

Minutes of Shareholder Executive Board

Monday 7 March 2012 at 14.30

Members present: Patrick O'Sullivan (Chair)
Claudia Arney
Gerry Grimstone
Peter Schofield
Tony Watson
Stephen Lovegrove
Anthony Odgers
Mark Russell
Susannah Storey

Attendees: Oliver Griffiths (Item 5)
Rachel James (Items 2 and 3)
Roger Lowe (Item 4)

Secretary: Deeya Sawhney

Apologies: Lord Carter

Agenda Item	Action point	Action officer	Due date
2	Bring thoughts on Private Investment for PDG to the Board.	Anthony Odgers	July 2012
6	Circulate example of Investment Review	Anthony Odgers	May 2012
7	Arrange meetings with Board members and Patrick O'Sullivan	Deeya Sawhney	May 2012

Agenda Item	Action point	Action officer	Due date	Status
2	Bring thoughts on Private Investment for PDG to the Board.	Anthony Odgers	July 2012	Pending
6	Circulate examples of Investment Reviews	Anthony Odgers	May 2012	Done
7	Arrange meetings with Board members and Patrick O'Sullivan	Deeya Sawhney	May 2012	Done

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

- 1.1 Patrick O'Sullivan introduced himself to the Board, adding he had obtained a very good early impression of ShEx and hoped he could add value by advising Stephen and ShEx colleagues. The Board noted that apologies for absence were received from Lord Carter, and that Susannah Storey had now joined the Board as a member. The minutes of the previous meeting were accepted and there were no new declarations of interest from Board members. Patrick informed the Board that he would step out if there were any discussions on the Royal Mail side relating to Bank of Ireland, as he was Deputy Governor.

Minutes of Shareholder Executive Board

- 1.2 Claudia asked if the Cabinet Office Executive Director had been appointed yet. Stephen answered that this position had now been split into two roles and two people have been appointed.

Item 2 Chief Executive's Report

- 2.1 Stephen went through his Chief Executive's report, noting that the workload was reasonably stable in ShEx at the moment. The new ShEx Minister, Norman Lamb, is particularly interested in Royal Mail and Employee Ownership and has been complimentary of the work of ShEx, mentioning ShEx positively at a recent event.
- 2.2 Regarding the Corporate Finance Practice (CFP), ShEx continued to be involved on the sidelines of MyCSP. Mark added that CFP work was currently focused on GIB, continuing work around Airbus and Southern Cross, as well as new work around Four Seasons which was currently undergoing refinancing. CFP have not been as involved as expected with work regarding companies in distress.
- 2.3 Work on Student Loans continues and the ONS have offered a relatively positive response to removal of the interest rate cap. A paper updating PEX(A) Ministers on progress is due in April. Board members discussed the remaining liabilities for government from the derivative for sales going forward, testing assumptions with rating associations and the model for sales going forward.
- 2.4 Good progress has been made regarding Urenco, UK Government's position has been presented to Dutch and German shareholders and we are awaiting their responses; these are expected at the end of the month. Urenco are currently going through the process of appointing a new CFO as the current CFO had been in a serious accident and was still in hospital.
- 2.5 Regarding PDG, the Terms of Reference for PDG and DSB were in the write-round process and we were in the process of recruiting a PDG Board Chair and pursuing efficiencies and cross asset working. ShEx are currently considering how to inject private capital into the entities and will come back to the Board with thoughts on Private Investment for PDG.
- 2.6 On NATS, we are currently awaiting Ministerial decisions on whether to sell Government's stake, valued at £150m – 200m. This needs to be considered with Government's wider aviation strategy.
- 2.7 Rachel James joined to update the Board on BNFL. Government is involved in a complicated legal matter with regard to BNFL and is currently seeking expert advice from Clyde's. ShEx are monitoring the situation closely.

Minutes of Shareholder Executive Board

- 2.8 Tony asked about staffing in ShEx. Stephen mentioned that ShEx were in the process of recruiting 8/9 new people but the situation was stable at the moment. Despite the public sector pay freeze and complicated recruitment process, we have been getting a lot of good candidates. Peter noted that there may be pressure from BIS centre in the future to find savings through headcount reduction and ShEx should be wary as their budget was no longer hypothecated.

Action

- Bring thoughts on Private Investment for PDG to the Board before Summer.

Item 3 Executive Remuneration

- 3.1 Stephen asked the Board to note there was increased focus on executive remuneration which could have an effect on work in ShEx; therefore, ShEx has come up with its position on executive remuneration issues. These include the importance of performance related pay and monitoring the implementation of pay agreements. A number of stakeholders were interested in pay decisions, including BIS Ministers, CST and BIS Committees.
- 3.2 Claudia mentioned an upcoming Select Committee on Business and Public Appointments which it might be useful for ShEx to feed into. Stephen added that he and Anthony sat on SROC, which was the Committee that took decisions on pay within BIS.
- 3.3 Board members noted that it was a well written paper, commenting that the public appointment process was complicated and ruled people out of the talent pool and this, added to the pay discount and little support from politicians, made a very difficult position. Patrick asked if pay packages were compared across Government. Stephen answered that they were not but they are benchmarked and are considered on a case by case basis.

Item 4 Royal Mail

- 4.1 Roger Lowe joined the meeting to update the Board on Royal Mail. Government, from 1 April 2012, will take on liability for historic pensions and ShEx will manage the sale of assets £28bn, leaving Royal Mail with £2bn of liabilities.
- 4.2 The new regulatory framework will come into effect on 27 March 2012; this will give the business more commercial flexibility. In terms of a transaction, we need the new regulatory framework to bed in and the modernisation programme to continue; therefore, we would look to commence a transaction in March 2013 at the earliest. Royal Mail management would prefer to go down an IPO route and would like to do a deal as soon as possible. Susannah added that it is now up to ShEx to manage various stakeholders and handle

Minutes of Shareholder Executive Board

tactics, adding the Minister is very keen to see employee share ownership. Peter added that we needed to remain open to all types of transaction; a PE style sale may be best for proceeds and therefore need to manage relationships with Royal Mail management carefully.

- 4.3 Gerry asked about asset transfer and the decision making process around these asset sales. Mark said they were putting together a 'bible' to have as consistent approach as possible.

Item 5 Green Investment Bank

- 5.1 Oliver Griffiths joined the meeting to update the Board on GIB since the last Board meeting. GIB is currently taking up quite a lot of senior management time as there are major reputational and financial consequences for ShEx and the Department. Mark said the key thing was getting investment team together; there are currently 25 people working on GIB (including from ShEx) and 16 people have been hired. An announcement on location will be made shortly; 32 cities applied with London scoring highest and Edinburgh next. The HQ will be in Edinburgh, with the transaction and project team will be based in London. The first big investment is expected to be in the North West. Oliver added they may be some waste investments in London. Also, the Chair has been delayed for a week. The State Aid process is going well and we will be notified in the next few weeks.
- 5.2 Board members discussed reputational consequences regarding investment choices, the types of projects that GIB might invest in and political expectations.

Item 6 Portfolio Unit Development

- 6.1 Anthony updated the Board on Portfolio Unit development, focusing on the investment review process. All investment reviews will be completed by the end of the year and the quarterly investment review process has commenced. Investment reviews have focused on the strategy of the business, the business plan, management and direction. Overall, the process has been very helpful and some good ideas have been generated.
- 6.2 Tony asked about ShEx resource and adding assets to the portfolio. Stephen asked that some things have come out of the ShEx portfolio and that there may be large companies formed through government activities in the future which may end up sitting in ShEx; however, at present the current portfolio is manageable.

Minutes of Shareholder Executive Board

Action

- Circulate Investment Review example

Item 7 Any other business

- 7.1 Patrick noted that it was Peter's last Board meeting and thanked him for his significant contribution to ShEx.

Deeya Sawhney
ShEx Board Secretary