

Post Office Limited – Strictly Confidential

POLB 15(3<sup>rd</sup>)  
POLB 15/45 – 15/63

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

Minutes of a Board meeting held at 9.00am on 21 May 2015  
at 20 Finsbury Street, London EC2Y 9AQ

**Present:**

Alice Perkins	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Neil McCausland	Non-Executive Director
Paula Vennells	Chief Executive

**In Attendance:**

Alwen Lyons	Company Secretary
Neil Hayward	Group People Director, HR (minutes POLB 15/48, 15/55 and part 15/56 only)
Martin Edwards	Strategy and Corporate Planning (minute POLB 15/50 only)
David Hussey	Business Transformation Director (minute POLB 15/51 only)
Mark Davies	Director, Communications & Corporate Affairs (minute POLB 15/54 only)
Lesley Sewell	Chief Information Officer (minute POLB 15/52 only)
Nick Kennett	CEO, POMS Ltd. (minute POLB 15/53 only)
Jane MacLeod	General Counsel (minute POLB 15/53 only)

**POLB 15/45**

**INTRODUCTION**

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

**POLB 15/46**

**UPDATE ON THE NEW GOVERNMENT**

- (a) Richard Callard informed the Board that Sajid Javid MP had been appointed as the Secretary of State for Business, Innovation and Skills (BIS) and that Baroness Neville-Rolfe had been appointed as Postal Affairs Minister responsible for the Post Office.
- (b) The Board discussed the likely change of emphasis of the new Conservative Government and its effect on the Post Office. The Board recognised the importance and opportunity afforded by the first ministerial briefing on the Post Office and considered the areas where a change of emphasis in the plan might be appropriate.

**ACTION:**  
**CEO**

- (c) The Board agreed that any change of emphasis in the plan would be discussed at the June away day before any discussions were had with either Ministers or Officials. The CEO was asked to

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consider a number of areas where a different approach might be possible including; future funding; access criteria and the size of the network; and the remaining network transformation (formerly described as 'the cliff').

- (d) The Board touched on possible future ownership models for the Business which would be considered again at the June away day.

**ACTION:**  
**Richard Callard**

- (e) Richard Callard explained that responsibility for the Shareholder Executive would transfer from the Secretary of State for BIS to the Chancellor of the Exchequer upon creation of a new government-owned company ("GovCo"), wholly owned by HM Treasury. GovCo would oversee the activities of both the Shareholder Executive and UK Financial Investments. The Shareholder Executive would retain its current operating model whereby it acts directly for departmental secretaries of state in its governance and corporate finance activities. Richard Callard was asked to circulate a paper to the Board to explain the new arrangements.

**POLB 15/47**

**CEO'S REPORT**

- (a) The CEO introduced her report and focused on the following key areas:

- The agreement with the Communication Workers Union (CWU) which meant that the number of union reps would reduce from nearly 100 to fewer than 20 and would have significant effect on the Business particularly in Crown and Supply Chain. The Board congratulated the business on the achievement.

**ACTION:**  
**Neil Hayward**

- The engagement with subpostmasters at the National Federation of SubPostmasters (NFSP) conference had been very different to previous years with a positive and challenging session. The Board discussed the NFSP Grant Agreement and the CEO promised a note to the Board to explain the Agreement and how it will be managed.
- The CEO was proud of the way the Business was managing the headcount reduction and had seen no fall off in performance as people left the Business.
- The volatility in the relationship with Fujitsu was an area of concern, because of the impact it could have on the IT programme and value for money if the Fujitsu contract needed to be extended. The CEO explained that she had asked Kevin Gilliland to act as the main internal sponsor, as he was the internal customer with experience of big programmes. The preparation was progressing well and at this stage she believed the programme would be delivered.

**ACTION:**  
**General Counsel**

- (b) The Board requested a regular update on Sparrow to set out where cases were in the process, including those referred to CCRC, along with a note explaining any cost liability for the CCRC work and an update on data subject access requests.

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- (c) The CFO updated the Board on project IRIS and the opportunity it provided either to outsource or leverage a change in employee flexibility. The Board supported the work to date.
- (d) The CFO informed the Board that Royal Mail Group (RMG) had published their Report & Accounts which showed turnover as flat with a slight decline in letters volume and slight growth in parcels volume. They had also seen strong performance in GLS, their German subsidiary. RMG forecast a future decline of 4.5% in the letters market and growth in the parcels market, albeit a decline in RMG market share.
- (e) Having taken all of the discussion issues into account, the Board noted the CEO's report.

POLB 15/48

## PEOPLE AND ENGAGEMENT ROADMAP NEXT 12 – 18 MONTHS

- (a) The Chairman welcomed Neil Hayward, Group People Director, to the meeting.
- (b) Neil Hayward explained the progress in improving the recruitment processes in the Business with the use of technology to attract and filter a different population of candidates. The Business was running its first Financial Services recruitment fair at the end of May 2015 at the new Customer Support Centre.
- (c) Neil Hayward reported the work underway to retain key talent and fill the 12 SLT roles which were vacant. He explained the blueprint being written for the Post Office Academy which would consolidate the training and development throughout the Business.
- (d) The Board asked what was being done to improve the speed of decision making. Neil Hayward explained that decision making had been highlighted as a key issue in the engagement survey and that this could have been a reaction to the cost controls during last year which had left people feeling disempowered. However, several actions were underway to help change processes and perceptions.
  - The General Counsel and the Transformation Director were reviewing the structure of the decision making process including delegated authorities.
  - This work would also include the governance architecture for Business Transformation and the authorisation of business cases.
  - The Group Executive (GE) had been asked to engage their teams to highlight any areas where they saw decision making as slow, and the GE were tasked to remove any areas within their accountabilities as they thought appropriate.
- (e) The Board asked how the Executive would ensure it could retain talent within the organisation as there was a perception that there



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was little opportunity of internal promotion to senior roles. Neil Hayward accepted that as the Business strengthened its capability at Senior Leadership Team (SLT) level and above there had been a necessity for external hires and only 3 internal people had been promoted into the SLT. He explained that the talent and succession planning being undertaken by each function should generate stronger internal candidates for future vacancies. He acknowledged that the work being done to ensure the Business recognised its talent more broadly and considered cross functional succession plans was less advanced but assured the Board that it would be undertaken.

**ACTION:**  
**General Counsel/  
Neil Hayward**

- (f) The Board asked if the fact that 46% of the SLT did not expect to be with the Post Office in two years was a concern. Neil Hayward recognised that this was a large percentage but explained that it was not unusual to see a shorter time horizon during a transformation.
- (g) The Board asked whether work was in place to close the capability gaps which had been identified by the McKinsey work. Neil Hayward explained that all areas would be covered but that some were more advanced than others, including Financial Services sales capability and Digital. Neil Hayward recognised that one area which needed more work was Contract Management and explained that the General Counsel was reviewing the end to end process. The Board asked for a paper on Contract Management within the Business with a review of capability and a plan to close any gaps.
- (h) The Board asked what work was underway on sub-postmaster engagement and Neil Hayward explained that increasing sub-postmaster engagement formed part of his personal objectives for 2015/16 with a Business wide scorecard measure in 2016/17.
- (i) The Board applauded the work on graduate recruitment and noted that the new Government were also focussed on apprenticeships.
- (j) The Chairman reported the Nominations Committee debate on GE talent and succession planning, and urged the CEO and HR Director, to ensure any plans were rigorous.
- (k) Having taken all of the discussion issues into account, the Board noted the progress made and endorsed the People and Engagement Strategy and plans for 2015/16 as they related to the Talent Agenda for the Post Office.
- (i) Neil Hayward left the meeting.

**POLB 15/49**

**FINANCIAL PERFORMANCE**

- (a) The CFO circulated the flash financial performance results for period 1. He explained that detailed analysis was still to be done but that the first period was showing a performance favourable to last year and slightly up on plan.



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## POLB 15/50

## THREE YEAR OPERATING PLAN

- (a) The Chairman welcomed Martin Edwards, Strategy and Corporate Planning Director, to the meeting.
- (b) The Board discussed the paper setting out the financial projection for the Business for the next 3 years ending in 2017/18, and highlighted areas of focus for the June strategy away day.
- (c) The Board asked the Executive to design the away day to enable the Board to discuss the big strategic issues relating to:
  - Major revenue drivers (Mails and Financial Services)
  - Opportunities and risks (page 12 of the paper)
  - Major cost reduction opportunities
  - Investment opportunities
  - Cash headroom
  - Options on ownership

**ACTION:**  
**Martin Edwards**

- (d) The away day should enable the Board to discuss the important decisions in the plan and their risks and rewards. Martin Edwards agreed to circulate a new agenda and the strategic questions the Board would be asked to consider.
- (e) The Board also requested that any analysis of the existing plan should include years 1 and 2 (2012/13 & 2013/14).
- (f) The Board discussed the change in the timescale to achieving a profitable EBITDAS, compared to the strategic plan. There were differing opinions on the importance of breaking-even by 2016/17 although it was recognised that further debate was required.
- (g) Martin Edwards left the meeting.

## POLB 15/51

## BUSINESS TRANSFORMATION

- (a) The Chairman welcomed David Hussey, Business Transformation Director, to the meeting.
- (b) David Hussey emphasised that Business Transformation had now moved to the delivery stage which meant that he was building a detailed execution plan to enable him to identify and manage the business dependencies. He assured the Board that the work David Ryan had completed had built an excellent structure which he could now use.
- (c) He explained that he was strengthening the change capability within the Business and focusing on the execution risks, both aggregated and compound to ensure the programme could be delivered safely and at pace.
- (d) David Hussey recognised the importance of communication and in early July 2015 would launch a 1000 day plan as a countdown to a transformed business.

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- (e) The Board noted the progress to date, the priority activities from the coming quarter and further noted that an update was scheduled to be reviewed in July 2015.
- (f) David Hussey left the meeting.

POLB 15/52

## IT CONTRACT AUTHORITY

- (a) The Chairman welcomed Lesley Sewell, Chief Information Officer, to the meeting.
- (b) The Chairman reported that she, Tim Franklin and Richard Callard had met Lesley Sewell and the CFO for a briefing on the IT Contract Authority.

FRONT OFFICE CONTRACT AWARD

- (c) Lesley Sewell explained that the procurement for the front office contract had been completed and that IBM UK Ltd. was the successful bidder and recommended partner.
- (d) The Board queried the Post Office costs related to the contract. Lesley Sewell explained the costs of £43m were made up of two parts, internal programme costs of circa £20m, and external costs for Fujitsu and Accenture of £23m. The Post Office costs included:
  - all the training for the network, including auditing of branches as they move to the new system and support whilst using the new system, and;
  - the cost of the programme teams
- (d) The Business case also included a contingency of £20m which would be held by the CFO and not the programme.
- (e) The Board asked how the Business would ensure against the system being obsolete on delivery. Lesley Sewell explained that the proposal was very different to the existing system and used common off the shelf applications which IBM was obliged to keep updated. The contract also included a challenge to reduce costs.
- (f) Having taken all of these issues into account, the Board resolved to approve the award of contract to IBM UK Ltd.

NETWORK TOWER CONTRACT

- (g) Lesley Sewell explained that the procurement for the network tower contract had been completed and that Verizon UK Limited was the successful bidder and recommended partner.
- (h) Lesley Sewell explained that Verizon had been a clear winner in the procurement but because of its limited presence in the UK market, she had undertaken additional due diligence to gain comfort on their commercial; technical; implementation and service

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capability. She had met the Senior Vice President of the Global business and had been pleased to note the importance and priority being given to the contract.

- (i) Lesley Sewell explained that the contract is leveraged through parties the Post Office already has good experience of working with.
- (j) The Board thanked Lesley Sewell for her additional due diligence on the contract and having taken all of the discussed issues into account resolved to approve the award of the contract to Verizon UK Limited.

FUJITSU CONTRACT EXTENSION

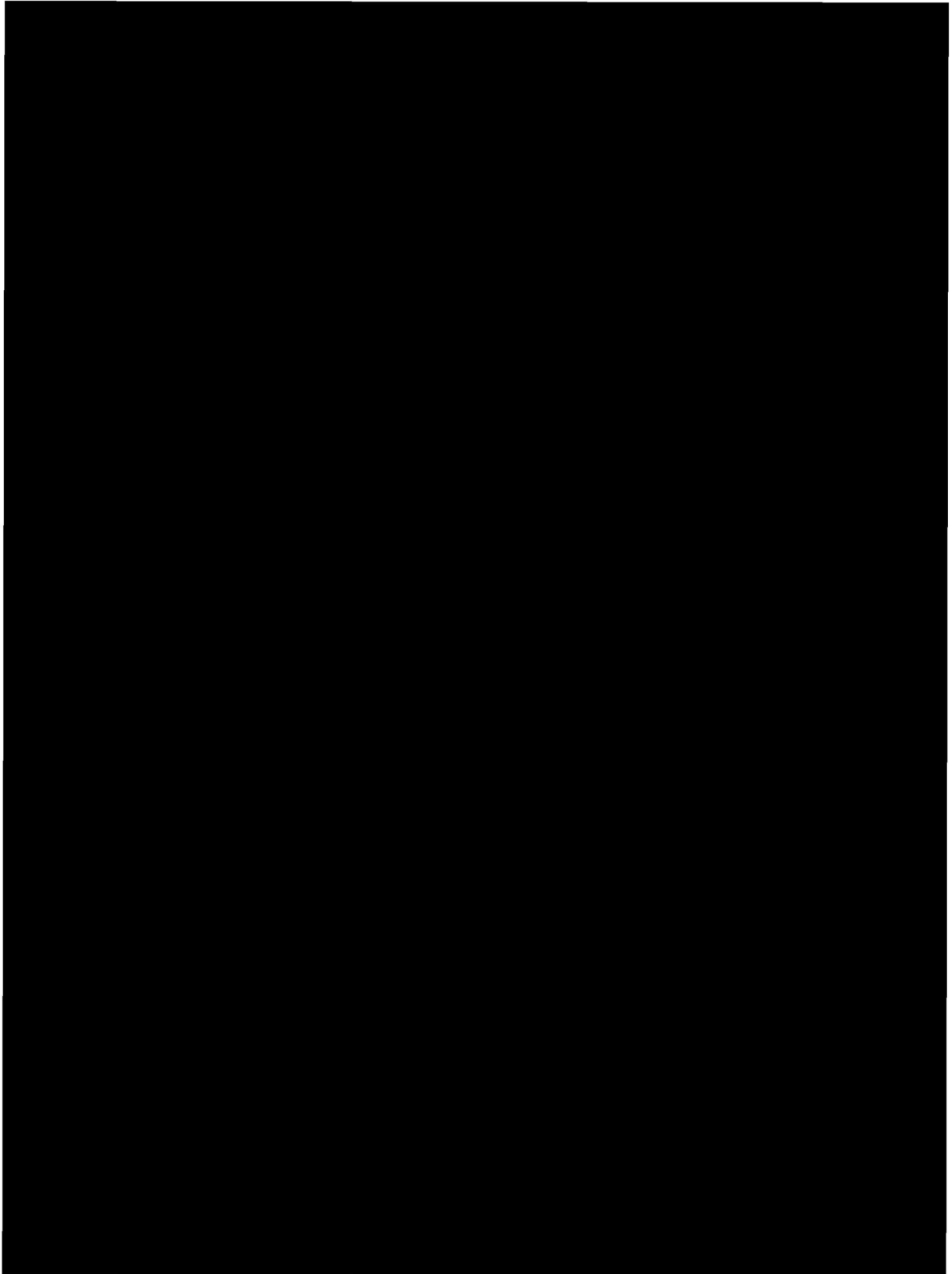
- (k) Lesley Sewell explained the options and cost of extending the Fujitsu contract beyond March 2017 and the importance of having contingency in the plan. She stressed that Fujitsu were aware of their contractual obligations to transition services safely and securely and the discussion to date on any contract extension had focussed on the expenditure required to maintain the Fujitsu data centre.
- (l) The Board challenged the proposal to spend up to £62m to extend the Fujitsu contract for a year. They discussed alternative options and although recognising some additional money may need to be paid to Fujitsu, the Board were uncomfortable with the level of spend, preferring to invest more with IBM to strengthen their delivery plan.
- (m) The CFO explained that it was not clear that Fujitsu wanted to sign the contract extension and the Post Office was currently using the leverage of the Telco contract to keep them engaged. He feared that any delay beyond a month might see the price increase.
- (n) The Board asked the Business to consider if any additional approaches were available.
- (o) The CEO thanked the Board for their input and suggested that the CFO & CIO re-evaluate the options, setting out:
  - a view of the Fujitsu contingency;
  - the phased capital expenditure investment plan for Fujitsu;
  - the governance for releasing this spend;
  - clarification of the Fujitsu contract and the legal position;
  - possible further incentivisation of IBM to help minimise the Fujitsu costs; and
  - a timeline when decisions have to be made, taking into consideration the Telco contract negotiations.
- (p) The CEO proposed that a paper be circulated with this information and suggested a Board call if required.
- (q) The Board congratulated Lesley Sewell for the IBM and Verizon

**ACTION:  
CIO & CFO**



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contracts, and she left the meeting.



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## ANNUAL REPORT AND ACCOUNTS

- (a) The Chairman welcomed Mark Davies, Director, Communications & Corporate Affairs, to the meeting.
- (b) Alasdair Marnoch, Chairman of the ARC, reported that the ARC had discussed the Report and Accounts and the Ernst & Young (EY) report. He explained that a couple of policy decisions had been taken:
- that the Business would not attempt to satisfy the Fair, Balanced and Understandable criteria for reporting this year, although it was heading in the right direction and;
  - that the Business would not attempt to comply with the UK Corporate Governance Code this year although it was heading in the right direction and was comfortable that it complied with the spirit of the code.
- (c) He reported that, in a private session, EY had given positive feedback on the executive. EY considered that the level of controls in the Business continued to be in the 3<sup>rd</sup> quartile with many manual processes and interventions in place. Alasdair Marnoch acknowledged that this point had already been raised by the CFO. EY had discovered an incorrect journal entry for an exceptional item of value £2.5m which had changed the accounts, but this was not considered a material enough change to affect the EY report of a clean bill of health.
- (d) The CFO explained that he had decided not to make the agreed adjustment to the Crown profitability for the costs of the financial services specialists. As a result, the loss for the year was £12m and the run-rate at year end £5m, which would have been about £3m better if the FS adjustment had been made. As the adjustment had already been communicated to Post Office people and the unions, the internal measure of run-rate breakeven would continue to be about six months earlier.
- (e) Having taken all of the discussed issues into account, the Board accepted the recommendation from the ARC and:

**ACTION:**  
**ALL**

- Resolved to Review the Annual Report and Financial Statements and provide individual comments to Alisdair Cameron and Mark R Davies by email by Tuesday 19 May 2015;
- Agreed the Going Concern status for Post Office Limited at the full year;
- Agreed that it was appropriate for the Directors of Post Office Limited to make the undertakings and statements in the financial statements;
- Agreed that the Board should not voluntarily make the statement that the Annual Report and Financial Statements was 'fair, balanced and understandable';
- Confirmed that, as individual directors, so far as they were

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aware, there was no relevant audit information of which the auditor is 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 should be comprised of any three of Alice Perkins, Paula Vennells, Alisdair Cameron and Alasdair Marnoch;
- Authorised Alwen Lyons to sign the Directors' Report and Alisdair Cameron and Paula Vennells (or, in either's absence, Alice Perkins) to sign the balance sheet, each acting on behalf of the Post Office Limited Board; and
- Approved the Letter of Representation to the auditor and authorised Paula Vennells or Alisdair Cameron to issue it on behalf of the Post Office Limited Board.

(f) Mark Davies left the meeting.

(g) The CEO and CFO left the meeting.

POLB 15/55

ACTION:  
Neil Hayward

# Irrelevant

ACTION:  
Neil Hayward



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ACTION: CFO

# Irrelevant

ACTION:  
Neil Hayward

POLB 15/56

## BOARD COMMITTEES UPDATES

### NOMINATION COMMITTEE

ACTION:  
CoSec

- (a) Neil McCausland updated the Board on the process underway to find the new Post Office Chairman, and that a panel would meet four candidates on 1 June 2015.
- (b) The Chairman reported that Alasdair Marnoch had decided to resign from the Board with effect from 1 August 2015. Alasdair Marnoch explained that he was no longer able to fulfil the time commitment since his move to Jersey. The Chairman thanked him and explained that a role specification was being produced by Russell Reynolds to start the non-executive director (NED) search. Richard Callard asked that ShEx be involved at an early stage.
- (c) The Board noted the oral update from the Committee Chairman.
- (d) Neil Hayward left the meeting.

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### REMUNERATION COMMITTEE

- (e) The Board noted the oral update from the Committee Chairman.

### AUDIT, RISK AND COMPLIANCE COMMITTEE (INCLUDING RISK MANAGEMENT)

- (f) Alasdair Marnoch reported that progress had been made with risk management but that this area still needed more focus at future ARC meetings. He was pleased with the internal audit actions where 6 of the 8 IT actions had now been completed.
- (g) The Board noted the oral update from the Committee Chairman.

POLB 15/57

### **MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING**

- (a) The minutes of the Board meeting held on 25 March 2015 were approved for signature by the Chairman.

**ACTION:  
CFO**

- (b) Matters arising.  
The Board noted that following the discussion on Hawk at the March 2015 Board, the CFO had met Richard Callard and Alasdair Marnoch to explain the assumptions in the Hawk valuation. The CFO suggested that he circulate the paper to all members of the Board for their information. The Board would return for further discussion on Hawk at their July 2015 meeting.

POLB 15/58

### **COMMITTEE MEETING MINUTES FOR NOTING**

- (a) The Board noted the minutes of the meeting of the Audit, Risk and Compliance Committee held on 25 March 2015.

POLB 15/59

### **STATUS REPORT**

**ACTION:  
FS Committee**

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted. It was agreed that the paper on FS sales, appended to the status report, be discussed at the FS Committee.

POLB 15/60

### **RATIFICATIONS AND APPROVALS**

#### **RATIFICATION OF NON-EXECUTIVE DIRECTOR APPOINTMENTS**

- (a) The Board noted the presented paper and ratified the renewal of the appointments of Virginia Holmes, for a three year term, and Alasdair Marnoch, for a term expiring 31 July 2015, as recommended.

#### **APPROVAL OF FACILITIES AGREEMENT WITH ROYAL BANK OF SCOTLAND**

- (b) After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business to enter

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into a loan agreement between the Company and National Westminster Bank Plc acting through The Royal Bank of Scotland plc (the Agreement) in respect of facilities of up to:

- i. £350,000,000, comprising an intra-day facility;
- ii. £250,000,000, comprising an overnight NRF facility; and
- iii. £1,000,000, comprising a collateral facility.

from National Westminster Bank Plc (the Bank) in the form now produced, and incorporating the Bank's LIBOR Loan Terms, it was resolved that Paula Vennells (CEO), Alisdair Cameron (CFO) and/or Alwen Lyons (Company Secretary) (or any combination of them as required) be authorised to sign on behalf of the Company the Agreement and any other documents required by the Bank in connection with the Agreement.

POLB 15/61

## ITEMS FOR NOTING

- (a) The Board noted the Health and Safety report.
- (b) 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 1287 to 1310 inclusive in the seal register was hereby confirmed.

POLB 15/62

## ANY OTHER BUSINESS

## (a) AGENDAS FOR JUNE 2015 AND JULY 2015

The draft agendas for the away days on 17 and 18 June 2015 and the formal Board meeting on 15 July 2015 were noted and approved.

## FORWARD AGENDA TOPICS

- (b) The forward agenda to May 2016 was noted and approved.

POLB 15/63

## DATE OF THE NEXT MEETING

**ACTION:**  
**CoSec**

- (a) It was noted that the Board away days would be held on 17 and 18 June 2015. The Board were available to start the meeting earlier on the 17<sup>th</sup> to facilitate a session with the new Minister.
- (b) It was further noted that the next formal Board meeting would be on 15 July 2015.

GRO

Chairman

Date