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Shareholder Executive
HM Government

Agenda for Shareholder Executive Board Meeting

Thursday 16 May 2013 (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.	10 mins	Chief Executive's report	(13)09
3.	50 mins	ShEx engagement across government	(13)10
4.	30 mins	ShEx licence to operate	(13)11
4a	80 mins	Major projects update	(13)12
4b	*(20 mins)*	▪ Information Economy Industrial Strategy	(13)12a
4c	*(20 mins)*	▪ Royal Mail	(13)12b
4d	*(20 mins)*	▪ Business Bank	(13)12c
5.	*(20 mins)*	▪ Urenco	(13)12d
-		AOB and close	

[3h 00mins total]

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Minutes of Shareholder Executive Board

Wednesday 13 March 2013 at 14.30

Members present:	Patrick O'Sullivan (Chair) (PO'S) Claudia Arney (CA) Gerry Grimstone (GG) Jeremy Pocklington (JP) Tony Watson (TW) Mark Russell (MR) Roger Lowe (RL) Anthony Odgers (AO)	**Attendees:**	Patrick Magee (PM) *(item 4)*
		Secretary:	Peter Batten
		Apologies:	Lord Carter Ken McCallum (KMC)

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

1.1. POS formally opened the meeting, and invited MR to comment on the nature of the papers. MR explained that following members' feedback at the January Board, the Board papers would focus more on seeking their advice.

1.2. MR noted his recent conversation with Lord Deighton. There is an emerging view that ShEx, IUK and the Cabinet Office will play an increasingly central role in providing expertise for Departments undertaking large and complex projects.

1.3. The Board considered the potential benefits that could be achieved by combining ShEx and IUK, but noted that this was unlikely to progress any further this Parliament.

1.4. It was explained that as a result of Lord Deighton's review, it is very likely that ShEx will further increase in size. The Board expressed its desire for a **[action]** review of ShEx's purpose and resourcing before this occurs.

1.5. MR set out his intention to recruit additional Executives to the Board, and noted that Fiona-Jane MacGregor had recently been appointed as ShEx COO, replacing Mark Boyle.

1.6. The Board discussed the practice of ShEx staff sitting on the Boards of ShEx assets. AO stressed the benefits of having a direct link between Government, Government policy and the asset.

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2. **Chief Executive's Report**

2.1. Introducing his report, MR provided an update on the **Green Investment Bank**, noting that £700m has already been committed on sensible projects that should make money. It was noted that Sir Adrian Montague is stepping down and the recruitment process for a replacement is now underway.

2.2. The Board noted the **Post Office Ltd** update without discussion.

IRRELEVANT

2.5. MR provided a commentary to the ShEx People Survey results noting that KMC has successfully improved satisfaction within the IE team in the intervening period, and that this was evident at the recent ShEx Away Day. However, and referring back to the earlier discussion, MR noted the need for ShEx management to remain cognisant of the potential for negative side-effects of an enlarged ShEx on staff morale.

– PM joined the meeting –

3. **Royal Mail**

3.1. RL presented the Royal Mail, noting that industrial relations remained a key risk to the transaction process. RL explained that ShEx is publicly aiming for a transaction by March 2014, but is privately working towards an October / November 2013 window.

3.2. The Board discussed the timescales, querying whether an autumn transaction was possible, and what the impact of going early would be on the value of the company. RL explained that preparations were geared towards an October transaction, and noted that the company has outperformed budget forecasts meaning that value can be more quickly captured than previously anticipated.

3.3. RL explained that owing to Parliamentary obligations, ShEx would have to prepare a report for June in advance of the Summer Recess.

3.4. GG expressed his view that ShEx must continually engage with institutional investors to ensure the quantum of employee shares granted to workers does not harm investor appetite. GG felt that this would be an important piece of evidence that Ministers should consider in deciding how to approach employee shares.

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3.5. GG was also keen to discuss the planned timescales, noting that a November window provided an additional four weeks to engage institutional investors. RL explained that October was preferable as it afforded sufficient elasticity for unforeseen events, noting that December was off limits due to the Christmas mail rush.

3.6. TW was keen to understand the target price that ShEx would be seeking to achieve, noting that there was a need to balance price with speed. RL explained that the target price was between £1bn and £3bn, but that the transaction window was likely to close in March 2014 and achieving a sale this Parliament was the paramount priority.

4. Business Bank

4.1

4.2

4.3

4.4 IRRELEVANT

4.5

4.6

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4.7. IRRELEVANT

– PM left the meeting –

5. Urenco

5.1.

5.2. IRRELEVANT

5.3.

6. Future Board agendas

6.1. In light of the requests made during the meeting, the future Board agendas will be reworked and resubmitted for consideration and discussion.

7. AOB

7.1. The Chairman held a private unminuted session with the NEDs to discuss the Chief Executive recruitment process.

ShEx Board Secretary

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8. Actions

IRRELEVANT

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Chief Executive's Report – ShEx Board 16 May 2013 (13)09

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 Royal Mail, Urenco, and the Business Bank.

1 Student Loans Company

IRRELEVANT

Mortgage Style Loans

1.1

1.2 IRRELEVANT

1.3

Income Contingent Repayment Loans

1.4 IRRELEVANT

1.5

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1.6

IRRELEVANT

1.7

2 Public Data Group

IRRELEVANT

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Recent progress

2.1

2.2 IRRELEVANT

2.3

Future opportunities

2.4

2.5 IRRELEVANT

2.6

3 Post Office Ltd

The Board to note:

- ***Post Office Ltd (POL) performed strongly in its first year of independence from Royal Mail; and***
- ***We are working with POL to agree a commercial strategy for the business to 2020, including ideally agreeing at least 2 years' funding (FYs 15/16 and 16/17) as part of the Spending Review this June.***

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Financial Performance in 2012/13Heading

3.1 Initial (unaudited) end-year figures suggest Post Office Ltd has continued to perform well with operating profit significantly exceeding budget. Full year operating profit was £94 million (against an original budget of £84 million, an increase on the £61 million that the company achieved in FY 11/12). After stripping out subsidy, this is still a loss of c£116m, but it represents an improvement in underlying profitability of c£3m on the prior year. We expect this to improve further over FY 13/14 as the benefits of POL's network transformation programme (which ramped up late in FY 12/13) feed through.

Developing a commercial strategy to 2020

3.2 POL recently presented high-level details of its new strategic plan to 2020. Funding for the first two years (i.e. FYs 13/14 and 14/15) is secure under the existing government £1.34 billion funding package but there is no funding in place beyond March 2015. POL's plans envisage reducing reliance on network subsidy to around £50 million by FY 19/20 (from £210 million today), through further investment to complete transformation across its network. POL's initial forecast total funding requirement for the five years from FY 15/16 to FY 19/20 is £550m.

3.3 POL's strategy envisages EBITDA (excluding network subsidy) growth from negative £98 million to positive £115 million through broad-based revenue growth, cost control and the delivery of key strategic initiatives, including:

- A new approach to the network transformation programme – moving away from voluntary postmaster participation in favour of mandated conversions to the new variable cost operating models (building a positive narrative for the consumer around this – longer hours, shorter queues, introducing new parcels-focussed, smaller, urban outlets – will be crucial not only to the success of the strategy but also to securing political buy-in);
- Completing the programme to eradicate losses in its c.370 city centre "Crown" branches via pay restraint, franchising, and revenue growth; and
- Launching a range of new products, particularly in Mails (prepaid parcels), Financial Services (current accounts) and Telephony (premium services).

3.4 Our instinct (without yet having engaged on detail) is that the plan is commercially sensible and builds on progress since 2010, but that building the concurrent political narrative may present challenges. We have recently appointed KPMG to diligence the plan. We expect to work intensively throughout May and June as plans and the spending review progress.

4 Nuclear Decommissioning Authority

Sellafield contract negotiations

4.1

IRRELEVANT

4.2

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4.3 IRRELEVANT

Sellafield capability

4.4

4.5 IRRELEVANT

4.6

5 Staffing matters

5.1 IRRELEVANT

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6 ShEx Chairs' Event

On Monday 29 April Lord Green hosted the third Shareholder Executive Chairs Event which focused on how the portfolio businesses can drive exports.

6.1

6.2

6.3

IRRELEVANT

6.4

END

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ShEx engagement across Government – ShEx Board 16 May 2013 (13)10

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ShEx – potential new cross-government working

ShEx Board – 16 May 2013

Paper reference: (13)10

Restricted – policy, management

Mark Boyle

RESTRICTED – POLICY & COMMERCIAL

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Executive summary

- Requests and demands on ShEx have grown significantly in recent months
- These requests are increasingly departmental rather than asset specific
- Various drivers behind this, including the Civil Service Reform Programme, and corporate reviews such as Laidlaw and Browne
- ShEx seen as a key player with required commercial skill set and expertise
- Two parallel strands of work current underway:
  - Infrastructure UK Infrastructure Capability Plans
  - Specific requests from departments for corporate finance support – MoD, DCLG, DfT and DECC
- Major issues for ShEx relating to the work involved, resource, operating model and departmental agreements
  - Board asked to endorse approach on MOD and DCLG prior to Perm Sec approval.

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Influences

Civil Service Reform Programme – June 2012

- Civil Service Reform Programme includes a new competency framework, a new approach to project management, and a capability plan

Reform themes

- More Digital
- More skilled
- Better policy making
- Unified, open and accountable

Capability Plan themes

- Commercial Skills
- Project Management
- Digital
- Leading change

Laidlaw report in to West Coast Mainline – Dec 2012

- DfT to take forward the Laidlaw "prescription" in response to failures from West Coast Mainline franchise failures: Clarity of process; Clarity of responsibility; Adequacy of resources; Open to challenge and escalation; Honesty on risk.

Specific improvements required include:

- Planning and preparation – sound planning and rigorous management, drawing in relevant expertise and engaging stakeholders in process effectively
- Clarity over structure and governance – clearer and simpler structure, clearly identified responsibility and appropriate mix and skills
- Resource – ensure adequate skills and training are in place, and use of external professional advisers

Lord Browne report on Major Projects – March 2013

- Two insights - Lowest standards that are set at the start of a project are the highest standards that can be expected for the rest of the project
  - Nobody ever stops or intervenes in a poor project soon enough.
- Three areas for improvements to project processes: set-up phase, project governance, assurance

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Infrastructure capacity plans

- Infrastructure UK (part of HM Treasury) mandated to develop Infrastructure Capacity Plans

- Cross cutting approach to the planning, prioritisation and enabling of investment in infrastructure
- IUK has requested that four departments work up Infrastructure Capacity Plans – prioritised assessment of current and future infrastructure projects
- ShEx is working alongside IUK and MPA on their engagement with four key Departments – DfT, Defra, DECC and DCMS
- Focus on capacity, capability, and resourcing gaps - either internally or through IUK specialist pool

- ShEx focus is on non-infrastructure issues, specifically relating to core corporate finance capability
- ShEx have committed 3 x G6/7 to the work to date, each for 25% of their time (actual commitment is less to date)
- ShEx is providing supporting role but is not holding the pen on any of the reviews
- Benefit to ShEx in showing willing to support and keeping an eye on developing landscape

- Departments are due to report by the end of May, for review and sign-off and submit to Economic Affairs Committee by end-June.

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Infrastructure capacity plans – departmental progress

DfT

- Good engagement to date
- Combining exercise with wider skills audit
- Questionnaire being sent to project SROs to identity capability, resource and to identify where gaps exist
- Expect to identify a need to seek resource from direct recruitment, IUK, ShEx, and others, such as consultants.

DECC

- Limited engagement with exercise to date
- Wider skills audit being carried out by Perm Sec
- Landscape comprises number of large infrastructure projects
- New senior staff engaged

Defra

- Limited engagement with process to date, and in reactive mode to requests at present
- Have developed initial roadmap to respond to ICP, though have not linked to wider skills audit
- Only 2/3 major infrastructure projects in department
- Some uncertainty on Defra side over ShEx role

DCMS

- Little engagement with exercise so far

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Departmental requests - MoD

BACKGROUND – ShEx re-engaging with MoD on three separate asset sales after previous withdrawal due to issues over visibility, involvement and selective use of ShEx advice.

WORK INVOLVED

- Supporting MoD in executing transactions to generate capital receipts
- Three assets with individual workstreams:

  - Government Pipeline and Storage System;

  - Defence Support Group;

  - Marchwood Sea Mounting Centre
- Significant preparation required to progress each transaction
- Potential further work relating to DE&S governance

RESOURCE

- Leadership from a G5 (50% of time)
- 50% of 3 Grade 6/7s for each individual asset (one identified)
- Located in MoD where possible ("face-time")
- Projects due to last up until Spring 2015.

PROPOSED AGREEMENT

- Joint lead role on corporate finance-related or sale-related aspects of transactions
- Reporting through SRO to DG level sponsor
- This includes appointing advisers, project management, advice to Ministers, design of sale process, market engagement

STATUS

- Memorandum of Understanding being negotiated, [caveat re. budget transfers]
- Sets out the ShEx engagement including on issues of governance, visibility of submissions to Ministers and PEX(A).
- Break clauses inserted

ACTION – Board approval to enter into MoU

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Departmental requests - DCLG

BACKGROUND – As an alternative to finding in-house resource, a direct approach from Peter Schofield with proposal to build a joint team to address the Department's commercial needs.

WORK INVOLVED	RESOURCE	PROPOSED AGREEMENT	STATUS
• Advising policy teams on investment and commercial implications of the HMT £180bn mortgage equity guarantee scheme and the new Help to Buy Equity Scheme. • Work includes greater leveraging of private sector investment including through guarantees, equity loan positions, asset sales • Analysing different asset classes; quantifying and managing investment risks; portfolio management.	• DCLG has very little in-house commercial resource to draw upon. • Request to ShEx to create a joint team consisting of 1 G5 and 1 G6 from ShEx. • DCLG to provide 2 G6 and 1 G7 • ShEx in lead, reporting directly in to DCLG DG • Team to be predominantly located in DCLG.	• Proposal to ShEx on areas of expertise required • No agreement as yet, but indicated agreed in principal, subject to ShEx Board • Further consideration of how to structure joint working team and the location required, and who would form part of team – new resource or existing ShEx resource.	• To be agreed, but aiming for July start.

ACTION – Board approval sought

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Departmental requests – DfT and DECC

DfT BACKGROUND – Good existing relationship with ShEx. Request to consider direct involvement in corporate finance activity at request of Perm Sec, possibly formalised.

WORK INVOLVED
- Support on several corporate finance workstreams: NATS, roads reform, Highways Agency Projects; Network Rail, Local Transport projects including Mersey Gateway Bridge; other transport projects and potential asset sales

RESOURCE
- Currently, two ShEx G5s and one ShEx G6.
- Likely greater resource required

AGREEMENT
- No formal agreement in place, but positive working relationship
- Collaborating on ICP review
- Will consider options on joint working team thereafter

STATUS
- Discussions on-going
- Key issue will be DfT not wanting to separate corporate finance team from policy teams in the Department

DECC BACKGROUND – Engagement to date very significant, but likely to increase further given previous relationships. Significant engagement on NDA, Green Deal, New Nuclear, etc

WORK INVOLVED
- At this stage, ShEx acting as "critical friend" in supporting DECC as they pull together their ICP for IUK
- DECC engaged in wider skills audit

RESOURCE
- No dedicated resource but likely greater resource required

AGREEMENT
- To keep in touch as work develops and while DECC develops its own plans.

STATUS
- To be agreed

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Asset Sales

Current position

- HMT and CO considering a major push on asset sales – initially for 2015/16, with a programme to follow. Provisional target of 25%+ proceeds of average asset proceeds of each Department. £40bn total?
- Departments submitting returns of potential disposals for 2015/16 as part of Spending Review negotiations.
- Also will cover central and local government and business and property assets.

Policy ideas

- Asset sales policy ideas are in early incubation and thinking to date has been led by HMT, with some CO and ShEx input.
- Early ideas include:
  - Delivery bodies for asset sales could be ShEx (business assets) and HCA (for property), and assets could be transferred from departments to ShEx and HCA to deliver on a sale;
  - ShEx, HCA and third parties can propose assets for disposal;
  - Positive incentives for Departments to identify and transfer assets for sale; and
  - Strong Ministerial support required which could mean larger role for PEX(A) - horizon scanning, adjudication with Departments, decision making.

Role for ShEx

- ShEx seem to be key to early thinking as a central body to handle and deliver business asset sales
- We will be involved in the development of this proposal to ensure proposals are workable and in ShEx's best interests.
- Obviously, this would be a departure from our current business model which we need to think about carefully.

Next steps

- Two stage challenge process (officials / Ministers) of 2015/16 returns – Mid May.
- Announcement expected around Spending Review with more detailed planning of longer term model continuing over the Summer.

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Issues for discussion

Approvals

- The Board is asked to endorse the MoD and DCLG proposals
- The Board to note that proposals for DfT and DECC will be submitted when further developed

Resourcing

- To allocate resource immediately to the MoD and DCLG projects
- Impact on broader resourcing requirements

Terms of Engagement

- MoU in all cases
- Case-by-Case negotiation

Charging

- Budget transfer proposed – compulsory?
- Level of charge – salary recovery?

Supervision

- Additional senior management resource requirements – see accompanying paper "The ShEx licence to operate"
- Formal review processes to be developed

Corporate Finance Profession

- Strengthen cross-government relationships
- Networking and career development for individuals

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Appendices

A - Policy influences

B - MoD draft MoU

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Annex A – Policy influences

Civil Service Reform Programme

- **Reform programme includes a new competency framework, a new approach to project management, and a capability plan**

Reform plan published in June 2012

"Through the Civil Service Reform programme, the MCO and Head of the Civil Service are jointly implementing their vision for an exceptional Civil Service delivering the best for Britain. The Civil Service will be a smaller, more open and flexible organisation, achieving results faster and operating in a different way. It will be more focussed, will do fewer things, but will do them better. The Civil Service will be trusted and respected by the public, the Government of the day and future Governments as an efficient, effective organisation"

REFORM THEMES

MORE DIGITAL   MORE SKILLED

BETTER POLICY MAKING

UNIFIED, OPEN AND ACCOUNTABLE

Relevance to ShEx

Delivery (models, digital, transactional services, shared capability) Examples: Mutuals, GovCos, Trading Funds, PDG, sharing of best practice.

Policy (open policy making, resourcing priorities, skills and expertise) Examples: use of external advisors, flexible management of portfolio, split of private and public sector resource.

Implementation and accountability (project management, management info) Examples: transactional specialists, culture of constructive challenge, clearly defined accountabilities

Building Capability (5 year plan, churn between sectors, improvement plans) Examples: diverse skill base, movement between private and public sector

Employment offer (flatter organisation, culture and behaviour) Examples: Highly collegiate approach

Capability Plan published in April 2013

Sets out five year strategy for improving capabilities across the whole Civil Service

Work is proposed to address skills deficiencies in four key areas that are vital to delivering better public services in the 21st century:

- **Leading and managing change**
- **Commercial Skills and Behaviours** – taking decisions and assessing risk based on market knowledge and focus on vfm for the taxpayer.
- **Deliver successful projects and programmes** – delivery of priorities
- **Redesigning services and delivering them digitally**

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Policy influences

Laidlaw report in to West Coast Mainline

- In October 2012, the DfT SofS announced that the competition to run passenger trains on the West Coast Main Line had been cancelled following the discovery of significant technical flaws in the way the franchise process was conducted
- Sam Laidlaw, lead non-executive on the DfT Board was appointed to conduct an independent inquiry.
- The independent inquiry into the cancelled West Coast Main Line franchise competition has concluded that the project failed because of an accumulation of significant errors related to inadequate planning and preparation, complex organisational structure, and a weak governance framework.

Recommendations

- DfT to take forward the Laidlaw "prescription" of:

  - Clarity of process;
  - Clarity of responsibility;
  - Adequacy of resources;
  - Open to challenge and escalation;
  - Honesty on risk.

Specific improvements required include:

- Planning and preparation – sound planning and rigorous management, drawing in relevant expertise and engaging stakeholders in process effectively
- Clarity over structure and governance – clearer and simpler structure, clearly identified responsibility and appropriate mix and skills
- Resource – ensure adequate skills and training are in place, and use of external professional advisers

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Policy influences

Lord Browne Report on Major Projects

- Government's lead non-executive reported on improving the execution and control of major projects
- Report highlights the two basic insights and three areas in which the government's approach to major projects should be substantially improved.
- Two basic insights: The first is that the lowest standards that are set at the start of a project are the highest standards that can be expected for the rest of the project. The second is that nobody ever stops or intervenes in a poor project soon enough.

  1) The process used in government for managing the set-up of new projects, called the 'starting gate process,' while an improvement on earlier attempts, is too simplistic given the costs and risks associated with major projects.

  2) Major projects in government are announced and money is committed to them without the assurance that a project leader and team with the right capability have been put in place.

  3) To inform these decisions on funding, there needs to be high quality assurance on project readiness and value for money. MPA should also be seeking an independent view on the design of major projects as part of the stage gate process, drawing on the expertise of the Chief Scientists in government and the senior members of professional associations such as the Royal Academy of Engineering.

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Annex B

DRAFT FOR DISCUSSION

MEMORANDUM OF UNDERSTANDING (THE "MEMORANDUM")

BETWEEN THE SHAREHOLDER EXECUTIVE ("SHEX")

AND THE MINISTRY OF DEFENCE ("THE "DEPARTMENT")

IN RELATION TO THE ASSET MANAGEMENT PROGRAMME ("THE PROJECT")

DATED [●] APRIL 2013

1. Introduction

This Memorandum of Understanding sets out the broad terms of engagement between ShEx and the Department in relation to the Project. It seeks to ensure that the Department and ShEx have a clear common understanding of the basis of ShEx's engagement, including Project accountabilities, reporting lines and working relationships.

2. Purpose

The primary objective of the Project is to execute transactions that generate a capital receipt in respect of three assets owned by the Department within the Asset Management Programme ("AMP"). Those assets being:

i) the Government Pipeline and Storage System ("GPSS");
ii) the Defence Support Group ("DSG"); and
iii) Marchwood Sea Mounting Centre ("Marchwood").

Within this there are three distinct priorities:

i) to put in place acceptable ongoing contractual arrangements between the Department and each individual asset;
ii) to conduct a market based transaction that delivers value for money to the Department and the tax-payer, consistent with achieving priority i) above; and
iii) to ensure full compliance with all relevant Department and wider HMG approval processes.

The relevant timeframe is for each individual asset, the earlier of:

i) a transaction is completed;
ii) a decision is taken by the Department not to proceed with a transaction; or
iii) the end of this Spending Review Period (being April 2015).

- Appropriate KPIs and milestones will be put in place and agreed between the Department and ShEx to monitor progress against this objective. If agreement cannot be reached that sufficient progress is being made against agreed KPIs and milestones, ShEx reserve the right to terminate its engagement with the Department;

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3. Accountabilities

The Department's:

- Secretary of State is accountable to Parliament for the performance of all functions carried out in relation to the Project;

- Accounting Officer is accountable to Parliament for ensuring that Project systems, processes and controls conform to requirements of regularity, propriety, and good financial management; and

- Carole Tolley, as SRO, reporting to [DG level contact] who has Executive Committee / Management Board responsibility for all issues relating to the Project, including policy, governance and finance.

The Department will:

- retain responsibility for policy in relation to the Project and will work with ShEx to ensure that wider Departmental and Government objectives are taken account of;

- retain the responsibility for budget allocations related to the Project and Project Team; and

- ensure that ShEx is appropriately represented in all Project governance. ShEx will be consulted in relation to any future changes in these arrangements.

ShEx will:

- jointly lead, together with Business Strategy Group ("BSG"), on all corporate finance-related or sale-related aspects of the transactions, including:

  - appointment of external advisers and the negotiation of advisers' fees and terms;

  - management of project timetable and deliverables;

  - provision of advice to ministers, SRO and other government departments and committees (e.g. PEX (A));

  - design and structuring of sale and sale processes;

  - approach to and engagement with the market and potential acquirers;

  - instruction and management of all external advisers;

  - transaction project management; and

  - negotiation with potential acquirers.

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- maintain a continuing dialogue with BSG;

- meet regularly with the SRO (at least twice-monthly) and the Minister for Defence Equipment, Support and Technology (at least quarterly) to discuss each of the transactions and the overall programme;

- ensure that ShEx input to the transactions is clearly presented to, and understood by, all relevant stakeholders;

- provide appropriate representation at the AMP Board and Project Boards for each asset;

- provide appropriate representation at the Ministerial Owners Council for DSG;

- provide sufficient specialist resource to support the Project, under the leadership of [G5]. This is initially estimated as being [50%] of [G5]; and for each of the three assets, [50%] of a Grade 6/7. It is intended that, where practicable, all such resource will be physically located in the Department for a significant proportion of their time working on the Project;

- where relevant, support in discussions with HM Treasury, Cabinet Office, Number 10 and other relevant central government bodies;

- agree with HM Treasury an acceptable value-for-money methodology;

- ensure quality assurance of the input being provided through [G3] and, ultimately, the ExCo of ShEx; but

- for the avoidance of doubt, not take overall responsibility for the Project.

4. Reporting

The Department and ShEx will:

- jointly sign-off on all submissions, updates and advice related to the Project. Should there be any disagreement, submissions and advice will record the different opinions;

- seek agreement from finance and policy officials on submissions and advice where decisions are sought or where content is novel, contentious or repercussive; and

- ensure that all advice, and responses to advice, are made in writing. If applicable, reasons will be provided by the Department for not following ShEx's advice.

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The Department will:

- ensure that ShEx is invited to attend, and is able to contribute to briefings for, all internal and external meetings related to the Project; and

- ensure that ShEx is sighted in advance on all submissions, advice or meetings that are relevant to the Project, but which fall outside its scope of work.

5. Working Relationship

The Department and ShEx will:

- [six months] from the date of this Memorandum, review overall progress of the Project, and in particular the development of acceptable ongoing contractual arrangements between the Department and each individual asset;

- jointly agree on a Project scope, timetable and team structure. Future changes to any of these will be agreed between the Department and ShEx; and

- ensure that all documents are filed in accordance with normal Civil Service practice, and in such a way as to ensure business continuity at the end of the Project.

The Department will:

- cover, through budget transfer, the related salary costs of ShEx for the duration of the Project [to a maximum of [£•]];

- keep ShEx informed in relation to policy developments outside of the Project. This will ensure that advice is given, and decisions are made, on a fully informed basis;

- give ShEx appropriate forewarning of any requests related to the Project. Both the Department and ShEx will ensure that responses are appropriate and timely;

- ensure that ShEx has access to all material information in relation to the Project, including internal and 3rd party documents, correspondence and reports; and

- ensure that ShEx has access and open lines of communication to other teams across the Department (and related bodies) in order to support the Project.

These arrangements are intended to set the framework for the constructive engagement of ShEx on the Project and will be reviewed periodically particularly in the event of changed circumstances, objectives or priorities in respect of the Project.

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Signatories

Signed by [ ]	)
For and on behalf of	)
THE SHAREHOLDER EXECUTIVE	)
Job Title [INSERT]	)
Date	)

Signed by [INSERT]	)
For and on behalf of	)
THE MINISTRY OF DEFENCE	)
Job Title [INSERT]	)
Date	)

Copied to:

CEO ShEx;

DG MoD; and

HM Treasury Spending Team.

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The ShEx Licence to Operate – ShEx Board 16 May 2013 (13)11

Paper titled *The ShEx Licence to Operate* to be presented by Fiona-Jane Macgregor at the Board meeting.

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Information Economy Industrial Strategy – ShEx Board 16 May 2013 (13)12a

ShEx Board to note that:

- **Progress to date and expected upcoming activity**
- **Potential areas for deliverables in the Strategy**

Summary

- We are now in the drafting stage of the Strategy, following a 4 month period of knowledge gathering and stakeholder engagement.
- The Strategy is due to be published in mid-June. Once BIS Ministers are content, a first draft will be shared with No.10 and other Government Departments. It is also being sent to selected players in the sector via the Information Economy Council.
- Ahead of launch, Council members will be invited to comment on and as far as possible to agree the text (as it is intended to be a co-created document); it will also be subject to a Cabinet clearance write-round.
- The proposed overall vision is for a thriving UK information economy that enhances our national competitiveness. Action currently focuses on supporting:
  - UK businesses making best use of IT and data;
  - Enabling citizens to make the most of the digital age; and
  - A strong, innovative information economy sector exporting UK excellence to the world.

Possible new commitments

- This is a sector where HMG needs to tread lightly. The Strategy provides an opportunity to highlight existing activity that supports the information economy and where Government and industry can work together to bring greater coherence to this activity. The main areas of follow-up action are likely to be:
  - Improving digital skills
  - Encouraging the adoption of open standards
  - Getting more SMEs trade online
  - Fostering a business environment that promotes growth

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Launch and beyond

- We are looking for a high profile event to launch the Strategy around mid-June and developing a programme of events for the following weeks and months. The aim is to maintain focus and involve Ministers from other Departments to highlight the range of areas covered and underline that this is a cross-Government strategy.
- The Strategy will not be a static document. It will continue to evolve after publication as ideas and concrete actions emerge from dialogue with government officials and external stakeholders.
- Our ambition is the Strategy will lead to a more co-ordinated approach to the information economy in Government. At present responsibility for key aspect of the information economy sits across four Departments (BIS, Cabinet Office, DCMS and MoJ).
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Background

1. 1. In September 2012, the Secretary of State set out a cross-government industrial strategy based on having a clear vision for the future, taking long term decisions, being open to new opportunities and focusing on things the UK does best. This includes building a collaborative strategic partnership with key business sectors, including the Information Economy. The technology sector is important to the UK. In 2011 it contributed around 4.2% to GVA and 885,000 jobs. Whilst the GVA contribution is less than the financial services sector (11%) it is greater than that of the automotive and aerospace sectors.
2. 2. The first challenge was to define what the Strategy would encompass given the wide range of sectors and activities that could be included. The key underpinning “sectors” were identified as telecommunications, software and IT services. The working definition of the “information economy” is: the part of the economy where digital technologies and information combine to drive productivity and create new growth opportunities across the whole economy. This positions the Strategy as capturing the tech sector in a vertical sense and its role as a horizontal enabler of other sectors. Owing to short product life-cycles and rapid technological advances the Strategy has a 2020 horizon.
3. Following analysis of potential growth opportunities, Ministers agreed that the Strategy should focus on the following areas:
    - **Cloud computing** – where software services or data are hosted remotely from users whilst remaining accessible anywhere any time;
    - **Big data** – where there are new opportunities to analyse and yield value from the combination of new and vast datasets;
    - **The internet of things (machine to machine communication**) – the concept where all objects, animate or inanimate, are able to gather and communicate useful information to each other;
    - **Smart cities –** a future where transport, energy, environmental and healthcare systems are interconnected, reducing costs, providing new services, and providing efficiencies; and
    - **On-line economy** – e-commerce is a real UK strength.

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4. The Strategy also covers the **cyber security sector** and **ICT as a productivity raiser in other sectors**. It also looks at cross-cutting business environment issues, skills, access to finance and procurement.
5. Work to produce the Strategy started in October. Since then a delivery team has been established, subject knowledge and economic analysis have been built and the sector and other stakeholders have been engaged. An Information Economy Council has been formed to develop a strategic partnership between Government and industry and ensure we work together to deliver action.

END

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Royal Mail – ShEx Board 16 May 2013 (13)12b

ShEx Board to note that:

- **We have received further positive confirmation of a number of critical transaction "enablers": strong full year trading results; an encouraging final business plan refresh; helpful regulatory clarity from Ofcom; and continued positive feedback from investor meetings (including US investors).**
- **Industrial relations remain a significant risk however, with management not yet certain of the timing or nature of a revised pay and modernisation deal with the unions. We are clear that having some progress on a deal or agreement is necessary to risk a formal "go" decision on the transaction in the summer and that clarity on a deal itself will be needed before commencing a transaction – senior discussions with management are ongoing.**
- **Preparatory work is progressing well, with advisers making good progress on legal and financial diligence. An OGC gateway review of the project recognised the strength of the ShEx team's management of the sale (noting the significant exogenous risks).**
- **Treasury have approved the latest iteration of our Outline Business Case for an IPO in autumn 2013 (whilst doing all necessary work to retain the alternative options of a later IPO (spring 2014) or a private sale). The developing timetable for an IR deal will be central to this approach.**
- **Work continues with officials and Ministers to finalise a number of transaction decisions including employee shares, the retail component and outline capital structure.**
- **It is important to reemphasise that there remain significant risks and it remains possible that a deal will not be achievable on acceptable terms; we therefore continue to work on "hold" strategies should this be the case.**

<u>I) TRANSACTION "ENABLERS": LATEST POSITION AND ASSESSMENT OF KEY RISKS</u>

1. We continue to assess closely the key transaction "building blocks" that must fall into place if we are to successfully execute a sale. Our principal focus (and risk assessment) is on:

   A. <u>Industrial relations</u>:

   - RM continues to engage in negotiations with the CWU but have not yet reached a new pay and modernisation deal, nor has RM launched its consultation on the future of the RM pension scheme. The CWU has also stepped up its campaign against privatisation, through a "Save Our Royal Mail" campaign, as well as securing a consultative ballot at their recent conference covering a range of issues including privatisation.
   - However, we have seen little evidence of this campaign gaining any supporters, especially, following the publication of a Written Ministerial

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Statement and related speech given by Michael Fallon to demonstrate continued momentum towards a deal. HMG and RM continue to rebut the misinformation emanating from this campaign.

- We expect IR to be a key area of concern for investors although the company are more sanguine on whether a finalised deal is required ahead of key summer milestones notably the analysts presentation, and predict that an IR deal will not (and should not) be reached until much later on in the deal timetable. The recent announcement of a consultative ballot, the outcome of which will be in late June, has further clouded the IR negotiations as RM are cautious about giving CWU any further reason for action.
- Moya Greene has recently advised us that the CWU will be writing to Michael Fallon to suggest we discuss "capital model" and "share scheme". The former comprises the CWU's view on possible alternative ownership structures, and the CWU will not discuss the latter in isolation. We will need to await the CWU's proposals before taking on a view on further engagement, but we view CWU's engagement on employee shares as a crucial part of the overall debate on IR, and therefore our current preference is to find a way of discussing this with CWU if possible.

B. <u>Financial performance and outlook:</u>

- RM continues to perform strongly. Our view is that this outperformance continues to support an IPO-led strategy in Q4 2013. Furthermore, we assess a risk of a near-term financial shock as relatively low but will continue to monitor closely.
- **Full Year Performance**: RM has performed strongly over the Full Year 12/13 (to March), with all key financial metrics ahead of both original budget and mid year reforecast (see Annex 1). Group PBIT margins reached 4.7% (vs. 2.5% last year and the highest for over a decade), a crucial evidence point demonstrating margin recovery to investors.
- **Refreshed business plan**: BIS SoS formally approved RM's refreshed business plan in May, on the basis of projected sustained margin and cashflow improvement over the next 3 years. We have formally requested further clarity from Management on how they would mitigate key downside risks to maintain performance and dividends.

C. <u>Investor appetite:</u>

- Royal Mail, alongside BAML and Goldman Sachs, met with 14 investors on a US road show in March. US investors expressed a high level of engagement and potential appetite, especially given the UK location, size and nature of the sector
- US investors on the whole appear to have taken a more technical approach to the RM story vis-à-vis UK investors:
    - focusing on margin progression and cost reduction
    - less concerned with the regulatory, pension and union issues – clearly bigger issues for UK investors and may be a function of UK investor familiarity with the RM story and appreciation of domestic sensitivities
- **We have not seen any feedback (UK and US) to suggest that we should <u>not</u> proceed with our preferred strategy of preparing for an IPO in autumn 2013**

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- RM continues to refine its equity story in light of this feedback. The next full round of investor meetings will be on the back of RM's full-year results; this is likely to be in the first week of June.

D. <u>Market/economic conditions:</u>

- We cannot predict market conditions but this will form a key part of our analysis of feasibility of a sale at the forthcoming sale strategy decision points closer to a sale (i.e. early May and in the summer). We, and our advisors, are encouraged by continued activity in the IPO market, not least the imminent proposed flotation of CVC's stake in bpost (the Belgium Universal Service provider).

E. <u>Regulation:</u>

- Ofcom published their approach to regulating end to end competition at the end of March. We, and the company, were encouraged by both the substance of the proposed framework and the clarity of Ofcom's message to the market that they can and will act to protect the Universal Service. We believe that this will be sufficient to prevent regulation becoming a "red flag" for investors.
- Ofcom continue to signal their willingness to engage with analysts, and potentially investors directly. Their recent successful engagement with S&P (see capital structure below) has given us confidence in the regulatory clarity they are able to communicate.

2. Risks to these critical transaction enablers are significant and there remains a strong possibility that one or more could materialise; we are continuing to assess contingency options should this be the case. **However, at this stage we (and our advisors Lazard and UBS) remain of the view that, subject to IR in particular, a sale should be feasible from autumn 2013.**

<u>II) TRANSACTION READINESS: ROYAL MAIL AND SALE PROJECT</u>

Preparatory work is progressing well across a number of key strands:

3. **Transaction syndicate**: We have commenced our appointment process for our banking equity syndicate (i.e. Global Coordinators and bookrunners for a potential IPO). We expect to confirm the core members in late May and appoint a full syndicate by July.
4. **Legal and Financial diligence**: The company, and its advisors, have made good progress on initial legal and financial diligence. We, and our advisors, have reviewed the work and agree with its key findings. Critically, the work has not exposed any "red flags" that we were not already mindful of (e.g. Industrial relations).
5. **PLC readiness**: On the back of Ernst and Young's "Financial Position and Prospects (FPP)" analysis the company are implementing a wide-ranging set of actions to ensure that RM's Governance and processes are suitable for a listed company. We continue to press the company to explain timing and assurance on this programme.

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6. **OGC review of sale project and team**: A Gateway Zero review was held in mid-April. The Review panel gave the project an overall 'confidence in delivery' assessment of amber. The key conclusion of the Review is that whilst the project is subject to significant external risks (IR in particular), these are being managed to the extent that they can be by ShEx and success appears feasible provided that objectives and plans are aligned between the three major stakeholders (ShEx, RM and HMT). The Review made 11 recommendations, one of which is already complete with an implementation plan in place for the remaining 10

III) OUTLINE BUSINESS CASE AND PROGRESS ON KEY DECISIONS

7. The latest (May) iteration of the OBC has been approved by Martin Donnelly and a Treasury Approval Point (TAP) panel. It considered a number of specific additional decisions over and above the initial February iteration:

A. Transaction size

- Further assessment of investor messaging, valuation and value for money has highlighted likely benefits of Government seeking to sell-down to a minority ownership position post IPO. The OBC has been updated to reflect a target sale of c43% of shares (which alongside 10% employee shares would see control pass to private shareholders).

B. Capital Structure

- We have been clear that access to external borrowing is critical to our equity story and in fulfilling our policy objective of securing private capital. On the basis that we are targeting a sell down to a minority position, Treasury have confirmed that we should prepare for RM refinancing its debt from external providers at IPO. Where such a selldown is not achieved (i.e. where RM continues to be public sector classified/majority owned), Treasury require that RM will need to continue to borrow from the NLF. Discussions are to commence imminently with the NLF team to ensure that such backup facilities are on fully commercial terms (in order to minimise potential investor concerns on an unusual and possibly uncertain capital structure).
- On this basis RM has initiated a market testing exercise with a range of potential funding providers, deliberately timed to coincide with and benefit from the concurrent appointment of equity banking advisors.
- Treasury have approved key principles for calibrating the day 1 capital structure (i.e. drawn debt, undrawn facilities and cash), namely that i) the structure must support a transaction (principally that RM receives a stable investment grade credit rating); ii) it must deliver Value for Money (i.e. does not over-solve to an inefficient balance sheet and iii) ensures the sustainability of the Universal Service (i.e. the business can cope with potential shocks).

C. Employee Shares

- The size and terms of transfer have yet to be finalised. HMT ministers are reluctant to commit to 10% for free without firm assurance of concessions from the union.
- We have now agreed with the company that GLS employees will not be included in the share scheme. RM are looking at separate ways to incentivise GLS employees (which may itself have implications for shareholder value)
- We have been preparing four schemes with the company, which are being worked up in parallel in readiness for the appointment of the employee shares provider this month. They are individual ownership in a tax-

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approved (SIP) scheme (our preferred option in an IPO), individual ownership outside of a tax-approved scheme (if we wish to provide some shares without a holding period) and Employee Benefit Trusts for both IPO and private sale scenarios (which could be used alongside a SIP if required for the sake of IR).

D. RETAIL

- We have been working up the shape and structure of a retail share offer, and in particular the policy and practical implications of including a direct element within this. BIS Ministers are minded to pursue a small-scale direct component within the overall retail offer, focussed on providing access for those who cannot / prefer not to use intermediaries. Initial market research suggests demand for Royal Mail shares could be significant.

E. FUNDING

- Treasury have agreed the funding arrangements for employee share costs over above the £43m to be funded from within the RDA ringfence and other transaction costs associated with the sale to be funded from within the RDA ringfence. It has been agreed that BIS may make a claim on the Reserve if they cannot be covered through underspends. This will be subject to an assessment of need and affordability at the time.

8. The **TAP panel** have approved the latest iteration of the OBC subject to a number of requests:

   - The OBC to be updated with further consideration of our IR strategy, in particular how key IR dates fit with our transaction timetable and what levers HMG has to increase the pressure on the Union and when these could be deployed.
   - VfM arguments to be drawn out more clearly in the OBC, in particular around why the assumptions made in the sell vs. hold analysis are valid.
   - The OBC to be clearer about the residual risk to HMG of selling RM, including providing further information on the potential financial costs to HMG, the risk mitigations available and the terms of the Special Administration regime set out in the Postal Services Act 2011.
   - Plan B to be developed further to consider risks associated with implementation and an analysis of RM management resistance and strategies for overcoming this.
   - Options for the retail offer to be developed ahead of further discussion with HMT.

IV) PLAN B

- Lazard have had a number of discreet conversations with potential private investors during April / May to determine level of appetite for Plan B. These meetings are being undertaken in the strictest of confidence and with a very clear message that our priority remains to IPO the business (so as not to risk confusion or risk stakeholder concerns if this were to leak).

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- A number of key themes have emerged from discussions:
  - Investors are impressed with the progress in recent years but recognise a number of issues remain (operational efficiency, volume decline, etc.);
  - Sovereign Wealth Funds would generally require another investor to lead the transaction and drive value creation;
  - Private Equity would require sufficient influence over the business to drive change in order for a transaction to be attractive;
  - Early interaction with Unions would be required in the event Plan B became the preferred route in order to avoid potential negative impact on value (as well as negative public reaction to investors); and
  - Clear reluctance to commit additional time and resource to investigating Plan B while IPO remains HMG's preferred route.

9. Lazard's initial assessment suggests Plan B has significant risks, for similar reasons as the IPO (i.e. industrial relations, pension etc.) but potentially heightened where IR that has prevented an IPO. Lazard stresses that a private sale could likely be constructed but with potential value impact and with likely significant execution risk.

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V) NEXT STEPS & FORTHCOMING DECISIONS

10. Following indicative formal approval from the TAP panel, the OBC will be submitted by officials to ministers in support of a formal recommendation that the project should proceed.

11. The expected timeline of formal sale strategy decisions and supporting evidence to support those decisions is as follows (noting that advice on individual issues may come up earlier in preparation for these big decision points):

	Decision	Supporting evidence
Early May '13 (current TAP decision)	Validate lead sale strategy (or change to alternative option) and agree policy on: • Employee shares • Retail offer • Access to debt (external borrowing) • Principles of approach to capital structure • Target size of stake to be sold	• Updated Business Case and VfM analysis (approved by BIS Accounting Officer and TAP panel) • Full-year results • Further clarity on Ofcom's end-to-end position • Update on pay deal / pensions negotiations
May/June '13	• Appointment of GloCos	• Syndicate appointment process
End-June '13	• Validate lead strategy following June investor mtgs • Whether to lay the Report to Parliament before summer Recess (i.e. in July vs. September) • Confirm intention to proceed with IPO	• Detailed investor feedback following full-year results • Draft prospectus available • Further update on market conditions • Update on IR progress
Early Sept '13	• Confirm decision to proceed with sale • Commence "pilot fishing" • Decision to execute early IPO (assuming lead strategy remains early IPO)leading to formal announcement of Intention to Float	• Q1 results (to June '13) • Further investor engagement , including pilot fishing • Clear adviser analysis of market conditions and appetite • Final Business Case •
Oct '13	• Decision on: - exact size of stake - pricing - allocation principles (e.g. split between institutional and retail investors)	• Full picture of IPO investor appetite • Current trading update • Equity market backdrop (i.e. open to IPOs?)

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Annex 1: Full year financial performance

12. **Full year performance is significantly ahead of the budget[1] and reforecast[2]**

- Revenue of £9,279m is £163m (+1.8%) ahead of budget and £46m (+0.5%) ahead of reforecast.
- PBIT of £440m is £187m (+42.5%) ahead of budget and £40m (+9.1%) ahead of reforecast.

Group	Actual FY performance	Variance to November reforecast	Variance to Budget
Revenues	£ 9,279	+46	+163
Variance (%)		0.5%	1.8%
PBIT	£ 440	+40	+187
Variance (%)		9.1%	42.5%
Margin	4.7%		
UKPIL			
Revenues	£ 7,766	+15	+156
Variance (%)		0.2%	2.0%
PBIT	£ 331	+35	+189
Variance (%)		10.6%	57.1%
Margin	4.3%		
GLS			
Revenues	£ 1,498	+43	+26
Variance (%)		2.9%	1.7%
PBIT	£ 101	+1	-7
Variance (%)		1.0%	-6.9%
Margin	6.7%		
People costs			
Costs	-£ 5,147	+35	-26
Variance (%)		-0.7%	0.5%
Distribution & Conveyance costs			
Costs	-£ 1,785	-42	-16
Variance (%)		2.4%	0.9%

[1] Budget at end-June 2012
[2] Reforecast at end-November 2012

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HM Government

Commercial – In Confidence

Business Bank – ShEx Board 16 May 2013 (13)12c

ShEx Board to note that:

- **The progress made with the £300m investment programme, with roadshows having been carried out and expressions of interest received**
- **The progress made in the institutional design, financial framework and communications strategy**

Summary

- **Budget 2013 announced extensions to existing Government finance schemes which will form part of the business bank programme. A trade credit pilot is currently taking place with Kingfisher plc under the Enterprise Finance Guarantee (EFG) scheme. Additionally, a further £75m has been made available for early-stage venture capital, expanding the Business Angel Co-investment Fund and the Enterprise Capital Funds (ECF) programmes.**
- **On 21 March 2013, we published a strategy update, "Building the business bank[3]", which provided further details on the progress being made and a high level road map for the programme.**
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Business bank product suite

1. IRRELEVANT

[3] https://www.gov.uk/government/publications/building-the-business-bank-strategy-update

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Business Bank Investment Programme

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10 IRRELEVANT

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Communications Strategy

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Organisational Design

17. The business bank is operating on an interim basis within BIS. New processes will be rolled out as part of an organised, phased process. We envisage the project being completed by Autumn 2014.

18. Work is progressing well with HMT on setting an appropriate financial framework for the Business Bank.

19. We are currently recruiting for further senior posts in the Business Bank team, including interim head of investment, head of finance, head of risk and head of communications.

20. We envisage that the Chair of the business bank Board will be appointed after summer recess and the permanent CEO will be appointed before the end of the year. This part of the process has been brought forward by about six months.

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21. We are continuing to work on the legal framework for the bank. In parallel, discussions are ongoing with the Commission regarding the State Aid implications for the bank as an institution and for the bank's products.

Next steps

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END

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Urenco – ShEx Board 16 May 2013 (13)12d

ShEx Board to note that:

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Summary

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Update on Dutch position

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Update on German shareholders (E&R)

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Update on German government

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Company/business plan/VDD/IPO

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Update on market-testing and pre-sale process

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Timetable

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END