

## Shareholder Executive Overarching brief

### KEY FACTS

The Shareholder Executive (ShEx) ensures the Government is an effective and intelligent shareholder in its part or wholly-owned businesses and manages Government's interventions in the private sector to secure best value for the taxpayer. ShEx is part of BIS but operates across Whitehall, currently with nine Departments. Most work, apart from BIS, is for DECC and DfT.

ShEx provides a governance role for over 20 organisations, typically organisations that have commercial characteristics. These range from Post Office Ltd and the Nuclear Decommissioning Authority to Royal Mint and Companies House. In the governance role ShEx provides advice to the SoSs of the Departments for which it works on board appointments, business and finance plans, corporate strategy and business transformation. Typically a member of ShEx will sit on the board of the organisation.

**Anna Soubry** is the Minister responsible for the Shareholder Executive. **Baroness Neville-Rolfe** is the Minister for postal affairs which includes responsibility for Post Office Ltd.

### Post Office

### KEY FACTS

Post Office Ltd (POL) is one of the largest retailers in the UK, operating a network of around 11,700 branches. More than 18 million customers – including c.30% of UK small businesses – visit each week. It separated from Royal Mail in April 2012 and now operates as an independently managed and governed business. It is wholly-Government owned.

In 2013-14 POL generated a pre-subsidy revenue of £867m, made up of Mails and Retail (c.45%), Financial Services (c.32%), Government Services (c.13%) and Telephony and Other (c.10%). Over the same period it generated an operating loss of £93m or, including £200m subsidy, an operating profit of £107m.

POL is funded by Government to maintain a network above an optimally commercial size (i.e. subsidy) and to invest to transform that network to make it more efficient and thereby less reliant on taxpayer support (i.e. Investment Funding). This is State Aid – the funding to 2018 has been approved by the European Commission.

Of the c.11,700 branches just 330 are owned and operated by POL; these are known as Crown branches. The remainder are sub post offices operated by independent businesspeople (sub-postmasters) or large retailers (e.g. WH Smith and Tesco).

POL directly employs around 7,000 people and is responsible for the employment of up to 30,000 more (i.e. sub-postmasters' and retailer partners' employees). Around 1,500 direct employees work in POL's "supply chain" which is responsible for moving c.£24bn each year of cash and coin to support POL's branches. It is the third largest cash logistics operation in the UK.

### BIS's ROLE

ShEx has a dual role in relation to POL. Firstly, it represents Government as POL's shareholder and has a position on the Board. Secondly, it acts as a voice/guide for POL

within Government (e.g. on political and commercial issues, where appropriate) and it maintains relationships with key Departments such as HMT, Cabinet Office and DWP.

POL's operations and Government policy and funding apply to the whole of the UK.

## **POLICY ADVICE**

### **Management**

POL's Board Chair, Alice Perkins, announced her resignation in January, effective from July. A process to recruit her successor is underway and the selection panel have agreed their shortlist of candidates to interview. As this is a Ministerial appointment we will need early approval to continue this process and will provide advice.

POL's Senior Independent Director, Neil McCausland, is due to step down in September when his term ends.

POL's CEO is Paula Vennells – she will write to you shortly and we recommend you meet her in the next couple of months.

### **Stakeholders**

The National Federation of SubPostmasters (NFSP) is the representative body for sub-postmasters and is recognised by POL to negotiate on their behalf. Around 6,000 sub-postmasters are NFSP members. The general secretary, George Thomson, will be keen to meet you in the next couple of months.

POL's directly employed personnel – predominantly Crown branch and supply chain staff – are represented by the Communication Workers Union (CWU) and Unite Communication Managers Association (CMA).

### **Network**

POL has funding to deliver Network Transformation (NT), a 6-year strategy to modernise the c.11,400 non-Crown Post Offices. Thousands of post offices are receiving investment to extend opening hours and improve branch environments, making branches more viable and, importantly, allowing POL's costs to be varied and reduced. Since implementation began in 2012 over 4,000 branches have been transformed, a further 1,000 have signed contracts to do the same and an additional 1,500 are engaged with NT in some way.

A further 1,500 branches have resisted sustained effort by POL to engage them. To ensure NT can be completed on time and on budget, POL will, in June, inform these branches of a change in contract terms unless they engage in the process. These are predominantly successful branches in high-footfall retail premises with average annual turnover of £640k. The change withdraws fixed remuneration of c.£10k per branch per year and comes into effect in January 2016. POL believes this move would not impact branch viability or customer experience. Further advice will be provided in due course.

Finally, over 3,000 branches are classified as "Community Branches" (e.g. the last shop in a community – usually rural or urban-deprived areas), which would be unsustainable if they transformed (i.e. due to the impact of certain changes in contract terms triggered by transformation) and are exempted from NT. This means they will continue to receive a fixed payment to keep them running, and they can also benefit from a £20m branch improvement fund, which will ensure they are secure for the future – meeting the manifesto commitment to "secure 3,000 rural post offices".

## Services and Long Term Strategy

POL's long term strategy is focused on reducing its reliance on taxpayer support through growing the business, reducing costs and modernising its activities.

Mails is a key source of revenue: POL offers Royal Mail products exclusively in its branches under a 10 year commercial contract agreed in 2012. In financial services POL is seen as one of the leading challengers to the High Street banks. POL has been working with the British Bankers Association (BBA) to standardise the counter services product it offers to High Street banks (e.g. cash withdrawals and deposits). Further negotiation between POL and BBA, including on commercial terms, is expected over the summer.

Government Services revenue is declining, mainly due to contracts being won on less favourable terms and customers' increasing switch to digital transactions. Government cannot legally award contracts directly to POL, although POL have won a framework contract with Government already in use by several departments.

## EARLY DECISIONS

- We need your approval as soon as possible to continue the appointment of the POL Chair and will provide full advice including details of the shortlist.
- There are two other main issues for the short-term:
  - **Network transformation** is a 6-year programme to transform both individual branches (e.g. modernisation and investment) and the contract terms of subpostmasters (e.g. removing fixed remuneration). POL has made good progress since 2012 but will soon need to take more active steps to maintain momentum and complete transformation of the whole network. We recommend you take early briefing on this matter.
  - A small but vocal number of mostly former-subpostmasters have raised concerns about **POL's Horizon IT system**, which they claim has caused their businesses losses. Over two years' worth of independent investigation has found no systemic faults in Horizon and there is a mediation scheme to consider individual cases, but campaigning and media interest persists. We recommend you receive additional briefing on this matter.
- We recommend you receive further briefing on POL and propose to meet you in person to discuss the key issues in more detail. We are happy to provide any additional written briefing ahead of a face-to-face meeting that would be helpful.

## KEY CONTACTS

<b>Mark Russell</b>	Chief Executive, Shareholder Executive
<b>Richard Callard</b>	Executive Director, Post Office
<b>Tim McInnes</b>	Financial services, mails & retail, POL's financial performance
<b>Laura Thompson</b>	Government services, Horizon, Chair recruitment
<b>Michael Dollin</b>	Network transformation, relationship with NFSP
<b>James Baugh</b>	POL funding, PQs, correspondence, FOI