agreed budget and would not appear in the pack again.

(d)

ACTION:

Chris Day

Virginia Holmes asked for a more detailed briefing on the data behind the scorecard. Paula Vennells explained that, for the next Board meeting, both the scorecard and a transformation programme RAG status report would be provided.

ACTION:

Non-executives

POLB12/66

She asked the Board to let Chris Day know if there were any other areas on which they required more detail.

(a) **ANNUAL REPORT AND ACCOUNTS**

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Alasdair Marnoch, Chairman of the Audit, Risk and Compliance sub-committee, presented the draft directors' report and financial statements for the financial year ended 25 March 2012.

He reported that the Committee had reviewed the accounts and preparation of the accounts on a going concern basis and had received a report from the external auditor. The auditor's opinion to be issued to the shareholders would be unqualified.

The committee had noted the auditor's comments on improvements to internal controls.

**ACTION:
Chris Day**

- (b) Alasdair Marnoch explained that the draft directors' report in the Board pack would be amended to ensure that it reflected the changes brought about by separation and provided a more independent commercial view.

The Board accepted the recommendations of the sub-committee and it was agreed:

- (i) that preparation of the accounts on the going concern basis was appropriate;
- (ii) that it was appropriate to state that POL was a going concern at the full year end and currently;
- (iii) that it was appropriate for the directors of Post Office Limited to make the undertakings and statements in the Financial Statements;
- (iv) that, in the opinion of each individual director, so far as they are 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;
- (v) that the directors' report and financial statements for the 52 weeks ended 25 March 2012 be and are hereby approved, subject to such minor amendments as may be deemed necessary by any two of Alice Perkins, Paula Vennells and Chris Day;
- (vi) that authority be delegated to Alwen Lyons to sign the directors' report and to Chris Day (or, in his absence, Paula Vennells or Alice Perkins) to sign the balance sheet, each acting on behalf of the Board;
- (vii) that the Letter of Representation to the auditor in the form presented to the Audit, Risk and Compliance Committee be and is approved and authority is delegated to Chris Day to sign it on behalf of the Board of Post Office Limited.

POLB12/67

- (a) **PENSION TRUSTEE REPRESENTATION**

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ACTION:
Susan Crichton

POLB12/68

Paula Vennells presented a paper on representation of POL on the Pension Trustee Board. The recommendation to enable a scheme member to be a Trustee was approved, but Virginia Holmes asked the business to consider using a pensions expert as the Employer Nominated Trustee before making their nomination.

(a) NOTING PAPERS

- (b)** The Fujitsu Services Review of Horizon Online (POLB(12)76) was noted.
- (c)** The Mutualisation Update (POLB(12)77) was noted.
- (d)** The Significant Litigation Report (POLB(12)78) was noted.
The Register of Sealings (POLB(12)79) was noted. The Board resolved that the affixing of the Common Seal of the Company to the documents set out under numbers 786 to 796 inclusive in the Register of Sealings is hereby confirmed.
- (e)** set out under numbers 786 to 796 inclusive in the Register of Sealings is hereby confirmed.
- (f)** The minutes of the Communication Action Group (POLB(12)80) were noted.
The Health and Safety Sub-committee minutes (POLB(12)81) were noted.

POLB12/69

(a)

ANY OTHER BUSINESS

The Chairman drew to the Board's attention the Select Committee on Network Transformation at which Paula Vennells had given evidence.

- (b)** She congratulated Paula Vennells on the impact she had made and her handling of the questions from the panel.

Paula Vennells and the Chairman updated the Board on the meeting with James Arbuthnot MP and Oliver Letwin MP, taking them through their constituency cases which, they believed, had challenged the integrity of the Horizon system. The meeting had been a success and James Arbuthnot had now agreed to facilitate another meeting with the other MPs who also had cases in their constituencies. The business had also agreed to use a forensic accountant to investigate the system and give further comfort to those concerned about these cases.

POLB12/70

CLOSE

There being no further business, the Chairman closed the meeting.