

POST OFFICE LTD BOARD

Board Effectiveness Review

The Chairman's Board evaluation report is attached as appendix 1. The areas proposed for discussion at the Board and for action are covered in section 13.

Alice Perkins
July 2013

Board Effectiveness Review

1. Process

The Chairman interviewed all the Board Directors and the Company Secretary on a one-to-one basis using the Discussion Guidelines, attached at Annex 2, between 20 June and 3 July. A list of interviewees is at Annex 3. The Chief Executive had consulted her ExCo colleagues and included their views in her feedback.

This report summarises all the points made. There were many common themes and where the same points were made more than once, they have not been repeated. All the suggestions made for improving how the Board works are included and brought together in section 13.

The process included peer feedback for all members of the Board which the Chairman will communicate separately on an individual basis. Concurrently, the SID has conducted a peer review of the Chairman's performance which is being fed back separately to her.

The Board will discuss this report at its July meeting and it will then be sent to the Shareholder Executive.

2. Context

Alice Perkins took over the Chairmanship of the Post Office Board from Donald Brydon in October 2011. At that time the CEO, CFO, SID and Company Secretary were all in their present roles. The other NEDs joined the Board over the period from [March] to September 2012. So at the time of carrying out this evaluation, the Board has been in existence for less than a year. It is early days in its life.

3. Headline Comments

The creation of a new PO Board has gone remarkably well in a very difficult context and challenging environment. The Board is maturing. It has come a long way since autumn 2011 and is operating very well (8 out of 10). We can be pleased with where it has got to and the Shareholder should be pretty pleased. The issue now is how to make it even better.

This is a well-functioning Board. The Directors have a wide range of skills and experience from different backgrounds. We have the key bases covered. We are working together effectively; it's fun and really challenging.

This is a disparate set of Directors who have come together and are pointing in the same direction most of the time; there is a sense of team work. We do listen to each other and can agree to disagree or agree on what we are prepared to live with. It can feel uneven as between the respective contributions of the Executives and the NEDs.

The Board has got better as it has matured. People have become feistier; they are challenging but very respectful of each other and of the business. Board members come well prepared; they are good at listening. They don't always agree and sometimes issues get re-opened when people thought they had been settled. The debate can be circular and hard to close down but it is helpful if people speak up if they disagree.

The Board is quite different from a year ago. It is stimulating, vibrant, pro-active and searching for solutions in its determination to fix the business. It is extremely positive and helping the Executives to improve. It adds value.

The Board provides a good balance between support and challenge – it is giving clear direction and has a clear mandate and has stopped diving into the detail. It feels like a team which is great. ExCo feels very positive about it – should they and the Board meet a couple of times a year?

The Board has been the most amazing improvement for the PO. The recruitment of the NEDs has gone really well – they have very different skills and have the ability to contemplate working in a different environment from what they are used to. The company has adjusted well to the new Board. Thank goodness we went in that direction.

4. Organisation of the Board

Overall, this is very good. The Company Secretary, supported by [REDACTED], provides excellent support to the Board including looking after the hygiene factors, really well. The electronic papers are great and one Director commented positively on the Reading Room while another wondered whether it is as useful as it could be?

The meetings are held at the right frequency, for the right length of time and they run to time. The quality of the papers has improved but there is further to go – some should be crisper and they should always arrive in time for Board members to digest them properly before meetings unless there is an emergency to report.

A common theme was that the Board could use its time even better. There is still a tendency for Executives to repeat what is in the papers. The Board could get better at taking papers as read if there are no issues to discuss. For instance, while retaining a paper on financial performance and key indicators at each Board meeting, should the Board discuss this at alternate meetings and without any introduction from the CFO unless it is to add something new? This would release time which could be spent on the substance of the business such as mails and financial services.

Several people commented on the nature of the debate. The Board does not need to be led by the Executives to a conclusion - this is not a good use of the Directors' expertise. It is getting better at having a robust debate. One person commented that it is a very respectful Board and another Director suggested that it should become more hard-edged and willing to call a spade.

The Board is not a talking shop. It takes decisions all the time but the Chairman could be even clearer about when decisions have been made and they could be recorded in a decision log at the end of the minutes. This should flush out outstanding differences and the Board would be able to decide explicitly how to handle these rather than finding that the issues were being unexpectedly re-opened by one member of the Board to the surprise of the others.

Should the Board make more use of the NEDs in creative ways so that they are generating ideas rather than reviewing ideas which have come up from the Executives? (e.g. the session on Outsourcing at the recent Awayday.)

The recent Awayday had been good (though the session on Mails had been a wasted opportunity). How many of these should there be in a year (in the last year there have been two – Shoreditch and Kingston)?

Should the Board meet outside Head Office more often e.g. at a large Crown or a call centre?

Annex 1

Should the Board meet the ExCo on a regular (but infrequent) basis? And what about the SLT?

Should the Board have a dinner with partners?

One Director asked that dates for future Board meetings in 2014 and even 2015 should be fixed now.

It was also suggested that the Board should have a regular opportunity to review the forward programme of agendas as it has in the past.

There is sometimes an absence of follow-through (e.g. the delay in circulating the updated Rothschild's work). While this has got better, there is further to go.

5. Committee Organisation

The right Committees are in place. The Board has only just set these up so their roles should be clear and they are.

The Committees have been feeling their way on the frequency and timing of their meetings. There is a need to find a schedule which works and is more settled. This is especially true of the ARC and the RemCom.

The RemCom is the Committee with the most difficult business in practice and it has not always felt as though it is in control of it. This should improve with experience of the interaction with the Shareholder, better forward planning and better professional support from the business.

The ARC initially felt too much like the main Board but that is better now that membership has been reduced to three NEDs. It is discharging its responsibilities properly and has handled the two year-ends extremely well. One Director commented that it might be trying to do too much and might need to be more flexible in its use of time. There is important and urgent work for it to do on risk, which is in hand for the autumn. Several Directors commented that that it was the next major priority after settling the strategy.

The Mutualisation Committee has been less effective than the Board although it has the same membership. It should review its future programme in the light of the strategy.

6. Strategy

The Board has spent a great deal of time on the Strategy since it has been fully formed and this has been helpful in terms of its understanding of the business and its development as a team.

The Directors all think the Strategy has been well developed and are happy with the substance of what they have agreed. At the time of writing, this is subject to negotiations with the Shareholder.

However, the process got off to a shaky start at Shoreditch. Lessons were learned from that and by the end the NEDs all felt satisfied that they had been able to make the contribution they wanted to make. There was universal recognition that [REDACTED] role in this had been invaluable.

One Director commented that there was further to go in articulating the vision of what the Post Office would be in 2020.

7. Board Composition

There is universal agreement that the Board has a great mixture of skills and experience. Almost all the key aspects of the business are covered and several people commented that whatever came up as an issue, there would be at least one member of the Board who had the relevant experience to make a valuable contribution to its resolution. The areas where additional expertise would be valuable were large-scale operations including change management, industrial relations and IT.

Some people also commented on the mix of Directors in terms of their styles and temperaments. There is a good balance between the entrepreneurial and the risk conscious and between those whose glasses are half full and those whose are half empty. It would be important in future to ensure that any changes in the Board did not result in the balance being skewed too far one way or the other.

The Board is well balanced in terms of gender. In future it would be good if there were also a greater diversity of ethnicity.

8. Board Involvement

The Directors' knowledge of the business was generally thought to be sufficient for their roles, though individual Directors raised areas which they it would be helpful for them to understand better e.g. the economics of the network including SPMs' pay.

There had been a tendency in the early days for NEDs to appear to "meddle" in the business and dive down too much into the detail but this had diminished over time. This needs watching as it is always tempting for NEDs to fall into that trap on any Board.

All the NEDs commented on how willing the Executives were to engage with them outside Board meetings and were impressed by the extent to which most of them, and especially the CEO, were open to challenge. In return, the Executives commented that the NEDs were very generous with their time outside the Boardroom.

The relationship between the Chairman and the CEO appeared good, supportive but also challenging with no obvious tensions.

One NED wondered whether they should become more involved by e.g. opening new PO branches and/or developing relationships with key stakeholders (see next section). The CEO wondered whether they could contribute to interviewing key candidates for ExCo positions.

9. Board Relationships with Key Stakeholders

There is general recognition that there is more to do here. The Board needs to understand its shareholder's position better, especially that of the Minister concerned. The session with ██████████ had been extremely useful ("formative"/"an eye-opener") in that context. It was excellent that he had agreed to come again in the autumn and there should be more sessions to help the Board understand this area.

It is also recognised that more time should be spent forging relationships with other key stakeholders inside and outside the business. The Forum at the recent Awayday had been a good use of time.

10. Risk, Compliance, Financial Monitoring.

The Directors believe that they are carrying out their fiduciary duties appropriately overall. Several people commented on the need to do more work on risk management as noted above. More than one NED commented that the financial and performance report could be improved further. Is there sufficiently robust reporting of the delivery of key projects, including cost-cutting – is there a danger of the Board being lulled into a false sense of security over these?

There is also a need to satisfy the Board that the right compliance measures are in place in financial services as the company expands its business in this area. This is something for the ARC in the first instance; there is a need to spend more time on this.

11. Looking Forward

Directors are concerned about the quality of the pipeline for the top posts, especially for the CEO's position. This is something which has already been identified and work is underway under the direction of the NomCo to address it. Progress is being made in relation to the ExCo positions and job specifications for new recruits to the ExCo are targeted at candidates with the potential to be future CEOs. This is a real weakness which NomCo and the Board need to keep actively under review.

The induction of the NEDs had been done well and everyone was satisfied with this. The Board needed to decide now what additional development was needed, for example, visits to branches (should each NED commit to visit a certain number every year?) or workshops/Board sessions on particular issues?

It will be important to manage the tenure of the NEDs so that there is no bunching of retirements.

12. Overall Board Effectiveness

The Directors thought that the Board got the balance right between fulfilling its fiduciary duties and making a positive, substantive contribution to the business. Looking back over the last year, one Director commented that the Board's agenda had felt as though it had lurched in an unplanned way but that once the Strategy was settled, it should be possible to get more stability into the business and focus on key elements of its delivery.

The right balance has been struck between support and challenge. But the Board has now "formed". It has been "quite kind" to the business. It can now be more challenging and expect more; it needs to be more demanding e.g. about cost-cutting, and tougher with failure.

Generally the Directors were satisfied with the quality of the external advice received e.g. the auditors, and Rothschild's, but one Director commented that the business did not always seem to be clear about what it was using advisers for, or doing that well.

13. Areas for Discussion and Action

Discussion

What is the right balance amount of rigour and challenge? Does the Board agree that it should be more forthright than it is now? How would that affect the balance between the NEDs and the Executives?

Does the Board agree that time should be saved in meetings by moving more briskly through agenda items and discussing financial performance and key indicators only every other meeting (assuming things are on track?) If so, what would it like to spend more time on? Is giving more time to our key stakeholders, including understanding the Shareholder better, a key priority?

How could the NEDs be used more creatively?

What does the Board want to do outside Board meetings e.g. branch visits (an annual target for NEDs?), workshops, meetings with key stakeholders, or with ExCo/SLT?

Are two Awaydays a year right?

Would the Board like a dinner with partners?

Should the Board meet outside Head Office more frequently e.g. at large Crowns or call centres?

Is the Reading Room as useful as it could be?

Action

The Chairman to sum up discussions even more clearly. Board members to speak up if they disagree or register clearly that they are willing to support the majority view despite remaining reservations.

Executives to assume as a matter of course, that their papers have been read and not to repeat material already covered unless asked to do so. The Chairman to move more swiftly through each item unless there are questions or issues raised by the Board.

Company Secretary to fix Board dates for 2014 and if possible, 2015; to record decisions taken in a "log" at the end of the minutes of each meeting; to continue to work with the Executives to raise the standard of papers and ensure they are sent out in good time; to ensure all follow-up action is taken timeously and circulate a forward programme of Board agendas every 6 months.

All Committees to keep the cycle of their meetings under review and follow-up on the key issues identified in this report e.g. succession planning for NomCo and risk for ARC.

Alice Perkins
July 2013

POST OFFICE BOARD EVALUATION SUMMER 2013

DISCUSSION GUIDELINE

1. Overall impression of the Board

- Shared understanding of the Board's role
- Dynamics of the Board
- Culture and climate in the Boardroom
- Sense of teamwork
- Use of time
- Quality of discussion and listening
- Decision-making

2. Organisation of the Board

- Agenda
- Meeting frequency and length
- Formal processes and duties
- Informal processes
- Information and support materials
- Servicing of the Board

3. Committee organisation

- Clear remits
- Agendas
- Meeting frequency and length
- Membership, attendees and advisers
- Information and support materials

4. Strategy

- Development
- Understanding
- Agreement
- Communication
- Review

5. Peer reviews

Feedback on contribution of individual Board members

- Executive Directors
- Senior Independent Director/Committee Chairmen
- Other Non-Executives

DISCUSSION GUIDELINE

6. Board composition

- Balance of skills and experience, including diversity
- Future requirements

7. Board involvement

- Directors' knowledge
- Relationship Chairman and CEO
- Relationships with management
- Contact outside boardroom

8. Board relationship with key stakeholders

- Shareholder relations
- Employee/Franchisee relations
- Other key stakeholder relations

9. Risk, compliance, financial monitoring

- Identification
- Monitoring
- Openness
- Balance with performance
- Responsibility

10. Looking forward

- Succession planning for board members; non-executive and executive
- Directors' development needs
- Future remuneration for non-executives
- Induction and training

11. Overall Board effectiveness

- Fulfilment of fiduciary duties
- Contribution to business
- Checks, balances and support
- Short and long term health of business
- Support/independent advice

List of Interviewees

Neil McCausland	Senior Independent 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 Officer
Chris Day	Chief Financial Officer
Alwen Lyons	Company Secretary