



Department  
for Business  
Innovation & Skills

The Rt Hon Sajid Javid MP  
Secretary of State  
Department for Business, Innovation and Skills

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Dear Secretary of State

## ROYAL MAIL EMPLOYEE SHARES

You have considered advice relating to the necessary arrangements for gifting a portion of the Government's remaining shares in Royal Mail to employees free of charge. This note sets out my position as Accounting Officer and some of the issues we have discussed on the matter.

There are coherent policy reasons to cement employee ownership in Royal Mail. These were recognised in the legislation which stipulated that a minimum of 10% of Royal Mail shares should be allocated to employees. This was to ensure continued employee constructive engagement with and commitment to the company, and to recognise that wider share ownership was a good in itself.

There is an issue as to whether a limited extension of this floor can be construed to be value for money according to the criteria set out in *Managing Public Money*. Providing additional free shares to employees, even on the same basis as the original allocation, is certainly novel, contentious and repercussive, and would require Treasury Ministers' approval.

As you know, it is my personal responsibility as Accounting Officer to ensure that the organisation's use of resources achieves good value for money. *Managing Public Money* advises that I should seek a written direction from you if, for example, an alternative proposal or doing nothing would deliver better value for money, such as a cheaper, higher quality or more effective outcome for the Exchequer as a whole.

The Royal Mail is a key part of the UK's infrastructure. Its efficient operation is critical to the economy and that, in turn, requires the full engagement of its workforce including through necessary restructuring for the company to remain competitive. I have considered whether it is possible to construct a business case that the impact of the employee shareholdings on the company's performance justifies the taxpayers' expenditure involved. I am not aware of sufficient evidence to reach that conclusion.

Against this basis, I conclude that while a decision to allocate more shares to Royal Mail staff up to a limit of a further 1% and on the same terms as previously is an entirely legitimate policy decision, it does not provide a tangible return to the taxpayer and so is not value for money as defined in the legislation.

I recognise you may wish to take a broader view. If that is your decision, I will proceed accordingly but I require your written instruction to do so. I will then ensure the necessary steps are taken to carry forward your instruction without delay.

I am grateful for the close attention you have given to this issue. I am satisfied that your decision will be taken on the basis of all available relevant information. I will alert the Comptroller and Auditor General, who will inform the Public Accounts Committee consistent with the standard procedure for handling all directions, who may then conduct an enquiry.

*Yours ever*

*Martin Donnelly*

**MARTIN DONNELLY**