



Department  
for Business  
Innovation & Skills

## **Royal Mail: Sale of Shares**

Presented to Parliament  
pursuant to section 2(2) of the Postal Services Act 2011

June 2015



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# 1. Introduction

- 1.1 The Government's primary objective in relation to the postal services market is to safeguard the universal postal service in the UK. The one-price-goes-anywhere, six-days-a-week, universal postal service provided by Royal Mail is part of the social and economic fabric of the United Kingdom. Royal Mail is the only company currently capable of providing this service, which is vital to consumers, businesses and the UK economy.
- 1.2 The primary means of protecting the universal postal service is the regulatory regime for the postal market established by the Postal Services Act 2011. The Act gave Ofcom, then the new postal regulator, a primary duty to ensure the provision of the universal postal service and gave it the regulatory tools to intervene if it was considered that the universal postal service was under threat.
- 1.3 The minimum requirements of the universal service can only be changed by the Government with the agreement of Parliament<sup>1</sup>. In addition, the requirement that the universal service be geographically uniform throughout the UK can only be changed through new primary legislation.
- 1.4 For Royal Mail to provide the universal postal service, it has to have a sustainable future. The Government accepted the findings and recommendations of the Reviews led by Richard Hooper on the maintenance of the universal postal service, including what action was needed to ensure that Royal Mail remained capable of delivering that service. As well as regulatory reform, these included removing the company's historic pension deficit and giving the company access to the private capital it needed to invest and grow the business.
- 1.5 In April 2012, the Government relieved Royal Mail of its historic pension deficit of approximately £12bn by transferring pension benefits accrued up to that date to a new Government pension scheme. The Government transferred approximately £28 billion of assets and approximately £40 billion of liabilities. The management of the ongoing Royal Mail Pension Plan is a matter for Royal Mail and its Pension Trustees.
- 1.6 In October 2013, the Government sold 60% of its shareholding in Royal Mail through an initial public offering (IPO). Retail investors were given the opportunity to buy shares as well as institutions. The retail offer represented 17% of the shares sold. A further 10% of the shares were allocated to an employee share scheme which gave eligible employees a meaningful stake in the company, thereby strengthening employee engagement by better aligning employee incentives with those of other stakeholders and the company itself.

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<sup>1</sup> Via the affirmative resolution procedure.

- 1.7 At the time of the IPO, the Government retained just under 30% of its shareholding in Royal Mail.
- 1.8 This is the Government's second report to Parliament under section 2 of the Postal Services Act 2011. The previous report was laid in July 2013 in relation to the IPO.

## **2. Progress since the IPO**

- 2.1 Royal Mail's results since the IPO have been strong, reflecting the hard work of management and the employees in transforming the company to adapt to the developments in the postal market.
- 2.2 Royal Mail's quality of service continues to be high with the company achieving its regulatory target of 93% of 1<sup>st</sup> class letters delivered next day and exceeding the 2<sup>nd</sup> class target by delivering 98.9% on time.
- 2.3 In July 2014, Royal Mail successfully issued a debut €500m 10-year bond with a coupon of 2.375%. This followed on from Standard & Poor giving the company an inaugural BBB credit rating. The funds demonstrated the company's ability to raise funds from the private sector to support its operations thereby achieving one of the objectives behind the IPO in 2013.

## **3. Future Government sales of Royal Mail Shares**

- 3.1 The Government's policy document<sup>2</sup> published in October 2010 stated that "we do not believe that there is a need for Government to keep a stake in Royal Mail in the long term".
- 3.2 The Government believes that Royal Mail has demonstrated that it can thrive in the private sector and has the ability to access the funds it needs to ensure it has a sustainable future. It will continue to face challenges, such as the continuing fall in letter volumes and the competitive parcels market, but it is now better equipped to meet those challenges.
- 3.3 The new regulatory regime is in place and Ofcom announced in December 2014 that the universal postal service is not currently under threat and that it will continue to monitor the situation closely<sup>3</sup>.
- 3.4 The Government has decided, therefore, that it does not need to hold shares in Royal Mail and proposes to dispose of its shares through sales on the London Stock Exchange, starting this year.
- 3.5 Given that the sale of shares will be subject to market conditions and sensitivities, the Government will retain flexibility over the number of

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<sup>2</sup> "Delivering for the future: a universal service and community post offices in the digital age" CM 7946 October 2010

<sup>3</sup> "Review of end to end competition in the postal market" – Ofcom Statement, 2 December 2014

shares that are sold at any given time and the exact timing and structure of each sale.

#### **4. Objectives for the sale of shares**

- 4.1 The Government's objectives for the sale of its 30% stake in Royal Mail are to deliver:
- a sale of all HMG's shares in Royal Mail within this Parliament; and
  - a financial outcome for the tax payer that represents overall value for money.

#### **5. Commercial relationship between Royal Mail and Post Office Limited**

- 5.1 As set out in the first report to Parliament on the disposal of Royal Mail shares in July 2013, Royal Mail and the Post Office Limited (POL) were formally separated in April 2012.
- 5.2 The two key agreements, the Mails Distribution Agreement and the Master Services Agreements, were entered into by POL and Royal Mail to facilitate the separation.
- 5.3 The Mails Distribution Agreement, which governs the retail mail and parcels services offered by POL on behalf of Royal Mail, will continue in force for a period of ten years from its commencement date – 26 March 2012.
- 5.4 The Master Services Agreement is a transitional agreement which dealt with the separation of POL and Royal Mail and to ensure that POL retained access to certain key functions, such as IT and facilities management, while it developed its own standalone capabilities appropriate to an independent business. This agreement has been further extended to September 2015.
- 5.5 The sale of the Government's remaining 30% stake will have no impact on the Mails Distribution Agreement as it is not dependent on the Government's ownership. The Agreement is a commercial agreement between the two companies.

#### **6. Next Steps**

- 6.1 As the Government, over the course of this Parliament, implements any share disposal transaction, the House will be informed via written Ministerial statement of the details of the disposals concerned.

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