



Department
for Business
Innovation & Skills

Royal Mail: Disposal of Shares

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

July 2015



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1. Introduction

- 1.1 As set out in the previous report to Parliament laid pursuant to section 2 of the Postal Services Act 2011 on 8 June (“the Second Report”)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 minimum requirements of the universal service can only be changed by the Government with the agreement of Parliament². In addition, the requirement that the universal service be geographically uniform throughout the UK can only be changed through new primary legislation.
- 1.3 For Royal Mail to provide the universal postal service, it has to have a sustainable future. The Second Report gave Parliament an update on the progress made to ensure this and Royal Mail’s performance as a private sector company since the Initial Public Offering (IPO) of its shares in October 2013.
- 1.4 The Second Report also stated that there was no need for Government to hold shares in Royal Mail and informed Parliament that the Government had decided to dispose of shares through sales on the London Stock Exchange.
- 1.5 The sale of half of the Government’s remaining 30% stake in Royal Mail took place on 11 June 2015 and raised proceeds of £750m which will be used to reduce public debt.
- 1.6 This report provides further information about the Government’s plans to allocate free shares to employees which was announced on 10 June 2015.

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/433146/bis-15-313-royal-mail-sale-of-shares-report-to-parliament.pdf

2 Via the affirmative resolution procedure.

2. Royal Mail Employees

- 2.1 Postmen and women across the UK have played an important part in ensuring that Royal Mail is better equipped to continue to provide high quality universal postal services. They have been at the forefront of the significant transformation that Royal Mail has needed ensure that it can succeed in an increasingly challenging postal market. It is through their dedication and hard work that the nation continues to enjoy and benefit from universal postal services that bring social cohesion and economic value.
- 2.2 As Royal Mail's Chief Executive, Moya Greene, said in Royal Mail's annual report for 2014/15: "Royal Mail is nothing without its people."
- 2.3 The Government believes that there is merit in rewarding the employees of Royal Mail for their hard work, which has contributed to the recent performance of the company and the maintenance of the universal postal service in the UK. The Government has decided, therefore, to make a free allocation of 10m shares (around 1% of the value of the company) to employees.
- 2.4 These free shares are in addition to the free allocation of 10% by the Government of the shares in the company at the time of the Royal Mail IPO to an employee share scheme. The detail of that employee share scheme was set out in the first report to Parliament laid pursuant to section 2 of the Postal Services Act 2011 on 10 July 2013 ("the First Report")³. That allocation was the largest employee share scheme of any major privatisation for almost 30 years.

3. Objectives and Timing

- 3.1 The Government's objectives for this new allocation are:
 - to structure the employee share allocation so that it provides the maximum reward opportunity for the employees; and
 - to implement the allocation in a manner that minimises costs to the tax payer.
- 3.2 The Government's intention is to implement the gift of shares in this financial year.

3

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211669/bis-13-1054-royal-mail-sale-of-shares.pdf

4. The Employee Share Allocation Process

- 4.1 As with the original free allocation, Government intends to allow eligible employees to benefit from the tax advantages of HMRC's Share Incentive Plan arrangements.
- 4.2 The new allocation will follow the same rules that applied to the original scheme to promote its longevity, enable employees to benefit from those tax advantages, and to strengthen employee engagement:
- shares must be held for at least three years. Full tax benefits are only available if the shares are held for at least five years or for 'good leavers'⁴;
 - shares will be forfeited if an employee leaves Royal Mail within three years of their award. This will not apply to 'good leavers' whose shares will vest and benefit from tax advantages upon departure;
 - shares will be allocated to employees equally, regardless of grade or pay levels. The allocation will be pro-rated based on an employee's paid hours to differentiate between full and part time workers; and
 - to be eligible for shares, employees will be subject to a qualifying period of employment.
- 4.3 General Logistics Systems (GLS) employees, and those of joint venture companies, will not be eligible for the scheme, which is focused on the company that directly delivers the universal postal service in the UK.
- 4.4 Employees can opt not to receive shares. Further details will be provided to eligible employees in due course.
- 4.5 The Government hopes that eligible Royal Mail employees will participate and make the most of this opportunity to hold a further stake in their company.
- 4.6 The Government will work with Royal Mail to ensure that the allocation can be implemented efficiently and in a manner that minimises costs to the tax payer.

⁴ Good leavers include those retiring (as defined by Royal Mail and the scheme rules), redundancy, disability or illness, and death.

5. Commercial relationship between Royal Mail and Post Office Limited

- 5.1 The Second Report gave an update on the relationship between Royal Mail and Post Office Limited (POL).
- 5.2 The Second Report explained that Royal Mail and POL were formally separated in April 2012 and that 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 There have been no changes to these agreements since the Second Report.

6. Next Steps

- 6.1 Government will take forward the allocation of the free shares with Royal Mail. As set out at paragraph 3.2, the Government expect the process will be completed in this financial year.

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