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Privatisation of Royal Mail

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Summary

This note discusses the privatisation of Royal Mail.

The privatisation of Royal Mail has taken place in three parts – the majority of the company was disposed of in 2013, with 10% of shares allocated to an employee free offer and 60% sold to individuals and financial institutions.

The first sale of Royal Mail started in October 2013, with shares priced at £3.30 each – total proceeds of the first sale were £1,980 million. When markets opened following the sale, Royal Mail shares were valued at £4.50. Since then the share price has mostly ranged between about £4 and £6.

The sales of the remaining part started in June 2015. The final sale was completed in October 2015. Half of the remaining 30% of government owned shares after the first sale was sold on 10 June 2015 for a price of £5.00 a share, generating £750m with the second half sold on 13 October 2015 at a price of £4.55 a share, generating £591m. The government has said that this money will be used to reduce the national debt. The final sale also included a provision for 2% to go to Royal Mail employees. The total proceeds of privatisation has come to £3.3bn.

There were questions about the value achieved from the first flotation. The Business, Innovation, and Skills Committee report on Royal Mail Privatisation on 11 July 2014 concluded, "It is clear that the Government met its objectives in terms of delivering a privatised Royal Mail. However, it is not clear whether value for money was achieved; it appears that the taxpayer has missed out on significant value." The National Audit Office (NAO) had similar conclusions: "Although the Department achieved its primary objective of delivering a sale of shares within this Parliament it could have achieved better value for the taxpayer."

More background to the reform of postal services is given in the Standard Note Postal service reform 1997 to 2011. Further details on Royal Mail plc are in the Standard Note on Postal services: Royal Mail plc, which looks at the restructuring of Royal Mail in preparation for privatisation, the progress of modernisation and the impact on financial performance, the extent of competition, and the current regulatory framework.

1. Background to privatisation of Royal Mail

The rise of e-mail and the internet has led to a fall in the number of letters sent via the Royal Mail. Reviews in 2008 and 2010 of the universal postal service by Richard Hooper concluded that Royal Mail was in financial difficulty and that the universal postal service was under threat. Hooper recommended the introduction of private capital.[1]

The Labour Government set out detailed proposals to implement the remedies proposed by the first Hooper report, including the introduction of some private capital through a private sector strategic partner, but was unable to complete the process.[2]

The Coalition Government concluded that a sale of up to 90% of Royal Mail was needed with 10% of shares being reserved for employees. The main arguments for the sale were:

- to provide access to private capital and thereby remove reliance on government funding, which will inevitably be subject to continuing financial constraints for some years;
- to avoid the general inflexibility to respond to rapidly changing market conditions that such reliance on government funding usually involves; and
- to get away from the need to apply for clearance from the European Commission for new investment under state aid rules.[3]

Separating Royal Mail from the Post Office network was seen as an important element of the privatisation. Post Office Ltd is now a separate business and is being retained in the public sector, although proposals to mutualise it have been considered, as allowed for in the Postal Services Act 2011.[4]

Removing the liability of the large pension fund deficit has been a prerequisite to the privatisation of the Royal Mail. The Government took on the historic pension liability on 1 April 2012. It transferred the historic liabilities of around £40 billion from Royal Mail's pension scheme to a new public sector scheme (the Royal Mail Statutory Pension Scheme, RMSPS) to be administered by the government. More information is set out in the Library briefing, Royal Mail Pension Plan.

Before privatisation, Royal Mail negotiated an agreement for £1.4 billion of new debt and borrowing facilities at competitive rates. With that Royal Mail repaid its existing government debt and retained its previous debt levels but with significant savings of nearly £80 million a year.[5]

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1 (1) *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom*, Richard Hooper et al, 16 December 2008, Cm 7529
(2) Richard Hooper CBE, (2) *Saving the Royal Mail's universal postal service in the digital age: An Update of the 2008 Independent Review of the Postal Services Sector*, Cm 7937, September 2010

2 See Library Standard Note (SN/EP/ 06131) *Reform of postal services 1997-2011* 6 Sept 2013

3 Speech by Vince Cable, Secretary of State for Business, Innovation and Skills, in Second Reading Debate on *Postal Services Bill 2010-11* HC Deb 27 October 2010 c355-6

4 See Library Standard Note (SN/EP/ 06718) *The Post Office; recent developments*

5 NAO *Privatisation of Royal Mail* 1 April 2014

2. The first sale of shares

2.1 Main stages

There were three principal stages in the lead up to the first sale of shares in Royal Mail plc:

1. *The intention to proceed*: the Coalition Government announced its intention to proceed with an initial public offering (the "IPO" or "Offer") of Royal Mail plc on 12 September 2013.[6]
2. *The offer for sale of shares*: the Government published the prospectus for the sale of shares in Royal Mail plc and the offer for sale on 27 September 2013 and with it the timetable for those wishing to subscribe for shares. The closing date for share applications was 8 October 2013.[7]
3. *The pricing of the offer*: this was announced on 10 October 2013 with conditional dealing on 11 October and listing of the shares on the London Stock Exchange and unconditional dealing on 15 October 2013.[8]

Risks ahead of the flotation

The possibility of industrial action by the Communication Workers Union was said by the merchant banks to be a risk influencing the final valuation. The ballot that ended on 16 October 2013 supported a strike and a one day stoppage was called for on 4 November. In the event negotiations with Royal Mail continued and it was postponed and the action did not take place.[9]

The BIS Select Committee concluded that:

> *The share price before, during and after the Union's acceptance of a pay deal demonstrates that industrial relations were less of an issue for the market than they were for Government.*[10]

The possibility of a default by the US Government was also a risk ahead of flotation; in the event this did not materialise.

2.2 The sale

On 10 October 2013, the Secretary of State, Department for Business, Innovation and Skills, announced the final price of the shares, the volume of shares sold to those that applied for shares and the allocation of shares between financial institutions, individual shareholders, Royal Mail employees and the Government.[11]

6 Department for Business Innovation and Skills, *Royal Mail: Announcement of Intention to Float* 12 Sept 2013
7 Royal Mail plc *Prospectus*, 27 September 2013
8 Dept for Business, Innovation and Skills *Royal Mail Share Offer Announcement of Offer Price*, 10 Oct 2013
9 Royal Mail press release 13 November 2013
10 BIS Select Committee Royal Mail Privatisation 11 July 2014 paragraph 27
11 Dept for Business, Innovation and Skills *Royal Mail Share Offer Announcement of Offer Price*, 10 Oct 2013

The price of shares

The offer price was set at 330p per share, the top end of the 260p to 330p expected offer price range.

Number of shares sold

600 million shares or 60% of the total number of shares were sold. 172 million shares were sold to individuals and 428 million shares were sold to financial institutions. Of the remaining 400 million shares, 100 million, or 10% of the share capital on listing, were allocated to the *employee free shares offer*.

The following table summarises the final allocation of shares at the offer price (including the sale of an over-allotment allocation):

Royal Mail - final allocation of shares at offer price, after the first sale

	Shares (million)	%
Individuals	172	17%
Financial Institutions	428	43%
Employee Free Offer	100	10%
Government	300	30%
Total	1000	100%

Source: BIS and House of Commons Library calculations

The institutional offer (to financial institutions) was more than 20 times subscribed and the retail offer (to individual investors) was approximately 7 times subscribed.[12]

All members of the public who applied for shares in Royal Mail through the retail offer up to and including applications of £10,000 received an allocation of 227 shares which was equivalent to £749.10 at the offer price, just below the minimum application level of £750. This represented almost 95% of all members of the public who applied, or over 690,000 people. Those who applied for shares worth more than £10,000 did not receive an allocation, which, according to the Government, was in line with the treatment of larger applications in previous well over-subscribed privatisations.

Final proceeds and Government shareholding

The proceeds of the sale of shares were £1,980 million (with the exercise in full of an over-allotment option) with 30% retained by the Government.[13]

In evidence to the Business, Innovation and Skills Select Committee, the Secretary of State gave the following assessment of the disposal of the Government's remaining shareholding:[14]

[12] Dept for Business, Innovation and Skills Royal Mail Share Offer Announcement of Offer Price, 10 Oct 2013

[13] Dept for Business, Innovation and Skills Royal Mail Share Offer Announcement of Offer Price, 10 Oct 2013

[14] Vince Cable Oral Evidence to the Business, Innovation and Skills Committee on *Royal Mail Privatisation* 9 October 2013, Q36

> A judgment has to be made as to whether the sale should take place in one, two, three, four chunks. It was decided that from the point of view of value for money it was best to have a substantial flotation now, which would take the company into majority private ownership, and that we should retain a stake. If there is a subsequent up-valuation of the shares then the taxpayer will be able to get the benefit of that.

Major shareholders

The Government set out to ensure that Royal Mail shares should be largely taken up by those who would continue to be long term investors in Royal Mail. At the Business, Innovation and Skills Select Committee hearing on 9 October 2013, the then Secretary of State said:

> …we are in a position to ensure that we do get the right kind of investor community. We are talking about pension funds and insurance companies that hold the savings of millions of people, and we have been very clear that that is the kind of relationship we want to have; that is long-termism. That is what the Kay Report was all about; those are the institutions we were talking about. That is where the investment will go.[15]

A National Audit Office report noted that 22% (out of the 60% sold by the Government) were sold to 16 priority investors, with 17% being sold to 94 investors who had been targeted in pre-deal marketing and 3% to a further 180 investors considered high quality.[16]

By the end of January 2014, 6 priority investors remained among the largest shareholders. In aggregate these shareholders held 12% of the shares outstanding or just over half of the 22% allocated to the original 16 priority shareholders at flotation.[17]

In its report on the IPO, Privatisation of Royal Mail, the National Audit Office said:

> Royal Mail's share price increased substantially after the sale and a number of priority investors have sold their shares at a much higher price.[18]

The Business, Innovation and Skills Select Committee concluded:

> We agree that it is sensible to identify, in advance, companies which are committed to investing in an IPO. However, we fail to see the benefit to the taxpayer of embarking on a policy of identifying long-term investors without either a criterion on which to judge them or any undertaking given by investors to support Royal Mail in the medium or long-term.[19]

2.3 Employee shares

Over 99% of Royal Mail's approximately 150,000 UK-based eligible employees received a total allocation of just over 100 million free shares in the Government's offer, representing 10% of Royal Mail's share capital.[20] The 10% of shares granted to employees was the largest free allocation of shares of any major UK privatisation.

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15 Vince Cable MP Oral Evidence to the Business, Innovation and Skills Committee on Royal Mail Privatisation 9 October 2013
16 NAO Privatisation of Royal Mail, 1 April 2014, para 4.11
17 NAO Privatisation of Royal Mail, 1 April 2014, paras 4.18 and 4.19
18 NAO Privatisation of Royal Mail, 1 April 2014, Summary
19 BIS Select Committee Royal Mail Privatisation 11 July 2014 paragraph 62
20 Royal Mail plc Free Shares in Royal Mail allocated to approximately 150,000 employees, 16 October 2013

Each of the full-time eligible employees was given the same number of shares, regardless of their grade, with part-time employees given shares on a pro-rata basis. Eligible employees have been given their shares through an HMRC-approved, tax-advantaged Share Incentive Plan (SIP). During this time, employees who have received free shares will be eligible to receive any dividends Royal Mail may pay. After three years, employees can sell their free shares or transfer them out of the SIP but will pay income tax and National Insurance on the shares. After five years, no income tax or National Insurance needs to be paid on the free shares if sold.[21]

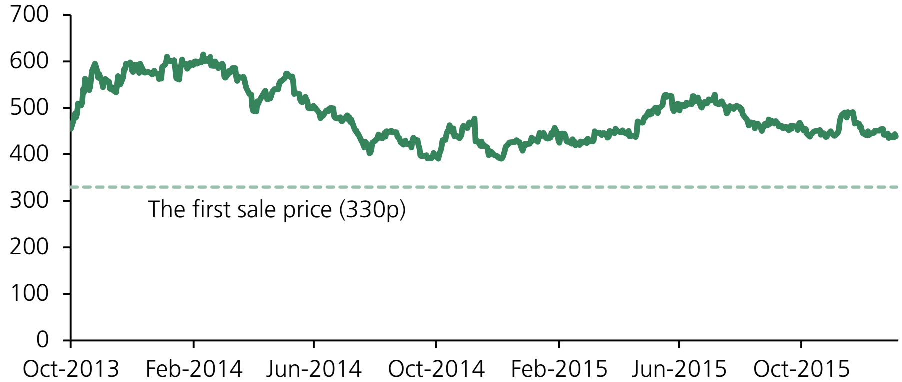
2.4 Share prices and trading volumes after flotation

The price of the shares opened at 450p per share on the 11 October 2013 with a closing price of 455p. On the first day of unconditional dealing (15 October), the price had reached 489p at the close. The share price rose to a high of 618p on 16 January 2014, but the shares have mostly traded at between £4 and £6.

The latest share price can be found on the Royal Mail website.

Trading volumes on the opening day of conditional dealing were over 230 million.

Royal Mail Share Price (Pence)
11 Oct 2013 - 14 Jan 2016



The highest recorded share price of Royal Mail Group since its flotation was 618p on 16 January 2014.

2.5 Reaction

Valuations of Royal Mail

There has been considerable comment on the IPO price for the Royal Mail shares of 330p, given the opening price at flotation of 450p and the subsequent share price increases.

Professor David Parker (author of the Official History of Privatisation) said in a June 2014 article:

> the failure to maximize the sale price means that the exchequer and therefore the taxpayer receives less for the business. In the case of the

21 Royal Mail plc Free Shares in Royal Mail allocated to approximately 150,000 employees, 16 October 2013

> RM, it seems that the result amounted to some £2.5 billon less than taxpayers might have received. Some of this difference was a wealth transfer within the UK from taxpayers to those residents who subscribed for RM shares; but as large volumes of the shares were bought by foreign investors including sovereign wealth funds, there was a wealth transfer overseas—in the case of sovereign wealth funds, in effect to foreign governments.[22]

"There was a wealth transfer overseas"

Prof David Parker June 2014

National Audit Office

In its April 2014 report, The Privatisation of Royal Mail, the National Audit Office (NAO) examined whether BIS had achieved its sale objectives, while protecting taxpayer interests. The NAO noted that the sale was very cautiously undertaken and judged that:

> Although the Department achieved its primary objective of delivering a sale of shares within this Parliament it could have achieved better value for the taxpayer.[23]

In its report, the NAO compared the flotation of Royal Mail to other UK flotations over the past 3 years and found that:

> Royal Mail's 38 per cent share price increase on its first day is greater than that of recent IPOs on the main UK market. Based on data for recent UK IPOs, Royal Mail performed much more strongly on the first day than the IPOs that preceded it.[24]

BIS Select Committee

The BIS Select Committee report on Royal Mail Privatisation on 11 July 2014 concluded:

> It is clear that the Government met its objectives in terms of delivering a privatised Royal Mail. However, it is not clear whether value for money was achieved; it appears that the taxpayer has missed out on significant value.[25]

There have been press reports that in the period before the publication of the Prospectus merchant banks suggested higher figures than the eventual offer price including at least two pitching a maximum price of about 500p.[26]

The Guardian reported on 8 November 2013 that:

> It was revealed after the float that four investment banks – JP Morgan, Panmure Gordon, Deutsche and Citi – believed the Royal Mail was worth far more than the price achieved.
>
> JP Morgan had suggested the business could be worth up to £10bn when it was pitching for the right to sell the Royal Mail earlier this year. Citi and Deutsche Bank had indicated a valuation of around £6.4bn-£7.3bn.

The Secretary of State, giving evidence to the Business, Innovation and Skills Select Committee on 9 October 2013, just before the announcement of the share price, said of the Panmure Gordon valuation:

22 David Parker *Selling the Royal Mail* Public Money & Management, 34:4, 251-258, 11 June 2014
23 National Audit Office Privatisation of Royal Mail 1 April 2014 page 12, para 18
24 National Audit Office Privatisation of Royal Mail 1 April 2014 page 45, para 4.15
25 National Audit Office Privatisation of Royal Mail 1 April 2014 page 7, para 14
26 Postal company Royal Mail valued at £5bn in June, FT, 18 October 2013 (Subscription required)

> […] it is an outlier […] they are way outside the estimate of most of the equity analysts. We respect their judgment, but it is very different from the consensus.[27]

The BIS Select Committee report of 11 July 2014 explained the reason for floating the shares with a discount:

> It is accepted that all IPOs will be floated at a discount, with the share price expected to rise when shares are traded. This is important because a fall in the share price on flotation would inhibit the company from raising further investment. However, the rise in Royal Mail shares in the immediate aftermath was significantly higher than the normal percentage increases described by the banks.[28]

The Secretary of State on the prospect of a substantial price premium said:

> You get an enormous amount of froth and speculation in the aftermath of a big IPO [initial public offering] of this kind. The bulk of the shares have gone to long-term institutional investors, stable investors, some overseas investors, but mainly British pension funds and insurance companies who are there for the long term. I think we should just totally ignore the froth that will arise in the immediate aftermath.[29]

"We do not find the argument of "froth" as a credible response to the significant increase in the share price."

BIS Select Committee July 2014

On the issue of "froth," the BIS Select Committee concluded that:

> The Secretary of State's initial use of the term referred to the "immediate aftermath" of the flotation. This was subsequently extended to months and then possibly years. As a result we do not find the argument of "froth" as a credible response to the significant increase in the share price.[30]

The Myners review

In a statement on 9 July 2014, the Secretary of State announced an informal review into the way government conducts Initial Public Offerings and the process leading up to them, as recommended by the National Audit Office. Led by Lord Myners, the review examined the process preceding and immediately following the first sale of shares in October 2013.

The review was critical of the level of caution with which the sale had been carried out, including the price range at which shares were initially set and the tranches the stake was sold in. Lord Myners noted that:

> With regard to the premium that could have been achieved above the price range, the lack of visibility above the range that is inherent in the standard bookbuild process makes this difficult to judge but the consensus appears to be that this was of the order of 20p-30p per share, less than 10% above the top of the selected price range. The Panel agree with this conclusion although it remains a matter of conjecture. This conjecture would not have been necessary if demand had been formally tested above 330p. An additional 20p-30p per share is equivalent to £200-300 million of value of the Company, equating to proceeds to Government at IPO of £120-180 million. For the avoidance of doubt, we do not believe that a price anywhere near the levels seen in the aftermarket could have been achieved at listing.[31]

The authors recommended several changes for any future Government primary share sales. These included:

- A number of changes to United Kingdom market convention and, in some cases, regulation

27 Vince Cable Oral Evidence to the Business, Innovation and Skills Committee on Royal Mail Privatisation 9 October 2013
28 BIS Select Committee *Royal Mail Privatisation* 11 July 2014 paragraph 50
29 BBC Online Royal Mail shares jump sharply on market debut 11 October 2013
30 BIS Select Committee Royal Mail Privatisation 11 July 2014 paragraph 42
31 IPOs and Bookbuilding in Future HM Government Primary Share Disposals, p31 [PDF]

- Improved price discovery
- Encouragement of a cleaner, more transparent auction process
- That Government make maximum use of in-house skill and experience where available.[32]

Labour reaction

Labour leader Ed Milliband condemned the price which shares were floated, saying:

> This is a fire-sale of a great British institution at a knock-down price. It says it all about this government: bad value for taxpayers and bad value for customers of Royal Mail as well. It is an ideological, dogmatic privatisation by this government, made it even worse by under-valuing Royal Mail.[33]

He was echoed by Shadow Secretary for Business, Innovation, and Skills, Chukka Ummuna. Ummuna also said that Labour policy would not be to guarantee renationalisation if the party won the 2015 election:

> I have been very clear that we are not in a position to pledge to renationalise the Royal Mail if we get into government in 2015. I do not know how much Royal Mail shares will be trading at in May 2015, so I do not know how much it would cost to renationalise.[34]

Scottish Government reaction

The Scottish National Party (SNP) had previously asserted that the Royal Mail should remain a public entity and pledged to renationalise it in the event of Scotland becoming independent. After the sale, a Government spokesman commented:

> We're committed to the Royal Mail being in public hands, serving all Scotland's people. Recent surveys show 72% of people in Scotland oppose the privatisation. With privatisation there are real concerns that services would be reduced, especially in rural and remote areas, as well as job cuts.[35]

2.6 Royal Mail assets

The Royal Mail prospectus referred to a number of asset sales which would be included in the sale of the company. Three sites in London were highlighted as "surplus". They were:

32 IPOs and Bookbuilding in Future HM Government Primary Share Disposals, p70-71 [PDF]
33 Royal Mail shares soar 38% on first day of dealings - as it happened theGuardian.com 11 October 2013
34 The Future of the Royal Mail: Putting Consumers and Businesses First, HuffingtonPost.co.uk 29 September 2013
35 PM accused of Royal Mail 'fire sale' as share price shoots up, The Herald 12 October 2013 [accessed through NexisNews]

- a 14 acre site in Nine Elms, South London which was used formerly as the location of the Group's south London mail centre;
- a site of over eight acres that forms part of land owned by the Group at Mount Pleasant in central London;
- a one acre site adjacent to Paddington main line railway station in central west London.

The Paddington site was sold in Oct 2014 for £111m

Royal Mail, Oct 2014

The Department valued these sites together at around £200 million. When he spoke in the House on 1 April 2014, the Secretary of State stood by that valuation:

> I made it clear that an independent valuation of those sites confirmed the authenticity of what was proposed. It was in the prospectus, and nobody has subsequently challenged that.[36]

In its report, the NAO concluded: "the basis on which Royal Mail was sold did not fully recover the value of these sites."[37]

The BIS Select Committee went on to say in its July 2014 report that "the absence of claw-back provisions means that the taxpayer will not reap any benefit should the Department's valuation be proved to be wrong."[38]

36 HC Deb, 1 April 2014, col 733
37 National Audit Office, The Privatisation of Royal Mail, 1 April 2014, page 17, para 2.4
38 BIS Select Committee, Royal Mail Privatisation 11 July 2014 paragraph 73

3. The second sale of shares

3.1 Announcement

On 4 June 2015, the Chancellor, George Osborne, announced that the government would be disposing of the remaining 30% of shares still in government ownership. He did not set a date or price, explaining that the flexibility of the market would dictate the right time to sell:

> I am today announcing that the Government will begin selling the remaining 30% shareholding we have in Royal Mail. It is the right thing to do for Royal Mail, for the businesses and families who depend on it, and, crucially, for the taxpayer. That business is now thriving after we gave it access to investment from the private sector in the last Parliament. There is no reason we should continue to hold a minority stake. That stake is worth about £1.5 billion at current market prices.
>
> Of course, share prices fluctuate and the final value will depend on market conditions at the point of sale. We will sell our stake only when we can be sure that we are getting value for money, but let us be clear: holding over £1 billion of Royal Mail shares in public hands is not a sensible use of taxpayers' money. By selling it, we help that important national business to prosper and invest in the future, while we use the money we get to pay down the national debt and pay less interest on that debt as a result.[39]

The Department of Business, Information & Skills published a report on 8 June, Royal Mail: sale of shares, 2015 which laid out some more detail. It stressed that the "government's primary objective in relation to the postal services market is to safeguard the universal postal service in the UK."

The key objectives were to deliver:

- a sale of all the Government's shares in Royal Mail within this Parliament; and
- a financial outcome for the taxpayer that represents overall value for money.

The report goes on to say that the disposal/disposals of the remaining shares will be over the course of this Parliament and the House would be informed of the details via Written Ministerial Statements.[40]

3.2 The sale

On 11 June 2015 the Government sold half of its remaining 30% at a price of 500p per share, reducing the Government holding to 15%. In a Written Ministerial Statement on 11 June 2015, the Secretary of State for Business, Innovation and Skills, Sajid Javid, announced that the sale had raised £750 million:

> Following independent financial advice, the Government decided that yesterday was a good opportunity to realise value for money from a sale of part of their remaining shareholding in Royal Mail. The shares were

[39] HC Deb, 4 Jun 2015, c803

[40] Dept for Business, Innovation and Skills, Royal Mail: sale of shares, 2015 8 June 2015, page 3, para 6.1

> sold through an accelerated bookbuild process which enabled the Government to take advantage of the current favourable market conditions. The sale was launched yesterday after the financial markets closed.
>
> …The universal postal service will continue to be protected by the regulatory regime set out in the Postal Services Act 2011. Ofcom has been given a primary duty to ensure that the universal postal service is maintained and the regulatory tools to intervene if it is under threat.[41]

In addition, the Written Ministerial Statement announced the Government's intention to gift 1% of the remaining 15% stake to Royal Mail UK employees;

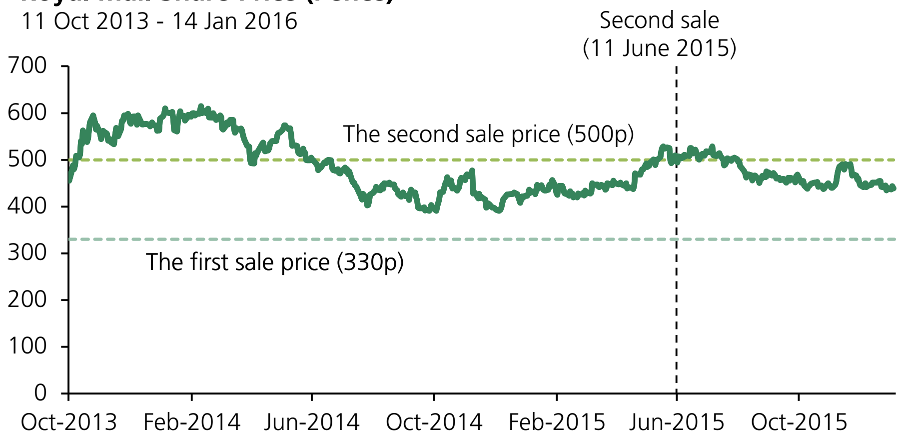
> ...in recognition of their work in turning around the Royal Mail, the Government intends to gift up to 1% of the shares of the company to Royal Mail's UK employees. These shares will come from Government's remaining holding and they will be subject to sales restrictions.
>
> This builds on the 10% of the total shares in the company that were awarded to Royal Mail employees as part of the 2013 flotation.[42]

"in recognition of their work in turning around the Royal Mail, the Government intends to gift up to 1% of the shares of the company to Royal Mail's UK employees."

Sajid Javid (BIS) June 2015

It was widely reported that the Department of Business, Information & Skills would dispose of the remaining 15% before the end of the year, after a 90 day period had elapsed since the previous sale.[43]

Royal Mail Share Price (Pence)



Source: Royal Mail website

3.3 Reaction

Labour

The 2015 Labour Party Manifesto said that Labour were planning to keep the remaining 30% share of Royal Mail owned by the Government:

> We will safeguard the public interest in the Royal Mail, supporting the creation of a staff-led trust for the employee share, and keeping the remaining 30 per cent in public ownership.[44]

After the announcement to sell the shares, Labour accused Mr Osborne of "ripping up" his long term economic plan by springing the

41 HCDeb, 11 Jun c35WS
42 HCDeb, 11 Jun c35WS
43 Royal Mail stake sale raises £750m for UK government, FT, 11 June 2015, (Subscription required)
44 2015 Labour Party Manifesto, P.22 [PDF]

announcement on MPs.[45] Chuka Umunna, shadow business secretary, said that the Government:

> Must show how it has learned the lessons of the botched Royal Mail fire sale in 2013 so the same mistakes aren't made again.[46]

SNP

The Scottish National Party's white paper on the referendum, 'Scotland's Future', set out that the SNP wanted to re-nationalise the Royal Mail and protect what they saw as a threat to the universal service obligation.[47]

After the announcement of the sale of the remaining 30% of shares, the BBC reported that:

> The SNP said the move "poses real danger to the postal service and, in particular, the universal service obligation which is of huge importance to Scotland."[48]

Michelle Thompson MP (the SNP's Business, Innovation and Skills spokesperson) said:

> This is a sleekit manoeuvre by George Osborne – which he and David Cameron kept very quiet about during the general election campaign…
>
> …A privatised postal service in a competitive market will undoubtedly put pressure on government to reduce the terms of the Universal Service Obligation, as its competitors cherry pick the profitable urban routes leading to a reduced service in rural and less affluent areas. It threatens to have particularly harmful consequences for Scotland, where so many of our rural communities and so much of our rural economy rely on the Royal Mail service.[49]

Communication Workers Union

The FT reported the Communication Workers Union's reaction on 4 June:

> The CWU postal workers' union opposes the sale and said it would "continue to campaign against unfair competition and the race to the bottom, which privatisation inevitably brings."[50]

On the 11 June 2015, General Secretary Dave Ward said the Government was "disregarding" the UK public in its haste to sell off its remaining stake in Royal Mail.[51]

45 "Royal Mail stake to be sold off, George Osborne announces", BBC News, 4 June 2015
46 "Government to sell off rest of Royal Mail", FT, 4 June 2015 (Subscription required)
47 Scotland's Future, Your Guide to an independent Scotland, Nov 2013
48 "Royal Mail stake to be sold off, George Osborne announces", BBC News, 4 June 2015
49 SNP condemn sleekit Tories' Royal Mail plans, SNP.org, 4 June 2015
50 "Government to sell off rest of Royal Mail", FT, 4 June 2015 (Subscription required)
51 Government criticised for 'rushing' Royal Mail share sale, CWU.org, 11 June 2015

4. The third (and final) sale of shares

4.1 The sale

On the 13th October 2015, the Secretary of State for Business, Innovation and Skills, Sajid Javid, announced the third (and final) sale of Royal Mail Ltd shares. He announced that 13% of the company had been sold at a price of 455p in addition to an extra 1% being 'gifted' to Royal Mail employees on 5 October 2015[52] with a further 1% being awarded in 2016[53]. This completed the 'disposal' of Government ownership with details about the 'gift' to employees being announced to the House when finalised. The Minister went on to say that:

> "the [final] disposal has raised £591.1 million which will be used to help pay down the national debt. There is no policy need for Government to hold shares in Royal Mail as the universal postal service remains well protected by law and by Ofcom."[54]

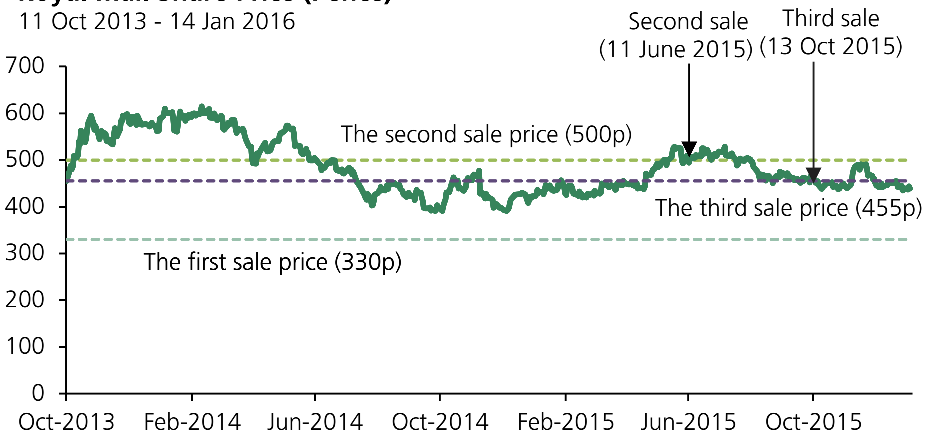
The share price fell approximately 20p on the news and then remained stable for the rest of the week.

4.2 Reaction

There was less reaction to the final sale than the previous disposals however, the Communications Workers Union did react to the news by saying:

> "The remaining government share in this profitable company should have been used to safeguard the public's voice in Royal Mail and ensure the continuation of daily deliveries to every address in the country. The Tories have instead chosen and [sic] ideological course that puts the fundamental ethos of a centuries old national institution in jeopardy."[55]

Royal Mail Share Price (Pence)
11 Oct 2013 - 14 Jan 2016



52 Government completes final sale of its stake in Royal Mail at 455p per share, Gov.uk, 13 Oct 2015
53 PQ 28917 [on Royal Mail: Shareholders], 3 March 2016
54 HCDeb, c15WS, 13 Oct 2015
55 CWU, Royal Mail final tranche sell-off "a disgrace" says CWU, 12 Oct 2015

5. Summary

The sale of Royal Mail, which occurred in October 2013, June 2015, and October 2015 raised a total of £3.3 billion. In addition to this, 12% of shares were gifted to employees of the company.

Proceeds of the sale of Royal Mail

	Amount raised (£ millions)	Amount given to employees (% total shares)
First sale	£1,980.0	10%
Second sale	£750.0	0%
Third Sale	£591.1	2%
Total	£3,300	12%

Source: Dept for Business, Innovation and Skills Royal Mail Share Offer Announcement of Offer Price, 10 Oct 2013; HCDeb, 11 Jun c35WS; HCDeb, c15WS, 13 Oct 2015; Royal Mail plc Free Shares in Royal Mail allocated to approximately 150,000 employees, 16 October 2013; Government completes final sale of its stake in Royal Mail at 455p per share, Gov.uk, 13 Oct 2015; PQ 28917 [on Royal Mail: Shareholders], 3 March 2016.
Please note that due to rounding, individual numbers may not sum to the total.

Reactions to the first sale, of 60% of total shares, were mixed with the National Audit Office, the BIS Select Committee, and a review led by Lord Myners suggesting that the Government achieved its aim of selling shares within an agreed timeframe, but that this may have come at a cost to value for money.

There was less reaction to the second and third sales, of 15% and 13% of total shares respectively.

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