

## Agenda for Shareholder Executive Board Meeting

Wednesday 13 November 2013 (15.00 – 17.55)

Item	Indicative timing	Agenda item	Papers
1.	10 mins	Apologies for absence, Chairman's welcome and introduction, minutes from last meeting, declarations	-
2.	45 mins	<div>IRRELEVANT</div> <ul style="list-style-type: none"> <li>Post Office Ltd strategic plan update</li> <li>IRRELEVANT</li> </ul>	
3.		IRRELEVANT	
4.			
		IRRELEVANT	

[2h 55mins total]



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## Minutes of Shareholder Executive Board

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**Wednesday 11 September 2013 at 15.00**

<b>Members present:</b>	Patrick O’Sullivan (Chair) (POS) Claudia Arney (CA) Gerry Grimstone (GG) Jeremy Pocklington (JP) Tony Watson (TW) Roger Lowe (RL) Ken McCallum (KMC) Anthony Odgers (AO) Mark Russell (MR) Ceri Smith (CS)	<b>Attendees:</b> Michael Harrison (PM) ( <i>item 4</i> )  <b>Secretary:</b> Peter Batten  <b>Apologies:</b> Lord Carter
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**1. Apologies for absence, Chair’s welcome and introduction, minutes from last meeting, declarations of interest**

GRO

**2. Chief Executive’s Report**

IRRELEVANT

IRRELEVANT

### 3. Operational update

GRO

3.2. MR explained that once the Business Bank becomes fully operationally independent, ShEx headcount will return to its historic level of fewer than 100. Board noted that it is hoped that the Executive Directors involved in the Royal Mail transaction will be retained following the conclusion of the deal.

GRO

### 4. Student Loans Company (SLC)

IRRELEVANT

**5. Royal Mail transaction**

GRO

**6. Cross Whitehall working**

IRRELEVANT

**7. Women on Boards**

IRRELEVANT

Matters arising				
Action ref.	Action point	Action officer	Due date	Status
13/11	Full Board paper to consider Post Office Ltd commercial strategy.	AO	Sept / Nov 2013	An update in the CEO report is provided in lieu of a full paper due to the nature of the Board meeting.
IRRELEVANT				IRRELEVANT

New actions

IRRELEVANT
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ShEx Board Secretary

## **Chief Executive's Report – ShEx Board 11 September 2013 (13)22**

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### **Board action: To note**

This paper updates the Board on current key areas of work in ShEx.

#### **1 Urenco transaction update**

IRRELEVANT

#### **Post-sale Security and Non-Proliferation (SANP) rights**

GRO

#### **Post-sale structure**

IRRELEVANT

Next Steps

IRRELEVANT

Transaction preparation

IRRELEVANT

**2     Student Loans Company transaction update**

IRRELEVANT

Mortgage Style (MS) Student Loans

IRRELEVANT

IRRELEVANT

Pre-2012 Income Contingent Loans (ICR)

IRRELEVANT

**3      Post Office Ltd strategic plan update**

***The Post Office is meeting the Government's policy requirements regarding the size and accessibility of the network, and has started its network modernisation programme well with interim (2012/13) targets met; but an anticipated slowing in engagement with the programme by subpostmasters is requiring a change in strategy.***

Background

- 3.1      POL is funded by a 4-year £1.34bn agreement for the period 2010/11 – 2014/15. £750m is subsidy to protect provision of post office services across the network of >11,500 branches; and £585m is funding to transform POL and its network.

- 3.2 The most visible element is Network Transformation (NTP), developed in 2010 as a voluntary strategy to transform the network by moving c.10,000 branches to new models (c.6,000 by 2014/15). This was a response to commercial challenges, and sought to make POL more flexible and financially sustainable.
- 3.3 The 4-year funding only enabled implementation of NTP to 2014/15 and the conversion 6,000 branches. It was always envisaged POL would seek funding for a final phase of NTP and for a continuation of the network subsidy.
- 3.4 To date 2,113 subpostmasters have signed contracts to convert their post offices of which 1,287 have opened as new models. Benefits are already emerging.
- POL sales have risen by c.10% and costs are reduced and are more flexible.
  - Subpostmasters benefit from >10% higher retail sales and footfall.
  - Customers see opening hours c.70% longer and better branch environments.
- 3.5 This year conversions have fallen below target and this trend is expected to continue. Subpostmasters are remaining on fixed and higher cost contracts rather than converting to variable pay models (i.e. where more of their income is at risk) due to the uncertain economic and commercial environments being experienced. These environments are weaker than was envisaged in 2010/11.

Proposed changes to NTP approach

- 3.6 POL has been working with the National Federation of Subpostmasters (NFSP) to develop a new approach to NTP, and is close to agreeing a deal. This includes:
- **Completes the transformation of the network by 2017/18** ensuring the post office network is fit-for-purpose and responsive to customers' needs.
  - **Protects post offices that are unviable under the new operating model** (e.g. those in deep rural areas). These Community branches have access to a dedicated £20m investment fund (e.g. to improve layout).
  - **Reduces HMG subsidy funding required by POL** from the £200m it receives today to £70m by 2017/18 (i.e. the end of NTP) and £50m by 2019/20. This reduced subsidy will be focused on maintaining service provision to Community branches (i.e. to ensure access criteria can be met).
  - **Establishes a firm foundation for a mutualisation.** Some workstreams (e.g. cultural change and stakeholder engagement) are underway today.
- 3.7 This new proposal has been assessed by ShEx and KPMG and is considered to be an effective and deliverable strategic plan as it:
- Has NFSP support and a clear strategy to manage possible public concerns.
  - Has a detailed delivery plan, developed by POL, its advisers and the NFSP.
  - Ensures the same commercial and financial objectives are maintained.
  - Reduces HMG funding needed to maintain the network of >11,500 branches.

4 **ShEx Operating Model update**

IRRELEVANT

**Workforce Planner**

IRRELEVANT

**Risk & Assurance Committee**

IRRELEVANT

- 4.4 The R&AC has received very positive feedback from attendees both on the presenting teams and also from members of the committee about how the meetings have helped to provide both valuable advice and challenge to those involved. Feedback from ExCo has also been positive and they feel more sighted on the risks of the different projects being undertaken by ShEx. ShEx is also fully plugged into the BIS risk process which is currently under review and will ensure the outcomes are reflected in any ShEx process.

END



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## Royal Mail transaction – ShEx Board 11 September 2013 (13)23

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### 1 RM sale – potential areas for challenge

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**1. Submission to Secretary of State, Michael Fallon MP and the Permanent Secretary on the 'Royal Mail share price'**

**To:** Secretary of State, Michael Fallon, Permanent Secretary  
**From:** Roger Lowe  
**Date:** 30 October 2013  
**Subject:** Royal Mail share price

**Purpose:**

GRO

**Recommendation:**

GRO

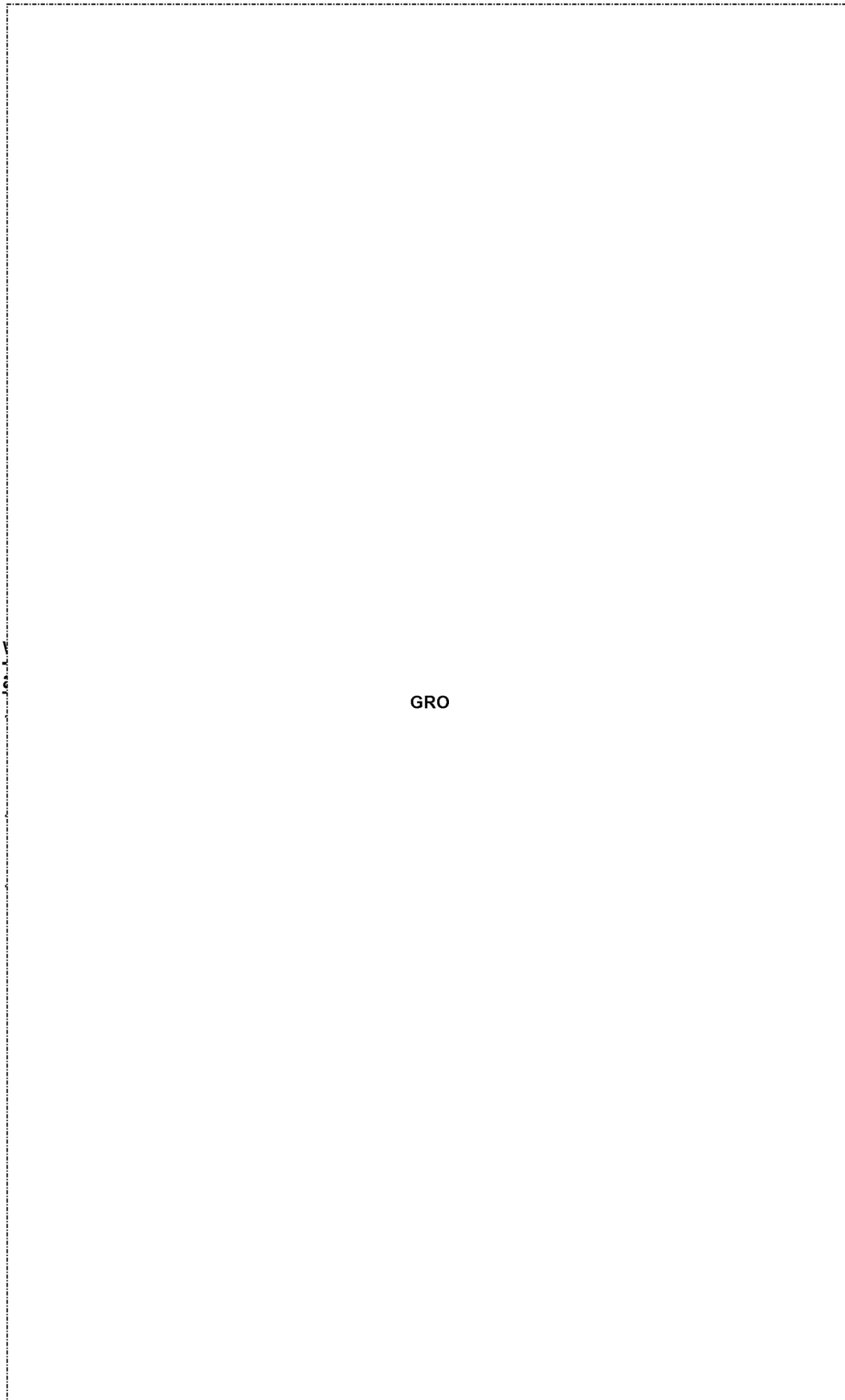
**Timing:**

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**Background:**

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<sup>1</sup> This means range was plus and minus 12% around the mid-price of 295p

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<sup>2</sup> Based on trading multiples, yield and a sum of the parts valuation analysis

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**Annex A to submission to Secretary of State, Michael Fallon MP and the  
Permanent Secretary on the 'Royal Mail share price'**

*(See following page)*

**Annex B to submission to Secretary of State, Michael Fallon MP and the  
Permanent Secretary on the 'Royal Mail share price'**

**Chronology of Decisions**

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**2. ITF discussion materials *[extract]* (9 Sept)**

*(See following pages)*

**3. Lazard – recommendation regarding ITF announcement (9 Sept)**

*(See following pages)*

**4. Offer discussion materials *[extract]* (24 Sept)**

*(See following pages)*

**5. Lazard – offer size and pricing considerations (24 Sept)**

*(See following pages)*

**6. Pricing discussion materials *[extract]* (10 Oct)**

*(See following pages)*

**7. Lazard – perspectives on JGCS’ recommended final price, base offer size and allocation approach (11 Oct)**

*(See following pages)*

**8. Secretary of State letter to Adrian Bailey MP (Chairman of the BIS Select Committee) (18 Oct)**

*(See following pages)*

## **9. Illustrative downside scenario**

*(See following pages)*



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## **ShEx senior management and secession planning – ShEx Board 11 September 2013 (13)24**

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**ShEx Board to note that:**

- 1. This paper includes background details about the six members of the ShEx Executive team, and the 24 Executive Directors.**

### **Executive team**

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## Executive Directors

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