

Post Office Limited – Strictly Confidential

POLB (13)2nd
POLB 13/02-12

POST OFFICE LIMITED
(Company no. 2154540)

Minutes of a Board meeting held on 23 January 2013
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive 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
Sue Barton	Strategy Director (items 13/04-13/06)
Harry Clarke	Head of Customer Experience, Property and Modernisation (item 13/03)
Kevin Gilliland	Network and Sales Director (item 13/03)
Martin Moran	Commercial Director (items 13/04 & 13/05)
Richard Surridge	Head of Digital (item 13/04)
Angela Van-Den-Bogerd	Head of Partnerships (item 13/03)

POLB 13/02

INTRODUCTION

A quorum being present, the Chairman opened the meeting.

POLB 13/03

**NETWORK AND CROWN TRANSFORMATION PROGRESS AND
CROWN PAY PROPOSALS**

- (a) Kevin Gilliland introduced Harry Clarke and Angela Van-Den-Bogerd.

Network Transformation Progress

- (b) The paper setting out the latest position on network transformation was discussed. Kevin Gilliland felt more confident that the business would hit the target of 1,200 conversions by the end of March 2013.
- (c) He explained that the greatest risk remained with the multiple partners. To mitigate this risk the business was negotiating framework contracts with the multiples which would facilitate individual office changes. Additional work was also being done with the independents to make up any shortfall in the multiples.

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- (d) Kevin Gilliland reported that the business had stress-tested the implementation process, to ensure that it was robust as the volume of changes increase to a peak of 70 per week. He explained that a couple of areas had needed additional resource but this was now in place and he was confident that the business and its suppliers were ready for the higher throughput.
- (e) Kevin Gilliland informed the Board that the 1,200 new branches were planned to be fully implemented by the end of June.
- (f) The Board asked how the new models were performing. Kevin Gilliland explained that the majority were seeing improvements in retail sales, customer satisfaction and footfall with some excellent coverage in the local and regional press. He recognised the need to continue monitoring the new branches as core business declines and the variable pay arrangements take effect.
- (g) The CFO reminded the Board that he was undertaking analysis on the remuneration changes in these branches which would be reported back to the Board
- (h) The Chairman asked about progress on the idea of a high profile event suggested for early adopters. Kevin Gilliland explained that it was being planned by the Communications Director.
- (i) The Board thanked Kevin Gilliland and his team for the excellent progress, especially over the Christmas period.

ACTION: Chris Day**ACTION:
Mark Davies**

(j)

(k)

(l)

Irrelevant

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(m)

(n)

ACTION:
Kevin Gilliland

(o)

(p)

ACTION:
Mark Davies/CEO
Chairman

(q)

Irrelevant

ACTION:
Kevin Gilliland/
Susan Crichton

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ACTION:
Mark Davies

Irrelevant

POLB 13/04

DIGITAL STRATEGY

ACTION:Sue Barton/
Nick Kennett

- (a) Martin Moran, Sue Barton and Richard Surridge joined the meeting. Martin Moran presented the results of the Javelin study into Post Office's progress in expanding its digital and multi-channel offering.
- (b) The Board supported the work proposed to deliver the multi-channel strategy, but emphasised the urgency required. They asked for the reliance on digital development to be made clear in both the FS strategy and the wider strategic plan.
- (c) The Board recognised that the business needed more focus on the digital channel. A member of the Executive Committee should take responsibility for digital, driving the changes in IT infrastructure and product development to enable the delivery of the strategy.
- (d) Concern was expressed about page 7 in the Javelin report which presented a decline in some brand customer perception measures. Martin Moran explained that these were recognised measures, which were reported quarterly. The results included in the report were for June 2012. The business believed there would be improvements in the next results. The CFO suggested that these measures be added to the Business Scorecard reported to the Board
- (e) The Board agreed to the implementation of the Digital Programme, asking for; a Champion on ExCo; to proceed with all urgency; to work in alignment with the strategic plan; and to bring updates on progress back to the Board.

ACTION: Chris Day

ACTION:
Martin Moran

Richard Surridge left the meeting

POLB 13/05

Irrelevant

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(a)

Irrelevant

(b)

ACTION:
Martin Moran

POLB 13/06

UPDATE ON COST REDUCTION AND BUSINESS EFFICIENCIES

- (a) Progress in reducing costs within the business was discussed. The CFO reported that all the savings in the 2012/13 plan would be delivered and that a rigorous budget planning process had closed the £48m cost savings gap for 2013/14.
- (b) He reported that Capita were analysing possible cost savings in HR, Finance, IT and Call Centres to give the business an idea of the magnitude of the possible opportunities, including outsourcing. The business would then consider its options to go out to market to procure the cost reduction work.
- (c) The Board discussed the additional investment required in the strategic plan and asked the CFO how he would ensure the business continued to drive down the cost base. The CEO suggested that introducing a P&L for each product area would help to instil the required rigour. The CFO said it was his intention to start by introducing a FS P&L.
- (d) Sue Barton explained that IT was the most significant investment in the plan and that she and the CFO were producing an IT P&L to ensure cross pillar efficiencies.
- (e) The Board asked how a culture of cost control could be strengthened at all levels in the business. It was suggested that the business benchmark itself against the Utilities, as they use cost control to drive their profit.

ACTION: Chris Day

**ACTION: Chris Day/
Sue Barton**

ACTION: Chris Day

The CFO would return to the cost base at the February Board as part of the strategic plan.

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Sue Barton left the meeting.

POLB 13/07

FINANCIAL PERFORMANCE UPDATE AND QUARTER 3 FORECASTFinancial Performance Update

- (a) The CFO presented the monthly finance and performance report.
- (b) He reported that written confirmation had now been received from ShEx that the NT target for this year was 1,200 contracts signed by the end of March 2013.
- (c) The Board discussed the underspend on NT and Capex because of the phasing on the NT plan and the possible underspend of the Government grant at the year end. The Board asked the CFO to check with ShEx what has to be reported to Brussels and to update the Board by email on the actions being taken.
- (d) The CFO explained that the variance in FOoG income would be evident in the Annual Report & Accounts and he was working with Mark Davies on the messaging, which would come back to the Board for their input. The Chairman informed the Board that she and the CEO were meeting Danny Alexander and would have an opportunity to engage him in promoting the opportunities for FOoG.
- (e) The Board noted the Financial performance update.

**ACTION: Chris Day/
Susan Crichton**

Quarter 3 Forecast

- (f) The CFO had also circulated the Q3 reforecast of full year performance. He noted that current expectations were for Post Office to show improved performance with net deficit of £115m at 31 March 2013. Further improvement would be needed in the coming year to deliver the profit target included in the strategic plan.
- (g) The CFO explained that effective management had given the business a VAT recovery benefit and that this would continue until the RMH group was dissolved.
- (h) The ARC Chairman asked for a breakdown of the £3m W H Smith provision.
- (i) The Board noted the forecast.

ACTION: Chris Day

POLB 13/08

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the CEO's Report.
- (b) The CEO highlighted the excellent Christmas performance and the support provided for the branches by colleagues from Head Office.

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- (c) She explained that, as yet, nothing had appeared regarding Project Rainbow but that the communication and stakeholder plan was ready when required. The Deloitte's gap analysis would be reviewed at the ARC.
- (d) The Health and Safety report appended to the Report was noted.

POLB 13/09

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**ACTION:**
Company Secretary

- (a) The minutes of the Board meeting held on 21 November 2012 were approved for signature by the Chairman.
- (b) A point of clarification was raised regarding the SLA with ShEx (POLB 12/118 (e)) and whether this was in fact an SLA. The Company Secretary was asked to confirm and send a note round to the Board.
- (c) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (d) The Board noted the minutes of the Audit, Risk and Compliance Committee meeting held on 13 November 2012.
- (e) The Board also noted the minutes of the Pensions Committee meetings held on 14 and 27 November 2012.
- (f) Minutes of the Remuneration Committee meeting held on 10 December 2012 had been circulated to members of the Board who had no personal interest in the matters discussed. The minutes were noted by the Board.
- (g) It was noted that the minutes of each of the above Committee meetings had been provided for information and would be formally approved at the Committee meetings planned for February.

POLB 13/10

CORPORATE GOVERNANCE REVIEW**ACTION: ALL/**
Company Secretary

- (a) The Chairman introduced the Corporate Governance papers.
- (b) Roles and Responsibilities of the Chairman and CEO.
The paper was circulated as a straw man as the Chairman would like any Board input before she and the CEO discuss. Directors were asked to feedback any input to the Company Secretary.
- (c) The Board requested that the paper 'Delegated Authorities for Remuneration Matters' be amended to make it clear that ShEx only needs to authorise the implementation of changes in remuneration for Directors of the Company.

ACTION:
Company Secretary

Post Office Limited – Strictly Confidential

- ACTION:**
Company Secretary
- (d) The Board requested that the 'Board Terms of Reference' be amended to show, 'Setting the strategic direction of the Post Office' as the Board's first and responsibility.
- ACTION:**
Company Secretary
- (e) The Chairman of the ARC asked that the Company's "whistle-blowing" arrangements be reviewed at the ARC and not at the Executive Risk and Compliance Committee, and that the ARC terms of reference be changed to take this into account.
- (f) These changes having been made, the Board approved the revised terms of reference for the Board, the Schedule of Matters reserved for Board decisions, and the Board Sub-Committees' Terms of Reference.
- ACTION: ARC/
Company Secretary**
- (g) The Board agreed that the ARC should review in more detail the corporate governance position and disclosures for the Annual Report and Accounts.

POLB 13/11

ANY OTHER BUSINESS

- (a) The Chairman updated the Board on the work being undertaken by 2nd Sight to investigate the claims made against the Horizon system. A cut-off date of the end of February had been given to JFSA (Justice For Subpostmasters Alliance) and individual subpostmasters to send in any cases, with 2nd Sight aiming to complete their work in the summer. To date there was no evidence to suggest fault.

POLB 13/12

ITEMS FOR NOTING

- (a) The Significant Litigation report was noted.
- (b) The Board noted the Report on Sealings.

It was resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 834 to 839 inclusive in the seal register is hereby confirmed.

POLB 13/13

CLOSE

There being no further business, the meeting was then closed.

GRO