

Post Office Limited – Strictly Confidential

POLB(11)8th
POLB11/67-78

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 13th December 2011

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd (items 11/67 – 11/75)
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
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Apologies:

POLB11/67

MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 10th November 2011 were agreed;
- (b) the minutes of the POFS Board (POFS(11)4th) were noted;
- (c) the minutes of the FRES Board (FRES(11)3rd) were noted.

POLB11/68

MATTERS ARISING – Status Report

- (a) Les Owen clarified that the management information required to track the insurance product risk would be more useful if it contained trends and triggers to predict if any action was required. Paula Vennells explained that weekly tracking was undertaken and future Board Reports would show a trend versus a moving monthly average. The use of aggregators to “buy policies” was only used as a last resort as this was an expensive solution;

ACTION:

Chris Day

ACTION:

Chris Day

- (b) Chris Day reported that he has had discussions with Neil McCausland on the content and structure of the Finance Report. The Chairman asked for sight of the revised version taking into account Neil McCausland’s input. Les Owen said he was now comfortable with the report and had no further comments.

POLB11/69

NETWORK TRANSFORMATION UPDATE

- (a) Sue Huggins explained that the planned changes to the Network involved two separate programmes running in tandem but on separate timelines. The Crown Office work, taking these Branches back to profit, was an emerging plan. The Network Transformation was in pilot and preparing to rollout. The programmes had different challenges not least the engagement with the unions and Federation;

Post Office Limited – Strictly Confidential**The Crown Office Plan**

- (b) Sue Huggins emphasised that a lot of work had gone into working with the NFSP driving Network Transformation planning, and that a similar engagement had started with CWU and CMA/Unite. However there were risks in the Crowns' plan as it included no pay increase for 3 years; reduction of circa 790 staff; challenging changes to working practices including moving to monthly balancing, and all of these issues could have Industrial Relations (IR) implications;

Les Owen asked how we would achieve these changes with the existing commitment to non-compulsory redundancy. Sue Huggins explained that the plan included a 290 reduction in the first year which looked as if it could be covered by redeployment, natural wastage and voluntary redundancy. The last offer of voluntary redundancy was made to these staff in 2009;

Neil McCausland suggested that there would be less need for redundancy if we could drive more sales to enable longer opening hours with different staff contracts. Sue Huggins explained that at the trial office in Birmingham, although there had been no staff reduction to date, to make the economics work there would need to be changes when further automation was introduced;

- (c) the next trial Crown will be in Haywards Heath where the branch is being moved into a host retailer (the Coop) but still run by Post Office colleagues. The trials are being used to develop a range of solutions which can be deployed across the Network such as longer opening hours; self service offerings including the use of lobbies for out of hours access. Neil McCausland encouraged the Business to be as innovative as possible in the second phase of the trial, especially around plans for Government Services. Sue Huggins acknowledged the need to make any new services being offered very visible and emphasised the opportunities we have by using Trafalgar Square branch to showcase what a future Crown Office could offer;

**ACTION:
Kevin Gilliland**

- (d) the Chairman asked what support the Board could give to the team. Chris Day reported that Kevin Gilliland had asked for support from the Board if the IR landscape becomes difficult. It was agreed that an updated Crowns plan be brought back to the Board next year to cover the new economic model, optimum self service vending and the impact on Crown branch numbers;

Network Transformation Plan

- (e) Neil Ennis explained the economics highlighted in table 5.2 of the paper (POLB(11)57). Neil McCausland asked about the retail uplift and staff cost reductions. Neil Ennis acknowledged that information from the pilot offices suggested these improvements were realistic;
- (f) Sue Huggins confirmed the three part process for the rollout of the programme:
- suitability test – taking into account the Subpostmasters' interest, alongside Network considerations and financial hurdles;

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- selection – deciding on the appropriate model for the branch, including a face to face discussion with the Subpostmaster, testing their Business plan;
- prioritisation.

The year 1 priorities will include all suitable onsite conversations and large geographically dispersed Mains, as these two categories will reach 35% of our customers, and produce the highest return;

- (g) the Chairman asked how we were engaging the communities who will be affected by these changes. Alana Renner explained that the communication and engagement plan was in place and would start early in the New Year. Sue Huggins explained that all changes would include a 4 week communication with customers. However any off site move required a 6 week public consultation. She highlighted the emerging risk that Consumer Focus were asking for consultation for all changes which would be very expensive and slow the programme down. This risk has been highlighted to BIS as this change would cost the business £6m to implement;
- (h) the Chairman asked if the programme was considering rationalising branches in areas of over provision. Sue Huggins explained that this was being factored into the plans, but if a closure was needed then a full public consultation would take place;
- (i) Les Owen referred to an article in the Telegraph originating from Consumer Focus which suggested that the new Locals model provided a reduction in service and that these offices were likely to run out of cash. Paula Vennells explained that there was no substance to the article and told the Board that she had written to the Telegraph as well as lodging a complaint with BIS and Consumer Focus as this article was very unhelpful. Neil McCausland asked if we should bring forward the communications plan to deal with this misinformation, but Paula Vennells explained that this had been considered but because of Christmas it had been decided to stay with the January timing. Sue Huggins informed the Board that new customer research would be available this week which would be published to try to mitigate the Consumer Focus view;
- (j) the Chairman asked what support the Board could give to the Business as it transformed the Network. Sue Huggins emphasised the need to believe in the plan and be confident in its deployment;

Action:
Alana Renner

- (k) Les Owen asked that in the event of any adverse publicity in the National Press, that the Board receive an email with 2 or 3 bullet points to explain the facts. Sue Huggins also warned the Board that they may be contacted by MPs, local dignitaries or even subpostmasters asking for their support for certain branches and that the Board should explain the appropriateness or otherwise of such approaches, as they could undermine the integrity of the process;

Action:
Kevin Gilliland

- (l) the Chairman suggested that the programme team return to the Board every quarter for an update.

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POLB11/70

TELEPHONY STRATEGY / BROADBAND AND TELEPHONY TENDER**ACTION:
Martin Moran**

- (a) Martin Moran presented the current Telephony Strategy and the four options considered for the future. Les Owen asked how the business has managed to sustain a lower quartile price with upper quartile service. Martin Moran explained that customer service in the telephony market was poor and by maintaining a dedicated call centre the Post Office's complaints were relatively low, and this would continue with a new supplier. He emphasised the need to move to a better cost base than provided by the current supplier;
- (b) Neil McCausland supported the chosen option but asked why the Telephony offer fared so badly on comparison sites if it was such a good customer offer. Martin Moran explained that the pricing was complicated and these sites did not always compare like for like. Les Owen asked for research to be undertaken to understand why our rating is so low on comparison sites and how we could improve our position as well as our search engine ranking. Martin Moran will circulate an e-mail explaining how the comparison sites and ranking work.
- (c) Martin Moran explained that 95% of our sales are driven by in-branch and call centre activity but acknowledged it was desirable to have an accurate online position;
- (d) the two tenders were discussed and Martin Moran stressed that he would be comfortable working with either company. Les Owen asked how visible any change would be to the customer. Martin Moran explained that the customer should not see any change as the crossover would be facilitated by dual running of call centres for a few weeks to ensure new staff are trained with the Post Office 'tone of voice' etc. Les Owen challenged whether a marketing campaign before any change was advisable but was reassured that the size of customer base enabled cost savings so any campaign would be an advantage;
- (e) the Chairman asked if the Board were content with Fujitsu being one of the tenderers because of the business' reliance on this company. Les Owen emphasised that there had been issues with the SAS70 and audit but the Board accepted we should progress as proposed. Martin Moran explained that a paper would come back to the Board in January for a decision;
- (f) the Board endorsed the Telephony strategic direction.

POLB11/71

EAGLE UPDATE

- (a) Nick Kennett reported that POL and Bank of Ireland (BoI) have finalised commercial terms and non-binding Heads of Terms should be ready for signing forthwith;

the deal is better than that laid out in the Board mandate and is close to the target position. The Chairman congratulated Nick

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Kennett on the negotiations;

- (b) Nick Kennett explained that the main focus of recent negotiations had been on triggers for termination and that he was comfortable that these now give POL enhanced contractual protection.

POL termination rights will be based on Bol UK breaching prescribed events, based on Bol UK failing to:

- maintain a buffer above its minimum regulatory Core Tier 1 capital requirements (meeting both base and stressed scenarios);
- maintain a buffer over Individual Liquidity Guidance (ILG). In certain stress scenarios the liquidity ratio may fall below ILG, with an agreed remediation plan with the Regulator;
- meet regulatory requirements (by providing a Recovery and Resolution Plan – RRP), including entering a Special Resolution Regime (SRR).

In addition POL will have termination based on Bol's insolvency and inability to obtain funding;

- (c) Bol UK will have in place a business continuity plan to ensure that it can continue to operate in the event of a failure of its parent;

Neil McCausland asked if this plan would be in place before the contract extension was agreed; Nick Kennett explained that the contract will require Bol UK to establish such a plan. Failure to meet this condition or its regulatory obligation in this regard would constitute a termination right;

- (d) Nick Kennett reported that Bol Group had confirmed that it could hold over a market announcement;

- (e) Les Owen asked how the business would know if a breach had occurred. Nick Kennett explained that POL will receive Bol's monthly management and quarterly capital and ILG certificates and summaries of Arrow and RRP reports to provide continual comfort as to its financial position. Nick Kennett emphasised that the contract negotiations have still to agree a resolution period in the event of a breach. Les Owen agreed that the right to terminate was very powerful and wanted that right to remain in place for a period of time to enable the Post Office to find alternative providers.

- (f) Nick Kennett laid out the actions POL could take on termination caused by a breach. He explained that the actions on termination would be dependent on the cause of the termination and the then prevailing market conditions:
- Key focus would be continuation of operations in Ireland through the use of pre-emptive rights (in the event of a failure of Bol's parent);
 - Transfer of Bol business to a "white knight" (including potentially POL acquiring the book) in the event of the failure of Bol;

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It is critical that the principles to achieve such an outcome are enshrined in the contract;

ACTION:
Paula Vennells

- (g) Nick Kennett emphasised that the process to approve the extension was underway in the Treasury with a follow up meeting planned for 21st December;
- (h) Neil McCausland raised the question of whether a Post Office universal credit bank account would be acceptable to the Government if provided through the Bol. Paula Vennells reported Lord Freud had questioned this, and she had asked BIS to investigate. Stephen Lovegrove had fed back the view that this had been a one off comment and was not an issue for Government. Paula Vennells will be seeing Lord Freud again in Q1 and will check this is the case;
- (i) the Chairman asked how the business would keep track of the costs involved in dismantling POFS. Nick Kennett explained that a high level Business Case would pull together the costs as there would be some operational overlap, but that POL needed this internal expertise. Les Owen asked who would take the lead on insurance products. Nick Kennett explained that this had still to be resolved. Les Owen accepted that Bol do have legitimate interests but that he wouldn't want POL to be beholden to them for insurance products in which they are not the manufacturer. Nick Kennett accepted this was an outstanding item before the Heads of Terms could be signed;

ACTION:
Nick Kennett

- (j) the Chairman asked Nick Kennett to come back to the Board when the detail of termination rights and the principles on which the business leads on products had been agreed;
- (k) the Board agreed that when the Contract was ready for signature after input from external counsel, it should be signed on behalf of the business by Paula Vennells and Chris Day;

ACTION:
Nick Kennett

- (l) Nick Kennett was asked to produce a noting paper for the next Board to cover the contingent liability risk from the existing insurance business and actions taken to mitigate.

POLB11/72

MANAGING DIRECTOR'S REPORT

- (a) The Managing Director's report was noted.

POLB11/73

HEALTH & SAFETY UPDATE

- (a) Paula Vennells reported that since the report was written three additional armed robberies had taken place.

The Health and Safety paper was noted.

POLB11/74

FINANCE / PERFORMANCE UPDATE

- (a) Performance report for Period 7 was noted.

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- (b) Chris Day gave an update on Period 8 during which the year to date trends continued, project spend was flat. The full year PBIT was still expected to be in excess of £50m.

POLB11/75

POSTAL MUSEUM

- (a) Minutes shown at Appendix A because of Conflicts.

POLB11/76

MDA

- (b) Minutes shown at Appendix B because of Conflicts.

POLB11/77

NOTING PAPERS

- (a) • Olympic Plan (POLB(11)64) was noted.

**ACTION:
Susan Crichton**

- (b) • Significant Litigation Report (POLB(11)65) was noted. Susan Crichton was asked to give an oral update at the January Board.

**ACTION:
Martin Moran**

- (c) • Procurement Procedures for Government Contacts (POLB(11)66) was noted. Paula Vennells explained that she continued to have informal conversations with BIS and the Ministers encouraging them to look at new ways to draw up procurement rules to help the Post Office. Martin Moran would update the Board at a future FOOG presentation.

- (d) • Post Office Sealings (POLB(11)67) was noted.

- (e) • Pensions Overpayment (POLB(11)68) was noted.

POLB11/78

CLOSE

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

Alice Perkins

12th January 2012.

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Appendix to Minutes POLB(11)8th

POLB11/75

POSTAL MUSEUM

- (a) Les Owen declared an interest as he is also a member of RMH Board;
- (b) Chris Day explained that the Post Office contribution to the Postal Museum had increased significantly from the original £3m loan signed off by the Board. The increase was brought about because of a change in the cost proportion attributed to POL (moving from 7.65% to 50%) resulting in an annual running cost of £1m for twenty years;
- (c) the Chairman asked if this amount could be reduced through negotiation stressing that she did not want it included in the main MDA negotiation;
- (d) Chris Day was asked to wait until the MDA negotiations were complete and then to challenge the assumptions. Post Office was happy to support the loan but not the ongoing costs as suggested by RM;
- (e) Paula Vennells suggested that if RM will not reduce the apportion of costs falling to POL it may need to be escalated to ShEx to ensure they are comfortable with this contribution.

**ACTION:
Chris Day**

Post Office Limited – Strictly Confidential**Appendix to Minutes POLB(11)8th**

POLB11/76

MDA/MSA**Property**

Paula Vennells explained that Royal Mail had now agreed to transfer the property to POL at no cost and that separation costs would be picked up by the first party to move out of premises (likely to be Royal Mail in the majority of cases). However, Royal Mail still required POL to pay rent on the properties for the life of the MDA, albeit reduced in the second 5 years.

Collections and Returns

- (a) Paula Vennells reported that RM have now removed the September 2012 Business Case approval breach point from the exclusivity for collections and returns. RM have agreed that this would be replaced by a 'letter of comfort' between the two Chairmen emphasising that both businesses want to work together and realise they will need to invest to enable them to do so;
- (b) RM had suggested a 5 year exclusivity breach point but this is not acceptable to POL. Paula Vennells explained that POL needed protection if RM were unable to deliver the agreed figures and that she had asked RM to consider a three year breach point if targets had not been met and the businesses had not been able to resolve the issue. Paula Vennells explained she had further discussion planned after the Board Meeting;
- (c) Neil McCausland was uncomfortable with the returns targets being suggested and the lack of firm commitment to the significant investment required. He would prefer hard targets on market share and business investment but supported the view that it would be better to work with RM if possible. Neil McCausland pointed out that the market was growing at 20% a year and other organisations were moving quickly. The Chairman supported Neil McCausland although acknowledged that it would take time for RM and POL to be ready so the modest growth in the first year might be acceptable and stressed the need to work collaboratively with Royal Mail in the future and to build on the positive negotiations in the collections and returns area.

Tax

Chris Day reported that there had been good progress made with Matthew Lester on Tax and VAT issues. The Tax losses had now been resolved and it had been agreed that the stamp solution should not disadvantage POL. The only area where VAT could be an issue was in the MSA where POL would have to pay VAT on any services provided by RM after the VAT group is broken. The worst case risk would be £5m in 2014/15 but POL would work to mitigate this risk. The Board accepted that POL would have to pay this VAT if it arose.