

**Post Office Limited – Strictly Confidential**

**POLB 13(4<sup>th</sup>)**  
**POLB 13/26-13/30**

(Company no. 2154540)

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

**Present:**

Alice Perkins  
Neil McCausland  
Tim Franklin  
Virginia Holmes  
Alasdair Marnoch  
Susannah Storey  
Paula Vennells  
Chris Day

Chairman  
Senior Independent Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Chief Executive  
Chief Financial Officer

**In attendance:**

Kevin Gilliland  
Sue Barton  
Mark Davies  
Robin Nuttall  
Jules Seeley  
Gill Catchside

Network and Sales Director (item 13/27)  
Strategy Director (item 13/27)  
Communications Director (item 13/27)  
McKinsey (item 13/27)  
McKinsey (item 13/27)  
Assistant Company Secretary

**POLB 13/26**

**INTRODUCTION**

- (a) A quorum being present, the Chairman opened the meeting.

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**NETWORK TRANSFORMATION**

Kevin Gilliland, Sue Barton, Mark Davies, Robin Nuttall and Jules Seeley joined the meeting.

- (a) Robin Nuttall tabled a paper on Transforming the Post Office Network which outlined the conclusions from Phase 1 of the programme and an assessment of the changes required to make the next phase of Network Transformation a commercial success, which the Directors noted and discussed.
- (b) The Board discussed the declining environment for many Post Offices, and the probability that without transformation to counter economic realities, the Business would continue to decline further. The Chairman suggested that was the right time to modernise the Business, even if this meant difficult changes for people.
- (c) Kevin Gilliland advised the Board that as long as fixed pay continued for Sub Postmasters ("SPM"), the Business would not be able to convert the bulk of the network by 2020 and that the 2015 conversion target was no longer viable.

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Gilliland**

- (d) It was noted that at the March board meeting, the Directors had accepted the recommended approach, and the need to move to a mandatory programme.
- (e) Kevin Gilliland undertook to prepare a commercial analysis of the conversions completed to date. It was agreed that, although data varied from branch to branch, it would be good to be able to gain a sense of what had been achieved so far.
- (f) **Assessment of new approach**  
Kevin Gilliland reported that the different new models i.e. Mains, Locals, Basics, Community and Outreach had been tested to ensure that they gave the business flexibility to response to changes in market conditions. It was noted that it was economically better for a SPM to have a Main model, but that the Business would benefit (on a P&L basis) from more Local models. Susan Barton advised that current SPMs were used to over generous fixed pay remuneration, but that the Business needed to change this to become more competitive. The Board agreed that this would be a painful transition, but that it was necessary to achieving a successful commercial retailing Business going forward.
- (g) **The Directors discussed the strategic approach to partnering with Symbol Groups and Multiple convenience retailers, and the appetite that these retailers had for the new models.** The latter had not yet expressed their views on these and Kevin Gilliland advised that the Business was in the early stages of engaging with these retailers at a senior level. The Board recognised the risk that these retailers might not sign up to the new models. Virginia Holmes suggested that the Board would feel more comfortable once meaningful discussions were held with the Multiples and Symbols Groups, and the Board agreed this needed to progress as quickly as possible.
- (h) Neil McCausland raised his concerns that SPMs were being incentivised to leave the business rather than to convert their branches to new models, and that this could lead to a serious loss of experience in the network. Susan Barton outlined the approach that would be taken which would include helping businesses to produce business cases which would be tested to ensure commercial viability before conversion. If the SPM could not produce a viable business case, the business would consider either an OnSite conversion with a different retailer, or a move to a new site. However, the Directors were advised that no business would be closed until another Local was open and trading.
- (i) Susan Barton advised that it might be positioned to consider enhanced compensation for OnSite conversion as these were easier to deliver. However, it was noted that this could possibly lead to back-dated challenges from other branches who had already converted as part of phase 1. The Board also discussed the probability of making more help/advice available to those who were going to convert to support them in making a success of it.
- (j) Robin Nuttall outlined competitors' (PayPoint, CollectPlus and

**ACTION: Kevin  
Gilliland**

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MyHermes) activities, advising that they were growing extremely rapidly and constituted a real competitive threat. Jules Seeley outlined the experience of other agency driven networks in other countries. The Board recognised that the Business' competitors were already contracting with the Multiple and Symbol groups and the opportunity for the Post Office might be time-constrained. Robin Nuttall advised that the revised model could be executed even if a large retailer such as the Coop were not involved. The Chairman pointed out that the Board did not have time on its side. A decision on Network Transformation needed to be taken as part of the funding request and therefore was being driven by a tight external timetable.

**ACTION: Mark  
Davies**

- (k) Mark Davies outlined the Communications strategy to support the Government Funding Agreement and the McKinsey Proposals for a switch to a mandatory network transformation programme. Virginia Holmes asked that competitors' activities should be included in the strategy to highlight the sense of urgency.
- (l) Susan Barton, Kevin Gilliland, Mark Davies, Robin Nuttall and Jules Seeley left the meeting.
- (m) Paula Vennells advised the Board that if a decision were taken not to approve the revised Network Transformation and continue with the current conversion programme, the business would reach a position where not enough volunteers would come forward, and the Business would have to pay high levels of fixed fees to run inefficient offices from public monies. She noted that this could then result in a large closure programme in 4-5 years.
- (n) Paula Vennells thanked the Board for their input. She believed that the new approach was right for the Business, and that any other approach would be sub-optimal. It was recognised that the transformation would not be easy, but that the Board had to deliver the best outcome for the Post Office.
- (o) Chris Day advised the Board that, in his opinion, time was of the essence and the window of opportunity was limited for implementing the McKinsey Proposals; the Business was at a crisis point and needed to take action. The funding and political cycles were noted. It was agreed that the McKinsey Proposal needed to address the expected competitor response.

**ACTION: Kevin  
Gilliland**

- (p) Whilst noting the high risk nature of the McKinsey Proposal, and the flexibility that would be required throughout the process, the Directors approved the approach to achieving network transformation and the Business' long-term objectives. It was also agreed that it would be useful to have Chatham House style conversations with a number of the large Multiples to assess their appetite for the Scheme as soon as possible, and that the messaging to Government should be positioned as a refinement of the existing strategy highlighting the consequences of not being implemented.

**ACTION: Kevin  
Gilliland**

**ACTION: Mark  
Davies**



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- (q) The Chairman thanked the Directors for an excellent discussion.

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**STRATEGY AND FUNDING**

- (a) The paper outlining the response to the actions from the Board Strategy session on 27 February 2013 was noted.
- (b) Chris Day tabled an update on funding requirements continuing revised proposals which the Directors discussed.
- (c) The Board agreed that part of the Investment funding could be used in Community post offices to respond to growth (in areas such as packets). This would be presented to BIS as “more for the same investment”.
- (d) The Directors agreed that an early statement on Mutualisation and the definition of financial sustainability would be helpful. In answer to a query from Alasdair Marnoch, Chris Day advised the Board that the 2015/16 was the earliest point at which the business could achieve breakeven, but that this was the most optimistic case and would still require on-going NSP at that point.
- (e) The proposed funding levels, as outlined in the paper were accepted, it being noted that the funding requirement should be presented as “more for the same investment”. The strategy would only succeed if the Government accepted the underlying assumptions contained in the plan; a move to a mandatory NT programme; acknowledgement that our financial projections assume an extension to the POCA contract by 2 years, and that Post Office would like to be positioned as the preferred identity partner. It was also agreed that the messaging on mutualisation should be clear i.e. that financial sustainability must be achieved before the Post Office be mutualised.
- (f) Sue Barton would be asked to submit a draft Strategy and Funding document to Paula Vennells and Chris Day by 12 April, with the intention of it being circulated to Board members by 17 April. Paula Vennells undertook to propose a timetable for announcement of the Strategy.
- (g) It was resolved that a Sub-Committee be formed to finalise the Strategy and Funding Agreement, comprising Alice Perkins, Chris Day and Paula Vennells.

**ACTION: Susan Barton****ACTION: Paula Vennells**

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**ANY OTHER BUSINESS**

- (a) Paula Vennells advised the Board that CWU was visiting the offices on 10 April 2013 for further discussions. It was noted that a letter had been sent to colleagues advising them of this development, whilst making it clear that POL's stance had not changed.

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**CLOSE**

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