



Department for
Business, Energy
& Industrial Strategy

To: Secretary of State

From: Sam Beckett, Acting Permanent Secretary and Accounting Officer

Date: 26 June 2020

Dear Secretary of State,

ONEWEB

You have received advice on the proposed purchase of OneWeb, a start-up company whose ambition is to provide global broadband. A letter of intent is due to be submitted to the executor of OneWeb today. Ahead of that being issued, this letter sets out my position as Accounting Officer for BEIS.

Following discussions with HM Treasury, an investment of up to \$500m in equity is being considered to co-finance the purchase of OneWeb from US Chapter 11 bankruptcy proceedings. Whilst we are still in the process of forming the consortium, BEIS has been asked to make and manage this investment because we lead for government on space policy and have the delivery mechanisms that enable us to do this.

Despite the compressed timetable, the National Security Strategic Investment Fund (NSSIF) has on government's behalf sought professional financial advice on the company's prospects. That work involved scrutinising the business plan from the firm's management, including its revenue projections, through a financial model. It drew on expertise provided by a space-sector consultant. The model was also adjusted to ensure that it reflects a more conservative projection of the likely returns. That case concluded a positive return might be achieved. The fact that any investment would also be alongside other private commercial investors as part of a wider consortium, with one large and trusted investor already on board, indicates that there is a rational commercial case for investing. However, it should be noted that the lead co-investor is a telecoms company who will also be considering synergies with the wider businesses, in addition to the pure commercials of the case, which are not relevant to a government decision on this investment. Moreover, there remain a very broad range of uncertainties and possible outcomes around this case, so it is hard at this time to be confident in the underlying assumptions or the likely returns.

Given the time and data available, HM Treasury have not subjected this to the scrutiny of a full Green Book compliant business case, including considering whether alternative options for investment might provide a better return. And there are other wider considerations in the overall strategic case that cannot currently be captured in the financial model.

You will recall that following earlier discussions you also asked the UK Space Agency (UKSA) to procure a separate independent technical assessment. It highlights the substantial technical and operational hurdles that OneWeb would need to overcome in order to become a viable and profitable business. Taking that into account, UKSA consider that there is a high likelihood of further investment being required to complete the constellation and encourage user uptake of the services, increasing the risk that further HMG investment would be required in order to realise the potential benefits. As a result, UKSA's judgement is that the independent technical assessment further illustrates the considerable uncertainties in the modelling done for HM Treasury.

I completely understand your, the Prime Minister's and the Chancellor's interest in wider benefits such as the potential long-term geo-political advantages for foreign policy and soft power that would come with sovereign ownership of a fleet of satellites. Moreover, I do not underestimate the potential opportunity that this investment represents for UK interests globally. It would be the first mega-constellation operator, if it succeeds, and would have the potential to connect millions of people, in particular those in remote, rural locations without broadband access. There are also broader potential benefits that could be realised beyond global broadband. If OneWeb is successful, the UK would have a share in a global space platform, including through possible future research and development, and potentially bringing future manufacturing to the UK. There could be wider, less quantifiable benefits of signalling UK ambition and influence on the global stage.

That said, the purchase – both in its scale and the fact that the company is early in its journey towards a first-of-a-kind satellite constellation and generating revenue – is unusual for government. Whereas this will form part of a broader portfolio for co-investors, we would be making a single investment, which makes the risks with the investment more stark for us. While in one scenario we could get a 20 per cent return, the central case is marginal and there are significant downside risks, including that venture capital investments of this sort can fail, with the consequence that all the value of the equity can be lost.

Having reflected carefully on the information provided, I have concluded that whilst there may be a commercial case for investing alongside other commercial investors if you accept advisors' assessment of One Web's business plan projections, as a standalone high-risk investment with a possibility that the entirety of the investment is lost and no wider benefits accrued, I cannot satisfy myself that this investment meets the requirements of Value for Money as set out in *Managing Public Money*. Therefore, whilst I believe the risks around the other Accounting Officer standards of regularity, propriety and feasibility are manageable, *Managing Public Money* requires me to seek a direction from you.

In taking your decision, I appreciate that you are able to take into account wider considerations that I cannot bring to bear in my own assessment. These considerations include the unique opportunity of this investment, the potential it has to deliver significant development in the telecommunications field, and the wider strategic case. If you decide that you wish to direct me to proceed, I will instruct officials to commit funds and work with third-party advisors as required to finalise the bid.

In line with the usual process for ministerial directions, I am copying this letter to the Comptroller and Auditor General and the Treasury Officer of Accounts. Given this potential investment represents a commercial interest, I propose publication of this letter is delayed until a deal has been concluded.

A handwritten signature in black ink that reads "SMBeckett". The signature is written in a cursive, slightly stylized font.

Sam Beckett