

Post Office Limited – Strictly Confidential

**POLB 16(8<sup>th</sup>)**  
**POLB 16/52 – 16/61**

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

Minutes of a Board meeting held at 9.30am on 29 September 2016  
at 20 Finsbury Street, London EC2Y 9AQ.

**Present:**

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

**In Attendance:**

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy ( <i>Minute POLB 16/55 and POLB 16/57</i> )
Rob Houghton	Chief Information Officer ( <i>Minute POLB 16/56</i> )
Kevin Gilliland	Network and Sales Director ( <i>Minute POLB 16/57</i> )
Kevin Seller	General Manager Network Development & Transformation ( <i>Minute POLB 16/57</i> )

**Apologies:**

None

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**INTRODUCTION**

- (a) The Chairman noted that a quorum was present and opened the meeting.
- (b) The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association.

**POLB 16/53**

**MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS  
INCLUDING STATUS REPORT**

**Minutes**

- (a) The minutes of the Board meeting held on 25<sup>th</sup> July 2016 were approved as accurate records and the Chairman was authorised to sign them.
- (b) The Board noted the Action Status Report.
- (c) The minutes of the Audit, Risk and Compliance Committee meeting held on 19<sup>th</sup> May 2016 were noted.

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- (d) The minutes of the Audit, Risk and Compliance Committee meeting held on the 5<sup>th</sup> July 2016 were noted.

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**CEO REPORT**

**Irrelevant**

**ACTION: Nick Kennett**

**Transformation Report**

- (g) The Board noted the Transformation Report and that Transformation risk would in future be presented at the ARC.
- (h) The Board noted the CEO report.

POLB 16/55

**FINANCIAL REPORT AND UPDATE ON THE DEVELOPMENT OF THE FIVE YEAR PLAN AND FUNDING REQUEST**

- (a) The Chairman welcomed Martin Edwards, Director of Strategy, to the meeting.
- (b) The CFO introduced the Financial Performance Report for Period 5, September 2016. He explained the emerging income risks driven by

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underperformance in FS, Lottery and POca. The 2016/17 reforecasts had produced an EBITDAS challenge of £17m against plan, £12m of which had now been mitigated without significant net savings in agent's pay. Further work was underway to close the gap and despite the challenges, the CFO was still forecasting to deliver the EBITDAS target.

- (c) Network Cash had been increased by £250m as a contingency during the strike, but this would be progressively reduced back to normal levels by the end of September.
- (d) Martin Edwards explained that the Executive had completed a full update of the baseline forecasts, including trading performance and market developments, for use in the five year plan. The reforecast highlighted a continuing significant income deterioration, c. £70m by 2021, putting more pressure on delivering the initiatives to reduce costs, accelerate FS growth and strengthen digital and network capability. The Board stressed the importance of setting out a clear counterfactual case as part of the funding narrative.
- (e) The Board discussed the paper which would be presented at the October meeting and asked that it set out the baseline forecast, which they recognised would change, a summation of the initiatives, and the ongoing subsidy requirement for the 3000 loss-making post offices. The CFO gave assurance that there would be time following the October Board to ensure that the Board's input was reflected in the documentation.
- (f) The Board discussed stakeholder influencing and engagement and it was agreed that the approach to government engagement would be agreed with Richard Callard.  
**A stakeholder funding engagement plan would be presented at the next Board.**
- (g) The Board debated the options for the ongoing subsidy for loss-making post offices and the possible setting up of a charitable trust fund to safeguard the delivery of the SGEIs through the last shops in rural villages.
- (h) Richard Callard explained that the Government consultation on SGEIs was likely to proceed in the next couple of months with results in December or January. The consultation would be necessary as part of the Government State Aid application.
- (i) It was agreed that the Chairman and CEO would seek to meet the Secretary of State to explain the strategy before the submission of the funding request.
- (j) The Board noted the current financial projections, the next steps for developing the full 5 Year Plan and funding request.
- (k) Martin Edwards left the meeting.

**ACTION: Mark Davies**

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**POLB 16/56**

**IT BACK OFFICE TOWER TRANSITION**

- (a) The Chairman welcomed Rob Houghton, CIO, to the meeting.
- (b) The CFO introduced the work on the IT Back Office Tower transition and acknowledged that the transition was taking longer than the original plan and at a higher cost. He explained that data storage implications had delayed the project and noted that learnings on multi-year IT projects were being discussed at the ARC.
- (c) The CIO updated the Board on the strengthening of the IT team and the changes in the way that large IT suppliers were managed. He explained the shift to a project management approach focused on shorter time periods and smaller deliverables.
- (d) The Board asked for assurance that the plan, including the additional capital, was now realistic. The CFO stressed that further changes may need to be made to the IT transformation, and that conversations were underway with the IT suppliers, as he would be willing to trade contract longevity for more flexibility and cost savings.
- (e) The Board recognised that they had little choice but to approve the additional budget.
- (f) The Board approved a capital budget increase of £1.25m (from £15.3m to £16.55m) and recognised the reduction in annual benefits of £1m.
- (g) The CIO left the meeting.

**POLB 16/57**

**NETWORK STRATEGY AND FUNDING 2017-21**

- (a) The Chairman welcomed Kevin Gilliland, Director of Network and Sales, Kevin Seller, General Manager Network Development and Transformation, and Martin Edwards, to the meeting.
- (b) Kevin Gilliland introduced the Network Strategy and explained the proposals highlighted in the paper building on the ideas discussed at the Board away day in June. He emphasised the need to simplify, automate and standardise products and processes to enable postmasters to reduce their costs. The Board challenged whether sharing half of the savings with the postmasters was too generous. Kevin Gilliland explained the rationale and that each branch would need an individual plan to realise the savings and be incentivised to take action. Without this incentive the change would be seen as a reduction in remuneration and this would risk destabilising the network.
- (c) The Board asked how dependent the Network Strategy was on the IT strategy and was assured that although Horizon simplification would help the network, the strategy was not dependent on major IT changes.



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- (d) The Board discussed the Post Office franchise and the change in positioning from a Post Office with a linked retail to a retail offering with a linked post office which drove footfall rather than income for the franchisee. The Board recognised that rural communities valued a post office, a bank and a convenience store and that adding a Post Office to a rural shop could provide all three.
- (e) The Board debated the proposed options for the Directly Managed network. The previous analysis and option to franchise all Directly Managed branches was predicated on the reduction of both the direct and the central costs this would achieve. It was now clear that central cost had a direct and proportional relationship to the number of Directly Managed branches, and this enabled a different approach to branch numbers. Kevin Gilliland stressed that the Directly Managed strategy had been developed to maximise EBITDAS and that this could be achieved by retaining some of the profitable Directly Managed branches. The CFO explained that the cost base analysis would be included as part of the October Board paper.
- (f) Kevin Gilliland clarified that the 15 biggest loss-making branches were in central London and that the plan would be to cannibalise the work from these branches by opening up other Post Offices close by which would reduce the floor space needed and enable a conversion to a franchise or a smaller Directly Managed site. A new sales force with a B2B sales capability would be needed to sell the franchise.
- (g) Kevin Gilliland recognised that the conversion of Directly Managed branches to maximise the EBITDAS would impact income, and particularly FS income, but this loss, based on previous experience of franchise performance, had been included in the business case.
- (h) Kevin Gilliland reported the decline in standalone Post Offices in the rural community which cost c.£8k a year to run. He proposed replacing these with an offer in some of the 5 to 6 thousand rural and community retailers who were currently without a Post Office and supplementing with mobile Post Offices where appropriate.
- (i) The Board discussed the opportunity of offering a service to the NHS for drug distribution through Post Offices in rural communities, as this would be a good fit with the social purpose and might solve a problem area for the government.  
**The CEO agreed to look at the opportunity.**
- (j) The Chairman thanked Kevin Gilliland for the work to date and asked him to look at the pace of delivery to see if the timescale could be reduced to deliver within 4 years.
- (k) Richard Callard asked if the NFSP were engaged with the proposed changes. Kevin Gilliland explained that the NFSP were yet to be engaged in the process, and that they were likely to ask for compensation for Post Masters effected by the changes. Kevin Gilliland believed that delivery of the plan would need some transition payments, although no compensation.

**ACTION: Martin  
George**

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- (l) The Board approved the proposed network interventions which will be included in the overall 5 Year plan 2021.
- (m) Kevin Gilliland, Kevin Seller and Martin Edwards left the meeting.

POLB 16/58

**UPDATE FROM BOARD COMMITTEE**

**Audit Risk and Compliance Committee**

- (a) Carla Stent, the Chairman of the ARC gave a verbal update to the Board on the ARC meeting held on 28<sup>th</sup> September.
- (b) The ARC had considered the Anti- Bribery & Anti-Corruption Policy and recommended it to the Board. The Board approved the policy.
- (c) The ARC had considered the Anti-Money Laundering and Counter Terrorist Financing Policy and recommended it to the Board. The Board approved the policy.
- (d) The ARC had considered the Insurance renewal paper and discussed the option to self-insure. It had been agreed that the renewal would be recommended for this year but that the CFO would consider self-insurance again before any renewal next year.
- (e) The Board approved the insurance renewal.

POLB 16/59

**ITEMS FOR NOTING**

**Sealings**

- (a) The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1432 to 1450 inclusive in the seal register was confirmed.

POLB 16/60

**ANY OTHER BUSINESS**

(a)

**Irrelevant**

POLB 16/61

**CLOSE**

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

**GRO**

Chairman

25/10/16.

Date