

Post Office Limited – Strictly Confidential

POLB 14(2nd)
POLB 14/15-14/30

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

Minutes of a Board meeting held on 26 February 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive 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
Richard Callard	Non-Executive Director designate, Shareholder Executive
Neil Hayward	Group People Director (items 14/16 and 14/21)
Lesley Sewell	Chief Information Officer (item 14/16)
Brian Deveney	Business Transformation (item 14/16)
Tim Lloyd	Alsbridge (item 14/16)
Chris Aujard	General Counsel (items 14/17-14/19)
Belinda Crowe	Programme Director for Project Sparrow (items 14/17-14/19)
Mark Davies	Communications Director (items 14/17- 14/20)
Kevin Gilliland	Network & Sales Director (item 14/21)
Nick Beal	Head of Network Development (item 14/21)
Nicholas Kennett	Financial Services Director (item 14/29)
Hugh Flemington	Head of Legal (item 14/29)

POLB 14/15

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and welcomed Richard Callard, Non-Executive Director designate, Shareholder Executive, who would be attending this and the March Board before taking over from Susannah Storey.
- (b) Neil Hayward, Group People Director, Lesley Sewell, Chief Information Officer, Brian Deveney, Business Transformation, and Tim Lloyd, Alsbridge, joined the meeting.

POLB 14/16

BUSINESS TRANSFORMATION PROGRAMME

- (a) The Board received an update on the progress made to date with the Business Transformation programme. The CEO thanked Lesley for the work completed and explained to the Board that this was work in

Post Office Limited – Strictly Confidential

progress and the Business would welcome their input to help shape the final Business Case which would return to the March Board.

- (b) Lesley Sewell explained the cost reduction target already embedded in the 2020 strategic plan and size of the potential opportunity (excluding areas which were considered out of scope). The Board challenged the Business to be more ambitious and asked Tim Lloyd from Alsbridge to estimate the potential for further cost reduction. Tim Lloyd explained that the current work had looked at the outsourcing potential, but had yet to quantify the re-engineering opportunity. In his view this opportunity could reduce the cost base by an additional 30 to 40 per cent. (c.£60-£80million).
- (c) The Board agreed that outsourcing was feasible but that off-shoring could be more difficult. The Board was concerned about the handling of the staff consequences of outsourcing. They would need to understand the size of the opportunity before taking any decision.
- (d) The Board asked the Business to be ambitious and return in March with a paper outlining the options for discussion, showing: the different cost reduction scenarios; the full cost of implementation; the possible political ramifications of each scenario; and a timeline showing the critical path for procurement.
- (e) Brian Deveney informed the Board that the Business had sought legal advice to confirm that it was fully caught by public procurement regulations. The advice reaffirmed this position and the procurement of a Transformation Partner would therefore take 9-10 months as a minimum.
- (f) The Board discussed the use of a consultant to undertake Business Process Mapping (BPM) and establish a Target Operating Model baseline from which the Transformation Partner would work.

ACTION:
Lesley Sewell

- (g) The Board asked the Business to clarify the future CORE business processes before this work progressed. The CFO was asked to ensure the future supply chain strategy and how it related to the Business Transformation was included in the work which would report again to the March Board.
- (h) The Board noted the progress made to date.
- (i) Lesley Sewell, Brian Deveney and Tim Lloyd left the meeting.
- (j) Neil Hayward updated the Board on the search for a Transformation Director and agreed to circulate the job specification to the Board. He explained that he had spoken to Lesley Sewell who had understood why the Business was looking for an experienced person, but had asked to be considered if no other candidate was found.
- (k) Neil Hayward left the meeting

ACTION:
CFO/ Lesley Sewell

ACTION:
Neil Hayward

Post Office Limited – Strictly Confidential

- ACTION:**
Mark Davies
- (a) Chris Aujard, General Counsel; Mark Davies, Communications Director; and Belinda Crowe, Programme Director for Project Sparrow joined the meeting.
 - (b) The Board received a report reviewing the Company's current prosecution policy, which had been discussed at the Audit, Risk and Compliance Committee ("ARC") on 11 February 2014 and by the Executive Committee ("ExCo") on 13 February 2014.
 - (c) The Board agreed that any communication regarding the changes in approach to prosecutions should be reactive. The Business needed to revise its key communication messages and be ready with them.
 - (d) The Board noted the summary of the discussions that had taken place at ARC and ExCo.
 - (e) The Board approved the implementation of Option B as a new Prosecutions Policy as detailed in Appendix A to the paper.

POLB 14/18

INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME

- (a) The Board received a report on the challenges facing the Initial Complaint Review and Mediation Scheme ("the Scheme"), and the steps being taken to address them.
 - (b) The CEO explained that the paper set out the worst case scenario as the Board had requested. The Board were concerned by the potential costs of the scheme and the level of possible compensation.
 - (c) The CEO agreed with the Board's concerns, and reported that she had met both Sir Anthony Hooper, the independent Chairman of the Working Group, and Second Sight, the forensic accountants working on the mediation scheme, to try and ascertain their opinions on how to progress matters more quickly.
 - (d) The CEO informed the Board that Second Sight had yet to produce their first written report for the mediation scheme, and that, until such time as a number of reports had been produced, which would be over the next four weeks, Sir Anthony Hooper felt unable to form a view on the best way to manage the scheme going forward. He strongly advised against taking any precipitous action at this stage. Sir Anthony offered to meet the Board at a later date if that would be helpful.
 - (e) The Board discussed the mediation scheme and possible support for Second Sight to enable a more efficient process.
 - (f) It was noted that, in respect of each individual application, the project team were taking extensive advice about the Post Office's potential legal exposure. However, it was acknowledged that, in light of the facts now available, and the projected level of legal claims and costs, it would be sensible to commission more generic legal advice on the overall level of legal and financial exposure (taking account of the possibility of class actions). This advice should consider the steps that could be taken to mitigate any exposure including considerations
- ACTION:**
Chris Aujard

Post Office Limited – Strictly Confidential

of alternative structures that might be available to deal with the mediation cases. Such advice should have regard to alternative dispute resolution mechanisms, such as the Financial Ombudsman Service.

ACTION:
Chris Aujard/
CFO

- (g) The Board asked for an update to be circulated on the position with the Business' insurance underwriters and asked the Business to revisit the legal advice on insurance to ensure it was robust and that the correct disclosures had been made. The Board requested that all future documentation consider potential insurance claims and disclosure.
- (h) The Board thanked the team for its candid report and noted the report on the Scheme.

POLB 14/19

BRANCH SUPPORT PROGRAMME

- (a) The Board received and noted the report on the Branch Support Programme.
- (b) Chris Aujard and Belinda Crowe left the meeting.

POLB 14/20

MUTUALISATION – STATEMENT OF PUBLIC PURPOSE

ACTION:
Mark Davies

- (a) The Board received an update on the preparation of the Statement of Public Purpose of the Post Office.
- (b) Mark Davies reminded the Board of the work instigated by Sue Barton, Strategy Director, on 'why does the Post Office exist' and promised to circulate the comments received from the Board.

ACTION:
All/ Mark Davies

- (c) The Board discussed the Public Purpose Statement and agreed to feed their comments into Mark Davies. The resultant changes would be made and the final statement agreed with the Chairman and CEO. This final statement would be circulated to the Board for information.
- (d) Mark Davies updated the Board on the Post Office Advisory Council and circulated a list of the proposed membership. He reported that the inaugural meeting would take place on the 19th March, to be preceded by a dinner the evening before. The Board thanked Mark Davies and Jane Hill in his team for an excellent result.
- (e) Mark Davies left the meeting.

POLB 14/21

NETWORK AND CROWN TRANSFORMATIONS/INDUSTRIAL RELATIONS UPDATE

- (a) Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, and Nick Beal, Head of Network Development, joined the meeting.
- (b) The Board received an update on the Network and Crown Transformations, along with an update on Industrial Relations.
- (c) Kevin Gilliland expressed his confidence that the Business would

Post Office Limited – Strictly Confidential

reach its year end targets for Network Transformation contracts signed and branches opened. He explained that the retail surveys received enabled the Business to produce a proposal on next year's targets, which would be completed within the next couple of weeks.

- (d) Kevin Gilliland reported that over a thousand branches were now open on a Sunday. Mains branches were performing well against target; however, Locals were seeing a downward trend in mails products.
- (e) The Board discussed the change in Locals which could lead to a more transactional relationship with the customer and a move away from the traditional community spirit. Kevin Gilliland acknowledged that this was a risk but still felt that more could be done through initial training to enhance the Locals offer.
- (f) The Board sought assurance that the Memorandum of Understanding (MoU) with the NFSP would ensure support for Network Transformation (NT), especially if a 'cliff' had to be used. Nick Beal explained that the MoU included specific requirements for the NFSP to support the delivery of NT to the whole network by 2018, so the 'cliff' was understood. He also reassured the Board that NFSP payments would not commence until after the MoU was signed which would be after the May NFSP conference, a timescale which the Business supported.

**ACTION: CFO/
Kevin Gilliland**

- (g) The Board asked Kevin Gilliland and the CFO to make the NT report in the performance pack clearer for the Board.
- (h) The Board noted the update on the Network and Crown transformations and the current Industrial Relations situation.
- (i) Neil Hayward, Kevin Gilliland and Nick Beal left the meeting.

POLB 14/22

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report.
- (b) The CEO reported that she and the Chairman had a meeting with the Secretary of State, Vince Cable, where they would explain the plan through to March 2015 and discuss any risks and opportunities. She would also be meeting the interim Minister before the NFSP conference in May.

POLB 14/23

FINANCIAL PERFORMANCE UPDATE

- (a) The Board received a financial performance update for January 2014.
- (b) The CFO explained that there may be some small upside in this year's profit which would be used, if possible, to de-risk next year's target.
- (c) The CFO reported that the Budget Book for 2014/15 had been circulated and that the shape of the budget had not changed from that previously discussed with the Board. The Board agreed to feed in questions to the CFO and indicate if a conference call was required to discuss the detail.

**ACTION: CFO
ALL**

Post Office Limited – Strictly Confidential

POLB 14/24

POLICY ADOPTION

ACTION:
Chris Aujard

- (a) The Board received a report on new policies recently adopted by ExCo, which covered Anti-Bribery, External Data Protection (Information Security) and Data Sharing (Information Security)
- (b) The Board asked that the gifts and hospitality procedures be aligned to ensure permission is obtained for hospitality and retention of gifts.
- (c) The Company Secretary confirmed that once confirmed the policies would be cascaded through the organisation.
- (d) Subject to this one change the Board noted and confirmed the adoption of the Anti-Bribery, External Data Protection (Information Security) and Data Sharing (Information Security) policies with immediate effect.

POLB 14/25

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 21 January 2014 were approved for signature by the Chairman.

POLB 14/26

COMMITTEE MEETING MINUTES FOR NOTING

ACTION:
Company
Secretary

- (a) The Board noted the minutes of the Nominations Committee meeting held on 6 November 2013; and the Remuneration Committee meeting held on 6 November 2013.
- (b) It was agreed that future Board Sub Committee draft minutes would be circulated before approval by the Sub Committee to ensure a timely update for the Board.

POLB 14/27

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 14/28

ITEMS FOR NOTING

ACTION:
Chris AujardACTION:
Company
Secretary

- (a) The Board noted the status of the procurement of a Data Centre Tower and asked for a further paper after the lessons learned have been considered by the ARC.
- (b) The Board noted the update on Cyber Security and Information Assurance. It was proposed that an industry expert be invited to a future Board to present on Cyber Security.
- (c) The Board noted the Significant Litigation report.
- (d) The Board noted the Health & Safety report.
- (e) 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 1118 to 1128 inclusive in the seal

Post Office Limited – Strictly Confidential

register was hereby confirmed.

POLB 14/29

MONEYGRAM CONTRACT

- (a) Nicholas Kennett, Financial Services Director and Hugh Flemington, Head of Legal, joined the meeting.
- (b) The Board was notified of a request from MoneyGram, as part of their new contract due diligence, to allow certain person checks against Board directors and responsible executives. The information provided would already be available at Companies House, and initial checks would only include negative media, sanctions and watch list checks. However, signing the form would enable MoneyGram to make further checks in the future.
- (c) The CEO explained that she knew the CEO of MoneyGram and agreed to explain to her, next time they spoke, that the Board were concerned by this requirement.
- (d) The Board asked for legal opinion to give them comfort that dealing with MoneyGram, a US corporate managing overseas payments, did not open the Post Office up to any risk of recourse from the US Government.
- (e) Subject to that legal opinion, the Board agreed to the disclosure.

**ACTION: Chris
Aujard**

POLB 14/30

CLOSE

- (a) It was noted that the next Board meeting would be held on 26 March 2014.

GRO

Post Office Limited – Strictly Confidential

POST OFFICE LIMITED 26 FEBRUARY 2014 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	<u>Strategy</u>	
February 2014 POLB 14/16(d)	The Business to return in March with a paper outlining the options for discussion, showing: the different cost reduction scenarios; the full cost of implementation; the possible political ramifications of each scenario; and a timeline showing the critical path for procurement.	Lesley Sewell
February 2014 POLB 14/16(g)	The Business to clarify the future CORE business processes before this work progressed. CFO to ensure that the future Supply Chain strategy and how it related to Business Transformation was included in the work which would report again to the March Board.	Lesley Sewell/CFO
February 2014 POLB 14/16(j)	Circulate the job description for the Transformation Director position to the Board.	Neil Hayward
February 2014 POLB 14/28 (a)	Further paper on the Data Centre procurement to be brought to the Board after the lessons learned have been considered by the ARC.	Chris Aujard
	<u>Project Sparrow & Prosecuting Authority</u>	
February 2014 POLB 14/17(c)	Business to revise its key communication messages regarding the change in approach to the prosecutions policy and be ready with them in case questions arose.	Mark Davies
February 2014 POLB 14/18(f)	Commission more generic legal advice on the overall level of legal and financial exposure (taking account of the possibility of class actions) under the Initial Complaint Review and Mediation Scheme. This advice should consider the steps that could be taken to mitigate any exposure including considerations of alternative structures that might be available to deal with the mediation cases. Such advice should have regard to alternative dispute resolution mechanisms, such as the Financial Ombudsman Service.	Chris Aujard
February 2014 POLB 14/18(g)	An update to be circulated on the position with the Business' insurance underwriters and the Business to revisit the legal advice on insurance to ensure it is robust and that the correct disclosures had been made. All future documentation to consider potential insurance claims and disclosure.	Chris Aujard/CFO

		<u>Mutualisation</u>	
February 2014 POLB 14/20 (b)	Circulate the comments received from the Board on 'why does the Post Office exist'.		Mark Davies
February 2014 POLB 14/20 (c)	The Board to feed their comments on the Public Purpose Statement to Mark Davies, the resultant changes to be made and the final statement agreed with the Chairman and CEO before circulation to the Board for information.		All/Mark Davies
		<u>Finance</u>	
February 2014 POLB 14/21 (g)	Make the NT report in the performance pack clearer for the Board.		CFO/Kevin Gilliland
February 2014 POLB 14/23 (c)	The Board to feed in questions on the Budget Book to the CFO and indicate if a teleconference was required to discuss the detail.		All/CFO
		<u>Miscellaneous</u>	
February 2014 POLB 14/24 (b)	Gifts and hospitality procedures to be aligned under the Anti-Bribery Policy to ensure that permission is obtained for hospitality and retention of gifts.		Chris Aujard
February 2014 POLB 14/26 (b)	Future Board Sub-Committee draft minutes to be circulated before approval by the Sub-Committee to ensure a timely update for the Board.		Company Secretary
February 2014 POLB 14/28 (b)	An industry expert to be invited to a future Board to present on Cyber Security.		Company Secretary
February 2014 POLB 14/29 (d)	A legal opinion to be provided to give the Board comfort that dealing with MoneyGram, a US corporate managing overseas payments, did not open the Post Office up to any risk of recourse from the US Government.		Chris Aujard