

Paula Vennells
Post Office Limited 148 Old Street
London
EC1V 9HQ

18^c March 2012

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 2012 (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 Secretary of State to Post Office Limited entitled “Entrustment of Post Office Limited with the delivery of certain public services” and dated 24 March 2010 (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 public 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.

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 25 October 2010 (the “**2010 Funding Agreement**”)) to maintain, from the Effective Date until the end of its financial year ending on or around 31st March 2015, a network of post offices beyond its optimal commercial size (the “**Network SGEI**”). That network must number a minimum of 11,500 post offices and also meet the following minimum access requirements:

- 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 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 2010 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 the relevant Government department or body (whether public or private) purchasing the Product SGEI. The delivery of the Product SGEI by Post Office Limited across its network will be governed in accordance with the contractual terms which apply to each service.

Specifically, the Product SGEI are provided under commercial contracts entered into by Post Office Limited and the Government department or body (whether public or private) purchasing the service. In the case of access to postal services, the services to be made available at post office branches are ones 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 66 and paragraphs 4 to 6 of Schedule 9 of the Postal Services Act 2011.

The entrustment of the delivery of the Network SGEI set out in this letter to Post Office Limited therefore does not replace or change in any way contracts and 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 the Government department or body (whether public or private) purchasing the service to provide the Product SGEI. A list of the current individual contracts and agreements held by POL to deliver the Product SGEI is provided in Annex B.

Method of Calculating Compensation

As soon as reasonably practicable following publication of its audited accounts for the Financial Year 2014/15, Post Office Limited will be required to provide, in accordance with the 2010 Funding Agreement, a statement (the “**SGEI Compensation Statement**”). The SGEI Compensation Statement must be accompanied by a supporting statement from an independent financial adviser, to confirm that the aggregate actual amount of the SGEI compensation payments made by the Government to Post Office Limited in respect of Financial Years 2012/13, 2013/14 and 2014/15 under the 2010 Funding Agreement 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 with the provision of a network of post offices of the optimal commercial size (as specified by the Commission Decision under which such SGEI compensation is paid) during those Financial Years. The calculation of those net costs shall include:

1. All variable costs incurred in providing the Network SGEI and the Product SGEIs; plus
2. All fixed costs incurred in providing the Network SGEI and the Product SGEIs; plus

3. A reasonable profit in providing the Network SGEI and the Product SGEIs; less
4. All revenues received by POL from providing the Product SGEIs as well as non-SGEI services.

In each case in respect of the relevant Financial Years.

For the purposes of the calculation above, the fixed costs common to both the SGEIs and other activities of Post Office Limited shall include, without limitation, contributions to pension funds, interest costs, group central cost allocations, capital expenditure, contributions to the cost 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 clauses 5.2 of the 2010 Funding Agreement, in the event that the aggregate actual amount of the SGEI compensation payments made by the Government to Post Office Limited in respect of Financial Years 2012/13, 2013/14 and 2014/15 exceeds the costs incurred by Post Office Limited in providing the network of post offices of beyond its optimal commercial size providing access to the SGEIs during those Financial Years, as calculated in accordance with the above formula, Post Office Limited will be required to repay to the Government, within 10 Business Days of the receipt by Government of the SGEI Compensation Statement, an amount equal to such excess.

It is possible that Post Office Limited may during the period of this entrustment cease to provide a Product SGEI(s), the provision of which over the Post Office network beyond its optimal commercial size is compensated by the UK Government. In those circumstances, the UK Government shall, provided that the provision of the Network SGEI will still be maintained, withhold such proportion of that compensation (if any) which corresponds to the net direct costs of providing that product SGEI.

Yours Sincerely,


NORMAN LAMB

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

Signed by 

for and on behalf of Post Office Limited

Dated 21 March 2012

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 and encashment of benefit cheques. Cash payment of benefits and the issuing of vouchers to eligible asylum seekers. Cash payment of health benefits and the provision of form EHIC benefits	Department for Work and Pensions, Social Security Agency - Northern Ireland, Her Majesty's Revenue & Customs and financial institutions Home Office Department of Health.
2.	Processing of national identity and licensing scheme applications	Providing passport application forms for customers to complete and return to IPS Checking and authentication of passport applications and supporting documentation Providing vehicle licence application forms for customers to complete and return to DVLA, and budget cash savings schemes for licence fees. Receiving payment for vehicle licences and Photocard Licences, and checking Photocard application forms and supporting documentation.	The Identity and Passport Service ("IPS") IPS The Driver and Vehicle Licensing Agency ("DVLA") DVLA.
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. savings stamps). Provision of facilities for payment of tax bills and social housing rents.	Financial Institutions individual utility service providers, and billing service providers Her Majesty's Revenue and Customs, local authorities and housing associations.

	Category of service	Service provided	Service provided on behalf of
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 66 and paragraphs 4 to 6 of Schedule 9 of the Postal Services Act 2011.	Royal Mail Group Limited.
5.	Universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits.	Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches. Access to Government savings instruments including Premium Bonds, Investment Accounts, Children's Bonds and National Savings certificates.	Financial Institutions including Her Majesty's Treasury, the Government-owned National Savings & Investments, the Department for Work and Pensions, the Social Security Agency - Northern Ireland, and Her Majesty's Revenue & Customs.

Annex B

POST OFFICE CONTRACTS TO DELIVER SGEI AS AT 1st March 2012

Category 1: Processing social benefit and tax credit payments

Description of Services	Contracting Entity opposite POL
POCA Card Account	DWP
Reconciliation services in relation to certain Bill payments, cash, DSS and personal banking services	Girobank plc and Alliance & Leicester plc
DSS / DWP Cash Cheque Service	Girobank plc
Asylum Seekers Benefits Payments	Sodexo Pass
Meals on wheels vouchers	Fife Council
Meals on wheels vouchers	London Borough of Waltham Forest
Meals on wheels vouchers	London borough of Tower Hamlets
Meals on wheels vouchers	Salford City Council
Meals on wheels vouchers	London Borough of Islington
Meals on wheels vouchers	Eastleigh Borough Council

Category 2: Processing of national identity scheme applications

Description of Services	Contracting Entity opposite POL
IPS Passport Application Form Check & Send Concession Agreement	Home Office Identity and Passport Service
DVLA Driving Licences	DVLA
Services for the sale of Rod Fishing Licences	Environment Agency

Category 3: Universal payment facilities for public utility services

Description of Services	Contracting Entity opposite POL
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)

Description of Services	Contracting Entity opposite POL
Bill Payments	Freedom Council - London Councils Transport and Environment Committee
Bill Payments	EON Energy Limited
Bill Payments	RWE Npower plc
Bill Payments	Scottish Power Energy Retail Limited
Bill Payments	Scottish & S Southern - SSE Energy Supply Ltd
Bill Payments	British Gas Trading Limited
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 Payment	Bristol and Wessex Billing Services Ltd
Bill Payment	Siemens Energy Services (a Management Division of Siemens PLC)
Travel tickets	West Yorkshire Passenger Transport Executive
Travel tickets	Merseyside Passenger Transport Executive
Travel tickets	Cardiff Council
Travel tickets	Brighton and Hove Bus & Coach Company
Council Tax and other related council services	The Lord Mayor & Citizens of the City of Westminster

Category 4: Universal postal services

Description of Services	Contracting Entity opposite POL
High Value Mails	Royal Mail Group PLC
MDA - Mail support services from POL to RM to assist RM in meeting its universal postal service provider licence obligations	Royal Mail Group PLC

**Category 5: Universal access to basic cash and banking facilities and Government
savings instruments, especially for rural customers and those on social benefits**

Description of Services	Contracting Entity opposite POL
ATM Services	Bank of Ireland
Retail cash services to	Alliance & Leicester plc

Description of Services	Contracting Entity opposite POL
business customers	
Business Banker Introducer Scheme Agreement	Alliance & Leicester plc
Personal Banking Services	Alliance & Leicester plc and Girobank plc
Basic Banking	Alliance & Leicester plc
Personal Banking	Alliance & Leicester plc
Personal Banking Service	Bank of Ireland
Basic Banking	Bank of Ireland
Personal Banking	HBOS
Basic Banking	HBOS
Personal Banking	Abbey National PLC
Personal Banking	Clydesdale Bank
Basic Banking	National Australia Group
Personal Banking	First Direct
Personal Banking	Lloyds
Basic Banking	Lloyds
Personal Banking	Nationwide Building Society
Basic Banking	Nationwide Building Society
Personal Banking	Northern Bank
Basic Banking	Northern Bank
Personal Banking	Co-operative Bank and Smile
Basic Banking	Co-operative Bank
Personal Banking	Barclays
Basic Banking	Barclays
Basic Banking	First Trust
Basic Banking	HSBC
Basic Banking	RBS Group
Personal Banking	RBS Group
Business Banking	National Australia Group Europe Limited
Business Banking	The Governor and Company of the Bank of Ireland
Business Banking	Barclays Bank plc
Business Banking	HSBC Bank plc
Counter Services & Premium Bonds	National Savings & Investments
Counter Services	Northern Bank Limited