

**RESTRICTED: COMMERCIAL AND MANAGEMENT
NOT TO BE CIRCULATED OUTSIDE OF INVESTMENT REVIEW
COMMITTEE**

**Post Office Quarterly Review
4:30pm, 13 August 2012**

Attendees:

Anthony Odgers
Craig Lester
Will Gibson
Mark Russell
Roger Lowe
Tim Mcinnes
Emily Cloke
Lauren Spurr (minutes)

Issues discussed:

1. Bank of Ireland contract: A joint venture was in place between Post Office Limited ("POL") and the Bank of Ireland, which was due to terminate in 2020. Certain aspects have been renegotiated, with the existing JV structure collapsed into a bilateral contractual relationship. New terms include an extension of the contract life by 3 years and an increase in commission rates accruing to POL. In addition, enhanced termination rights were renegotiated allowing POL to terminate if Bank of Ireland capital ratios fall below a certain percentage.

Approximately £5m of incremental income generated would be invested by POL in staff training (e.g. compliance) and enhanced selling capabilities.

ShEx is supporting POL to strengthen its engagement with HM Treasury, the FSA and the Bank of Ireland in relation to financial services activities, and a dialogue has commenced.

2. Government Services: It was explained that one of the biggest risks to achieving POL's business plan would be delivering the required growth in Government Services revenue. It was intended that before 2014/2015, POL would generate £100m of new revenue from government services. POL's tender for the DVLA contract was discussed, and the impact this could have on POL's pipeline and ability to successfully bid for future contracts. The successful bidder would be notified in mid September (though the formal announcement would not take place until October due to a 2-week "cooling-off period"). If POL was not awarded the DVLA contract, POL management were looking at other options to mitigate risk to the plan

(for example, implementing a redundancy programme, and more aggressive re-franchising).

The ShEx team had regular meetings with management set up to discuss the pipeline of potential opportunities in relation to government services. The weighted pipeline of opportunities was c.£250m. The business development function is managed by Richard Guttsall, the sales director for Government Services, who is supported by a team of newly appointed relationship managers and proposition developers.

It was noted that the board could develop its expertise in strategic marketing to further develop opportunities in government services and it was queried whether a new NED could be appointed with skills in this area. A sub-group of the board to focus on government services would also be beneficial.

3. Board: The ShEx representative, Susannah Storey, has noted that she is gaining traction with other directors and that the board is generally running well. Capability in certain areas could be enhanced.

The senior management team was good at defending revenues and managing costs. Delivery of future revenue milestones would indicate the ability of the executive team.

4. Crown strategy: POL has moved from a strategy of managing a declining business to a growth strategy. By March 2015, the aim is to eliminate £40m of losses across 5 key pillars. Savings are likely to come from employee efficiencies and redundancies, a property “bottom-up” review and from franchising. It was noted that out of 373 Crown properties, there might be 50-70 opportunities for franchising.
5. Other commercial developments: A key element of POL’s network transformation programme is extending opening hours. The prospect of extending hours was a non-negotiable for branches as this was a term of their contract. It was noted that opening hours in many branches were not currently commercial, as some close at midday during the week.

Mutualisation was discussed. POL will take the lead on coordination and in assessing options, with ShEx closely involved. The work is at an early stage, and the stakeholder engagement process will begin in September, to define the “public benefit purpose” of the Post Office. It was noted that the workstreams should include defining what the stakeholders will be members of and who the stakeholders will be. Further ShEx resource may be required to assist POL. Existing legislation would allow POL to mutualise. It was agreed that mutualisation would be discussed in greater depth at the next POL review.

Actions for the ShEx team:

6. At the next POL review, items for further discussion include the financial figures, KPIs, the pipeline and remuneration. The ShEx team will also provide:
 - Figures around size of potential liability of Bank of Ireland contract.
 - Any further information arising in relation to potential mutualisation.

An ExCo discussion on POL over the next two-three months would also be beneficial.