



Treasury Committee

Oral evidence: The Royal Mint, HC 1168

Tuesday 18 March 2014

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Members present: Mr Andrew Tyrie (Chair), Mark Garnier, Stewart Hosie, Andrea Leadsom, Mr Andrew Love, Mr Brooks Newmark, Jesse Norman, Mr David Ruffley, John Thurso

Questions 1-101

Witness[es]: **Peter Warry**, Chairman, **Adam Lawrence**, Chief Executive, Royal Mint, and **Vin Wijeratne**, Director of Finance, Royal Mint, gave evidence.

Q1 Chair: Thank you very much for coming to give evidence to us this morning. I am sorry that we started late; we had a bit of private business to attend to. Can I start with you, Peter Warry, as you are Chairman: why hasn't the Royal Mint been privatised?

Peter Warry: It is not a question we have addressed while I have been in the Chair. I think that the vesting of the trading fund arrangement has proved extremely helpful for the Mint and indeed for the Government. The change in culture, the commercial ethos and the variety of things that we have been able to do have led to significantly improved performance in the business and the arguments for going further I think are probably quite well balanced. There are inevitably niggles, being a trading fund rather than fully privatised, but they are things like pay and so on, which are relatively small, and against that, there are considerable benefits also of being Government-owned for a business like ourselves. Our customers like dealing with a Government body, so when we are overseas, central bankers are conservative and they like to feel that they have a Government behind them. That is helpful to us. The Foreign Office is very helpful to us, and indeed Government Ministers have helped with sales, and the Government imprimatur is great for our commemorative business as well. I think it is fairly well balanced and the first step of the trading fund has been very helpful.

Q2 Chair: You are arguing that we would get less business from abroad, which is about half your total business, isn't it, very roughly?

Peter Warry: Not quite. It depends how you look at that.

Chair: It is 75 against 100 or so.

Peter Warry: Yes. In terms of the circulating business, it is more 50:50, yes, but—

Q3 Chair: On the commemorative side it is 75 against 100, so it is a little under half, the overseas stuff. Quite a bit—about 40 to 45 of your total turnover, yes?

Peter Warry: Yes.

Q4 Chair: You are saying you would get less of that if you were not Government-owned, is that what you are saying?

Peter Warry: I am saying there are advantages in being Government-owned for selling overseas circulating coin to overseas countries, because that is definitely helpful, and if we did not have Government ownership, I still hope that we would—

Q5 Chair: So why don't we get the Government into the note-printing business?

Peter Warry: That is not a decision for me, so I cannot—

Chair: No, but that is the logic of your position, isn't it?

Peter Warry: It is the logic of my position, yes.

Q6 Chair: It is not what they tell us. They have said persistently that that has no bearing on it. I am just pointing that out as a difference of view on the key point you are making. Why haven't you addressed it in your time so far as Chairman? Is this because you feel the Government has ruled it out and there is no point in giving it any detailed thought?

Peter Warry: No; there is no purpose in us addressing it. It is for the Government, to my mind, to take the initiative in this. We would be happy to stay as we are or happy to be privatised, but we are not in the business of campaigning for it one way or the other. It is not an issue that has come up—obviously, I have been there for 15 months—and we have not addressed it.

Q7 Chair: Have you ever done a back of an envelope calculation on what you might be worth?

Peter Warry: I am sure you will be talking about the results for 2012-13. It is not the time that I would be selling the business, and I have not done the calculations.

Q8 Chair: Yes; people will look through one year's results when they are buying a business. Indeed, they might see that as a business opportunity. It does affect the price, but have you looked to see what you think you might be worth?

Peter Warry: No, I have not.

Q9 Chair: Have you, Mr Lawrence? You are the Chief Executive.
Adam Lawrence: No.

Chair: You have no idea at all?

Adam Lawrence: No, we have not done any calculations at all.

Q10 Chair: I have to say I am a bit surprised by the answers I have just received. You have also been turned into a Government-owned company; that was in 2009. Have you taken advantage of the two main reasons that were identified for making that change—that you could undertake joint ventures and you could acquire other organisations—Mr Lawrence?

Adam Lawrence: We have taken account of some of them. Last year we did a licensing agreement in India to strike the sovereign in India, which gave us access to a market that we were completely excluded from before that. That was, I suppose, one of the things that we have done, given under those reasons.

Q11 Chair: You feel that that move has been a success?

Adam Lawrence: Yes. It is not just simply the two answers that were given five years ago; I think there are a lot of things there. It has really been part of a culture change for the Royal Mint, so it has given it more of a commercial focus, it has allowed us to think slightly differently, it has allowed us to communicate that down to employees and say, “There are other possibilities here”, and I think the licensing agreement we have done in India is a really good example of that.

Q12 Chair: Your annual report says you failed to meet your ministerial targets. What were the consequences of that failure for you?

Adam Lawrence: I did not get a bonus. It is very simple: we hit targets or we do not, so it is very clear. We changed the targets, particularly around customer services, several years ago and they were quite ambitious. We moved them from what used to be a 14-day delivery cycle to a three-day delivery cycle, and part of that was to recognise that we needed to shift our culture completely to a more modern business where people order something on the internet today and expect it to be delivered in two or three days. So we have moved closer and closer to that, and I am pleased to say this year we will hit all the objectives, so we have really moved forward.

Q13 Chair: I am very sorry, but I am not sure how to pronounce your name; but, Finance Director, perhaps you would like to tell me whether you doodle on the back of an envelope to try to work out whether there is any value in privatising the Royal Mint.

Vin Wijeratne: No, I have not been requested to do it, and certainly at this point, just going back to what our Chairman said, quite frankly, I think we are delighted we are where we are at the moment.

Q14 Stewart Hosie: Intriguing answers. You were turned into a company in 2009 and five years later you have struck some sovereigns for India and not taken any advantage of the rest of the freedoms you have.

Adam Lawrence: No, I think we have; I think that is probably a little bit unfair. I think we have changed the commercial focus of the business over the last few years. Let us address the issue on the table: last year our results were not great, but that was down to one area of the business, which was overseas circulation coin, where there was a complete dearth of business out there in the marketplace that led to over-capacity in the marketplace, and prices plummeted as well. We have done a lot of great things over the last three or four years. We have increased the flexibility of the business, both with our kit and our people and resources, and we have introduced a couple of new lines of business. Things like our precious metal business—if you go back to where we were four or five years ago, we were doing perhaps 150,000 oz of silver a year. This year we will sell over 2 million. That is a huge improvement and that is creating a brand-new business for us. We have opened a commercial vault that we will be launching this year, as well—so again, another line of business that was not present three or four years ago that we have now opened.

Q15 Stewart Hosie: I am glad you are now animated and you can give us a list of things you have done. That is quite helpful.

You spoke about last year, and the results were awful, weren't they?

Adam Lawrence: Yes, they were.

Q16 Stewart Hosie: You failed on both of your key financial objectives to make a profit and deliver a rate of capital of 10%. You have given the explanation, which was global circumstances, but the global economy has been poor since 2009, so why was it that in the years before 2012-13 you were still meeting the financial objectives you had been set?

Adam Lawrence: I think last year was quite an abnormality in the global marketplace. I have said we have done a lot of great things with our commemorative coin business; I mentioned before our bullion business, how we have grown that, and that is becoming a bit more of an underpin. We had a very good programme with the Olympic Games too, through which we were able to open and expand new marketplaces. If you go back three or four years, we did not have any business in China, for example, and now we have. Through the Olympic Games, that allowed us to open up some new customers, some new marketplaces. It also allowed us to expand a bit more in the US and in south-east Asia and we have been able to carry that forward as well; so we have seen the benefits of that beyond the Games as well.

Where we are right now is, we are in a very healthy position. The markets have improved, we have a very strong order book and we will get very, very close to our ministerial target for our return on capital employed, and we will have a very healthy profit this year.

Q17 Stewart Hosie: You said 2012-13 was abnormal, so you are expecting that to bounce back in 2014?

Adam Lawrence: Yes, absolutely. The 10% ministerial target, again, if you have a look, you are absolutely right, the world economy has been pretty bad for a few years—

Stewart Hosie: Yes, indeed.

Adam Lawrence: —and we did not change our target at all. Again, that is the commercial mindset that we want to get in, saying, “You know what, times will be good and times will be tough, but we need to be trying to return a profit every single year and give a return to our shareholder every year”.

Q18 Stewart Hosie: That is helpful. The latest annual report also states that financial performance for the year “was significantly impacted by the volatility of the global circulating coin market” and that you expect this to remain the case. You have said to me you expect the business to bounce back in 2013-14, but you are also saying in your annual report that you expect the underlying problem you faced to remain the same; so are you going to bounce back with new business or are you now expecting there to be some bounce-back in the circulating coin market?

Adam Lawrence: The circulating coin market has rebounded a little bit quicker than we had expected and it is a combination of some longstanding customers—we have many customers that have been with us for many years, and they might order on an odd year. Most customers, particularly smaller countries, will not order coins every year, it might be every second or every third year, and last year what we found was that there was a big gap in the middle of the year. Now we are very strong and we have a very healthy order book.

Q19 Stewart Hosie: In terms of the reduction in demand for circulating coin, was there a particular reason or set of reasons for the downturn in 2012-13?

Adam Lawrence: I think it was a little bit like the stars aligning together, where we saw quite a few countries move—we say move to the right—so they were going to place an order but did not, and then moved it three or four months to the right, and what that creates is a real imbalance in the market between capacity and supply. The consequence was also that what work was out there was cheaper, as well, because it really is a demand and capacity-driven market.

Q20 Stewart Hosie: Just one final question. You said you expect to come close to your targets this year. Clearly you expect to make a profit.

Adam Lawrence: Yes.

Stewart Hosie: I am taking it from the way you phrased that that you do not expect to make the rate of return on capital of 10%, but somewhere approaching it, or do you think you will meet that target too?

Adam Lawrence: I think we will fall just short.

Stewart Hosie: That is helpful. Thank you.

Q21 Jesse Norman: You have set your return on capital target at 10% now for four years. You have missed it in two.

Adam Lawrence: Yes.

Jesse Norman: Can you just talk us through why that happened?

Adam Lawrence: Why we missed it?

Jesse Norman: Yes.

Adam Lawrence: Okay. Are you satisfied with the explanation for last year?

Jesse Norman: Sure.

Adam Lawrence: It is quite a volatile market, so the way I describe it is, part of our job is managing the volatility in the marketplace, and I will give you a really good example. If we have an order from a customer for a circulation coin, it often runs into maybe 100 million coins, so in the commemorative coin business, we will have a coin programme and our marketing guys might say, "We think we will sell 40,000". The reality is it will be somewhere between 30,000 and 50,000. With circulation coin, you either get 100 million or you get nothing. It is very, very binary, which is why we have been working on flexibility of kit and flexibility of work force, so we can move people around. That is one of the things we have been doing.

I think a couple of years ago—I cannot quite remember the reason, and I will come back to that—the 10% was meant to be over the business cycle, so we know that we are not going to get necessarily 10% every year, but some years we might be slightly below it, other years we might try to exceed it. We will be presenting our business plan for next year to the chairman of the board next week. Our target will be in excess of the 10%, so we will be setting ourselves a target next year well in excess of what the ministerial target is.

Q22 Jesse Norman: The target has a bite for you as the management team, because your bonuses are tied to what the target is that you set, are they?

Adam Lawrence: It is not strictly tied to that target, but some of them are, yes.

Q23 Jesse Norman: So you could miss the target and still get paid your bonus?

Adam Lawrence: No.

Q24 Jesse Norman: No, so it makes a difference, putting in the higher target?

Adam Lawrence: It does; absolutely, yes.

Q25 Jesse Norman: That is helpful. One of the reasons why that larger number of 10% was set was the expectation that, as a stand-alone company, you would have higher costs. Can you just talk us through that reasoning? It should not, in a way, make any difference what your costs

are to where you think your return on capital employed is going to be. That is a function of how efficiently you are running.

Adam Lawrence: No; I see where you are coming from, but it is not strictly true, because one of the consequences of moving to vesting was that our pension scheme had to come outside of the existing Government pension scheme and go into a self-funded pension scheme, which simply increased the cost. So from day one to day two, our costs increased quite substantially, which means we have to earn more profit to pay for that.

Q26 Jesse Norman: That counts in your capital employed, does it?

Adam Lawrence: No, not in our capital employed, it counts as profit—

Jesse Norman: Right; so in effect your return on capital employed?

Adam Lawrence: It does affect our return; so the top one is our return.

Jesse Norman: It will come off before the calculation of return.

Adam Lawrence: Yes, it does not affect the capital employed, but it affects the return we make.

Q27 Jesse Norman: Your view is that 10% is a realistic target over the cycle?

Adam Lawrence: Absolutely, yes.

Q28 Jesse Norman: When do you think the cycle is likely to end, and when did it start, from your point of view?

Adam Lawrence: It is a thing we keep under review at the moment—“Is 10% still appropriate?” Again, we kept 10% all the way through the global financial crisis, and as we have explained, half of our business is overseas, so it is not affected by domestic demand. I think we have over-achieved it a couple of years, we have been under a couple of years. I think next year we will be over it, so over that cycle we will be pretty close to the 10%.

Peter Warry: I think the idea of a cycle is perhaps slightly misleading. I would say over a period of years, we would expect to achieve 10% on average and certainly that is what our plan is to do.

Q29 Jesse Norman: I just want to ask a couple of quick questions about sales. Obviously a lot of your sales will come from the Treasury.

Adam Lawrence: It is quite a small amount of our sales.

Q30 Jesse Norman: Put it this way—you have a unique relationship with the Treasury.

Adam Lawrence: We do.

Q31 Jesse Norman: Have they suggested to you that they might source from any other mint?

Adam Lawrence: We have a contract with them at the moment.

Q32 Jesse Norman: That is an exclusive contract, but could it become non-exclusive?

Adam Lawrence: It could do, yes.

Q33 Jesse Norman: There is no reason they have not discussed that with you, or—

Adam Lawrence: No, it is like a normal commercial contract, so there is a termination date.

Q34 Jesse Norman: On your selling to Greece, obviously, your sales have dropped significantly in revenue terms. Why is that and what were the causes of that?

Vin Wijeratne: It was predominantly down to our bullion products and I think, quite frankly, to the supply and demand in Greece in terms of their appetite to buy bullion products from us.

Adam Lawrence: We were not selling to the central bank there. These were sold to commercial banks.

Vin Wijeratne: So during the time of the economic crisis in Greece, they were looking for an investment.

Q35 Jesse Norman: That is interesting. Do you think those revenues will recover, and if so, quickly or—

Vin Wijeratne: I would not be particularly minded to consider Greece in isolation. We certainly have a programme in place where we see that our bullion business will grow substantially and be a cornerstone to what we endeavour to do over the next five years.

Q36 Jesse Norman: How far did that contribute to the £60 million drop in sales last year?

Vin Wijeratne: It is very difficult to tell because there are movements in price as well. We sell gold at a margin, so it means the movement in gold price from, say, \$1,500 down to \$1,100 has a pretty significant hit on revenue, so internally, we tend not to focus so much on the revenue line. We tend to focus on a revenue ex-metal line, which is probably a better indication of the workflow and volume going through the business.

Peter Warry: £30 million was what the gold drop was.

Jesse Norman: That is interesting. Thank you very much.

Q37 Mr Newmark: I am going to try not to flog a dead horse here. I looked at your P&L and I saw the collapse in your operating profits, but in looking at your operating profits, I notice that between 2011-12 and 2012-13, your revenue fell by 19%—from £341 million to £255 million—but your selling and distribution costs rose during the same period by about 2%. Can you go into that a little bit more, as to what was going on there?

Vin Wijeratne: Again, certain distribution costs are very much a basket of which countries we are selling to and it is down to mix, so in 2012-13 we happened to have, if you like, more overseas contracts in more remote places where the cost of certain distribution went up.

Q38 Mr Newmark: What is driving those costs to be higher in certain countries, as opposed to other countries?

Vin Wijeratne: Each of the contracts could be quite differently negotiated, so in some contracts you are obliged to pay some of the indirect taxes associated with the actual production. In other countries it is ex-works so, frankly, there are a number of factors that can drive the contract and its relative profitability.

Q39 Mr Newmark: I am just trying to understand: is there anything that is more in your control where you can help drive down costs a bit, as opposed to being reactive to the pattern of costs in each country?

Adam Lawrence: Absolutely—I think the biggest thing we can do is make ourselves more efficient internally, so over the last three or four years we have been doing a huge amount of work on lean manufacturing and the flexibility of our kit. You are all welcome to come down and have a look and see the site for yourselves, but it is a very large site, it has lots of very expensive kit that has been sitting there for a long time, so it has a very high fixed-cost base. One of our programmes over the last few years is to try to drive as much of that fixed cost to a variable cost, so when we do have this volatility in the marketplace, we can offset the costs and equally we can ramp up very quickly and not add loads of extra cost.

I think Vin is absolutely right, in some of these areas, if you have a DDP contract as opposed to an ex-work contract, it can have a huge impact on that line, but what you are not seeing is the complete size of the contract. Again, I know we picked up the revenue line there. It is misleading to look at the revenue line, because the materials that we use for different coins can be really different and so it can be very profitable but very cheap at the same time.

Q40 Mr Newmark: I will go to your metal costs in a minute. The next thing is your working capital and the way you manage that. You reported £4 million costs related to movement in work in progress and finished goods inventory in 2012-13. This was up by £739,000 in 2011-

12. Can you explain this? Also, are you satisfied that your inventory management is optimal at the moment?

Vin Wijeratne: To be fair, I think we had a fairly large contract, which is homogeneous, right at the very end of the period that led to the working capital increase.

In terms of your second question, we have really scrutinised working capital, particularly over this year, at a segment unit level, so the circulating business is set up to scrutinise their working capital, as is the commemorative business, and myself in the centre, I will scrutinise everything overall. I think we have taken a considerable amount of working capital out of the line, but there is an element that is also down to mix, so the mix of, if you like, non-ferrous or solid materials in comparison to plated can have quite a big swing.

Adam Lawrence: I think the simple way to answer that is if you go back three years ago, before we started our lean programme, we used to have roughly 1,700 tonnes of product in work in process through the factory. We now have about 600 tonnes, so we have taken out an enormous amount of—

Q41 Mr Newmark: That is because you are better at time management?

Adam Lawrence: Absolutely. We have Kanbans set up, we try to bring in material as late as possible without impacting production, and equally we try to get it out the door as quick as possible as well.

Q42 Mr Newmark: I want to touch on your metal costs, which fell from £216 million in 2011-12 to £167.8 million in 2012-13. Was this solely from a fall in production or were there other elements within that?

Adam Lawrence: There is also a change in coinage. The UK is a great example here: four years ago, the five and 10 pence was made of a cupronickel, so 75% copper, 25% nickel. It is now made of effectively about 96% mild steel and a little bit of nickel on the outside, so you have exactly the same product, but the metal costs are probably much less than half. Again, it is not necessarily always volume-driven; it will be driven a lot by the type of materials that are used in production. Of course, all these materials are exposed to commodities markets as well, so we have seen nickel and copper come down quite a bit over the last 18 months.

Q43 Mr Newmark: Yes, a lot of that I am sure is driven by the Chinese, or where the Chinese markets are, and they go up and down. I am always fascinated with footnotes, and I notice—and this is maybe being a little anal on my side—that you have included metal costs, which includes the impact of commodity hedging on cost of sales. I appreciate it is only about £700,000 gain this past year, but why don't you strip that out and stick that on a separate line, because it is not showing like for like? In the previous year you showed a £953,000 loss.

Vin Wijeratne: What we have endeavoured to do in our P&L is pull out the metal hedging piece, so specifically there is an IAS 39 column to say what the hedging impact is. What we are mindful of is that is an accounting treatment at year end. It does not reflect what is

going on with the contract, so we take the hedges out when we sign a contract to insulate us and mitigate risk in terms of the price fluctuation. Effectively, the revenue will come through when the contract is concluded and we close out the hedges and they net off so, quite frankly, when they are put through the P&L, it is matching the revenue and the cost to take away the price fluctuation risk. On your question, “Why don’t you pull it out?”, we have endeavoured to do exactly that in the next column.

Q44 Mr Newmark: In your breakdown of costs for 2012-13, your professional consultancy fees rose by about £300,000 compared to the previous year. I appreciate, given your overall P&L, it is a small amount. I am just curious on that. Also, when you think about driving cost down, I notice you have cut down on both R&D and training in the past year. R&D and training are part of investing in your future, and I am wondering what was driving that decision making a bit too. I appreciate they are relatively small numbers, but it says to me a little bit about what you are thinking at the moment.

Vin Wijeratne: Specifically on the increase in the costs on the professional fees, we have spent quite a lot of time in the recent past focusing on our IP portfolio, and also strengthening our contractual terms with people that we are doing business with, so it is predominantly down to those pieces—protecting ourselves.

In terms of the wider aspects, a considerable sum was spent in R&D in the previous year as we were working on the likes of iSIS. That just happened to tail off, so it is not a deliberate attempt for us to switch off R&D. I think we totally support your observation that that would be a foolish approach, so it is just literally timing.

Q45 Mr Newmark: As I said, it was a small issue. What is happening on training, because I notice that’s halved—

Adam Lawrence: Again, I think it was probably just that we have spent a real lot of money over the last three or four years prior to that, and so it is probably just a reflection of going back to more normal levels, to be honest.

Q46 Mr Ruffley: Mr Lawrence, note 22 in your annual report states that you made losses on forex and commodity hedges of £549,000 and £709,000 respectively. I understand your open position on forex contracts was also £660,000 in the red, and all this is explained as follows: “The accounting treatment in this area”—the hedging area—“is therefore not necessarily a reflection of the economic impact of the company’s hedging policy”. What does that mean?

Adam Lawrence: It is literally just what they call a mark to market adjustment at the end of the year. If you take out a hedge at the start of the year for a contract and the price of the commodity is \$7,000 a tonne, at the end of the year, because of this accounting standard, you are forced to revalue it at whatever the prevailing price is. Of course, as Vin said before, when you execute the contract, you have your original hedge in position, so it is a non-cash item; it is literally just an accounting standard. I suppose it is the theoretical exposure if the contract was closed out at that point in time.

Q47 Mr Ruffley: I take that point, so it is merely a function of the mark to market exercise. None the less, the losses on hedging activities for the year account—more than account—for the £1.7 million pre-tax loss that you made. Are you saying that the hedging losses have not contributed to that?

Adam Lawrence: No. This is the point. It is a year-end accounting adjustment. It has zero cash impact on the business whatsoever. When those contracts are executed, that loss effectively comes back into the business, because you can be buying the metal at a lower price than what you contracted for. That is one of the reasons why we separated it in a separate column, because it can have a pretty material impact on the business; and equally, if the prices go up, there would be a huge profit there, and it would not be attributable to us at all. It is just the fact that the metal prices have gone up.

Q48 Mr Ruffley: Have you considered any other way of conducting hedging policy, or would you say because it is an accounting impact but not a cash impact on the business, frankly, this does not matter, as long as everyone understands what this note means?

Adam Lawrence: I think you have hit the nail on the head, so what we do is to try to look at the underlying transaction. Our position is to remove the doubt, remove the risk, so we are not in the position of playing the commodities markets; we do not play the metal markets at all; we remove the risk, and what we do not want is the accounting treatment to force a bad decision.

Q49 Mr Ruffley: Has anyone in Government or any outside bodies picked up on this point—the way it looks, let me put it that way?

Adam Lawrence: Yes, we have had long discussions with our auditors about the appropriate treatment, which is why we have come to the conclusion about putting the extra column in our P&L.

Q50 Mr Ruffley: They have advised that is the best way of doing it?

Adam Lawrence: Yes. We have done quite a bit of work in the past with hedging with professional advisers and they are very comfortable with the way we do it.

Q51 Mr Ruffley: A final question: have you, or indeed your Finance Director, seen any evidence of manipulation, or otherwise had any suspicion of manipulation in the bullion or the metal markets that you use?

Adam Lawrence: No, I have not seen that.

Vin Wijeratne: No, not at all. So again, in terms of the markets, we are using the London Metal Exchange for all the trades that we did. No.

Q52 Mr Ruffley: One final clarificatory question: have you heard any rumours that there might be any manipulation of any benchmarks in the LME indexes?

Adam Lawrence: No.

Q53 Mr Ruffley: So it is a pretty clean bullion and metal market regime when it comes to benchmarks and market—

Adam Lawrence: To be brutally honest, we are a tiny, tiny, tiny player in this.

Mr Ruffley: No, I understand that.

Adam Lawrence: We do not get involved in—

Q54 Mr Ruffley: But you nevertheless are an important Government body. I just wanted to be clear that you have not had any reason to have concerns or suspicions.

Adam Lawrence: We have zero concerns.

Mr Ruffley: Thank you.

Q55 Mr Love: Can I come back to the overseas circulating coin market? You have been diversifying into that area and you mentioned the difficulties that occurred in the last financial year, but are you subject to far greater competition from other mints around the world and how are you doing in relation to the competition?

Adam Lawrence: Yes, it is quite a competitive marketplace and we hold our own. Quite a lot of the business is done on open tenders, and the fact that we win this business shows that we are very competitive.

Q56 Mr Love: You won a contract for Polish coins and that triggered an accusation from the local Polish mint of price dumping. How do you respond to that accusation?

Adam Lawrence: It is not true. It is not true. It is a fine contract for us.

Q57 Mr Love: Did you respond when the accusation was made?

Adam Lawrence: No, and we do not comment on our customers. When you are dealing in a currency market, there is a degree of confidentiality around, so we do not openly talk about our circulation coin customers.

Q58 Mr Love: What action are you taking to improve your competitive stance? The world is getting more competitive; there are good alternatives out there. You recently lost a contract in Sri Lanka, I think.

Adam Lawrence: Interestingly though, we have won it back, so—

Mr Love: This is unalloyed good news. Tell us how you are making yourself more competitive.

Adam Lawrence: Yes. As I was saying before, there are a couple of things. We have been on a journey with lean, and as I mentioned before on our working capital, we are taking nearly 900 tonnes or the best part of 1,000 tonnes of work in process out, so that makes us much leaner, much more efficient, it brings our working capital down, so we do not have to finance as much. We have been working a lot on flexibility of plant and flexibility of kit, so we have made some investments in plant. In the past we would have a piece of kit that could do one thing, whereas now we are trying to buy a piece of kit that can do three or four things, so it is far more flexible. Part of the reason we spent so much money on training over the previous three or four years is to make our people far more flexible as well, so we can push them where the work is as well. We have also undertaken cost initiatives; we have a programme internally called “10 in 3”, which is designed to try to save basic costs—

Peter Warry: £10 million in three years.

Adam Lawrence: That is the premise of that; thanks, Peter. We are also developing at the other end—the products we are offering—so we have spent quite a bit of money on R&D and last year we launched a brand-new product called iSIS, which is the most secure coin in the world. We are in the position of commercialising that at the moment, so we have approval from the board to scale up our first piece of kit. As Peter mentioned before, we won a Welsh innovation award for it, so we are trying to find new products that are going to appeal to really good customers as well.

Q59 Mr Love: But talking about security and the new product range that you are bringing into the marketplace, in a recent competition with Canada, you came second.

Adam Lawrence: Yes, okay.

Mr Love: Does that mean that the Canadian system is more secure than yours?

Adam Lawrence: No, absolutely not. In fact, ironically, Canada have sort of withdrawn that product as well. It was set up to be a circulation coin product and it is now going down to be a bullion product, so a precious metal product.

Q60 Mr Love: This is good news all round. But let me turn to a more difficult subject. You obviously have an anti-corruption policy—

Adam Lawrence: We do.

Mr Love: —and we have seen a copy of that. In 2008, there were various allegations made and an investigation, I believe, started with the Serious Fraud Office in relation to a contract in Nigeria. Can you just explain to us the basis of that and what happened?

Adam Lawrence: To be brutally honest, I cannot, because I was not there at the time, but I can tell you it has been closed out and no action taken.

Q61 Mr Love: There was no action; nothing arose?

Adam Lawrence: No.

Q62 Mr Love: In the last five years, have any other members of your staff breached the anti-corruption policy?

Adam Lawrence: No.

Q63 Mr Love: Let me ask you one final question: do you have a whistleblowers' policy?

Adam Lawrence: We do.

Peter Warry: Yes, we do.

Q64 Mr Love: Does that assist in ensuring the integrity of the organisation?

Adam Lawrence: Absolutely. There is a whistleblower policy there. Thankfully, no one has ever had the need to use it, but it does exist, it is publicised. We do communications every year with our staff. Listen, given the market we are in, which is currency, integrity is something that is absolutely core to our values, so we do an enormous amount of work on training, and we make sure that people are aware. We do annual compliance reviews; we do a lot of due diligence up-front. This is something we take really seriously.

Peter Warry: We had it internally audited by KPMG.

Q65 Mr Love: But you have had no whistleblowers at all in the organisation over the last five years?

Adam Lawrence: No.

Q66 Mr Love: Doesn't that worry you slightly—that there must be things? I am not talking about corruption in particular.

Adam Lawrence: It is a very open organisation, and as I said, you are all welcome to come down and join us. It is really open, so I walk the factory every single week and I will have people raise issues with me every single week; but around bribery and corruption, absolutely zero.

Q67 John Thurso: Can I ask one technical question on the accounts? The statement at the front of the Chief Executive's statement begins with the point that underlying operating profit was about £1.3 million compared with 10 point something the previous year. If one looks at the consolidated income statement, one sees that this is before IAS 39-related items and exceptionals, and the IAS 39 is to do with hedges in particular and translates the operating profit into a £626,000 loss. Interestingly, the previous year, the £10.9 million profit also has a £1.6 million that translates that down into £9.2 million. Can you explain the

mild gobbledegook that is IAS 39? Is this unrelated? Why are you talking about the underlying number? That usually means, "We do not want to talk about the other number"; or is this a number that every year is part of the underlying?

Vin Wijeratne: Ultimately what we have endeavoured to do, and we talked a little bit about hedging before in the Committee, is to show the true trading performance of our organisation as opposed to the trading performance taking into account how we treat financial instruments. So we are trying to give, if you like, a meaningful comparative as to what is going on and present it in that way, so that there is a like for like comparison. When the hedges crystallise, when they come to fruition, they do hit the main P&L and the numbers that we have talked about, as opposed to the mark to market piece, which is reflected in those columns at year end.

Peter Warry: Over a sequence of years, these hedging things should wash out—

Vin Wijeratne: Absolutely.

Peter Warry: —so that is why it is sensible to look at it in that way.

Q68 John Thurso: The operative verb there being "should".

Vin Wijeratne: Yes, absolutely.

John Thurso: Do they?

Vin Wijeratne: Yes.

Q69 John Thurso: I just wonder if you would be better off showing that in a vertical fashion rather than a horizontal fashion, so that you just always had a comparable operating number; then you had the financial side and then you had your net number at the end, because it is quite a confusing way of doing it, in a way. Mind you, the whole IAS and FRS is confusing anyway.

Now I will ask a serious question. The Royal Mint and Alderney have been discussing the possibility of creating bitcoins so that Alderney can become the world capital of bitcoins. Is this a virtual project or a real one?

Adam Lawrence: No, let us be clear, this was something that Alderney brought to us, and from our perspective, it was simply a commemorative coin product. It is nothing more than that. The idea generation was with them. They simply asked us if we could make a physical representation of the product and that was our role in the thing, and it has gone nowhere since.

Q70 John Thurso: So you were not about to get into the business of producing real bitcoins?

Adam Lawrence: No.

Q71 John Thurso: Although Alderney was suggesting they would have a repository of bitcoins, weren't they, at one stage?

Adam Lawrence: I am sure they were thinking a lot of things.

Q72 John Thurso: Just so we can close it off, where has the project gone to?

Adam Lawrence: It has gone nowhere.

John Thurso: It has gone nowhere?

Adam Lawrence: Yes.

John Thurso: It has gone away?

Adam Lawrence: It has gone nowhere.

John Thurso: Right. Maybe after the recent frauds, that is probably it then. Thank you very much.

Q73 Mark Garnier: Can I just return to and have a little bit of a probe about your privatisation or lack of privatisation? Danny Alexander on 4 December absolutely ruled out privatising you guys—selling off you guys or Companies House. Why do you think he absolutely ruled it out?

Adam Lawrence: I cannot comment. I do not know.

Q74 Mark Garnier: But you spoke a little bit earlier to the Chairman about the fact that being owned by the Government was to your advantage, if you just want to sort of quickly recap that.

Adam Lawrence: To me personally, I am ambivalent. I will manage the business within the cards that we are dealt.

Peter Warry: It is exactly what he said: we regard ourselves as managers of a business and we will manage it to the best of our ability within the constraints that we have. Privatisation for us is not a big topic; it is about, how can we run this business to the best of our abilities as it stands?

Q75 Mark Garnier: As with any manager of any business, would you like not just to restrict it to the parameters it has been given by the shareholders, but expand it and make it bigger and more exciting?

Peter Warry: Yes, and we really think we can. I am saying we do not feel that we are constrained today from doing the things that will make this business much more substantial than it is. We have some quite exciting plans, we think, for both building the circulating coin business through iSIS and building the commemorative and the bullion businesses.

Q76 Mark Garnier: Because you do not print notes?

Peter Warry: We do not print notes and we have no aspiration to do so.

Q77 Mark Garnier: But why not and what about secure printing and other types?

Adam Lawrence: It is a different business altogether. While you might think that the customers are the same potential customers, it is a very technical area. It is not the area we have any expertise in whatsoever.

Q78 Mark Garnier: Have you worked out an evaluation of what you would be worth to the Government in a sell-off?

Peter Warry: No, we have not.

Mark Garnier: Not even academically?

Peter Warry: No.

Mark Garnier: Genuinely, nobody has done this? There is no record in the Government accounts?

Peter Warry: It may have been done years ago. It certainly has not been done now.

Q79 Mark Garnier: Doesn't that sound surprising to you, because you are an asset of the country and nobody has worked out what you are worth?

Adam Lawrence: Don't forget, we report through the business innovation area, so I am sure one of their metrics will be to look at something like that, but it is not something that management does.

Q80 Mark Garnier: But you run it. Surely you must be interested?

Adam Lawrence: I am interested about how we grow the business. To your point before, we are doing lots of new things to grow the business, so what it is worth is almost irrelevant to me. It is, "Are we making the progress? Are we seeing the growth that we expect? Are we taking advantage of the opportunities that present themselves?" They are the key things that get me up in the morning—and that make sure we want to improve the business. I think we have done a lot of those things. As we have said, we have grown our bullion business nearly tenfold in two years; we have done this partnership in India to strike sovereigns in India, and that has opened up a new market that was completely closed to us before. It is relatively small at the moment, but our brand is out in India now—the Royal Mint—and one day that market will liberalise, and we will already be there and will have been there for a long time.

Q81 Mark Garnier: I think all this sounds absolutely fantastic and very virtuous, but what about your return on shareholders' assets, your return to shareholders?

Adam Lawrence: That is why one of our metrics is that, and hopefully—

Q82 Mark Garnier: And not shareholder value?

Adam Lawrence: I suppose ultimately it is the same thing, isn't it? So if we keep getting better returns to the shareholders, that will increase shareholder value as well.

Q83 Mark Garnier: Yes, but there is a pot of Government accounts. We then need to know what you are worth.

Adam Lawrence: We cannot comment on that, because I am sure there are other people who are feeding in this information.

Q84 Mark Garnier: There are going to be people listening to this who are absolutely staggered that anybody who runs a business—it does not matter whether it is a nationalised business or owned by the Government, or the Government are significant shareholders—but to not have any clue at all as to what your business is worth is extraordinary. You must sit in the bath in the morning and think, “I wonder what the business is worth that I am running?” Maybe you don't have baths.

Peter Warry: We can do the calculations of this and we can apply a multiple to our earnings and you will get a number, but it genuinely is not something that is the focus of our attention.

Q85 Mark Garnier: The reason for my question—and perhaps I am being a little bit flippant by digging at this particular point—is that there is a problem with the public finances, as you know. We have a £110 billion a year budget deficit and we will find out more about how that is going to be resolved tomorrow. We have £1.2 trillion worth of debt. That is going to increase. When you look at the net asset value of the country, the problems we have, the value of every single asset is incredibly important and a very, very important decision needs to be made by whoever is the Government as to what the value of those assets are and whether any of those assets can be sold in order to work down the debt and deal with the budget deficit. You are running this asset and you have come here before the Treasury Committee, which is looking at all of this stuff. We are going to spend the next two weeks going into the Budget, and none of you have the slightest idea what your business is worth, and you seem totally relaxed about the fact that there is no plan to privatise you in the future or otherwise; you do not care.

Peter Warry: But it is a matter for the shareholder executive and for the Treasury.

Q86 Mark Garnier: What conversations have you had with the Treasury about this?

Peter Warry: We have not.

Mark Garnier: What, none at all?

Q87 Chair: Do you mean to say that before ruling out privatisation, the Treasury did not come to you and ask you any questions?

Adam Lawrence: No, let us be clear here too: one of the directors of the shareholder executive sits on our board, so they have complete access to every bit of information that exists, they have access to our plans—

Q88 Chair: Yes, but you have not done any of the information required to enable them to take a decision. You did not even work out for them what you thought the valuation of the business might be.

Adam Lawrence: That is not quite true, because we do have a five-year plan to go out and that will form the basis of any valuation.

Q89 Mark Garnier: Can I just ask one question? Your balance sheet value has gone down, in the year from 2012, from £75,449,000 to £72,761,000—

Adam Lawrence: That is a function of two things—

Mark Garnier: That is helping shareholder value how?

Adam Lawrence: Two things: we paid a dividend. Actually, last year we paid £8 million back to the shareholder, so you put that back on there and we have increased it by £6 million.

Q90 Mark Garnier: Surely, as a listed company—

Adam Lawrence: We are not listed.

Mark Garnier: No, but that is my point: if, hypothetically, you were floated at a sale price, you would be worth more than that.

Peter Warry: well, A multiple of eight or ten.

Chair: There is some surprise around this table at the complete absence, apparently, of the scrutiny of the question of privatisation and also of your interest in even thinking about it.

Q91 Mr Ruffley: Chairman, just to facilitate this, one very simple question: you are aware that work is being done by Cabinet Office Ministers about disposal of Government assets. Most famously in the last 12 months, Francis Maude has talked about disposing of real estate assets that Her Majesty's Government has. Just so we are clear, no one in your senior management team or on the board have had any approach from any Government Department in relation to the possibility, or commissioning work into the possibility, of the Royal Mint's privatisation, nothing at all? Is that correct?

Adam Lawrence: Yes.

Chair: I think that is helpful evidence.

Q92 Mr Ruffley: No discussions with any Government Minister or any Government Department, is that correct?

Peter Warry: I have had discussions with the shareholder executive en passant, just reviewing where we are.

Chair: That is very helpful.

Q93 Mr Ruffley: When were those discussions?

Peter Warry: I am just trying to think. Probably in the autumn.

Q94 Mr Ruffley: Last autumn just gone. Was that with officials or was that with members of the executive?

Peter Warry: I have a catch-up meeting with the chairman of the shareholder executive every now and then and we passed across that subject.

Q95 Mr Ruffley: Did he talk about the possibility of work being done on disposing of the assets that you represent?

Peter Warry: No.

Q96 Mr Ruffley: The word “privatisation” was not discussed?

Peter Warry: No, the word “privatisation” was, that is why I mentioned it, but it was not in any depth; it was—

Q97 Mr Ruffley: Was the conclusion of this that no work should be commissioned by anyone to see whether this was feasible or desirable in technical terms?

Peter Warry: The inference was that—in fact, I said to him almost exactly what I said to you at the start: that I thought there was a balance in this and we were not pressing, we were agnostic on this, we would do whatever anybody wanted us to do. That was the substance of the discussion.

Q98 Mr Ruffley: Hang on, but you used the word “inference”. Was the inference you drew from that discussion that it was an interesting thing to raise, but after the meeting was not taken forward?

Peter Warry: Yes, yes.

Mr Ruffley: Not taken forward?

Peter Warry: There was no action left on me to do anything.

Mr Ruffley: There was no action point. Okay, thank you.

Q99 Chair: What you are really telling us is that Danny Alexander made this announcement without having consulted you at all, in any shape or form whatsoever. Is that correct?

Peter Warry: I think that probably has to be, yes. We were not directly consulted by the Treasury, no.

Q100 Chair: No, I am not asking you that. You have had no consultation or discussion whatsoever with the Treasury on this issue. A very important decision has been taken. The most important decision in this Parliament for your outfit was taken a couple of years ago, or a little bit less, and announced by the Chief Secretary, and this came to you as a bolt from the blue, because you had not even had a discussion on it, so you read about it in the newspapers. Is that correct, Mr Warry?

Peter Warry: I think it has to be, yes.

Q101 Chair: You did not think, "That is unusual"? You did not pick up the phone and say, "Oh, that is quite interesting. We would be grateful to know on what basis you took the decision"?

Peter Warry: No, I did not.

Chair: You did not have that curiosity. Okay, I think we have pursued this subject long enough. Thank you very much indeed for coming to give evidence to us this morning.

