

Agenda for Shareholder Executive Board Meeting

Wednesday 21 November 2012 (15.00 – 18.00)

Item	Indicative Timing	Agenda Item	Papers
1.	25 mins	Apologies for absence, Chairman's welcome and introduction, introduction from Michael Fallon MP, minutes from last meeting, declarations	-
2.	30 mins	Chief Executive's Report	(12)20
3.	45 mins	Information Economy	(12)21
4.	40 mins	Business Bank	(12)22
5.	30 mins	PDG Assets Update	(12)23
6.	10 mins	Any other business	
-		Close	

Annexes	
A	Draft compendium of remuneration and recruitment issues
B	Progress against ShEx objectives

[3h 00mins total]



Commercial – In Confidence

Minutes of Shareholder Executive Board

Wednesday 12 September 2012 at 15.00

Members present:	Patrick O'Sullivan (Chair) (PO'S) Claudia Arney (CA) Gerry Grimstone (GG) Jeremy Pocklington (JP) Tony Watson (TW) Stephen Lovegrove (SL) Anthony Odgers (AO) Mark Russell (MR)	Attendees:	Rachel James (Item 2) (RJ) Oliver Griffiths (Item 4) (OG)
		Secretary:	Peter Batten
		Apologies:	Lord Carter

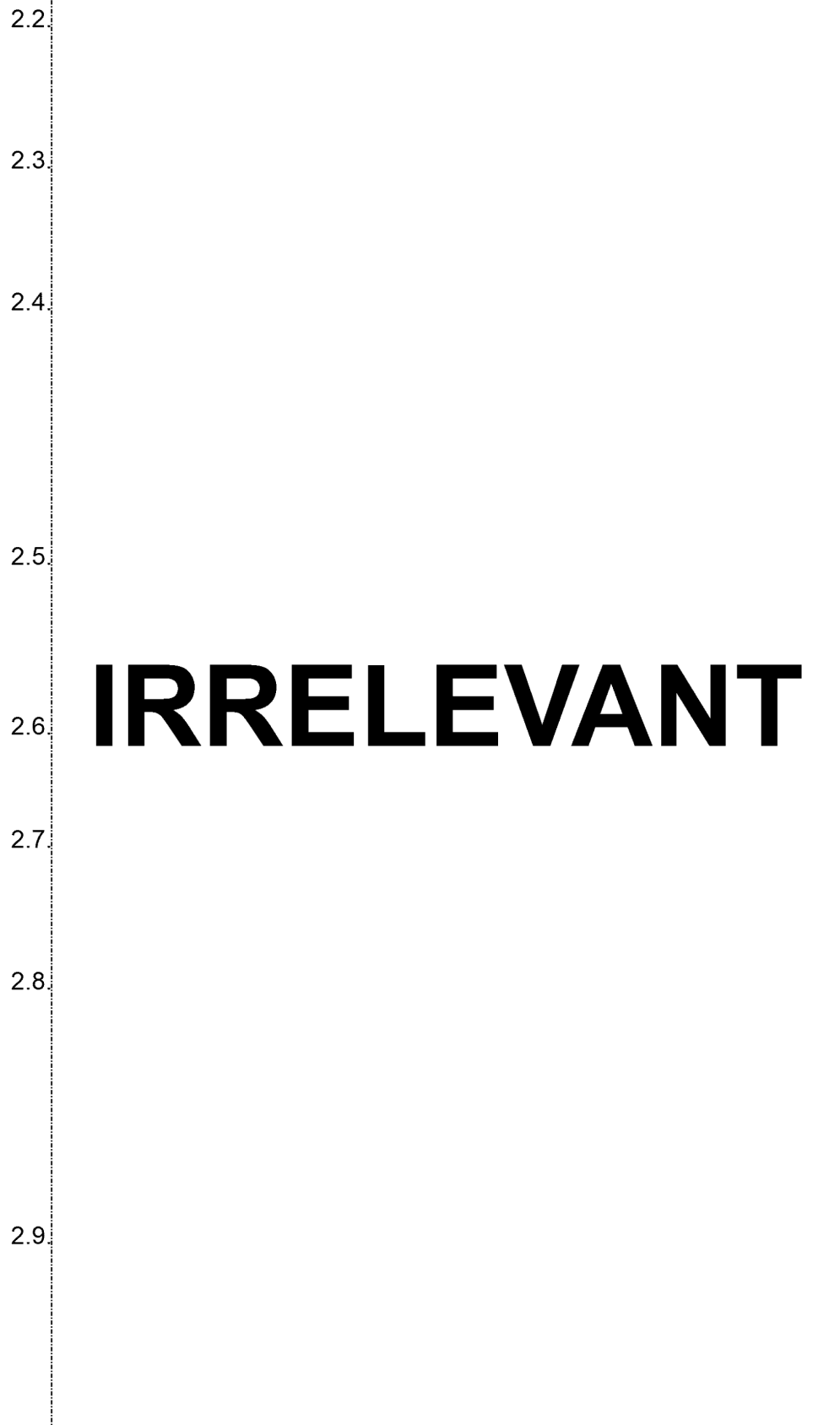
1. Apologies for absence, Chair's welcome and introduction, minutes from last meeting, declarations of interest

- 1.1. PO'S welcomed the Board, noting Lord Carter's apology. The minutes of July's meeting were discussed. The recruitment of the new IE Director, Ken McCallum (KMC), who will join the Board, was confirmed. CA suggested that the composition of the Board should be evaluated to ensure compliance with the Combined Code.
- 1.2. Board actions were discussed, with AO providing an oral update about GIB governance, noting that the GIB CRO provides an independent check on investments at the moment. **[action] Once governance matters have been agreed with the GIB ARC and incoming CEO, AO will submit a paper to the Board.** (Update included in CEO report).
- 1.3. SL explained that he was due to meet Lord Browne at the end of September. Other actions were noted pending their discussion later in the meeting.

2. Chief Executive's Report

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3. Cabinet Office Commercial Models

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4. Green Investment Bank

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5. Royal Mail

5.1. SL presented the Royal Mail (RM) paper, noting the need to focus on the company's revised business plan and Chairman. SL noted that the revised business plan was supported by higher than expected revenues, but was not as ambitious with regard to modernisation.

5.2. SL noted that the figures are undergoing rigorous scrutiny, and ShEx will be keen to ensure the business plan appropriately challenges and stretches the company. **[action]** The Board requested an update detailing the findings of this scrutiny process. (See CEO update, also RL to attend November Board).

5.3. SL noted that the RM Board preference has been for a full IPO as the only acceptable option. SL explained that this was not a view held by ShEx, and that officials were working on a range of disposal scenarios, including where a disposal is not possible. Under such circumstances it was noted that the continuing modernisation would be a priority.

- 5.4. TW was interested to understand the role of ShEx should there be a full disposal. SL noted that ShEx would retain a shareholder role as long as the Government was a shareholder. This role would cease once all shares had been disposed. However, Government would remain involved in the sector as a result of postal regulation.
- 5.5. Changing the focus of the discussion, PO'S noted that it was apparent that Donald Bryden (DB) had not notified Smiths of his Sage appointment, and that given DB's recent illness there is pressing need to resolve the concerns expressed by the ShEx Board in July.
- 5.6. SL described the range of issues thrown up by DB's current position. The Board was of the view, both, that he should be asked to drop a Chair role as soon as possible, and that a replacement for David Currie should be appointed with a view to be able to fill in as Chair should that ever prove necessary. **[action]** SL to brief the Board following discussion with DB. (Completed, see CEO update).
- 5.7. **[action]** The Board also requested that an external review (possibly by Barclays) to assess the skills of the Board and to identify any skills gaps, which would be common practice as a company prepares for a transaction. (Update on progress to be given at November Board).
- 5.8. SL thanked the Board for a helpful discussion

6. Any other business

- 6.1. PO'S thanked the members for their contributions and closed the meeting.

ShEx Board Secretary
September 2012

7. Actions

Completed actions				
Minute ref.	Action point	Action officer	Due date	Status
	Director of Information Economy, (when appointed) to discuss strategy.	Peter Batten	Nov 2012	Completed (see paper (12)21).
	Paper detailing GIB governance and accountability	Anthony Odgers	Sept 2012	Oral report at Sept Board, with update in paper (12)20.
	SL to speak to Donald Brydon regarding his Chair portfolio	Stephen Lovegrove	Sept 2012	Completed
2.13	ShEx Minister (Michael Fallon) to address the Board.	Peter Batten	Nov 2012	Completed – Minister will attend Nov Board
2.13	Minute of ShEx introductory meeting with ShEx Minister	Stephen Lovegrove	Nov 2012	Completed – Stephen emailed on 18 Sept.
	Board members to be invited to second ShEx Chairs' event	Peter Batten	Nov 2012	Completed – event held on 7 Nov.
2.8	Outline examples and trends from ShEx businesses recruitment of senior execs and NEDs.	Stephen Lovegrove	Nov 2012	Completed – update in paper (12)20.
5.2	- Board to note the findings of advisers investigation into new RM business plan	Stephen Lovegrove	Nov 2012	Oral update to be provided at Nov Board.
5.6	- SL to brief the Board following discussion with DB			
5.7	- Commission an external review of RM Board to map skills and identify gaps.			

Outstanding actions				
Agenda Item	Action point	Action officer	Due date	Status
3.2	SL/SoS to address Government NED conference	Stephen Lovegrove	Late 2012	Pending
4.2	Consider the need to appoint a specialist IE NED	Stephen Lovegrove	Jan 2013	Pending

Chief Executive's Report – ShEx Board 21 November 2012 (12)20

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 Information Economy, Industry Bank developments, and an update on the PDG Assets.

1 General

- 1.1 The meeting with Lord Browne happened on 6th November and there was predictably a lot of common ground. In particular Lord Browne was concerned about the levels of intrusive oversight from the centre of Government over partner organisations, particularly around pay and recruitment, the quality of management information and the varied quality of departmental Boards. He felt that there was merit in creating a super network of selected lead departmental NEDs, ShEx company chairs and partner organisation chairs that would be able over a period of time exert some influence over Whitehall to create a more functional environment. He was also very receptive to a ShEx coming to the next meeting of the lead NEDs – as long as there was no presentation.

2 Other Government Departments

- 2.1 Against the background of:
- A perceived need for greater commercial skill and experience in Whitehall;
 - A shrinking Civil Service with more sharing of resources; and
 - A realisation that recruitment to specialised commercial roles is difficult.
- 2.2 Both DfT and DCLG have approached ShEx to house their commercial activities, in the former case already existing, and in the latter yet to be formed. The scope and the funding of these activities is not yet clear and meetings are in the diary to discuss initial ideas. Neither approach has been fully discussed with BIS colleagues to date, but in the main they are to be welcomed as an indication of ShEx's reputation and recognition of its capabilities.

3 Royal Mail**Financial performance**

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on regulating end-to-end – engagement at senior level continues. The Chairman's position has been resolved satisfactorily and ShEx is involved in the appointment of two new NEDs for the Board.

Half year results showed:

- Revenues of £4,337m, £54m (1%) ahead of budget (£139m ahead on PY);
- Operating profit of £264m, £89m (51%) ahead of budget (£120m up on PY);
- PBIT after modernisation but before other exceptionals of £144m, £75m (109%) ahead of budget (£132m ahead on PY); and
- Operating cashflow of £248m, £168m (210%) ahead of budget (£176m up on PY).

3.1 However this outperformance remains largely driven by higher volumes (especially parcels) rather than better cost control; overall modernisation efficiencies at delivery office level seem to be slipping behind plan.

Regulation

3.2 On regulation, Ofcom has issued helpful but uncategorical guidance on when and how it will intervene on end-to-end. It does not in itself provide enough assurance to us and investors on how it will deal with the "live" TNT case, particularly given Ofcom's nervousness to act whilst they assess RM to be "underperforming" on productivity. We continue to put appropriate pressure on both RM and Ofcom.

Progress towards transaction

3.3 In the context of strong performance we, and the company, are gearing up to be in a position to make initial decisions on a target sale strategy early next year, based on Christmas trading and initial investor feedback. Our priority remains to keep maximum flexibility until we are fully confident on our ability to execute successfully a preferred sale option (and timing).

3.4 We are currently undertaking a detailed evaluation of options, primarily IPO and private equity, with the additional possibility of a pre-IPO investment designed to derisk a subsequent full IPO.

3.5 A key component of this preparation is RM's appointment of specialist, independent IPO advisors STJ and their selection of a loose group of major investment banks to provide additional, coordinated investor engagement in testing, refining and shaping the investor proposition and equity story; early investor engagement will allow more informed judgements on the real level of investor appetite for an IPO. An initial round of investor meetings is scheduled for early December, jointly set up by UBS and Barclays. A subsequent more detailed round by the fuller bank group is anticipated for February next year on the back of RM's Christmas trading. We have been clear to the Company and STJ that this exploratory phase does not create any syndicate and that if HMG chooses to pursue an IPO, we will run our own process to appoint any specialist IPO advisers and, in due course, the bookrunners.

3.6 The Chairman's position has been resolved satisfactorily and ShEx is involved in the appointment of two new NEDs for the Board.

4 Urenco

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Financial advisors

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Stakeholder positions

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Market-testing

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Responsible Minister

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Sale process

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Company performance and matters

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5 **Green Investment Bank**

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Next steps

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6 Student Loans Company

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Income Contingent Repayment loans

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Mortgage style loans

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7 Second Chairs' Event

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END



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Information Economy – ShEx Board 21 November 2012 (12)21

Please see attached presentation titled:

“Information Economy
ShEx Board – 21 November 2012
Paper reference: (12)21”

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Business Bank – ShEx Board 21 November 2012 (12)22

Board actions:

- **Note that the project team is developing both short-term and long-term wholesale funding options to deploy the £1bn of new funding, with all options requiring state aid approval being classified as long-term**
- **Note that the team would like to establish a preferred short-term option by early 2013, to start deployment of some funds in financial year 2013/14**

Summary

- **The Business Bank will both put in place new larger scale Government support for the provision of finance to small and midsize companies through new wholesale funding intervention, and strengthen existing Government business finance interventions and support and advice programmes.**
- **ShEx are leading on the development of new wholesale funding interventions using £1bn of new funding. The project team is considering short term options, where funds can be deployed in 2013/14, and longer term options. The short term options under consideration are simple co-investment models, similar to the existing Business Finance Partnership, where private sector firms can bid for Government funds to be co-invested on a *pari passu* basis. Longer term options under consideration include a SME loan aggregator structure, which would aim to kick-start the SME securitisation market; guarantee schemes for SME finance providers; and wider market access measures such as options involving retail bond markets, private placement markets and improving the availability of SME credit data.**
- **Work is underway to appoint an Advisory Board for the design phase of the overall Business Bank; and the ShEx team is looking into options for hiring an interim product / management team for the new wholesale funding intervention.**

Background

1. Ministers have agreed that the Business Bank will:
 - Put in place new, larger scale Government support for the provision of finance to small and midsize companies so that businesses are able to access funding that better match their needs, but also able to access funding from a wider range of providers;
 - Strengthen existing Government business finance interventions so they address specific finance issues faced by businesses in a more coordinated and streamlined way; and
 - Strengthen existing Government support and advice for high growth potential businesses so that they are better marketed, easier to access and more joined up.
2. As currently envisaged, the Business Bank will be a free-standing institution accountable to ministers, but with substantial independent decision-making powers to design, deliver and close schemes, based on its knowledge of the market. It would have its own balance sheet and autonomy to recycle returns on investments into new programmes.
3. At this stage, we believe the Business Bank could have two divisions, a wholesale arm and a customer-facing arm, and those could be separate entities. The wholesale arm would house the Government's business finance interventions that use banks or other intermediaries to get money to businesses (including both newly created and existing interventions). In order to bring private sector capital into the market, it would have the ability to enter into joint ventures with other financial service providers. The customer-facing division could be a new one-stop shop for high growth UK firms, offering seamless advice and access to all the Government's business support services (including finance) aimed at growth.
4. In addition to the existing business finance schemes, £1bn of new capital has been made available for the business bank. ShEx are leading on developing options for deploying this £1bn of new committed funding and are working closely with other BIS policy teams.
5. Officials are designing interventions to allow all or majority of this money to be deployed in financial years 2013/14 and 2014/15. This money would be focused on:
 - Increasing the quantum of long term debt available for UK SMEs (to allow firms to plan for longer term investments by increasing the amount of 5-10year dated loans in the market);
 - Increasing the quantum of growth or so-called mezzanine capital (debt that is structured in such a way repayments are weighted toward the end of a loan, so that repayment is possible when a firm hits its growth targets); and
 - Stimulating the provision of certain sorts of working capital – for example, ensuring small firms in long supply chains get access to finance.

Short term options

6. For the short term options, we recommend that some money is made available by launching a competition asking for bids from private sector investors who would be willing to invest their own money alongside government funds (such as the existing banks, challenger banks, non-banks funds or the £2.5 Business Growth Fund set up by the banks in response to the Merlin agreement). This is the same approach the existing Business Finance Partnership has taken to date. This approach would allow Ministers to determine which parts of the market should be served, whilst relying on private sector expertise to make investment decisions. We would envisage £300 to £500m being used via this type of route in 2013 / 2014.
7. Such an intervention would be compliant with EU state aid rules, meaning it could be implemented next financial year. More highly leveraged approaches using government guarantees will require state aid approval, and so longer term design options will developed in parallel with this short-term plan.

Longer term options

8. A range of options are being considered:
 - Creation of a private sector aggregation vehicle (aggregate a large number of SME loans and finance them through the corporate bond markets);
 - Put in place a Government guarantee for tranches of business loans, working alongside a partner with relevant distribution capabilities; and
 - Stimulate new markets such as retail bonds to finance SMEs or other debt issuance by medium-sized or small firm.

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- In order to get the vehicle off the Government's balance sheet, achieve equity leverage and make the state aid approvals process easier, we would need to find private sector investors willing to invest on a pari passu basis with Government; there are other requirements set by the ONS that may mean the vehicle would be classed as public sector, depending on who has control and who is taking the risks.

- Finance providers would need to be able to obtain capital relief on the tranches sold in order for them to want to participate; this may in effect imply a Government guarantee required for the mezzanine piece in order to attract investors. For the finance providers, the value of the capital relief would have to be higher than the guarantee fee, which may be difficult to achieve in state aid terms, and particularly given the lack of comparators for pricing.
- The aggregation platform should be attractive for challenger banks as well in order to support competition in the SME lending markets. Whilst some of them may have more modern IT systems and may be able to cope better with data requirements, any large fixed costs required to prepare participation might put them off.
- In order to ensure additionality, there would need to be some sort of mechanism ensuring that the banks invest any freed up capital into more SME lending.

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PDG Assets update – ShEx Board 21 November 2012 (12)23

Please see attached presentation titled:

“The Public Data Group and Options for Private Sector Involvement
ShEx Board – 21 November 2012
Paper reference: (12)23”

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Annex A

Compendium of remuneration and recruitment issues

Examples reported to Secretary of State in Chairman's letter (sent May 2012)

<i>Chair/Co</i>	<i>Process/Remuneration Issues</i>
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More recent examples (including those provided at the November Chair event)

Chair/Co	Process/Remuneration Issues
Alice Perkins (Post Office Ltd)	Chair appointment took many weeks in summer 2011 after it left BIS for the centre and Alice Perkins was ready to walk away from it, if it wasn't settled by the end of July (which it was). A number of very able and suitable NED candidates turned down appointments as they did not think POL could offer sufficiently high remuneration to attract the quality of the people we needed to deliver our challenging agenda. Recent recruitments to the Executive team have ended in the selection of people who are stepping up to this level, rather than joining POL with this level of experience under their belt - a direct result of POL salary levels.
Donald Brydon (Royal Mail)	Voiced a general complaint that the current approach is cumbersome and ineffective so need to progress to simplify and RM welcome smooth processes for the recruitment and ongoing remuneration. Noted that quantum of remuneration meant that his first choice of operations director refused the role.

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Nil returns

John Devaney (NATS)
 Brian Landers (CH)
 Millie Bannerjee (WL)
 Guy Beringer (UKEF)

Richard Gillingwater (CDC)
 John Hood (Urenco)
 Adrian Montagu (GIB)
 Lord Burns (C4)

Annex B

ShEx Objectives for 2012-2013

Business Objectives		
	Objective	Progress
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Business Objectives		
	Objective	Progress
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Business Objectives		
	Objective	Progress
	uncertain)	
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Business Objectives		
	Objective	Progress
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Post Office	- PO Board appointments are completed and appropriate governance structures and incentives are embedded asap in FY 2012/13. - Oversee PO's network transformation involving 1,200 conversions to new network models by 31 March 2013 (out of total 6000 by 31 March 2015). - Government response to consultation on development of mutual ownership model is published around June 2012 and development of policy continues thereafter.	- POL has a fully constituted Board, including a ShEx representative (Susannah Storey), and became operationally separate from RMG on 1 April 2012. Senior exec remuneration for FY12/13 is shortly to be agreed. - The voluntary Network Transformation programme started as of 1 October 2012, although initial reports suggest sluggish take-up may well result in fewer than the targeted 1,200 conversions by 31 March 2013. ShEx is heavily engaged with POL and Ministers in seeking to address this. - Government response to consultation published on 4 July. ShEx is closely involved in the 'Stakeholder Forum' that first met in October, which is tasked with developing the public benefit purpose for POL. Initial forum findings are expected in

Business Objectives		
	Objective	Progress
		Spring.
Royal Mail	▪ Oversee operational progress to enable deal in 2013-2014 ○ Agree a refreshed business plan on which a sale is achievable (subject to market conditions) ○ Ensure pre-transaction preparatory plan complete and advisor teams ready ○ Complete evaluation of transaction options to allow preliminary decisions on structure and timing ▪ Manage sell down of pension assets ○ Liquid assets realised within the timescales and cost parameters set out in the realisation plan ○ Clear plans for management/disposal of illiquid assets developed and implemented on VFM basis	▪ Business Plan refresh – the company is currently out-performing and another refresh of the Plan is due shortly when we receive re-forecasted financials at end-November. ▪ A comprehensive submission outlining sale options, assessment against objectives and preferred sale strategy is being prepared. The submission will be discussed at ShEx ExCo on 21st Nov ahead of putting to Ministers. ▪ Work to agree w/ RM the transaction work-streams and governance structure for the sale process is nearing a conclusion. Plans to be presented to ShEx ExCo for discussion/approval on 21st Nov. ▪ We are ahead of Plan in relation to timescales and costs for the realisation of the liquid assets and are now left with around £1bn (of c£24bn) of less liquid positions. ▪ All of the derivative positions (the most risky assets in terms of volatility) have been realised.

Corporate Objectives		
	Objective	Progress
ShEx Corporate	▪ Maintain dynamic, flexible recruitment model ○ Rigorous review and prioritisation of activity each quarter ▪ Improved positioning of ShEx executives for promotion - ongoing	▪ ExCo continues to regularly review its resourcing needs, and to use a model that breaks down activity per staff member per Grade reflecting spare capacity. ▪ In addition to regular slots at ExCo, senior managers have also been provided with dedicated resourcing sessions to allow time for more strategic thinking on resourcing needs. ▪ Activity on work streams and projects is often reviewed and prioritised as part of the discussions on resourcing. With the extended ExCo due to begin in the New Year there should be scope to review the ShEx Landscape (which sets out projects and portfolio businesses by Group) on a quarterly basis. ▪ Agreement reached with HR on FTA contract expiry. At the expiry of a contract ExCo will consider whether the individual should be made permanent, whether the contract should be extended to ensure business continuity or whether the individual should be released. Permanency and extensions will require HR agreement. About 12 are due to expire in 2013 when this new process will be put to the test.