

Agenda for Shareholder Executive Board Meeting

Wednesday 11 July 2012 (15.00 – 18.00)

Item	Indicative Timing	Agenda Item	Papers
1.	10 mins	Apologies for absence, Chairman's welcome and introduction, minutes from last meeting, declarations	-
2.	40 mins	Chief Executive's Report	(12)16
3.	30 mins	Cabinet Office / Commercial Models	(12)17
4.	30 mins	Green Investment Bank	(12)18
5.	30 mins	Royal Mail and Post Office Ltd	(12)19
6.	10 mins	Any other business	
-		Close	

[2h 30mins total]



Commercial – In Confidence

Minutes of Shareholder Executive Board

Wednesday 11 July 2012 at 15.00

Members present:	Patrick O’Sullivan (Chair) (PO’S) Claudia Arney (CA) Lord Carter (LC) Gerry Grimstone (GG) Jeremy Pocklington (JP) Tony Watson (TW) Stephen Lovegrove (SL) Anthony Odgers (AO)	Attendees: Roger Lowe (Item 6) (RL) Secretary: Peter Batten
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1. Apologies for absence, Chair’s welcome and introduction, minutes from last meeting, declarations of interest

- 1.1. The minutes of the previous meeting were discussed. PO’S noted an additional action from the previous meeting, TW observed that the Board NEDs had met following the May Board meeting, and that there were no matters arising.
- 1.2. There was a brief discussion about the impact of the recent Libor rate-fixing scandal. It was felt that there may be an expectation for ShEx to become more involved. SL noted that ShEx resource, particularly those with corporate finance expertise, could be reallocated in a supportive capacity to HMT if required.
- 1.3. JP and TW voiced concern over the impact that low growth could have on ShEx businesses. However, GG suggested that the market may be prepared to pay a premium for low volatility assets, such as ShEx businesses.

2. Chief Executive’s Report

- 2.1. SL presented the Chief Executive’s report. On resourcing, it was noted that interviews for the IE Director were due to start imminently. SL noted that once appointed, the new Director would join the Board. An outstanding action awaits their arrival.

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3. Government Lead NEDs Annual Report

3.1. GG (declaring an interest as lead NED at MoD) commented that the lead NEDs had been effective, but success was dependant on the level of support and quality of Chairmanship offered by a department's SoS. Citing experience from MoD, GG noted that the MoD Board meets monthly.

3.2. TW suggested that ShEx could engage lead NEDs to facilitate cooperation with other government departments. GG agreed and noted that **[action]** SL or the BIS SoS should seek to address a NED conference. SL noted his support for this suggestion.

3.3. Turning to the report, PO'S noted the importance for ShEx to ensure compliance with the five pillars (Strategic Clarity, Commercial Sense, Talented People, Results Focus and Management Information) identified in Lord Browne's review. SL observed that he is meeting Sir Bob Kerslake in the near future to understand how ShEx is placed in relation to Kerslake's Civil Service Reform Plans. **[action]** SL also agreed to speak to Lord Browne.

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6. Royal Mail

- 6.1. RL joined the meeting, noting key developments including end year results that showed the business had performed ahead of budget. RL explained that this was largely due to a slower decline in volume levels than forecast. RL also noted that the business had largely completed the modernisation of its sorting offices, with efficiencies being achieved through greater automation.
- 6.2. RL noted that ShEx had received the company's revised business plan and was seeking clarity over the figures and whether the plan was stretching enough, particularly in meeting targets to modernise the delivery office network. Discussing pensions, RL noted that the transition and subsequent asset realisation had been executed very professionally.
- 6.3. The Board noted that the Royal Mail Chairman had recently been appointed Chairman of Sage. **[action]** The Board expressed its desire for SL to discuss the importance of taking the business through its continued modernisation, and preparations for a sale with the Chairman, and to rationalise his Chair portfolio.

7. Any other business

- 7.1. Board members noted the Chairman's recent letter to SoS on ShEx businesses remuneration processes, commenting on its sensible purpose but questioning whether it would be politically palatable. SL explained that the purpose was to secure a mandate to further explore options.

8. Actions

Completed actions				
Agenda Item	Action point	Action officer	Due date	Status
	Update on BNFL	Peter Batten	Sept 2012	Oral update at Board
3.3	SL to contact to Lord Browne	Stephen Lovegrove	Sept 2012	Completed
5.5	IRRELEVANT	Anthony Odgers	Sept 2012	Oral report at Board

Outstanding actions				
Agenda Item	Action point	Action officer	Due date	Status
	Director of Information Economy, (when appointed) to discuss strategy.	Peter Batten	Nov 2012	Pending (see paper (12)16)
3.2	SL/SoS to address Government NED conference	Stephen Lovegrove	Late 2012	Pending
4.2	Paper detailing GIB governance and accountability	Anthony Odgers	Sept 2012	Oral report at Board, paper in Nov following agreement with GIB CEO
6.3	SL to speak to Donald Brydon regarding his Chair portfolio	Stephen Lovegrove	Sept 2012	Pending (see paper (12)19)

ShEx Board Secretary

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Chief Executive's Report – ShEx Board 11 July 2012 (12)16

Board action: To note

This paper updates the Board on current key areas of work in ShEx. There are separate papers updating the Board on the Cabinet Office Commercial Models, Green Investment Bank, and Royal Mail and Post Office Ltd.

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2 Plans for ShEx Chairs' event

Organising the second Chairs' event for ShEx businesses

- 2.1 The first ShEx Chairs' event, held on Tuesday 17 April, chaired by Lord Green and attended by the Chairs of 17 ShEx businesses was a success. We are in the process of organising a second event in the autumn, and are proposing to hold a roundtable discussion and drinks reception, hosted by the Secretary of State, at a Westminster location on 7 November.
- 2.2 The format will be similar to the first event, albeit with a slightly longer (90 minutes) and more structured discussion. We envisage that the Secretary of State will open the discussion with a topical business policy area and may comment on remuneration in light of the letter sent to the Secretary of State by Patrick O'Sullivan with input from the Chairs.
- 2.3 We are contacting the Chairs in the first week of September to inform them of the date of the event and to ask for suggested agenda items for the roundtable discussion in order to make it as useful and informative as possible. Once we have received feedback we will confirm the agenda and send out formal invitations, including, this time, to members of the ShEx Board.
- 2.4 We are expecting the Chairs to be interested in the Government's plans for industrial policy. Items on the agenda may also include a response on remuneration policy and current thinking on how to rebuild public trust in markets through ethical business and improved corporate governance.

- 2.5 Other feedback from the first event included appreciation of the opportunity for Chairs to get together and discuss potential areas for collaboration. The main points discussed at the first event concerned growth strategies of ShEx businesses and issues around remuneration policy. This resulted in a letter being sent by Patrick O'Sullivan (with input from all Chairs) to the Secretary of State setting out proposed changes to the Government's policy on remuneration.

3 Information Economy and Cyber Event

The Information Economy Directorate became part of ShEx on 8 May. Consisting of 23 posts (and growing), the responsibilities of IE can be divided into three areas: Cyber Security; Resilience and International; and supporting the Digital Sector. We have identified an exceptionally well qualified Grade 3 (Ken McCallum) to lead the work, and the recent Cyber Protection launch – basically organised by ShEx – was deemed a great success.

Cyber Security

- 3.1 The 2011 Cyber Security Strategy sets out how the UK will support economic prosperity, protect national security and safeguard the public's way of life by building a more trusted and resilient digital environment. BIS, working closely with the Cabinet Office, Intelligence Agencies and OGDs, leads on the following three work strands:
- Making it safer to do business in cyberspace where our objective is to make the UK one of the most secure places in the world to do business.
 - Extending Knowledge - building a coherent cross-sector research agenda
 - Enhancing Skills - building a culture that understands the risks and enables people to use cyberspace and improving cyber security skills at all levels.
- 3.2 IE played a major role in the recent publication of Cyber Security Guidance for Business, aimed at senior representatives of FTSE 100 companies, and launched on 5 September. The guidance offers advice to business on measures to increase their cyber security. IE has also reached out to specific sectors such as ISPs, retail, professional business services and universities to help raise awareness of the risks and explore mitigation measures. IE has also been implementing policies to boost cyber security capability within the post-grad, PHD and general research community.
- 3.3 IE has developed a strategy to address the barriers to growth of the UK's cyber security supply sector – including the formation of a cyber security cluster along the 'M5 corridor' – an approach we plan to adopt in other regions. We are also involved in discussions concerning supply chain issues relating to China.

Resilience and International

- 3.4 Work is underway to review and refresh the key risks to the UK telecoms sector. This work will inform policy options that BIS will take forward to improve security and resilience in the telecoms sector. As part of IE's lead for BIS in cross-Government civil contingency, resilience and counter-terrorism activities, work was also undertaken to ensure that BIS was effectively plugged into HMG's Olympics emergency response arrangements.
- 3.5 Internationally, there are currently two key work streams: the World Conference on International Telecommunications in December will see the renegotiation of the International Telecommunications Regulations. DCMS lead but BIS has a strong interest in several of the issues, principally amendments in the cyber security area and we are working to protect BIS interest; and the European Commission are proposing a regulation on network security which is likely to include measures such as introducing mandatory security breach disclosures for businesses – to which we are opposed. We are developing a robust negotiating strategy to influence this.

Supporting the Digital Sector

- 3.6 The Digital Sector team supports future and emerging technologies and the online economy as drivers for UK growth. IE are the sector experts in HMG on Software & IT services, digital communications equipment and the online economy and maintain the necessary strategic relationships with key companies.
- 3.7 The Information Economy sector is a 'horizontal' sector in the department's Industrial Strategy. SoS wishes to highlight the need for growth in this sector as an essential driver for wealth and job creation across the economy. Work to establish a Technology Council is also underway. The Council – if adopted by Ministers - will be chaired by the SoS and an industry representative and will shape HMG's strategy to towards the digital sector. IE were also instrumental in the successful delivery of Creative Industry Council (joint BIS/ DCMS SoS Chaired) with policy options emerging aimed at improving access to finance, skills and growth for the sector. Forward look and challenges

Forward look and challenges

Cyber Security

- Agreeing and delivering a programme of work on standards;
- Developing policies on benchmarking cyber capability;
- Implementing a measurable behaviour change campaign; and
- Implementing the sector growth strategy.

Resilience and International

- Limiting the extent of proposed EU regulation in the cyber security area; and
- Ensuring a successful outcome of WCIT.

Supporting the Digital Sector

- Development of a sector specific growth strategy for the Digital Sector which will set out how the UK's digital economy can contribute to growth using the productivity of UK's technology base, ICT skills and R&D base.

4 Private Rental Taskforce proposal

- 4.1 There has recently been an approach by Peter Schofield, now DG for Housing at D/CLG, and Adrian Montague, for ShEx to incubate a small 'taskforce' to kick start the connections between investors, developers, and local government to allow for the construction of more rental housing. The need for such a taskforce has been identified by Adrian in his, as yet unpublished, review of the private rented sector. We are proceeding with caution.

5 BNFL

- 5.1 Verbal update to be provided at the meeting.

6 Ministerial Reshuffle

- 6.1 Key points from the reshuffle are as follow:
- The expected new ShEx Minister is Michael Fallon.
 - Our portfolio is split as follows:
 - i. Royal Mail and PDG assets – Michael Fallon
 - ii. Post Office Ltd – Jo Swinson
 - Lord Marland, previously in charge of Urenco at DECC, is now a BIS Minister. He aims to keep oversight of Urenco at BIS, whether he is successful remains to be seen.

7 Other

- 7.1 We continue to be approached to undertake more work around Whitehall. The two potentially most significant projects are:
- DfT – Roads
 - BIS – Creation of an industry bank
- 7.2 It is unclear whether either of these will actually materialise meaningfully. However, if they do, there will be real resource challenges.

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Cabinet Office Commercial Models – ShEx Board 11 July 2012 (12)17

Action for Board: To note

Summary

- A new Commercial Models team has been created in ERG (Cabinet Office) with a mandate to examine ownership models across all central Government Departments.
- Driven initially by the mutualisation agenda the team is now keen to consider the full range of operating and ownership models for government activities, from outsourcing through GoCos, GovCos to full sale.
- There is some potential for confusion with the ShEx role and mandate.
- While currently not causing any major concerns, ShEx will need to monitor the evolution of this activity carefully, particularly if the addition of strong political backing provides it with real momentum.

Background

1. The ERG unit within Cabinet Office now has a team focusing specifically on challenging existing models of service delivery and examining whether alternative models would more effectively drive improvements in the delivery of public services. This unit is one of six major directorates in ERG (the others being Procurement, Major Projects, Digital Delivery, ICT Futures and Strategy). It is viewed by Cabinet Office as a key part of Civil Service reform, and was a significant feature in the CS Reform Plan launched in July.
2. The new team defines its role as follows:
 - Identifying where a change to a commercial model will best deliver the reform objectives of reducing costs, improving delivery and stimulating growth; and
 - Providing commercial expertise to implement any selected change to the commercial model.
3. The team is led by a newly-appointed ex-Rothschilds banker, Ed Welsh. It is still thinly resourced, with a combination of ERG's former OGC civil servants and a number of externally recruited, but part time 'Crown Commercial Leads'.

4. Although initially focused on the Mutuals agenda, the remit of the Commercial Models team has expanded to look at the full range of different ownership models (outsourcing, JV, GoCos, GovCos, etc). The team has a mandate from MCO for identification, execution and ongoing shareholder oversight. As such there is the potential for considerable overlap and/or confusion with the ShEx mandate. This confusion has already been evident with several departments, notably MoD and DfT.
5. The pipeline of opportunities is currently quite short (see Appendix for the position as at July). Of the current pipeline, the only situation relating directly to ShEx is POL, where the ERG team has met the ShEx POL team, but acknowledged they have no direct involvement. The majority of other situations under consideration remain small and are unlikely to be assets with which we would normally want to be involved. However, following a series of high level bilateral meetings between MCO and all major Departmental Secretaries of State it is possible that the pipeline will be significantly boosted. All departments have been tasked with providing two major prospects to the CM team by October.
6. Following the significant difficulties experienced by Cabinet Office in securing HMT approval to the ground-breaking MyCSP 'mutual JV' transaction (in which ShEx played a delicate, behind-the-scenes role) and subsequent meetings between senior CO and HMT officials, a new group has been established to ensure effective and collaborative working on new commercial model proposals. ShEx has been invited to join this group, turning it into a tripartite body. It has met once so far, to agree an operational framework and to review an early activity pipeline. The next meeting is scheduled for 18th September.
7. The NAO wrote to Cabinet Office following the My CSP difficulties setting out its concerns about the way 'mutualisations' are appraised. Their concerns will be equally valid in the consideration of other forms of new commercial models.

Implications for ShEx

8. As well as ensuring that the opportunity for confusion with the ShEx role is limited, ShEx needs to continue to monitor the evolution of this activity. While our direct assistance may be needed to execute larger transactions that are identified we also need to guard against the development of a 'shadow ShEx' unit within ERG, armed with the same portfolio and corporate finance capabilities. The likelihood of this is considered remote at this stage.
9. The situation also offers us an opportunity to strengthen our relationship with HMT in the way that we were able to do on My CSP. HMT have been keen to use ShEx as a means of reinforcing messages around options appraisal and vfm.
10. At present, ShEx is reasonably well-sighted on the emerging thinking and plans of the new commercial models team, both informally through good working relationships and formally through PEX(A) and our membership of the new tripartite body with HMT and CO.

Key Next Steps

11. We will maintain a close watching brief, through involvement in the tripartite body, on this activity and report back with any significant developments.

Mark Boyle
June 2012

Project Dashboard (1)

Project Title	Dept	Class	Status update	Next steps	Milestones	Metrics	CMT Leads	HMT Leads	ShEx Leads	Dept Leads
Transactions										
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Project Dashboard (2)

Project Title	Dept	Class	Status update	Next steps	Milestones	Metrics	Commercial Models team	HMT Leads	ShEx Leads	Dept Leads
Commercial Support										
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Project Dashboard (3)

Project Title	Dept	Class	Status update	Next steps	Milestones	Metrics	Commercial Models team	HMT Leads	ShEx Leads	Dept Leads
Commercial Support										
IRRELEVANT										
Post Office	BIS	Mutualisation	<ul style="list-style-type: none"> Working with ShEx and POL to explore options 	<ul style="list-style-type: none"> Strategic options discussed 		<ul style="list-style-type: none"> 8000 employees £1.34bn funding over SR period 	<ul style="list-style-type: none"> Ed Welsh Andreas Georgiou 	<ul style="list-style-type: none"> Victoria Edmonds 	<ul style="list-style-type: none"> Katie Wake Will Gibson 	<ul style="list-style-type: none"> Katie Wake Will Gibson

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Royal Mail and Post Office Ltd update – ShEx Board 11 July 2012 (12)19

Board action: To note

This note provides an update to the Board on the Royal Mail and Post Office and a number of items, particularly regarding governance for discussion.

Summary

- **The primary remaining success factors in achieving our strategy are Management's delivery of a robust business plan (from which we can commence a sale process) and successful resolution of regulatory risks.**
- **Key developments since the last update are:**
 - Ongoing diligence of the **draft refreshed business plan**. Our provisional ShEx view is that there is limited scope to change the plan and that it is broadly acceptable in delivering the margin and cash progression necessary to support a transaction. However, we are seeking additional analysis from Management on alternative performance scenarios (including outperformance and downsides), such that we can assess sale options across a range of credible outcomes.
 - Continuing threat from **End to End** competition. We are pushing Royal Mail to provide Ofcom with a robust evidence base of risks to the Universal Service ahead of anticipated public guidance from the regulator, expected in October. We are also considering options for further Ministerial engagement.
 - Management are currently preparing for a range of key discussions with **unions** which will cover a pay deal (term to be decided upon), modernisation and also possible reforms to the ongoing Royal Mail pension plan (to reduce the ongoing risk to RM). The outcome of these discussions will be a critical step on the way towards a transaction and so we are monitoring progress closely.
 - Issues regarding governance discussed at the last Board have been complicated by the Chairman undergoing a serious operation, which has delayed an ability to address the concerns raised then.
- **Progress on POL matters has continued:**
 - Full year results (11/12) show an improvement in revenues and profits. This FY has continued in the same vein, with benefits flowing from stamp price rises and revised commission rates from Bol.
 - The Network Transformation programme will ramp up this autumn with POL targeting 1,200 conversions by end March 2013.
 - Success in current DVLA and DWP tender processes will be crucial if POL is to achieve its Front Office for Government ambitions.
 - The Government's mutualisation consultation response was published on 4 July and the next step is the formation of a stakeholder forum to agree on a shared public benefit purpose for POL, the first meeting of which is planned for October.

Royal Mail

Business Plan/ Performance/ Transaction Outlook: The business is performing ahead of budget at Period 4 (July). Ongoing ShEx diligence of the draft refreshed business plan suggests that it is broadly acceptable as a base case to support a transaction; any deal in late 2013 might be a private transaction with an IPO less likely until 2014. We require further analysis of how Royal Mail would react to any unexpected shortfall vs plan (e.g. weaker volumes, falling behind on modernisation etc) to develop a range of up- and down-side performance scenarios.

1. **Period 4 results** (to July 2012) show outperformance against budget, almost entirely driven by revenues. Cashflow is even more significantly ahead.
 - Operating profit of £177m (+£49m to budget, +£66m from PY) is largely driven by £41m of higher revenues to budget (most notably from stronger packets volumes).
 - People costs are on budget; some modest outperformance of non-staff costs of £8m.
 - Free cashflow of £246m (+£155m to budget, +£133m from PY), driven by improved profitability, improved working capital, slower modernisation spend and CAPEX under-spend.
2. We are, with our advisors UBS and Deloitte, undertaking a detailed review of Management's **draft refreshed business plan**. However:
 - Our emerging (provisional) view is that there is limited scope to challenge the plan which is broadly acceptable in delivering the margin and cash progression necessary to support a transaction.
 - Our advisors have stressed the emphasis of the plan on revenue growth (with lower reliance on cost reduction). A key implication of this is that the plan is more sensitive to external factors such as GDP and the pace e-substitution.
 - Given this, we need additional analysis (and assurances) from Management on the range of potential performance scenarios (including both outperformance and downsides). This work will support: i) an assessment of transaction options across a range of credible outcomes and ii) a review of the credible levers available to management to mitigate against any external shocks, which will be important for investor confidence.
 - Additionally, we have identified a need for greater transparency in reporting on delivery of the key elements of the plan (especially modernisation progress), ahead of commencing key decisions on a transaction.

Modernisation: Remains a key risk to our strategy. RM has commissioned a detailed external review of modernisation ambitions and resultant productivity improvement potential

3. The draft refreshed business plan projects a lower pace of hours reduction in the core UK business than previously forecast. The Board's more conservative view reflects a combination of:
 - Slower letters volume decline and stronger packets growth (driving higher workload)

- Delays to rollout of modernisation to Delivery Offices (now focused on quality rather than speed of implementation)
 - Lower and less consistent savings from those Offices undergoing revision (i.e. fewer hours coming out after changes).
4. Latest (period 4) performance data supports this cautious assessment, with hours reduction behind budget.
 5. We have been clear to the business that they must present a credible and ambitious efficiency programme. This is essential to support investor confidence in future margin progression and dividend sustainability. It is also crucial to securing continued regulatory freedom.
 6. Management has commissioned a detailed analysis by PwC of the pace and drivers of the modernisation of the Delivery Offices. This will be critical in validating the rate of modernisation in the latest business plan. Initial findings are due later in September.

Regulation: Awaiting publication of more detailed guidance on 'End-to-End' from Ofcom in October.

7. Ofcom published a "holding" report on end to end in July. This flagged that there was no evidence currently to justify intervention on end to end (specifically TNTs stated expansion of its direct delivery trials). Whilst Ofcom were careful to stress that they would intervene if new evidence emerged, this is clearly less clear than we would prefer.
8. Ofcom intend to issue more detailed guidance in October on how they are assessing the potential risks to the Universal Service from end to end; and how they will consider options to mitigate this (including both "self help" by Royal Mail and regulatory intervention).
9. We are pushing Royal Mail to provide Ofcom with a robust evidence base of risks to the Universal Service, ahead of the regulator preparing this guidance. Specifically we have asked that they further validate the potential detriment to the Universal Service; and evidence the limited ability of the business to "self help" (through further cost savings or commercial responses).
10. We will engage with Ofcom at the end of September, following RM's submission of this evidence. We are considering how to deploy Ministers ahead of the Ofcom Board's review of the guidance.

State Aid: Reporting to Commission commencing, contingency planning for a challenge.

11. We will be submitting the first report to the Commission on Royal Mail's progress in implementing the Restructuring Plan this month. The March Decision required annual reports on progress, with the first being requested by the Commission this September. We expect this to be a formality from the Commission's perspective, but we are working with Royal Mail to ensure that variances from the Restructuring Plan are adequately explained.
12. We have learnt that PostNL (TNT Post) will likely not be challenging the Commission's Decision (although the official two month challenge period will not start until the Decision has been published in the Official Journal, despite it being available already on the DG Comp website). Nevertheless, we are undertaking contingency planning in anticipation of a challenge from other interested parties, which contemplates possible lines of attack, our defence, the level of work involved, and timescales (and how these might impact a transaction).

Pensions: Smooth operation of newly created Govt pension scheme; good progress on asset realisation.

13. The new Government pension plan which started operation in April is working well. This scheme pays out in the region of £100m per month to c180,000 pensioners. We are currently conducting a review into whether the management of this plan can be transferred to the team in Cabinet Office who manage the Principal Civil Service Pension Scheme. In any event line management responsibility is scheduled to transfer from ShEx to BIS Finance on 1 November. Given the scheme is now up and running this is considered a better home within BIS for the team running it.
14. The project to sell down the c£27bn of assets which transferred to Govt is progressing well. By the end of the year we expect only perhaps £4bn of assets to remain. This will mostly consist of less liquid assets which will likely be held for a longer period (ie private equity, property and high yield). All of the liquid assets and the significant derivative positions have now been realised / wound down.
15. We have continued to focus on 'crossing opportunities' ie private trading with counterparties (and so saving the spreads that would otherwise be payable in open market transactions). Approx £3.4bn of the liquid assets (mainly bonds) have been crossed to date (approx 30% of the assets which have been sold) with estimated savings to date of around £65m.
16. The pension project will conclude with a final transfer of assets from the Royal Mail pension plan to Government once actuarial calculations are complete. This will be in the order of £800m (mostly cash) and will likely transfer in early October.
17. Royal Mail themselves are currently considering their options to manage the risk associated with their ongoing pension scheme. This will be a key lead item in terms of preparing the business for a transaction.

Industrial Relations: Remain stable; key forward negotiations due to commence imminently

18. IR at Royal Mail remains stable with no imminent strike threats.
19. Management expect to commence the detailed negotiations for a new pay and (further) modernisation agreement over the coming weeks. This is an acutely sensitive area covering pay, redundancy, pensions and changes to working practices. It is also crucial to supporting the business plan and providing cost flexibility to cope with any downsides. Management have committed to keeping us fully informed as these discussions progress.

Board and Management & Remuneration: Generally good relations, with some give from Remco on 2012 bonuses and sensitive handling of pay disclosure

20. Relations with Board and Management remain relatively good.
21. The Chairman underwent a reasonably serious operation in July and is still recovering. The Chairman's other roles discussed at the previous Board meeting is still an important issue. This has been further highlighted by the retirement of Lord Currie from the RM Board and we need to consider how best to handle his replacement. We expect to be able to re-engage with the Chairman soon.

Post Office Limited

POL is focusing on implementing its strategic plan – key elements of which are Network Transformation and growing new revenues.

1. **Board:** POL has identified a final NED (Tim Franklin) for the POL Board, and ShEx officials have recommended his appointment. The decision is currently with Ministers. Tim has expertise in financial services, having been CEO of Britannia and then COO of Co-operative Bank. He also already sits on the Land Registry Board. In late August, POL's HR director left the business (for performance reasons). Her role will be restructured and split between the Network Director and the General Counsel.
2. CST approval for technical changes to Paula Vennells' 10/11 and 11/12 LTIP were approved over recess, and ShEx officials are now finalising STIP and LTIP proposals for FY12/13 for the CEO and FD.
3. **Performance:** Performance (unaudited) continues to be strong, with YTD (four months to July) operating profit of £38.3m (£1.8m above budget). This is largely due to strong mails performance, and lower costs, partially offset by revenue underperformance in Financial Services due to the delay in signing the renegotiated contract with Bank of Ireland. This is now signed, and Financial Services performance is expected to improve during the rest of the year.
4. Year to date net revenue is £306.1m (£5.3m favourable to budget and £11.2m favourable to prior year) with the revenue uplift driven by strong mails and retail which is £8.4m favourable to budget YTD (e.g. due to higher stamp sales in anticipation of the stamp price increases in April, and strong retail and collectibles performance). This stronger divisional P1-P4 sales performance is however expected to unwind during the latter part of the year as customers reduce stamp "stockpiles" accumulated ahead of the price increase.
5. **Network transformation:** POL's pilot of the new Local and Main operating models continues in over 230 branches. Following agreement with Consumer Focus and the National Federation of SubPostmasters, national rollout is scheduled to begin on 1st October. The new models operate on a wholly variable pay basis and offer significant customer service benefits including longer opening hours. Customer and operator research shows the new models are generally well received. POL is committed to 1,200 branches operating the new models by March 2013, and around 6,000 by March 2015.
6. **Key revenue opportunities:** POL is currently bidding for a DVLA 'front office' contract for a suite of services, which could be worth approximately £20m pa in additional income for POL (based on estimate from the procurement ITT). POL is now in the competitive dialogue phase, with a decision now expected in mid October – although timings may slip due to the reshuffle. POL is also bidding in a DWP procurement for the provision of Identity Assurance services for DWP in relation to Universal Credit. POL has recently signed a new contract with Bank of Ireland for its financial services business, which will deliver better commission rates and greater potential for sales growth.

7. **Mutualisation:** The Government's mutualisation consultation response was published on 4 July, and has been positively received by stakeholders. It seeks to foster a mutual culture within the business as a pre-requisite to any ultimate transfer of ownership along with the commercial sustainability of the business. The first step will be convening a stakeholder forum to agree the shared public benefit purpose of POL. Its first meeting is scheduled for 16 October. ShEx is working closely with POL in setting up the forum, which officials will attend.

**Royal Mail and Post Office Network Teams
September 2012**