

## Minutes of Shareholder Executive Board

**Wednesday 15 September 2010 at 14.00**

<b>Members present:</b>	Philip Remnant (Chair) Claudia Arney Pat Carter Gerry Grimstone Peter Schofield Tony Watson Stephen Lovegrove Mark Russell John McCready	<b>Attendees</b> :	Susannah Storey (Item 3) Jo Shanmugalingam (Item 3) Abbie Lloyd (Item 6)  Will Gibson, Deeya Sawhney
		<b>Secretary:</b>	

Agenda Item	Action point	Action officer	Due date
Item 2	Update Board regarding ShEx reorganisation at the next meeting.	Stephen Lovegrove	December meeting
Item 3	Commission paper from UBS on the conditions for a Royal Mail transaction	Susannah Storey	Completed
Item 3	Update on Royal Mail for next Board meeting	Susannah Storey	December meeting
Item 4	Circulate Public Data Corporation Slides	Deeya Sawhney	Circulated with minutes
Item 5	Update on Property for the next Board meeting	John McCready	December meeting
Item 5	Give further consideration to Property Programme Board	Stephen Lovegrove	Property Advisory Panel set up October 2010
Item 6	Circulate PEX(A) remit and membership to Board members	Stephen Lovegrove	Oral update at December Meeting
Item 7	Arrange future Board meetings for 2011	Deeya Sawhney	In hand

### Item 1 Apologies for absence, Chairman's welcome and introduction

1.1 There were no apologies for absence. The minutes of the previous meeting were accepted.

### Item 2 ShEx Board Governance

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- 2.1** Philip went through his paper on the ShEx Board's remit, particularly alerting members to the following considerations:
- Policy restraints - the Board will give advice on the operational implications and effectiveness of policy proposals;
  - Projects - the Board will review progress and status of projects that ShEx undertake;
  - Initiatives - the Board will be consulted on the cost/benefit analysis for all major initiatives.
- 2.2** Board members went on to discuss the Board's role, effectiveness and accountability. The Board saw itself as an advisory group to help ShEx fulfil its role in Government and escalate issues when necessary, with accountability to ShEx. Members commented that there may be situations where the Board disagrees with policy decisions, and therefore ShEx's involvement in some cases which could compromise ShEx's capability or affect its reputation. Stephen stated that ShEx would always start from a commercial position but would overlay policy priorities in order to get a settled and agreed position. An example was Ordnance Survey and free data. Peter added that ShEx was also accountable to HMT Ministers and HMT would support ShEx on matters where ShEx's effectiveness could otherwise be compromised, for instance on staffing. Philip pointed out that he and Stephen regularly discussed key ShEx issues. Stephen commented that the Board has been a very useful source of counsel and advice.
- 2.3** Stephen went on update the Board on the internal reorganisation of ShEx into three units:
- Portfolio Business – managing assets in the ShEx portfolio, with oversight of Royal Mail (Anthony Odgers);
  - Corporate Finance – focusing on transactions of non-portfolio assets and special projects (Mark Russell); and
  - Property – efficient management of Government's property assets and delivering the Property Vehicle (John McCready)
- The Board asked for further detail on ShEx's reorganisation for its next meeting.

### Actions

- Update the Board regarding ShEx reorganisation at the next meeting.

### Item 3 Royal Mail Update

- 3.1** Susannah Storey and Jo Shanmugalingam joined the meeting to update the board on Royal Mail and the Postal Services Bill. The new Bill has been designed to offer greater flexibility on the commercial and regulatory side, acting

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as a package of reforms. Susannah and Jo talked through some of the big issues facing Royal Mail:

- Ownership – Royal Mail are committed to IPO route in preference to any other
- Pensions – Pension liability will need to be addressed
- Regulation – Protection and operation of USO
- Post Office – Public perception of the Bill and its effect on the Post Office network
- Proceeds – Fundamental saleability of business
- Players – Interaction and support of key Stakeholders

**3.2** The new CEO of Royal Mail has ambitious plans for cost reduction and Royal Mail is currently committed to the idea of an IPO. Members of the Board queried whether this was a sensible option for this business with Tony commenting that, even if there was a transfer of shares and capital injection, some form of Government underwriting would still have to exist. Susannah felt that this was probably a defensive stance from the business but ShEx were aware of the issues that surround this route. Stephen added that CVC were involved with the Belgian post office, they were able to increase margins and were now doing an IPO.

**3.3** Members of the Board were concerned about the problems Royal Mail was facing and its future prospects. Stephen assured the Board that, while the Postal Services Bill offered more flexibility in terms of sale, ShEx realised that it may not be possible to sell a stake and had informed Ministers about the difficulties of the process. Pat inquired about what had happened to EU privatised Post Offices. Gerry was concerned about the future of Royal Mail, particularly with respect to its IR problems and asked if proposals work in terms of value for money (VfM). Stephen realised that there were uncertainties surrounding the future of the Royal Mail, particularly due to the effect of e-substitution, but the Bill should create more flexibility and enhance our levers over the business. Stephen also added that the pensions issues will have to be fixed at some stage. Susannah responded that EU examples had more flexibility to tackle the USO and cost issues, and that we have designed the new Bill with more flexibility to tackle these issues and have made a VfM case to HMT. The team are working to a mid-2012 timetable to deal with pensions and change the regulator before trying to find a buyer for the business.

**3.4** Peter added that HMT were supportive of the work on Royal Mail, especially the fact that it gave the business an added sense of momentum but there were some key challenges. He asked whether ShEx had done an assessment on parameters for sale. At the end of a difficult Bill process it may still not be possible to sell the business; this could be difficult for Ministers to accept. Peter also queried the effect on ShEx's reputation, asking if it was difficult for ShEx to give commercial advice when they were in charge of policy too. Susannah mentioned that ShEx are waiting for Royal Mail's updated business plan but have previously looked at parameters for sale and potential buyers, reiterating that

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Ministers have been advised of the difficulties surrounding a sale and the need to address regulation and pension issues. Regarding the split between commercial and policy issues, Susannah confirmed ShEx were comfortable with giving advice on both areas.

### Actions

- Commission paper from UBS on the conditions for a Royal Mail transaction
- Update on Royal Mail for next Board meeting.

### Item 4 Chief Executive's report

**4.1** Stephen ran through his Chief Executive's report. ShEx is engaged in working on some of BIS's major initiatives and financial exposures: Royal Mail, Student Loans and Property and is also feeding into work on the Green Investment Bank (GIB). ShEx will need to remain involved as initial ideas have included using proceeds from the sales of assets from DfT, BIS (Student Loans) and DECC to fund GIB.

**4.2** Regarding Post Office, the main issues surround maintaining the Post Office Network and Spending Review negotiations ongoing regarding the Post Office. On FSS, the business is currently in financial difficulty, and Stephen will be writing to David Normington (Perm Sec, Home Office) on these matters. On Urengo, a go/no go decision on sale of Government's stake from Ministers is now contemplated before Christmas. On CDC, Gerry raised the possibility of a buy out of CDC's non-core assets. This asset transfer would put money into DfID which could be redistributed as a third world fund.

**4.3** Stephen introduced the Board to the idea of a Public Data Corporation. The concept of 'free data' could destroy value in public data companies and therefore there is a need to adopt a consistency of approach when looking at these businesses. ShEx feels there could be significant advantages to having public data entities under one organisation. ShEx will continue to work up ideas on this proposal but early indications show that there is Ministerial interest as it plays to value for money, transparency and data agendas. A presentation on Public Data Corporation will be circulated to the Board.

**4.4** Stephen updated the Board on the staffing situation in ShEx. Since the last Board meeting, BIS has approved ShEx's immediate portfolio recruitment needs. GPU are currently awaiting approval for exemption from BIS's recruitment freeze.

### Actions

- Circulate Public Data Corporation Slides



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### Item 5      Property Group Update

5.1 John updated the Board on progress made since the last meeting on the Property Agenda. There has been private sector and press interest in the work of the Government Property Unit (GPU). The key issue facing the Property agenda is the potential impact of Property Vehicles on the BIS balance sheet. ShEx are working with HMT and BIS Finance to address this issue.

5.2 The aim is for the Property Vehicles to own, manage and control the estate and to take decisions on asset sales, starting with the central civil estate. The proposed end model is to outsource the operation of the estate to private sector partners on a regional basis, who will bring the systems and commercial capability to consolidate the estate and who could provide financing for specific projects to release value where appropriate. The precise formulation of this time limited partnership is to be decided. The model will help to break down barriers to entry for strategic property management service providers, by setting contracts on a short term basis, thereby allowing and encouraging new entrants into the market (and ensuring service levels are optimised)

5.3 Stephen noted that there would need to be a large amount of Project Management work involved on the Property agenda and Philip was also concerned about the amount of resource in the GPU. John assured the Board that the level of work involved was fully understood. The scope of the GPU is across all central Government Departments, regions, and the operational estate, including MoD and NHS. To achieve substantial savings GPU needed to progress new property model in all these areas. Having a GPU presence in the regions would help to achieve this. There was a discussion regarding the comparatively complex governance arrangements of GPU, with reporting lines to both Cabinet Office and BIS. It was agreed these should be clearer, and that consideration should be given to the creation of a Property Programme Board to provide strategic challenge to the property strategy which was also being supplemented by work from Deloitte. Claudia was concerned about risks to ShEx's reputation and was keen to have a further discussion on this with Gerry adding that several members of the Board had expertise in the Property area and were able to offer advice. Philip asked for an update from John on the execution stage of forming the Property Vehicle at the next Board meeting for the Board to discuss.

#### **Actions**

- Update on Property – Execution Stage for next Board meeting.
- Give further consideration to a Property Programme Board.

### Item 6      Asset Management and Sales Update

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6.1 Abbie Lloyd joined the Board to present a paper on Asset Management and Sales, focusing on the creation of PEX(A), a sub-committee of the Public Expenditure Cabinet Committee (PEX), and its implications for ShEx. ShEx would act as an empowered delivery agent to lead the Assets agenda working on assets for sale/commercialisation, property and projects.

6.2 PEX(A) has not been formally established but the first meeting has been provisionally tabled for 27 September. The Committee is due to be co-chaired by Lord Sassoon, Commercial Secretary and Francis Maude, Minister for Cabinet Office. Stephen stressed that PEX(A) could be very important for ShEx to raise its profile and formalise the placement of assets in the ShEx portfolio. However it also could also be resource intensive for ShEx.

6.3 The Board commented on PEX(A)'s membership and remit, agreeing that the Committee needed to act as an enforcer with the right terms of reference and membership in order for it to function in the best manner. Stephen added that PEX(A) could be a good place to help clear obstacles and encourage progress on the assets agenda.

### Actions

- Circulate PEX(A) remit and membership to members of the Board.

### Item 7 Any other business

7.1 Philip mentioned future Board meeting dates for 2011; these will be arranged with Board members shortly. The next meeting of the Board will be on 8 December 2010, 14.00 – 17.00, 1 Victoria Street Conference Centre.

### Actions

- Arrange Board meetings for 2011.

**Will Gibson, Deeya Sawhney**  
**ShEx Board Secretary**  
**September 2010**