

Paula Vennells
Post Office Limited
20 Finsbury Street
London
EC2Y 9AQ

16 April 2018

Dear Paula,

**ENTRUSTMENT OF POST OFFICE LIMITED WITH THE DELIVERY OF
CERTAIN PUBLIC SERVICES**

Commencement

This letter has effect from the later of: (i) the date on which the European Commission confirms that the requirements of this letter are compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union; and (ii) 1 April 2018 (the "Effective Date").

Existing Entrustment Letter

Notwithstanding the signing of this letter, in respect of the period prior to the Effective Date, the provisions of the letter from the Government to Post Office Limited entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 23 January 2015 (the "Existing Entrustment Letter") shall continue in full force and effect and the provisions of this letter shall be without prejudice to any rights, remedies, obligations or liabilities of any party accrued under the Existing Entrustment Letter.

The Existing Entrustment Letter shall be terminated on the Effective Date.

Entrustment

This letter contains an overarching ministerial instruction entrusting Post Office Limited with the provision and delivery of certain services of general economic interest. This instruction is legally binding on Post Office Limited and Post Office Limited has signed this letter in agreement and acknowledgement of this.

- (a) We confirm that Post Office Limited is under a public service obligation (as set out here and also contractually in the Post Office Limited Funding Agreement dated April 2018, (the "Funding Agreement")) to maintain, from the Effective Date until the end of its financial year ending on or around 31 March 2021, a network of post offices beyond its optimal commercial size (the "Network SGEI"). That network must meet the following minimum access requirements:

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- Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of their nearest post office outlet.
- 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet.
- 95% of the total urban population across the UK to be within 1 mile of their nearest post office outlet.
- 95% of the total rural population across the UK to be within 3 miles of their nearest post office outlet.

In addition, the following criterion will apply at the level of each and every individual postcode district, establishing a minimum level of coverage at a very local level.

- 95% of the population of the postcode district to be within 6 miles of their nearest post office outlet.

Post Office Limited is required to provide this network of post office branches to make available the services of general economic interest detailed in Annex A ("**Product SGEI**") on the basis set out in the Funding Agreement. This Network SGEI obligation therefore extends the provision of the Product SGEI over a network which may be beyond that required under individual Product SGEI contracts entered into on a commercial basis between Post Office Limited and relevant Government departments or bodies (whether public or private). The delivery of the Product SGEI by Post Office Limited across its network will be governed in accordance with contracts or other agreements under which the terms of the provision of the individual product SGEI are specified.

The entrustment of the delivery of the Network SGEI set out in this letter to Post Office Limited does not replace or change in any way any contracts or other agreements under which the terms of the provision of the individual Product SGEI are specified. Post Office Limited is expected to use reasonable endeavours to enter into contracts with Government departments or bodies (whether public or private) contracting with Post Office Limited in respect of the provision of one or more Product SGEIs. A list of the current individual contracts and agreements held by Post Office Limited to deliver the Product SGEI is provided in Annex B.)X

Method of Calculating Compensation

As soon as reasonably practicable following publication of its audited accounts for the Financial Year ending on or around 31 March 2021, Post Office Limited will be required to provide, in accordance with the Funding Agreement, a statement (the "**Cumulative SGEI Statement**"). The Cumulative SGEI Statement must be accompanied by a supporting statement from an independent financial adviser, to confirm that the aggregate amount of the SGEI compensation payments made by the Government to Post Office Limited under the Funding Agreement (the "**Cumulative SGEI Payment**") did not exceed the difference between the actual net costs incurred by Post Office Limited and the net profits that would have been incurred in connection

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with the provision of a network that Post Office Limited would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the financial years covered by the Funding Agreement (the "**Cumulative SGEI Cost**").

This is to be calculated using the net avoided cost methodology, in accordance with the principles in paragraphs 21-32 of the 2012 Community Framework for State aid in the form of public service compensation ("Framework") and in precedent Commission decisions, which calculates the SGEI net cost as the difference between:

- the expected net cost for POL when providing the SGEIs; and
- the expected net cost / profit for POL when operating without any SGEI obligations.

For the purposes of this net avoided cost methodology the costs shall include, without limitation, all variable and fixed costs associated with delivery of the SGEIs including contributions to pension funds, interest costs, central costs, depreciation and amortisation costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.

Recovery of Overpayment

Notwithstanding clause 5.3 of the Funding Agreement, in the event that the Cumulative SGEI Payment exceeds the Cumulative SGEI Cost, Post Office Limited will be required to repay to the Government, within 10 Business Days of a request from the Government, an amount equal to such excess.

It is possible that Post Office Limited may during the period of this entrustment cease to provide an individual Product SGEI, the provision of which over the post office network beyond its optimal commercial size is compensated by the Government. In those circumstances, the Government may in its absolute discretion, provided that the provision of the Network SGEI will be maintained, withhold such reasonable proportion of that compensation (if any) which corresponds to the net direct costs of providing that Product SGEI.

Yours sincerely

GRO

Post Office Limited acknowledges that the instructions set out in this letter are legally binding.

Signed by

GRO

for and on behalf of Post Office Limited

Dated _____ 2018

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Annex A

SCHEDULE OF SERVICES OF GENERAL ECONOMIC INTEREST
PROVIDED BY POST OFFICE LTD AT POST OFFICE BRANCHES

	Category of Service	Service Provided	Service Provided on Behalf of
1.	Processing social benefit and tax credit payments to the public.	Cash payment of state benefits including state pension, child benefits and tax credits Issuing of vouchers to eligible asylum seekers	The Department for Work and Pensions The Social Security Agency - Northern Ireland Her Majesty's Revenue & Customs The Home Office
2.	Processing of national identity and licensing scheme applications <i>lost this contract -</i>	Providing passport application forms for customers to complete and return ✓ Checking, authentication and processing of passport applications and supporting documentation Processing of identity verification applications ✕ Capturing biometric data for Biometric Residence Permits ✕ Providing vehicle licence application forms for customers to complete and return Receiving payment for vehicle licences and photocard licences ✓ Services for the sale of Rod Fishing Licences ✕ <i>Eng + Wales</i>	Her Majesty's Passport Office The Cabinet Office UK Visas and Immigration Driver and Vehicle Licensing Agency The Environment Agency
3.	Universal payment facilities for public utility services.	Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. including savings stamps)	Financial Institutions Individual Utility Service Providers Billing Service Providers Her Majesty's Revenue and Customs

	Category of Service	Service Provided	Service Provided on Behalf of
		Provision of facilities for payment of tax bills and social housing rents	Local Authorities Housing Associations
4.	Access to postal services	Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by Ofcom in accordance with section 36 of the Postal Services Act 2011 and the Designated Universal Service Provider Conditions issued by Ofcom on 27 March 2012	Royal Mail Group
5.	Universal access to basic cash and banking facilities, especially for rural customers and those on social benefits.	Provision of basic community banking facilities (e.g. including cashing of cheques, cash deposit and cash withdrawals and deposits) and cash transmission facilities (e.g. including postal orders), in particular to socially excluded customers and businesses local to post office branches	Financial Institutions Her Majesty's Treasury

Annex B

POST OFFICE CONTRACTS TO DELIVER SGEI
AS AT THE DATE OF THIS LETTER

Category 1: Processing Social Benefit and Tax Credit Payments to the Public

Description of Services	Contracting Entity Opposite Post Office Limited
POCA Card Account	The Department for Work and Pensions
Asylum Seekers Benefits Payments	Sodexo Pass
Payout (Emergency Payments) Contracts	Blackpool Council
Payout (Emergency Payments) Contracts	Cornwall Council
Payout (Emergency Payments) Contracts	Derbyshire Council
Payout (Emergency Payments) Contracts	Greenwich Council
Payout (Emergency Payments) Contracts	Merton Council
Payout (Emergency Payments) Contracts	Reading Council
Payout (Emergency Payments) Contracts	Torbay Council
Payout Contracts	Autism Initiatives
Payout Contracts	Durham and Darlington NHS
Payout Contracts	Financial Services Compensation Scheme
Payout Contracts	Buckinghamshire Council
Payout Contracts	Cumbria Council
Payout Contracts	Hampshire Council
Payout Contracts	Hull Council
Payout Contracts	Lambeth Council
Payout Contracts	Lancaster Council
Payout Contracts	Manchester City Council
Payout Contracts	Newham Council
Payout Contracts	Redbridge Council
Payout Contracts	St Helen's Council
Payout Contracts	Wirral Council
Payout Contract	Capita
Payout Contract	Eon Energy Limited
Payout Contract	RWE Npower plc
Payout Contract	Scottish Power Energy Retail Limited

Category 2: Processing of National Identity and Licensing Scheme Applications

Description of Services	Contracting Entity Opposite Post Office Limited
Passport Applications 'Check & Send'	Her Majesty's Passport Office
Driving Licence Applications	Driver and Vehicle Licensing Agency
Services for the sale of Rod Fishing Licences	The Environment Agency
Capture of photograph in support of applications	Security Industry Authority (The Home Office)
Biometric data capture for Biometric Residence Permit applications	UK Visas and Immigration
Identity Assurance Services (for access to online public services)	Government Digital Services (The Cabinet Office)
Document checking in support of a Vetting and Barring Scheme application (formerly CRB)	Care Quality Commission
Agreement for the Provision of Identity Verification Services: Public Carriage Office Services	GB Group
Agreement for the Provision of Identity Verification Services: Generic Services	GB Group

Category 3: Universal Payment Facilities for Public Utility Services

Description of Services	Contracting Entity Opposite Post Office Limited
Bill Payments	Santander (A&L Commercial Bank plc as was)
Bill Payments	The Co-Operative Bank plc
Bill Payments	Allpay.net Ltd
Bill Payments	Airtricity Holdings Limited (Republic of Ireland company)
Bill Payments	EON Energy Limited
Bill Payments	EDF Energy
Bill Payments	RWE Npower plc
Bill Payments	Scottish Power Energy Retail Limited
Bill Payments	Scottish & S Southern (SSE)
Bill Payments	British Gas Trading Limited
Bill Payments	Phoenix Gas
Bill Payments	BT plc, novated to BT Payment Services Limited
Bill Payments	South West Water Limited
Bill Payments	Northern Ireland Electricity plc, novated to NIE Energy Ltd
Bill Payments	United Utilities
Bill Payments	Yorkshire Water
Bill Payment	Bristol and Wessex Billing Services Ltd
Bill Payment	Siemens Energy Services (a Management Division of Siemens PLC)
Bill Payment	Capita
Travel Tickets	Neath Port Talbot Council
Travel Tickets	Scotland Improvement Service
Travel Tickets	Strathclyde Council
Travel Tickets	Transport for London
Council Tax and Other Related Council Services	The Lord Mayor & Citizens of the City of Westminster
Council Tax and Other Related Council Services	London Borough of Hammersmith and Fulham
Face to face payment services	The Lord Mayor & Citizens of the City of Westminster
Agreement for Provision of Online and E-Bulk Services	Atlantic Data Limited

Category 4: Access to Postal Services

Description of Services	Contracting Entity opposite Post Office Limited
Master Distribution Agreement - Mail support services from Post Office Limited to Royal Mail Group Limited to assist Royal Mail Group Limited in meeting its designated Universal Service Provider conditions	Royal Mail Group Limited

Category 5: Universal Access to Basic Cash and Banking Facilities for Business and Retail Bank customers, and Government Savings Instruments, Especially for Rural Customers and Those on Social Benefits

Description of Services	Contracting Entity opposite Post Office Limited
ATM Services	Bank of Ireland
Provision of Basic Banking Facilities under the Banking Service Framework	Lloyds Bank PLC – including Bank of Scotland and Halifax
Provision of Basic Banking Facilities under the Banking Service Framework	HSBC Bank plc – including First Direct
Provision of Basic Banking Facilities under the Banking Service Framework	Santander UK PLC– including Cahoot, Abbey National and Alliance+Leicester
Provision of Basic Banking Facilities under the Banking Service Framework	Barclays Bank PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Royal Bank of Scotland PLC – Including NatWest, and Ulster Bank
Provision of Basic Banking Facilities under the Banking Service Framework	Nationwide Building Society
Provision of Basic Banking Facilities under the Banking Service Framework	TSB Bank PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Virgin Money PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Northern Bank Limited – including Danske Bank
Provision of Basic Banking Facilities under the Banking Service Framework	Bank of Ireland (UK) PLC
Provision of Basic Banking Facilities under the Banking Service Framework	AIB Group (UK) PLC – including First Trust/
Provision of Basic Banking Facilities under the Banking Service Framework	Metrobank PLC (currently Business Customers only)
Provision of Basic Banking Facilities under the Banking Service Framework	Cooperative Bank PLC – including Smile
Provision of Basic Banking Facilities under the Banking Service Framework	Svenska Handelsbanken AB (publ)
Provision of Basic Banking Facilities under the Banking Service Framework	CAF Bank Limited
Provision of Basic Banking Facilities under the Banking Service Framework	Clydesdale & Yorkshire Bank

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