



Department
for Business
Innovation & Skills

Royal Mail: Final Disposal of Shares

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

February 2016



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1. Introduction

- 1.1 This is the Fourth report to Parliament laid pursuant to section 2 of the Postal Services Act 2011. It provides Parliament with the detail of the disposal of the Government's final shareholding in Royal Mail plc, 10 million shares, to the company's eligible UK employees.
- 1.2 As set out in the previous reports, 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 UK. Royal Mail is the only company currently capable of providing this service, which is vital to consumers, businesses and the UK economy.
- 1.3 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 Parliament¹. In addition, the requirement that the universal service be geographically uniform throughout the UK can only be changed through new primary legislation.
- 1.4 There was, therefore, no policy need for Government to hold shares in Royal Mail. In 2015/16, the Government has disposed of 28% of the company's shares through sales on the London Stock Exchange in June and October. These raised combined proceeds of £1.34bn which will be used to reduce public debt. In total, including the Initial Public Offering (IPO) in October 2013, the disposal of Royal Mail shares has raised £3.32bn for the tax payer.
- 1.5 In October 2015, eligible UK Royal Mail employees were awarded 10m free shares (representing 1% of Royal Mail's issued shares) from the Government's shareholding.
- 1.6 This report provides further information about the Government's plans to allocate a further gift of 10m shares to employees, which was announced on 13 October 2015.

¹ Via the affirmative resolution procedure.

2. Royal Mail Employees

- 2.1 Postmen and women across the UK play an important part in ensuring that Royal Mail is better equipped to continue to provide high quality universal postal services. 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 The Government believes that there is merit in rewarding the employees of Royal Mail for their hard work, which has contributed to the maintenance of the universal postal service in the UK and the continued success of the company in a challenging postal market. The Government has decided, therefore, to take this final opportunity to make a further free allocation of 10m shares (1% of the company's issued shares) to eligible UK employees.
- 2.3 These free shares are in addition to the free allocation of 10% of the company's shares by Government at the time of the Royal Mail IPO in October 2013 to an employee share scheme and the 10m share allocation in October 2015. Once this final allocation is completed, the Government will have disposed of 12% of Royal Mail's issued shares to its employees. This is 2 percentage points higher than the minimum 10% requirement set out in section 3(2) of the Postal Services Act 2011.

3. Objectives and Timing

- 3.1 The Government's objectives for this new allocation are the same as the previous gift:
 - 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 dispose of shares to Royal Mail by March this year, thereby meeting the commitment made by the Chancellor in June 2015 to dispose of all of the Government's remaining shareholding in this financial year. The shares will be held in trust and then awarded to employees during 2016.

4. The Employee Share Allocation Process

- 4.1 As with the original free allocation in October 2013 and the second allocation in October 2015, 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 and the second allocation 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'²;
 - 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.

² 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 Third Report gave an update on the relationship between Royal Mail and Post Office Limited (POL). It 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.
- 5.2 There have been no material changes to these agreements since the Third Report, but service provision under the Master Services Agreement has been extended to allow further time to conclude IT services migration to POL.

6. Next Steps

- 6.1 This final allocation to eligible UK Royal Mail employees will mean that the Government will have disposed of all of its shares in Royal Mail and the company will be wholly owned by a combination of private investors and employees.

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