



Business, Innovation and Skills Committee

Oral evidence: Royal Mail Privatisation, HC 710-iv Tuesday 29 April 2014

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Members present: Mr Adrian Bailey (Chair); Mr William Bain; Mr Brian Binley; Paul Blomfield; Katy Clark; Mike Crockart; Ann McKechin; Nadhim Zahawi

Questions 383-527

Witnesses: **Rt Hon Vince Cable MP**, Secretary of State for Business, Innovation and Skills, **Rt Hon Michael Fallon MP**, Minister of State for Business and Energy, Department for Business, Innovation and Skills, **Mark Russell**, Chief Executive, Shareholder Executive, and **William Rucker**, Chief Executive, Lazard London gave evidence.

Chair: Good morning, and thank you for agreeing to help us with our inquiry into Royal Mail, following the publication of the NAO report. For voice transcription purposes, please introduce yourselves, starting with you, Mr Russell.

Mark Russell: Mark Russell from the Shareholder Executive.

Michael Fallon: Michael Fallon, Minister of State for Business.

Vince Cable: Vince Cable, Secretary of State.

William Rucker: William Rucker, Lazard.

Q383 Chair: Thanks very much. It was our intention to have the Ministers here today. Obviously we welcome the support given by Mr Russell and Mr Rucker, but I would just remind Ministers that, in line with the long-standing philosophy, advisers advise and ministers decide. Our questions are primarily directed at the Ministers rather than at the advisers.

On 1 April, Secretary of State, you said the NAO reached the “important conclusion that we had successfully achieved our objectives”. The NAO also said that this was in part due to “shares being priced at a level which was substantially below that at which they started trading”. Do you agree with that conclusion?

Vince Cable: The point you make at the end is simply a statement of fact. Obviously I agree with it, but the basic conclusion that we were successful in our objectives is correct. When I gave my statement to Parliament in the immediate aftermath of the sale, I made

the point that as a consequence of it—and these are the figures that were endorsed in the NAO—there had been a cash receipt of about £2 billion. The residual stake, which was also an important part of our calculation of value, is now about £1.6 billion. Had we not succeeded with this sale—had the sale flopped, and there were serious risks around it, which have been well rehearsed—we would have been left with an asset that was worth an estimated £1 billion.

Chair: We will explore these issues in a moment.

Vince Cable: That is the arithmetic on which our judgment is based.

Q384 Chair: It was also true that the NAO said that, after the flotation, the price level indicated that Royal Mail shares were worth “much more than this process was able to extract”. Do you disagree with this statement?

Vince Cable: Yes. I think that the issue here is the circumstances at the time of the sale, which is what influenced the judgment of the flotation, and the circumstances that obtained five months later, as you say. Five months later, the threat of major industrial action, which was a key material factor, had ceased to exist. The major threats to the world economy that were prevalent in the autumn were no longer in existence so, clearly, the objective factors had changed very substantially. None the less, it is true even now that there is a very high level of volatility in the share price, and the people who make target forecasts have a very wide distribution—I think one of the widest in the FTSE—which suggests that this is still a fragile company with a volatile share price.

Q385 Chair: It is fair to say that, volatility or not, the price has been consistently hugely above that determined as the top price at the flotation level. Why did the Government not change the timing of the process, given the uncertainties that you have outlined in the economic background to the timing of the flotation?

Vince Cable: That was certainly an option that we thought about, as you would expect. Michael Fallon and I challenged the advice we were being given on a whole variety of issues: on price, on quantity of sale and indeed the merits of postponement. We did our job of challenge, and it was very clear that postponement would not have served our objectives.

One of the key uncertainties at the time of sale was over the industrial action, and the union had made it absolutely clear that, if the sale was postponed, the strike would be postponed. It would not have helped solve that particular problem. We could well have found ourselves in the position of trying to accomplish a sale subsequently in significantly worse conditions. Those were the considerations that we gave careful thought to and decided to proceed as we had planned.

Q386 Chair: There is an issue about how much significance the bidders put on industrial action, but I think we will probably explore that in a moment. Could I just say that value for money was described by Mr Fallon as “delivering a financial outcome for the taxpayer, which when considered in the context of the overarching policy objective, represents overall value for money”. Given the number of caveats within this statement, what are the criteria that were used to measure your actions against these objectives?

Michael Fallon: The primary objective was to secure the universal service—to ensure that Royal Mail did not have to come back to the taxpayer for support and that it was put on to a long-term sustainable footing, as recommended by the Hooper report some four years previously and as approved by Parliament in the Postal Services Act 2011 some two years previously. That was the primary objective, and obviously we wanted to deliver that in a way that also delivered best value for the taxpayer.

Q387 Chair: It was necessary in order to achieve that primary objective to considerably undervalue the shares.

Michael Fallon: I have not seen any evidence that the shares were undervalued at the time of flotation. Have you?

Chair: I think the fact that they were bought at a 38% premium on the day would have been considered by most right-thinking people as reasonable evidence that they were undervalued. The consistent share price that has been obtained since, notwithstanding any volatility, also seems to underline that.

Michael Fallon: I dispute that, Chairman. I would expect a successful flotation to go to a premium on the day of launch. An unsuccessful flotation would fall below the offer price.

Chair: Normally, 10% to 15% is the accepted range. This is way above other flotations.

Michael Fallon: Let us look at the record. Of the 43 major flotations in the last four years, 21 of them fell below the offer price on the very first day. 23 of them in fact are still below the offer price. Four of the six large flotations since Christmas are below their offer price at the moment. Floating a company successfully is not a particularly easy thing to do. Most flotations that are successful involve some kind of premium on the first day, and Royal Mail was no exception.

Q388 Chair: The figures produced by the NAO show that, since 2012, in something like 20 there were four below and the rest were way above, including Royal Mail at 38%, far in excess of any of the others. Most people would think that a reasonable basis for observing that the shares were undervalued.

Vince Cable: Can I just add to Michael Fallon's comment? We are talking about a much larger group, but even extremely influential brands like Facebook had this experience. We are talking of much larger numbers of companies that attempted IPOs. Some were complete flops and others had great difficulty. There were very serious risks around this whole process, and those were the facts that we took into account.

Q389 Chair: Facebook is often quoted, but the fact remains that, looking at the major privatisations—and some of them were quite major—over the last two years, they were consistently above the flotation price, and Royal Mail exceeded all those that had been consistently above it. That would provide a fairly robust evidence base for the assertion that these shares were undervalued when they were floated.

Michael Fallon: I do not accept that. This was a successful flotation. We expected it to go to a premium on the first day. You would certainly have been critical if it had been

wrongly priced and had fallen below the offer price, and people had lost a great deal of money, including the employees who worked for the company. This was the biggest privatisation for years. It was the biggest IPO in Europe for two and a half years. It was an extremely large offering. It was very important to get it away successfully, and we did that.

Q390 Chair: You put your finger on it: the departmental approach seemed to be to do everything to ensure that it was sold. Value for money for the taxpayer was a secondary interest.

Michael Fallon: No.

Q391 Chair: Where in the criteria that you set to your advisers was it indicated that taxpayers' value for money should be a consideration?

Michael Fallon: Value for money is in the objectives that you read out yourself, Chairman.

Q392 Chair: The implication is that, by privatising it, as a matter of faith, it was better value for money for the taxpayer. That seems to be the underlying approach.

Michael Fallon: This was not a matter of faith. This was Parliament's decision that Royal Mail would be better served by having access to private capital to put it on to a sustainable footing. This was a turnaround company. It is important to remember that.

Q393 Chair: You made a decision about the share price.

Michael Fallon: We did.

Chair: Parliament did not make it; you did.

Michael Fallon: We made the decision about the share price.

Chair: That is the issue at stake.

Michael Fallon: Fine. I stick by the share price.

Vince Cable: The key point, Chairman, if I might, is that of course the share price at the time of issue was a component of value for money. It was an important component, but so was the residual value of the shares that the Government still has. Crucially, the calculation that was made about the residual value of the company, had it remained in public ownership, is of a very depreciated asset. There are three components of value for money and you are focusing, quite properly from your point of view, simply on the first. The other two are equally relevant.

Chair: We will talk about the residual share in a moment, because there are issues surrounding that, but I believe Ann wanted to come in with a supplementary.

Q394 Ann McKechnin: I just wanted to question you a bit further, Secretary of State. You have said that the state of industrial relations had a major impact on how you set the

price. Who carried out the assessment of what effect the industrial relations within the Royal Mail would have on price?

Vince Cable: The assessment of the price, which I think we described when we came to your Committee before, was partly based on long-run fundamentals by comparing the Royal Mail with comparator companies. It was also based on a pricing survey amongst 500 potential investors, many of whom did not come into the sale.

Ann McKechin: You did not ask the investors about industrial action.

Vince Cable: Clearly, the industrial relations history and also the immediate threat of industrial action weighed heavily in that.

Q395 Ann McKechin: How many days' business had been lost in Royal Mail due to industrial action in the previous two years?

Vince Cable: There is a constant threat of industrial action.

Ann McKechin: How many days were actually lost?

Vince Cable: I suspect relatively few.

Q396 Ann McKechin: Relatively few. So, you had a company that had an increasing profit and a reasonable degree of industrial relations, and you thought there was going to be a car crash on the price.

Vince Cable: If there were reasonable industrial relations, there would not have been a threat of a strike holding over the company. You can question the arithmetic of this, but I think it was plausible: it was calculated that every day of industrial action, had it been forthcoming—and the union made fairly clear they intended it to happen—would have cost the company about £30 million. After two weeks, the profits of the company would have been wiped out. Those were the kinds of calculations that had to be made.

Q397 Ann McKechin: You simply made that assessment within your Department. No other external expert was brought in to assess the state of negotiations and what the real risk was, because most people considered that a settlement was more likely than full-out industrial action.

Michael Fallon: I met the unions at regular intervals throughout the process once it got under way: last autumn, in autumn 2012 and throughout 2013. I met them very intensely through the summer of 2013. It was clear to me they had absolutely no interest in lifting the threat of strike action or in settling the pay deal. The pay deal was overdue; it should have been done by the end of March 2013. There was no prospect of it being settled and being settled before privatisation.

Q398 Ann McKechin: The NAO reported that this company had significant cash flows, so it was cash rich. It would have been anticipated that there would have been room and flexibility to achieve a settlement on pay, which was subsequently achieved very shortly after the sale of the shares. Did no one carry out an assessment on that basis?

Michael Fallon: We are talking about a company that lost money in six of the previous 12 years.

Ann McKechin: It was cash-rich according to the NAO report.

Michael Fallon: If I can just finish, Chairman, it lost £110 million in 2011. It has lost a cumulative £1 billion over the last 12 years. It was a company that was incredibly unstable and had very challenging industrial relations. You will recall the previous disruption leading up to the three-year agreement that expired in March 2013. When I arrived in the Department, I was told there was a prospect of negotiation in January 2013, in February and in March. I was then told it might be possible in May, June and July. It was obvious to us that there was no prospect of a pay deal being agreed before privatisation,

Ann McKechin: There had been no all-out strike either.

Michael Fallon: It was also obvious to us that the challenging nature of industrial relations in Royal Mail was a big factor in the approach that potential investors had to it. Indeed, I am very surprised that you have not called the union in to take evidence on that point.

Q399 Chair: We may yet. What evidence have you had from those companies that contacted you during the book-building process that industrial relations were a factor in determining the level of prices at which they were prepared to buy these shares? Have you any hard and fast evidence, other than what seems to be the mindset of the Department, on this?

Michael Fallon: It is nothing to do with mindset; this was in the report of every single engagement that we saw between the company and potential investors. Industrial relations were mentioned the whole time as being a challenging feature of this company.

Q400 Chair: Do you have any written evidence that you could give to the Committee to substantiate that assertion?

Mark Russell: I can say, in terms of the original marketing of this, a significant number of institutions simply said they would not invest unless a pay deal was agreed.

Q401 Chair: Shall we say it does not seem consistent with what actually happened when there were industrial relations and actually whether it would be the specific companies? Overall the share price rose, so it would appear that somebody was telling you something, if they were telling you this, that was not actually consistent with their intention.

Michael Fallon: The share price rose, Chairman, when the three-year pay deal was finally signed, but that did not take place until after the sale.

Chair: It continued rising throughout the process.

Vince Cable: The Minister is obviously not in direct contact with the investors.

William Rucker: In terms of direct contact with the investors, the industrial relations issue was a perpetual theme. Right up to the end there was the question as to the cost of

industrial relations, if it happened, and also the likelihood of it. That was a constant factor in nearly all of the investor meetings, and there are transcripts of those that we can make available, if required.

Michael Fallon: It is the one missing piece of this whole story. Had we got a pay deal on time, from 1 April last year, and had a settled industrial relations climate, it is wholly possible we could have achieved a higher price at the sale.

Q402 Nadhim Zahawi: We have covered one of the risks, which was the industrial relations element. I just wanted to cover a couple more things. One is obviously at the time the US fiscal position was an uncertainty. Of course, if the IPO had taken place and the price had fallen back, that would lock the business out of raising more money in the market. I wonder whether the advisers can also advise on what would have happened if the Minister had decided to pull the IPO. What were the costs associated with pulling the IPO at such a late stage?

Vince Cable: Is that directed at us or the advisers?

Nadhim Zahawi: The last point was to the advisers. The first element was really to you, Secretary of State, and Minister Fallon.

Vince Cable: The obvious risk was of the United States and the potential meltdown in their fiscal position. We are now in a UK economy that is recovering; there is a fairly ebullient mood. If we look back to when the launch took place, there were massive uncertainties around the world economy. There still are. They centred on the United States, but the overall environment in which this took place was not a comfortable one. The US position was particularly extreme. I do not know whether our advisers can add to the significance of that.

Q403 Chair: We would accept there is some validity in all of those comments. However, what you do not say is that those uncertainties were still there at the time of the flotation and subsequently, as well as before. Given that the external parameters determining the level of uncertainty were pretty consistent but the price rose throughout that, there is an issue of how significant that was in the determination of the valuation and the subsequent sale.

Vince Cable: There were two particular factors that weighed very heavily. We have discussed them at some length: one was the industrial relations uncertainty, and the second was the point in the United States. Both of those have gone. This is a company, as Mr Fallon has just described, which in many ways is a fragile company. It is a recovery situation. This is not a blue-chip company. We saw a few weeks ago that a very brief report from brokers about increased competition in the market caused the price to tumble. External circumstances could very easily change at any point in time and have a radical effect on the price.

Q404 Chair: Could I just say that I find quite bizarre the whole approach of the Ministers in terms of selling something? Whilst obviously when you are selling something you need to point out potential problems, there does not seem to be any emphasis on the positive cash position, the transformation in the company that had taken place, and the value

of the assets that were implicit in it. I would reasonably expect anybody who was selling something to at least give a balanced approach. The approach of the Department seems to have dwelt upon the negative, which, if you are selling something, particularly when that something is a public asset that the public was entitled to get money for, seems quite frankly utterly ridiculous.

Vince Cable: Could I just comment? The prospectus, which was voluminous, sets out all the positive and all the negative factors around this share. The question you are putting to us is not about if we were going out promoting the virtues of the Royal Mail. You are asking us why it was that, at the point of sale, we were, in the words of the National Audit Office, “cautious”. We were cautious, as a Department, as ministers. That is the reason: because there were these major damning uncertainties hanging over the company. The risk of failure was high and the costs of a failure were potentially very damaging indeed. That is why we were cautious. We are not talking here about the sales promotion.

Q405 Chair: You were more cautious than the market, so you did not get the interpretation right.

Vince Cable: We do not accept that.

Mark Russell: If I can just come back on your point about pushing the positives, the key component of how this business was sold was the management team and their plan. That is what investors invest in. We had an unprecedented marketing campaign, stretching back nearly a year. If you go through that, you will see a very positive story was given. To say that there was not a positive story is absolutely wrong. There was a very positive story and, without that, we would have had no chance of getting the number of investors that we did.

Chair: If you had a positive marketing campaign, the fact that the shares sold very well would seem to indicate that. However, I find it even more bizarre that you should justify selling it below the level at which it realised. I want to bring in Nadhim now.

Q406 Nadhim Zahawi: Before I put my question to the Secretary of State, I asked the point about the cost of a pulled IPO, which you were going to comment on. Also, if the share price goes the other way, there is a cost for the 30% that the Government still holds, but also a cost to the company, which I think I mentioned, which would be locking them out of raising more money in the market. Am I right or wrong?

Mark Russell: That is absolutely right. Going back to the VFM assessment—the value-for-money assessment—the primary objective was still about getting private capital into the universal obligation and to protect that.

Chair: Thank you for that comment.

Mark Russell: It was vital that the company was in a position, should it need it, to be able to access the capital markets. One sure way that you will not access the capital markets is if you float and your share price drops right down. You are out of the market for some considerable time. The VFM assessment was not only about the price we got on the initial stake; it was also about the ability to sell on our residual stake and, thirdly, the ability of the company to access the capital markets should it so wish.

Q407 Nadhim Zahawi: Thank you for that. Secretary of State, you told the House that the advice you received, in terms of the final offer price, was “unambiguous” in that there was “no confidence that a sufficient number of buyers would offer a significantly higher price”. Indeed, some of the evidence that we took earlier on said, if there were, there would be 20p, if that, in it. However, the institutional offer—the book-building—was 24 times over-subscribed. What data or evidence do you have to demonstrate that all of that demand would have disappeared at a price over the £3.30?

Vince Cable: I would just repeat what we have said on several occasions. The very strong unequivocal advice we received was that, if we had attempted to push the price beyond £3.30, the upper end of the range, there was a very high possibility that a large number of the people who had hitherto expressed interest would simply walk away from the transaction. That was the advice we received and accepted, but I do not know whether Mr Rucker would like to explain why it is you do have this cliff-edge problem.

William Rucker: Two things: it is important to remember we were selling 600 million shares. We were not selling a marginal number of shares, which affects the daily prices you see today, firstly. Secondly, when you look at the level of over-subscription—

Q408 Nadhim Zahawi: What does it trade per day at the moment?

William Rucker: About £5.20 today. In terms of volumes, significantly less—a fraction of that number. If you take the level of over-subscription, particularly in the institutional offer, you have to recognise that a lot of the institutions are trying to secure large orders. We had three orders in the book of around \$1 billion each. None of those institutions expected to get it, so you have to, when you are looking at the book, not just judge it based on the pure maths, but actually make a judgment as to which institution is realistically expecting to get how much and at what price point they fall off the cliff. The cliff point was very clear from many of the investors who understood this company well. If the price was going to go significantly in excess of the range we were talking about, they would not invest in the company.

Q409 Chair: Can I just come in on that point? The syndicate that was in effect in a position to work with management and do extensive research came up with a different range of valuation than the Government did. I believe the syndicate research analysis valued the company at between £3 billion and £5.1 billion. These were not back-of-the-envelope calculations; they were a result of in-depth research done in conjunction with Royal Mail management. What weight did you put on those valuations?

Vince Cable: If we are talking about the same thing, there was a wide range of estimates by those syndicate banks, which we discussed in front of your Committee. I think it was the NAO that said we should disregard them as having no value.

Chair: No, it did not say that.

Vince Cable: Are we talking about something else?

Chair: No. The company syndicates that operated separately valued it at between £3 billion and £5.1 billion. Were you not aware of that?

Mark Russell: Could I just respond on that? You are talking about the syndicate equity research analysts. This is what they published on 12 September. You are absolutely right; the range was from £3 up to £5.10. You will see in the NAO report £4.50 to £5.10 is an outlier but, you are right; that is the full range. Those values, first of all, are one-year target values. Secondly, they assume no IPO discount at all, so they are about the company's shares trading in a year's time. Most significantly, this research assumed a pay deal. If you take all that into account, where we set the price in the end, at £3.30, is well below the minimum of the values that were given, even with those factors.

Q410 Chair: You did not take their research into account.

Mark Russell: Absolutely, yes. Part of this was informing us and indeed part of this would have informed the institutions, which again were telling us the price they were prepared to pay for the stock.

Q411 Chair: Sorry, I am trying to get this clear: did you take their research into consideration?

Mark Russell: Indirectly, yes, we did.

Chair: Indirectly? What do you mean?

Mark Russell: The purpose of this research was to inform the institutions of how much they should buy the stock for. This was the purpose of this research. This is what institutions were relying on. When we finally set the price, much of that was dictated by the feedback we were getting from the market through our advisers as to what the institutions were prepared to pay.

Q412 Mr Binley: Mr Russell, I have been in business since I was 20 years old and I have been selling all that time. Never once have I gone back to a customer and said, "Look, I think this commodity is worth more. Will you pay more for it?" and they have told me, "Yes, we will pay more for it." I do not know what world you are dealing in, but the world I deal in is that you have to make a judgment about your pricing. Feedback that you get from customers is not necessarily the best marker to set that price. Would you agree with that?

Mark Russell: Mr Binley, I have been in business for 30 years.

Mr Binley: Well, you have not learned what I have in my time.

Mark Russell: I completely subscribe to what you say. What you suggest is that there was no auction tension in the book-building process, and there absolutely was. People initially gave their values, and the role of the book-builder was to try to get those values up. Remember, we started with a book at about £2.50.

Q413 Mr Binley: Do you really believe that?

Mark Russell: Yes, I do.

Mr Binley: The evidence proves you totally wrong, and that concerns me immensely.

Mark Russell: The evidence we have is that, on a daily basis, we saw the orders people were prepared to put in at certain prices. I can tell you, in the initial stages of that book-building process, the prices were well below £3.

Q414 Mr Binley: That is not the evidence that we have been given, quite frankly, and it is not the evidence that the Audit Office came to rely on as well. I just wonder why there is such a big difference with civil servants on this issue, who these good people need to rely on. I think you let these people down. Do you feel that that might be the case?

Mark Russell: No, not at all.

Mr Binley: Other people do. Carry on, Chairman.

Q415 Chair: It would appear that you disregarded the advice of research syndicates and took the advice of those who had a vested interest in buying and reselling these shares. You would reasonably expect a certain level of judgment to, in effect, be able to distinguish the relative significance of those two sources of advice and to have pitched that price in a way that provided more value for the taxpayer. Can I bring in Nadhim? Have you finished?

Vince Cable: Mr Chairman, can we answer that?

Mr Binley: We will come to it, Secretary of State, because I am going to ask some questions about it and you will have every opportunity to answer.

Chair: If you did want to come back on that specific issue, yes.

Michael Fallon: I think Mr Russell should be allowed to come back on that specific issue.

Mark Russell: Sorry, would you mind repeating that last point?

Vince Cable: It was the fact that we did not consider the—

Chair: What I am saying is that you had two sources of evidence: one from independent research analysts and another from bodies that were going to buy and sell the shares, and therefore had a vested interest in pitching their assessment at a low level. You appear to have weighted your response in favour of those who had a vested interest.

Mark Russell: Ultimately, and I said this to the Committee last time, this was an exercise in pricing, not in valuation. What was the best price that we could get for selling 600 million shares? All the time, we were keeping our eye on valuation and, in particular, what the comparable valuations were. At above £3 and certainly at £3.30, we were very comfortably above a number of the comparables. All the time we were looking at that.

Yes, the book-builders were doing the work on the ground, but the very purpose of the independent adviser was to test those figures. Of course, as you say, they could gain. Of course we are aware of that point. Of course we have to make sure that we are getting proper intelligence back. Remember, when the price was set, the price was set with reference to over 500 institutions globally. Were they all gaming us? Were they all in collusion? I think not.

Q416 Chair: I am not saying that they were. What I am saying is that you failed to give due weighting to the most independent source of professional advice on that, who presumably would have done the same sort of consultation processes that you engaged with yourselves.

Mark Russell: We were looking at independent valuations.

Q417 Chair: You are talking about process. The fact remains that, at the end of the day, you pitched the upper limit of the price at a level that was way down on the range of prices that were advocated or recommended as being appropriate by the independent research syndicate.

Mark Russell: The exercise was one of pricing, not valuation: what could we get for 600 million shares?

Q418 Chair: That goes without saying. You have not really explained why you took this particular level of pricing.

Vince Cable: It was explained that the prices that you are quoting were not the recommended sales prices. They were the target prices a year in advance. Mr Rucker was the independent adviser who oversaw this process. I think he ought to explain how they weighted the evidence from the different sources.

William Rucker: When the institutions were looking at what price they were prepared to pay for the business, in terms of the share price, they were looking at the prospectus, meetings with management and also independent research, which might be done by their own house but also might be done by independent houses, such as the ones you referred to. Given those prices were 12-month targets and the required level of return the institution required in buying the stock, they could back-solve to what they thought was an appropriate price to pay. This is what they do: they look at their required return and they will price it back to what they think it can realistically get to.

If you look at the market today, nearly every public company will have independent research out there with target prices in excess of the current share price. That does not mean you can sell your shares at that target price; it means you can probably sell them at the share price. This is independent research, forward-looking, and institutions take them into account, but it is not the basis for their entire decision.

Q419 Chair: You would reasonably expect a share price to reflect what a target price might be in the future, at least up to a point.

William Rucker: Analysts revise their targets quarterly. It depends on the success of the company. It is important to remember that this was a turnaround story and the volatility perceived by the institutions buying it was high. Therefore, the return they were going to require to invest in this was also going to be high. If the target price had been £3.30, in a year's time we would not have been able to sell this at £3.30.

Chair: It would appear that the market completely judged it differently from how you have assessed it. Can I bring in Nadhim now?

Q420 Nadhim Zahawi: Just on the point you are making there, Mr Rucker, the National Audit Office stated that the book-building process itself “effectively capped the price at the top of the range: there is no mechanism and only a limited incentive for bidders to reveal anything about demand at higher prices”. Given the NAO’s assessment of that, how did you come to a more detailed assessment of institutional appetite at a higher price?

William Rucker: There are certainly discussions all the time. It is also worth remembering that we had already moved the price up once anyway. When we went out initially pilot fishing to seek orders, we went out a price that was a range of £2.50 to £3.10. In association with the Shareholder Executive and the Treasury, we sat down and agreed, given the early strength of the book-building, we would move that range up to £2.60 to £3.30. We had done that once. Why did we not move it up again? There was no evidence that there was enough demand in excess of £3.30, as we went through the book-building process.

Q421 Mr Binley: Can I question you on that, Mr Rucker? I feel desperately sorry for the Secretary of State and for the Minister of State, because I think that both the civil servants and particularly the book-builders let these good people down. All the evidence that came from those two sources was evidence of fear. That was the prime motive that you two groups of people were operating on. Let me put this point: Michael Fallon said that he had not any evidence that shares were undervalued on the day, a quote that you made earlier on in this particular set of questions. Yet when the Secretary of State went back to the book-builders about price on Thursday 3 October, those shares were already 10 times over-subscribed. On the next day when those discussions were still taking place, Friday 4 October, they were over 15 times over-subscribed. Are you genuinely telling me that all of that over-subscription would have fallen away if those shares had been priced at higher than £3.30? 15 times over-subscribed according to the book on 4 October, and nobody would have paid more than £3.30 with that level of demand in the market. Are you really telling me that?

Michael Fallon: Absolutely.

Mr Binley: Do not advise my company, Mr Rucker. I find that remark amazing.

Michael Fallon: Can we just answer this, Mr Binley? Facebook was over-subscribed 25 times. It fell 10% on the first day of trading. There is no link between over-subscription and the actual price.

Q422 Mr Binley: In the marketplace there is no link? Mr Fallon, in a marketplace there is no link between the number of customers and the value of the price of the goods?

Michael Fallon: Why do you think Facebook then fell 10% on the first day?

Q423 Mr Binley: I have no idea about Facebook and we are not talking about Facebook. We are talking about this particular offer and, at the end of the day, all of the evidence suggests to me that you were motivated by a fear of failure. I understand that; I am happy with that viewpoint, but at least the general public needs to know that that is the motivation. By all accounts, the taxpayer lost between £1.1 billion and £1.2 billion. Whatever you say about supporting your argument, you were wrong. The very fact that it

sold at the price it did and the way the shares moved thereafter prove that you were wrong. Are you going to admit that, so that at least the taxpayers can have some satisfaction in knowing that the advisers have learned a lesson?

William Rucker: I do not accept that we were wrong.

Mr Binley: I do not suppose you do. That saddens me.

William Rucker: Can I explain why?

Q424 Chair: Can I just come back to you, Mr Rucker? I will give you the opportunity to respond to Brian but, when we were talking about the syndicate research analysis, you implied that, in effect, it was their assessment of the value of the shares in a year's time or some such time span. The NAO report actually quotes: "These valuations were key data points in establishing a pricing range as they incorporated the latest view on dividends, capital structure and property, and were informed by the lengthy interaction with Royal Mail's management on the highlights of the company's equity story." That indicates to me that they were very much a snapshot of the company at the time of flotation.

William Rucker: Sorry, I said there were three important things that the company was effectively sold on. They were the prospectus, the independent research that you are referring to there and also meetings with the management. Many of the institutions that were buying the shares also have their in-house research teams, so that is again a very important other factor. This is one of the factors people take into account. I am not saying it is not important.

Q425 Chair: It comes back to the relative weighting given to the independent research analysis and the banks that were involved in the book-building process. Would you like to respond? I will give you the opportunity to respond to the points that Brian made, if you wish to.

William Rucker: I think Mr Binley's point was whether we accept that we got this wrong—that we could have sold 600 million shares at a higher price.

Q426 Mr Binley: I will just make my point. Your argument is that the size of the marketplace and the size of the saleable object have no bearing on price. You were telling me that, if the price went above £3.30, most of that over-subscription would fall away.

William Rucker: Correct.

Q427 Mr Binley: Who told you that?

William Rucker: The institutions themselves.

Q428 Mr Binley: Do you mean the book-builders told you that?

William Rucker: The book-builders and also direct conversations we had with the institutions, too.

Q429 Mr Binley: The book-builders had a personal interest. Do you think it is wrong that the book-builders and the offer organisers should be one and the same group of people? Would you in retrospect now look back on that and think that, at the very least, there was an opportunity for the owner of the shares, i.e. the taxpayer, to consider that a cabal could operate? Would you change it?

William Rucker: If we had been marketing this to a list of UK-only institutions, whereby people fear that there is a UK cabal, if you go back 10-20 years ago in terms of how you price IPOs, that risk exists. The real pricing tension came in this through the fact that we marketed this to over 500 institutions globally. You have seen today in some of the press the institutions are not UK-only; they come from a range of institutions across the world. There are different types of institutions: hedge funds; we have retail; we have long-only. We have a host of different types of investors. That provides the tension, by going wide and making sure we had different types of people, different types of investors and different geographies. That brought the price tension to the book.

Mr Binley: I understand that.

Q430 Chair: You ended up with 17 preferred bidders.

William Rucker: They were not preferred. They were investors that had been talking to the company way back in 2012. They had been having extensive conversations with the company. They were investors that the company and we believed, and colleagues on my right believed also, were investors that would be there to support the company through bad times and good.

Chair: I do not want to get bogged down in terminology, but it does seem to me that, if 17 were selected, elected or whatever to receive the majority of these shares, then the word “preferred” is a perfectly reasonable word to describe that.

Q431 Mr Binley: I want to go back, because I do want you to learn something from this. Every situation has lessons to it. You would agree to that, would you not? It is a very simplistic point of view. I do not understand why you were being so obstinate about saying, “We got it right,” when you palpably got it wrong.

William Rucker: I think you are saying we under-priced this based on the fact that there was more demand than covering the shares one time. Let me finish, if I may. If you take that, you have to judge the amount of demand there genuinely was. As I said earlier, three institutions put in orders, hedge funds, of \$1 billion. They had no expectation of receiving that and, indeed, it would be an interesting question if we had turned around and said, “Yes, you can have that.” Therefore, you have to judge the denominator and the numerator here. It is very dangerous to say that, because it was over-subscribed, the share price was definitely going to go up. Facebook and many others have illustrated that that is not the case. It requires a judgment about it.

Q432 Mr Binley: You are a very knowledgeable man who knows the ins and outs of the workings of the City. Do you not understand that the taxpayer out there does not have that knowledge and there is a possibility that they could view this as being slightly less than absolutely squeaky clean? Do you recognise that reaction is a possibility?

William Rucker: What lessons do you learn?

Mr Binley: I asked you a question specifically: do you recognise that the taxpayer could judge it like that?

Chair: Let him answer, Brian.

William Rucker: If I could answer: given the circumstances around it, the turnaround nature of the business, the industrial relations and all of that, the likelihood that this share price was going to settle 10-15% above the IPO price was probably low. It equally could have settled significantly below £3.30 if the unions had gone on strike that day and had struck for two weeks. The profits of the business would have been zero.

Mr Binley: If I had died yesterday, I would not be here asking you these questions. That is the way that life is.

William Rucker: Those were the circumstances at the time when the thing was priced, and it is important to remember that.

Mr Binley: You have let them down. Do not look at me like that.

Q433 Nadhim Zahawi: I will ask the question but, just before that, I am tempted to remind the panel that there was a recent IPO of AO World that went up by 33%. These things do happen with IPOs. They can go either way.

Michael Fallon: Where is it today?

William Rucker: It is now 15% below the issue price.

Nadhim Zahawi: Precisely.

Chair: But Royal Mail is not.

Q434 Nadhim Zahawi: On the final bit of my questioning on the National Audit Office report, they also highlight the fact that the demand for the retail bit of the offer was so high that it would have met the full 60% placing. How do you take this into account when assessing the share price?

William Rucker: Retail offers are typically relatively price-insensitive. They are a price taker of the prices put out there. The risk is that the institutions that provide the fundamental liquidity in the stock market would not participate. If you had sold this entirely to retail, my expectation is liquidity would have come in through retail wanting to sell and the price consequences could have been very serious in terms of the share price falling. When you are doing an IPO, you are trying to create a balanced book whereby there is some liquidity but there is also some latent demand to come in and take up the pressure on selling. If you had a 100% retail offer, you might have been able to announce a higher price on day one, but I do not think those retail investors would have thanked you for the subsequent share price afterwards.

Q435 Nadhim Zahawi: You need the institution to pick up the overhang.

William Rucker: You need liquidity. You need people who are prepared to come into the market and buy the shares.

Q436 Mr Binley: My final question: can I ask what you have learned from this and what advice you might give to ensure that this situation, which most people see as unsatisfactory, does not happen again? What advice have you got?

Chair: I think that is a very good concluding question. It is fair to give you a chance to think about it, so we will park that until the conclusion of the inquiry.

Mr Binley: I am happy with that.

Vince Cable: I am happy to answer it, if that helps.

Chair: Let us just move on, but I do think it is a good summary question.

Q437 Paul Blomfield: Thanks, Chair. I wonder if I could move to another area. One of the reasons that the National Audit Office says that you failed to realise value for the taxpayer was the treatment of surplus assets. The NAO report highlights the UBS assessment of the surplus assets at a hidden value of up to £830 million. Your assessment was £200 million. How do you explain the disparity?

Vince Cable: I do not think the NAO did say that we had failed to realise value for the taxpayer. The calculation that I set out at the beginning is that we had actually made a significant net gain over the alternative, which was failure. That was the basic calculation at the heart of it. You had the question about the property assets.

Q438 Paul Blomfield: On that, Secretary of State, on page 6 of the NAO report, they do say, “We do not believe that the basis on which Royal Mail was sold recovered all of the value.” I suppose we can interpret that in different ways.

Vince Cable: I think we are arguing about the semantics of success and failure here. I think we would argue we were successful in our objectives. Are you specifically asking about the property portfolio?

Paul Blomfield: Yes.

Vince Cable: As I told the Select Committee before, the evidence was in the prospectus. It was based on an independent valuation by a reputable property valuer. People who had bought the shares were well aware of that valuation. There was nothing at all opaque about the process.

Q439 Paul Blomfield: There was, at the time of the sale, considerable speculation about the value of some of these assets, particularly the Nine Elms site. There was open press discussion of that site potentially being sold for between £500 million and £1 billion. In that context, would it not have been wiser to proceed along the lines of the NAO’s previous recommendations that surplus assets should be removed from the sale prior to the flotation and the Government could have realised for the public purse the value of them through a separate sale?

Mark Russell: That was looked at. I think you are talking about a potential sale and lease back. The main issue with that would have been that it would have almost certainly reopened the state aid settlement. As part of the state aid settlement, property had to be properly disposed of.

Q440 Paul Blomfield: Can I interrupt you? At the point at which the process had commenced, there would have been an opportunity to ring-fence the surplus assets and take them out of the sale, would there not? That would not have reopened the state aid negotiations, would it?

Mark Russell: No, because we would have had to remove the property at the current market value, which almost certainly would have been lower than the projected value that they were hoping to realise over a number of years. Remember, these properties are pretty immature. The disposable proceeds will go out many years, and our real concern was to ensure that the medium-term disposal proceeds were picked up and reflected in the share price. If you look at those equity analysts' cash flow forecasts, DCF forecasts, you will see that they attribute it at between £100 million and £240 million for immediate disposal proceeds of those properties. You must remember that quite a few of them are very underdeveloped. There is still planning permission to be got. Two of the sites are still operational.

Q441 Paul Blomfield: Thank you for that. I wonder if I could just return to the Secretary of State, because I am just looking at the NAO report again. Just for the record, page 17 does say, "We consider that the basis on which Royal Mail was sold could not fully recover the value of these sites." That is on the record. Given that the explanation that Mr Russell has given for not taking the surplus assets out of the sale was that it would have delayed the process, and given that in your earlier comments to us today you said that postponement was something that you actively considered and, if that was necessary to achieve value for money, you would have proceeded with it, why then was the delay a problem if it would have achieved the value of the sites that the NAO has talked about?

Vince Cable: The only way that could have happened is if the site issue had been extracted from the process as a whole. Is that what you are saying should have happened?

Paul Blomfield: Yes.

Mark Russell: What the NAO suggests is that those values were not fully reflected. We would say we believe they were. It is difficult to prove it either way.

Q442 Paul Blomfield: Would not a better way of resolving the value have been to have taken them out of the process? If £200 million is seen to be a minimum valuation, take them out and sell them separately.

Mark Russell: There would have been a state aid issue about that, which would have delayed the process.

Q443 Paul Blomfield: The Secretary of State earlier said delay was not a factor; obtaining value for money was.

Mark Russell: There was another important issue, which was that part of us preparing this business for sale was for the company to commit or to indicate a dividend level. As you know, that was £200 million. That was not just offered up like that; we had to really work for that. I am fairly confident that, if we had stripped out the properties, given that it would have left the company without those future cash flows, it would have been very difficult to have secured that £200 million dividend. I think, from the board, we would have looking at a much lower dividend.

The key thing is we believe that the £200 million—and the NAO has seen the valuation—was reflected in the equity analysts' reports. They were attributing figures of upwards of £100 million, some as high as £240 million. When they say they do not think it was fully reflective, we would say we think it was.

Paul Blomfield: There clearly is a difference there, but I will leave my questions at that point.

Q444 Katy Clark: What were the reasons for not including a claw-back provision for the sale of surplus assets?

Mark Russell: I am happy to deal with that. That was looked at and the advice that we received on this was that claw-back mechanisms do not typically work. What happens is that, at the time of valuation, analysts and the market will look at the claw-back that is likely to be realisable, and they will deduct that.

Q445 Chair: Could I ask you who gave you that advice?

Mark Russell: A combination of our financial advisers and our lawyers.

Q446 Chair: Could you give me the details?

Mark Russell: Yes.

Chair: I would appreciate that.

Q447 Katy Clark: Will you provide that in writing afterwards?

Chair: And also the advice.

Mark Russell: Yes.

Q448 Katy Clark: You will send us copies of that. What evidence was there to support that view?

Mark Russell: Sorry, a lot of that was oral advice. We were talking about property often and much of that was oral advice. To continue on claw-back, claw-back mechanisms have been used before, for instance in the electricity privatisation, where there were something like 6,000 sites.

Q449 Katy Clark: Did you look in detail at what had happened in that privatisation? Did you look at what had happened when it had been used before?

Mark Russell: We did look at that and there was very little claw-back that came out of that. We could only find evidence of about £2 million claw-back having been recovered.

Q450 Chair: Could you paraphrase the reasons why claw-back did not work? Could you paraphrase the conclusions that were given to you by your advisers that claw-back did not work—the reasons why it would not work?

Mark Russell: Primarily because we think it confuses or can potentially depress the equity value of the business, because people will associate or try to attach values to that claw-back that might never actually materialise. They will deduct it straight away.

Q451 Katy Clark: That is a slightly different point from the point you were originally making. Could you maybe expand on the point that you were originally making and provide this Committee with the evidence? This is a massive issue. We have properties throughout the country in every constituency, and the impression that the taxpayer has is that they have been sold off on the cheap. Therefore, we need to know why; we need to learn lessons from this. Could you perhaps expand on that now or would you like to do that in writing?

Mark Russell: I am happy to do it in writing.

Q452 Katy Clark: What evidence will you be providing us with then? Will you be providing us with the evidence in terms of previous privatisations where claw-back has been used and your view as to when it has worked and when it has not worked?

Mark Russell: Yes, we can show you that.

Q453 Katy Clark: What others have you got apart from the electricity one?

Mark Russell: We can write up the advice that we had from our lawyers and from our financial advisers when we discussed this. Not all of this is documented, but we can certainly tell you what we were told and why we came to that conclusion.

Q454 Chair: I would just like some sort of summary, because you have indicated, and I think I have understood it correctly, that a claw-back could actually create confusion and uncertainty, and depress the amount that we offer. Is that a reasonable summary of what you say?

Mark Russell: Yes. I would say the other reason is that claw-back arrangements are typically time-limited. They are typically a 10-year period, and what can happen is that the other part of the claw-back arrangement, so in this case Royal Mail, will simply sit on the properties and not develop at all.

Q455 Chair: I will just follow up that, because I can understand what you say up to a point, but I cannot see any reason why you could not have put in a claw-back provision that claws back any value over £200 million. Surely that would not have depressed the equity

offer, because anybody buying it would be guaranteed the £200 million asset as outlined by the Government. It is only any additional value that would render them liable to some sort of claw-back. I cannot see how that would confuse the offer price.

Mark Russell: Again, I will come back to you on this in detail, but I think the concern is that people will try to value or try to make estimates of what sorts of figures might ultimately come in above that £200 million. Again, remember these properties—Nine Elms for instance has a 13-year period. They will make estimates and they could well discount the current figure with that extra claw-back.

Q456 Katy Clark: Yes, but the situation we are in now is that it may well be that many of these properties are sold off with a significant excess, which will go to the shareholders. In many instances, obviously, the majority of it is in private hands. We as taxpayers have invested in those properties over many years, so this is an absolutely massive issue. We really need to know why that was not considered in more detail and have the evidence in relation to that. Do you accept the National Audit Office’s conclusion that you “did not fully recover the value of these sites”, because that was the conclusion that they came to? Do you accept that that is indeed the case?

Mark Russell: No, we do not think there is any evidence for that.

Katy Clark: You do not accept what the National Audit Office is saying.

Mark Russell: No.

Q457 Katy Clark: You are the custodians of a public asset. The impression that is being given is that, basically, you were not going to allow anything to stand in the way of selling off this asset as soon as possible. Anything that might cause a delay was something that was just going to be swept aside. Do you not accept that that is the public’s impression of what has happened?

Michael Fallon: Let me just try to correct that. This sale took place two years after Parliament approved the principle of injecting private capital into Royal Mail. It took place four years after the previous Labour Government tried to privatise Royal Mail. It took place five years after the initial Hooper report advocating a fresh capital structure. It took place 20 years after the previous Conservative Government tried to privatise Royal Mail.

Katy Clark: You were all desperate to privatise it.

Michael Fallon: The idea that we were in some kind of hurry does not stand up to any critical examination at all.

Q458 Katy Clark: Do you not accept that the taxpayer would expect you to wait until the right conditions were in place to get the best price?

Michael Fallon: We did wait.

Katy Clark: You think you did.

Michael Fallon: We did wait, absolutely.

Q459 Katy Clark: Do you think you got the best price you could have got?

Michael Fallon: We got the best price we could have got at that time. Hindsight is a wonderful thing. I am quite confident we got the best price we could at that particular time, bearing in mind all the circumstances at that particular time.

Q460 Chair: Minister, I find that assertion absolutely *Alice in Wonderland*. The fact is that you did not get the best price, because, on the day of sale, the share price soared. That is just an astonishing assertion.

Michael Fallon: No. That was on a small number of shares. There is no evidence that people would have paid more than 330 pence for 600 million shares, whatever they were prepared to pay for a handful of shares on the day.

Q461 Chair: You may not have had the evidence beforehand, but you certainly had it afterwards, which seems to imply that there was a certain, shall we say, lack of judgment.

Michael Fallon: Chairman, I have not seen any evidence that people were prepared to pay more than 330 pence a share before the sale. If you have that evidence, please show it to us.

Chair: I would be very happy to see the evidence that you had published that would indicate why companies would not pay at above that. Indeed, I believe that the NAO, in its research, has identified four that would have paid more than that. Can I bring in Mike Crockart now?

Q462 Mike Crockart: Thank you, Chair. I would just like to turn now to the relationship between the Government, the Shareholder Executive and independent advisers, and how the division of responsibilities actually arose. The NAO has looked extensively at this and it concluded that you delegated “a comprehensive range of responsibilities” and they list them: “a review of strategic options; arranging the selection process for the syndicate; capital structure advice” and a number of others. What roles and responsibilities were actually retained and did you and the Shareholder Executive exercise in the whole process?

Vince Cable: As you say, Mr Crockart, in the question there were different functions. Essentially we are talking about public procurement processes that took place in terms of the recruitment of the banks that worked on the IPO and also in respect of the choice of the independent adviser. They were conducted according to public procurement rules. Of course Ministers were not involved, but we approved the process. The involvement with the individual in the book-building process was entirely devolved to the companies that had been selected through that process. The Shareholder Executive had oversight of this. We had the independent advisers and, in the final analysis, Ministers were required to approve and pass judgment on those decisions.

Q463 Mike Crockart: That does feel very much like you are saying that the only role and responsibility that you obtained was selecting the independent adviser to run the show.

Vince Cable: The independent adviser was selected through a Government procurement process. There were seven companies that applied to do the job that Mr Rucker has done.

It has been described to me, because it was not a political process, as a series of objective tests of performance and ability. The Shareholder Executive acted also with the Treasury; it was a cross-Government responsibility.

Michael Fallon: If I could just add to the process, as Ministers, we took the decisions. We took responsibility for the decisions. How this worked in practice was the Shareholder Executive reported to me weekly, from the previous autumn. We met virtually every week. All the major decisions were put to ministers, to me and the Secretary of State. We relied of course on advice, but there was ministerial oversight throughout the process and there was ministerial challenge throughout the process, from both me and the Secretary of State, particularly in the weeks and months leading up to the sale.

Q464 Mike Crockart: What I am trying to get to is effectively whose job it was to look after the taxpayers' interests in the whole process. If we look at Lazard and what the NAO says about them, Lazard's incentives were with the policy objective of achieving a successful sale. It was not about maximising the value; it was not about maximising the return to taxpayers. It was about making sure that the sale was successful. Whose job was it to ensure that the taxpayers' interests were uppermost in that? Did that get lost somewhere along the way?

Vince Cable: It was central to their terms of reference. I will just repeat what I said right at the very beginning. When we had been talking about value for money and the return to the taxpayer, only one element of that was the price of the shares. The second was the retained value and the third was the potential loss of being left with a very severely depreciated asset. The value for money is those three different components. The financial adviser was well aware of that task. It was not a simple metric. It was judging, at all times—and we two Ministers had oversight of their decisions—to achieve value for money in that much more complex way than is in this endless argument about what the price was on the day. That was not, by any means, the only element in value for money.

Q465 Mike Crockart: I am not talking now about what the price was on the day. I think we have discussed that a lot. The NAO's view is quite clear. They say, "The taxpayer interest was not clearly prioritised within the structure of the independent adviser's role." Do you accept that was a mistake? Should that have been more explicitly included within the independent adviser's terms?

Vince Cable: In my fairly limited interaction with the financial adviser, I was under the impression that this was their central role and that was how they understood it. I do not know whether your perception was different.

William Rucker: No. What the NAO is saying is that we did not have any incentive fee; we had a flat fee is what the report says. The book-runners all had incentive fees in there. I do not know if ShEx wants to comment on that, but I think there was plenty of incentive in the process. I do not think that at any point, I would hope colleagues on my right would agree, we were not incentivised to achieve the objectives set out.

Q466 Mike Crockart: The other thing that the NAO states and made recommendations about is a doubt about whether the Department was well enough equipped to challenge and interrogate recommendations made by independent advisers, and whether

too much responsibility was given to independent advisers and left the Department. Do you agree with the recommendation that “departments should examine ways to reduce reliance on professional advisers for judgments affecting taxpayer value”?

Vince Cable: The Shareholder Executive is full of very highly skilled people who understand these things and have a background in financial markets, and we also had access to advice from the Treasury, so I do not think it was a lack of expertise inside Government.

Michael Fallon: The National Audit Office themselves say that the appointment of a multidisciplinary team of professional advisers was appropriate, given the scale and complexity of this transaction. That was their own contribution.

Q467 Mike Crockart: We can all quote selectively, but the quote I have given—that “Departments should examine ways to reduce reliance on professional advisers”—is a fairly straightforward and obvious one that the NAO is making. They seem to be saying that too much responsibility was placed outwith the Department, and perhaps some of that should be brought back into the Department to ensure that the taxpayer value is prioritised in the future. Would you not accept that?

Vince Cable: That is a judgment on the competence of our officials, and we have a high regard for them.

Mark Russell: There is a clear issue here as to what, either as Ministers or as officials, we can do in a process like this. The one thing that we cannot do, which is really important, is to speak to the investors directly ourselves. We cannot do that in a comprehensive way; we cannot go and speak to 500 investors. There are skills in a massive exercise like this that you have to use experts for. To try to pull some of that in-house would not be optimal at all.

Q468 Mike Crockart: I am not suggesting that. I am not suggesting that those negotiations are pulled in-house. What I am suggesting and what the NAO seems to be suggesting is that you need to have the skills to be able to challenge the advice that then emanates from those so that the recommendations are not just blindly accepted as being something that comes out of a black box that is too complicated for you to actually look at.

Mark Russell: That is a fair comment. All I can say is, on the crucial points of advice, we absolutely challenged. I have to say it was not just the Shareholder Executive and other members of the Business Department; it was Ministers as well, who were very engaged on the key decision points. It would be foolish for me to say no to that, but I would say that I think we have the right balance between internal challenge and external advice.

Mike Crockart: It is quite clear that the NAO does not agree.

Vince Cable: Can I just add one other thing? It goes back to Mr Binley’s comment earlier about squeaky cleanliness. It was absolutely crucial to the exercise that we were advised by people who had no vested interest whatever in the pricing process and were completely independent. That is why it was crucial.

Q469 Mike Crockart: The final thing is the NAO conclusion is that you did not receive the full value of the surplus assets—I know that you do not agree with that—and that the shares were worth “much more than this process was able to extract”. Again, you do not seem to agree with that. That would seem to suggest that, from the NAO’s evidence, we should be ruling out payment of any discretionary bonuses to the global co-ordinators and the syndicate. If you are disagreeing with all of that evidence, you seem to be ruling in discretionary bonuses, because everything is rosy in the garden.

Vince Cable: We have not paid one and we have kept open the option.

Q470 Mike Crockart: You do not seem to be saying very much that would indicate that you are unhappy with the advice, the process or the end result.

Vince Cable: That is a fair summary. That does not relate to the decision on whether discretionary bonuses should be paid. On these three propositions, we would agree that we did get good advice.

Q471 Mr Bain: I think the public will be flabbergasted that Ministers are happy with the advice that has been tendered, given that they have forgone hundreds of millions of pounds as a result of this flawed transaction. Can I put to you the central finding that the NAO produced, which Mr Crockart referred to, which is that there were design flaws that meant that no one put the long-term return to the taxpayer first? The primary driver for the Department was maximising proceeds for the Treasury. The primary requirement and criterion for the independent adviser was maximising proceeds for the Treasury. The whole problem is there was no one who was taking part in this process who was putting the long-term taxpayer interest first. Is that not something that you would want to apologise for, Secretary of State?

Vince Cable: Absolutely not. Indeed, your question is full of loaded assumptions and false premises. The whole point about this exercise is that we were concerned with—I will use your phrase—long-term taxpayer value. That long-term taxpayer value consists of three components. I have said this several times and I will repeat it. It is the actual cash that was realised at the time, where almost all your questioning is concerned; secondly, the residual value of the taxpayer stake; and thirdly, and absolutely crucially, the risk to the taxpayer had this transaction failed. They would have been left with a company under public ownership that had very limited value and was subject to very high risk. We were overwhelmingly concerned with, to use your phrase, the long-term interests of the taxpayer. That is what drove the whole process.

Q472 Mr Bain: To take from that, your position would be no apologies, no regret, ‘Je ne regrette rien.’

Vince Cable: Absolutely no apology and a recognition—I think Mr Fallon used this phrase and it is a good one—that hindsight is a wonderful thing about price. Given the circumstances at the time and the facts that we had available to us, the correct decisions were made.

Michael Fallon: Two years ago, we had a loss-making Royal Mail. Today, we have one of Britain’s top 100 companies with every prospect of a secure future and able to deliver

on a sustainable basis the six-day-a-week service that our constituents rely on. That is a success.

Chair: That was not obvious when you floated.

Michael Fallon: Nothing was certain when we floated. As I have said to you, half the issues in the last four years were below their offer price on the first day, and most of those are still below their offer price. There was nothing guaranteed about the success of this flotation at all.

Chair: I think we have been through this narrative, Minister.

Q473 Mr Binley: Minister, I am delighted that you floated in the successful way you did. Nobody is objecting to that. That was one of the three objectives. My concern, however, is the bad advice you received, resulting in the fact that you had the opportunity to squeeze a little more money out for the taxpayer, but did not. My concern now, because we are a scrutiny body, is that lessons should be learned in that respect. When you come to the final question, you might tell us what lessons you have learned, because there certainly are some.

Chair: Can we get back to William now?

Michael Fallon: Can I just answer that first?

Chair: No, you can answer it at the end.

Michael Fallon: He is making these statements and you are not allowing us to counter.

Chair: I understand that and I will give you the chance to respond to them.

Q474 Mr Bain: Thank you, Chair. We do ask the questions. If I can now turn to the issue of institutional investors, Secretary of State, you told the House that “between two-thirds and 70% of the shares held as a result of the IPO are held by long-term institutional investors”. How many of these institutions were turned down as priority investors? Can you tell us?

Vince Cable: The phrase “priority investors” did not come from us. There were some investors who were heavily involved in the book-building process and who took a significant share, a substantial share. There were roughly 19, of whom 11 are still significant investors and where 60% of the shares now are. There are different definitions about what these so-called “priority investors” actually are, but it was of that order of magnitude.

Chair: It is a term used fairly widely in the NAO report.

Q475 Mr Bain: You would be able to tell the Committee who these institutional investors are.

Vince Cable: The issue of disclosure is this. My view is that we should be as open and transparent as possible, because there is a public interest here. The names of the institutions involved—as I said, there are fluctuating definitions—were given to the NAO. We have had legal advice that we should respect the commercial confidentiality of the

parties involved, but I would recognise that you are asking perfectly legitimate questions and we want to respect Parliament. I am perfectly happy to pass, on a confidential basis, the names of the companies to the Chairman, because that is the practice that has been common in issues of this kind.

Q476 Chair: Can I just get it clear in my own mind? These are the priority investors that you are prepared to give the names of.

Vince Cable: Yes indeed.

Q477 Chair: Can you also give the names of those institutional investors that were turned down?

Vince Cable: I do not think anybody was turned down. People turned themselves down is a more accurate way of describing it.

Chair: Turned down as priority investors?

Vince Cable: I do not think anybody was turned down. That was not how the process worked. I do not know whether one of our officials can explain it.

William Rucker: The process was that the company started talking to 65 investors up to 18 months before the IPO. That then narrowed down, in terms of those investors who were interested in actually investing in the Royal Mail, to a shortlist of about 21. Of that 21, 16 actually invested. Others were not rejected; this was an early process in terms of pilot fishing and looking at potential demand very early on.

Q478 Chair: It seems odd to me that an institutional investor that would buy shares when they are put on the open market did not actually want to take part in the process prior to then. Is that the case? Were there many?

William Rucker: Sorry, perhaps I was not clear. 65 investors were spoken to at the outset, in terms of the company going out and seeing them. Of that 65, 21 showed an interest in becoming an investor in an IPO of the Royal Mail. Of that 21, 16 actually invested, some having fallen away because of price. I think you are asking whether those 65 all went back in and bought shares in the company afterwards. No, I do not have evidence, so I do not know because it is not disclosed, but I would suspect not.

Q479 Chair: What I am saying is: are there institutional investors with those shares now that bought them on the open market and did not wish to participate in buying those shares in the process beforehand?

William Rucker: I do not know, because it is not disclosed. It is only disclosed when people's shareholdings go to 3%. My suspicion is no.

Q480 Mr Bain: Secretary of State, you have also said that many members of the public have pension policies with insurance companies, which now form the institutional base of the Royal Mail shareholding. How many of those companies were priority investors and how many have purchased shareholdings after the flotation?

Vince Cable: I cannot quote off the cuff. We do know that there were a significant number of major pension funds that invested and indeed stayed with the investment. Legal & General is one of them; its name is on the share register. Others did not, for reasons that are fairly easy to explain. They regarded the increase in price immediately after launch as unrealistic and clearly took advantage of it. They had a fiduciary duty to their pensioners to do so.

Q481 Mr Bain: How many of the priority investors remain shareholders of Royal Mail now? Do you know?

Vince Cable: If we are talking about the 19, I think the NAO report gave the figures on this; it is 11 of the 19 and they retain 60% of their original share allocation.

Q482 Mr Bain: Some of those priority investors would clearly have sold on their holdings and presumably have made a substantial profit. Correct?

Vince Cable: Substantial or some, yes. Presumably that was why they sold.

Q483 Mr Bain: That was based on a process that many people believed has undervalued the company.

Vince Cable: It is based on an assessment that the prices after launch were unrealistic.

Q484 Mr Bain: As someone who has spoken about the need for capitalism to be responsible and for people not to be making short-term decisions, are you entirely comfortable with that as Business Secretary?

Vince Cable: I am not comfortable with that. I am not actually, and I will explain why. I have been before the Committee before talking about the Kay report and long-termism. We do not have as much of that as we should have in our financial intermediaries. I have, as I explained to your Committee before, approached the Law Commission with a view to changing the fiduciary duty to commit those institutions to longer term investment. I am hopefully we shall have that soon, but the existing rules governing fiduciary duty mean that a company has an obligation to its pensioners to sell in situations of the kind that prevailed.

Q485 Mr Bain: You would accept, though, that the public would rightfully feel very angry indeed if people have made huge profits in terms of a company that could have ended up being significantly undervalued.

Vince Cable: The people are probably large numbers of your constituents, who are investors in these major companies, at least many of them. I do not think that would be the case, but there is a wider issue about long-term investment, which I hope I have answered.

Q486 Chair: Just for the record, Minister, I believe it was you who described the 17 as “high-quality institutions of the type that would form the core of a long-term supportive investor base”. How many of those still retain their shares?

Vince Cable: I think I have just answered that. We talked about 11 of the 19, which have retained 60% of the shares that they were originally allocated.

Chair: You got at least eight of them wrong—no, six of them.

Vince Cable: We have at the moment. Those are companies that have declared an interest in wishing to hold Royal Mail shares. If the price goes down to what many people would regard as a more realistic value, they may well buy into it and acquire, if they have a long-term wish to do so.

Chair: I would like to pursue that, but I want to bring in Ann McKechin here.

Q487 Ann McKechin: On this point about the priority investors, there is a report today by the Bureau of Investigative Journalism identifying a number of these priority investors. I wonder, perhaps when you are responding to the Committee, if you can confirm whether or not that list is accurate, given that it now appears to be out in the public domain.

Vince Cable: I am going to make it available to the Chairman and I think we should observe an orderly process for that, rather than just leaking individual names.

Q488 Ann McKechin: I am sure that, probably as a result of this report, we will be coming to these companies and asking them to confirm or deny; I do not think the Committee should be in any worse a position than if it is in the public domain.

Vince Cable: The two names that were published this morning are on the share register and they are public information through Bloomberg. We are talking about a couple of sovereign wealth funds, which actually do meet the description of serious long-term investors very accurately.

Q489 Ann McKechin: Just turning back to the NAO report, it is stated that “you rejected an introduction of binding agreements because it would have reduced the sale price of shares”. Can you confirm what data you have to show that the level of price reduction would have occurred if such agreements had been introduced? What evidence did you use to rule out that option?

William Rucker: If the institutions had not been able to sell for a period—is that the question?

Q490 Ann McKechin: Yes. The whole idea presumably was to provide stability and to avoid the volatility in share price that the Secretary of State has mentioned this morning as a particular risk, which he says that Royal Mail still faces.

William Rucker: Investors in investing obviously do it on fundamentals, in terms of how they see the value in the company, but they also do it on the basis of liquidity and the ability to sell. If you ask an investor to lock themselves up for a lengthy period of time, there is likely to be a consequence in terms of the price it is willing to pay for the share. We saw this in the extreme version when we approached Plan B, talking not about the IPO but talking about bringing private investors into Royal Mail.

Q491 Ann McKechin: Mr Rucker, surely there is a balance because, when you start discussing the price, you then actually place a cap on it. That is what the NAO report actually said. Surely the balance is that, in return for capping the price to some extent, you get long-term stability from these investors. You did not achieve this at all.

William Rucker: The price-setting level I think we have probably been through. When you look at what the long-term investors were doing it on, the basis on which the company and the shareholder, the Government at that point, wanted to bring these people in on was the basis that they would be there and support it in bad times as well as good. Now, bad times was obviously the risk of a strike. All of these investors have target prices in terms of what they are willing to see value up to, and they have a fiduciary duty to sell their shares if it exceeds that price, and that is how many long-term investors play their investment strategy.

Q492 Ann McKechin: What they did was exactly what the Secretary of State says he is trying to stop companies doing: making short-term profits at the expense of having long-term stability in a company. Because of that, you started to tell them the price and you, in effect, started to restrict your price. You did not actually get the benefit that was the intention.

William Rucker: The shares were marketed on the basis that they were liquid at all times. That was the fundamental basis on which investors were coming in, so there was no cap as a consequence of that.

Q493 Ann McKechin: Could you set out the criteria for identifying and choosing these priority investors?

William Rucker: Yes. There were a number of criteria that were set out. This actually pre-dated our involvement, but they were set out as several criteria under which they would be judged.

Q494 Ann McKechin: Perhaps it might be easier if you could drop us a note. I think that would be helpful. In the absence of any binding agreements, what sorts of discussions were there with the companies about what kind of undertakings they would give about their long-term interest in Royal Mail and their support for a company? Were there any discussions about what you actually thought the basis of their investment would be?

William Rucker: They were investing based on what is called “priority” in the NAO report. They were investing on the basis of extensive knowledge of the company. They had a series of meetings.

Q495 Ann McKechin: Ministers and their officers were regularly telling people before the flotation that you were going to have these long-term investors from very stable, big, well-known institutions investing in Royal Mail. Surely there was some sort of reference to that in your discussions with them, when you were actually discussing the price.

William Rucker: If we had said to them, “We require you to—”

Ann McKechin: What was required was an understanding about what they were going to do. Surely there must have been some discussion.

William Rucker: There was an understanding that the company may be subject to considerable volatility. Their intention was to remain investors in that company, until such point at which the share price exceeded what they believed was the fundamental value of the company. That was an understanding in terms of the early discussions.

Q496 Ann McKechin: What sort of value would that be, when you thought it would then start to trigger a sale?

William Rucker: It varies by institution. They have different target returns. As we touched on earlier, many of these institutions have their own analysts internally.

Q497 Ann McKechin: Surely, as to the time period, people might think you were talking about two or three years: “If it reaches a certain price, we would then sell our stock.” I do not think people really thought it would happen within two weeks.

William Rucker: I do not think those investors expected the price to move so rapidly.

Ann McKechin: Clearly you did not either.

William Rucker: From a fiduciary point of view, it would be logical for them to sell at that point.

Q498 Chair: Can I just go back to some comments you made earlier, Mr Rucker, when I asked about the priority investors? I asked how they came about and you implied that these were the investors that basically had agreed to take these shares. You did not at any stage say that they conformed to the criteria that the Government was looking for for long-term institutional investment. Exactly what is the situation or what was the situation then? Did the Government actually seek any sort of assurance from those investors that they would hold those shares?

William Rucker: The selection of the investors—

Chair: Were they selected or not?

William Rucker: The list of 65 potential investors in the Royal Mail, as an early pilot fishing exercise to establish how strong institutional interest would be in the company, was made a long time before the IPO. There was a series of meetings. Of the 65, only 21 then expressed an interest in being an investor in it. Of the 65, that was a range of institutions of different types to try to get demand from different pockets, by geography and by type. By the time we got down to the 21, those were all institutions that would have fitted the description you are talking about.

Q499 Chair: The Government was satisfied that they would, in effect, be long-term, stable investors, and yet we know that six have already sold their holdings. What went wrong in the process that failed to identify them?

Vince Cable: There is an issue about what kind of companies we are talking about. In the trade—and I have to say I am not somebody who has been involved in the financial markets—there is a distinction between what are called long-only companies and hedge funds, which have a much more short-term perspective. The long-only companies have

two characteristics. One is that they look at long-term value, rather than short-term speculative opportunities. The second is that, in general, they tend to hold the shares for longer periods, but it is not always the case, and they churn their shares like any other institutions.

Successful IPOs are dominated by these long-term institutions. We were hopeful that, in this particular one, the share register for the institutional investors would be companies of this kind, but they did not have to pass some kind of exam to qualify and they certainly did not have to sign any kind of contractual agreement. They were selected because of the nature of the companies.

Q500 Chair: Do you still stand by your statement then that all 17 were—and I quote your words—“the high quality institutions of the type that would form the core of a long-term supportive investor base”?

Vince Cable: That is the case.

Chair: Six of them have not.

Vince Cable: Some of them took a short-term decision on behalf of their pensioners, but the majority of the shares are still with those long-term institutional investors and the share register is dominated by them. You can check that; it is publicly available. Even if we got beyond what everybody is describing as the ‘priority investors’, and you look right down the list of the companies that are heavily involved in the Royal Mail, they are all the kind of local authority pension funds and ecclesiastical pension funds. They are traditional long-term investors. Nobody signed any agreement, but that is the nature of the companies we wanted to attract and have attracted.

Q501 Chair: Among those listed by the Bureau of Investigative Journalism are some that definitely did not come into that category. I understand there is Capital Group to name some, or a couple. I do not know about the Singapore sovereign wealth fund or the Kuwait sovereign wealth fund, but they are all quoted and it would appear that you got at least some of them wrong.

Vince Cable: It was not a selection process. Nobody passed any test. It was the nature of the type of companies that we wished to have dominating the share register, and they do.

Q502 Chair: Did you have any criteria? I suppose there is a spectrum where criteria become a test, but did you have criteria?

Vince Cable: Certainly those people who were involved in the process did have an objective of talking to—

Chair: Minister, surely you set the process up and the criteria by which they should act.

Vince Cable: Yes, but it was not highly prescriptive. We were relying on their judgment, as people who operate in financial markets, to talk to the right kinds of companies and they did so.

Q503 Katy Clark: The National Audit Office report says that several of the priority investors made a substantial profit by selling their shares shortly after the IPO. You keep arguing that £3.30 was a good-value price for long-term institutional investors. Why is it that so many of them sold off so quickly? Was it to make a quick buck?

Vince Cable: You put it in pejorative language but, yes; they were indeed making a return for their investors, which they have a duty to do.

Q504 Katy Clark: From your point of view, is that something you are proud of?

Vince Cable: It is not proud or the opposite. It is just a fact of life. That is the way financial markets work.

Q505 Katy Clark: Do you think that, if the institutional investors sold making that profit, it surely shows that there was an under-valuation?

Vince Cable: No, it does not show that at all. We have been over this many times, but there is a difference. We have tried to stress this. There is a difference between the price prevailing at any one time—and it goes up and down, and we are dealing with a very volatile stock, and people buy and sell depending on their expectations of price—and the long-term underlying valuation. In this particular case, one of the key factors that I tried to explain to the Committee last time and we have not really gone over this time is that we were dealing with a rather unique situation, but none the less we looked at other companies in other countries—similar kinds of mail logistic companies—to find an underlying long-term value. That was a key influence in setting the price that was set.

Q506 Katy Clark: What you have said is that you were anxious that hedge funds did not end up owning Royal Mail. That was one of your concerns—or organisations like hedge funds. Did you take advice as to whether there was any legal way that you could get these long-term institutional investors to commit to staying with Royal Mail for a period of time?

Vince Cable: If the process that I have started with the Law Commission comes to fruition and the fiduciary duty changes, that will impose a somewhat different set of obligations on the managers of those funds, and it may well involve a commitment to holding shares for a longer period, but we are not in that world.

Q507 Katy Clark: Would you say that that is one of the lessons to be learned from what is happened here?

Vince Cable: I would not say it is a lesson to be learned, because I started that process before we got into the Royal Mail.

Q508 Chair: Thank you. I am sure we wish you well with the Law Commission fiduciary process and only regret that it was not in place before this particular flotation took place. Could I just conclude with a few questions and then we will come into Brian's question? If the reason institutional investors sold was that the share price was over-valued, why did one of the institutional investors double its holding?

Vince Cable: They have different judgments, and that is the whole problem with this company and all this argument we are having about what is the realistic price. People take wildly different views about its prospects, and its price yo-yos up and down. It could in

the next year—we have no idea—go substantially up or substantially down. It is a volatile stock and different companies take different views.

Q509 Chair: The problem is that the process that was adopted in the flotation failed to capture that level of interest in the investor, and perhaps it should have.

Vince Cable: I think we have repeatedly countered that. Do you want to have another go?

Michael Fallon: We certainly captured the interest of investors.

Chair: Sorry, could you repeat that?

Michael Fallon: I was not quite sure of your question. You said we did not capture the interest of investors. I think we did.

Q510 Chair: No, you did not capture the fact that a major institutional investor was prepared to pay a substantial premium on the flotation price to obtain more shares.

Michael Fallon: They were not prepared to buy 600 million shares at that particular price, and that is the key point here. You have to distinguish between the individual day trading and the initial flotation, and, as I have said repeatedly to this Committee, over the last four years half of them have ended up below the offer price.

Q511 Chair: Again, that is a supposition on your part. The fact that they doubled their holding would seem to indicate that they had quite an enthusiasm for shares at that price.

Vince Cable: They did and a lot did not.

Michael Fallon: A lot have sold.

Q512 Chair: Can I come to the next question? On the number of sales sold, who made the decision to sell the maximum number of shares and leave the state with 30% of the residual shareholding?

Vince Cable: The starting point was that the whole purpose of the privatisation was to make sure that a majority were sold, so that it could then become a private company and borrow. There was then a technical judgment, which was something ministers challenged, as to exactly how much you sell at the point of sale in very uncertain conditions. A whole set of factors entered into it, not least of them being the fact that—we go over this argument again—it might fail and we would therefore be left with more shares than we would wish to retain. There was a judgment by our financial advisers that this was indeed the best way of extracting the value for the taxpayer in the circumstances.

Q513 Chair: Which financial advisers?

William Rucker: We and the book-runners agreed a host of reasons the quantum sold was sold, including the fact that we were trying to satisfy a large retail demand. We were trying to satisfy institutional investors to have sufficiently meaningful stakes that they would not just sell instantly, because it was below their threshold of what was a sensible investment for them. We had some regard also to subsequent sell-downs to the extent that

it would be liquid and how many tranches it would take to exit if that was the decision that was taken. Those were all the factors that were taken into account.

Q514 Chair: Given the fact that the Government made it clear that it would not exercise control of more than 30%, which was highlighted as one of the fears of the market to be addressed by selling the proportion that it did to ensure that there was effective control by the private sector, why did the Government not actually sell a smaller proportion, maybe 51% or something like that, and perhaps retain a greater percentage for subsequent sale, given the potential increase in value of those shares?

Vince Cable: That is a good question and it is the question that I asked, and Mr Fallon asked, at the point at which we were launching it. There was clearly a balance of forces. We could have retained a bigger share. There were the arguments against it Mr Rucker has just set out from a market point of view. The issues we had to consider were whether the Office for National Statistics would regard this as a privately owned company and the point at which effective control was transferred. It was a tricky judgment. We did consider it and went with what has happened.

Michael Fallon: Perhaps I could just add that we were also keen to ensure the maximum participation by retail investors. One of the best things of many good things about this sale is that 95% of those who applied for shares got shares. This company now has around 700,000 individual shareholders.

Q515 Chair: With respect, Minister, if I can just respond to that, I do find that a rather odd assertion, given the percentage that was given to the retail market and given the percentage that was given to the institutional market. If you really wanted to generate huge retail ownership, then I would have reasonably expected a larger percentage made available to them.

Michael Fallon: 95% got shares of those who applied.

Chair: 95% of those who applied might have got shares, but not 95% of the shares available were sold to the retail market.

Michael Fallon: No.

Vince Cable: I think Mr Rucker has given the answer to the question about the balance between the institutional and the retail, and the reasons for doing it, which were strong technical arguments.

Q516 Chair: It would appear, getting back to the original point, that somewhere the wrong judgment was made because, on the balance of evidence that has appeared subsequently, it would have been possible to obtain much greater value for the taxpayer by retaining a higher proportion or possibly just offering a higher percentage of those shares that were sold to the retail market.

Vince Cable: There are totally rational reasons why the balance was struck between retail and institutional investors, and why we chose 40% rather than 49%. We have been over those.

Q517 Chair: With respect, Minister, I have not actually heard those reasons. We fall back on the advice that was given.

Vince Cable: That advice was subject to a great deal of critical scrutiny by Ministers, but stood up to those critical questions.

Q518 Chair: I come back to the NAO report, which does put that as an option. It is stated that you could have “retained even more and allowed the taxpayer to participate further in the rapidly increasing share price, and thus limit the cost to the taxpayer of its cautious approach”. Do you agree with that or not?

Vince Cable: Again, this is purely a statement of hindsight. Had the Government held a larger share, then it is quite possible that the whole price subsequently would have been different and that the retained value that we had would have been lower than it is. We are entirely going over these hypothetical games about what might have happened—about the counterfactual. We simply do not know that.

Michael Fallon: We wanted a balance between shares for the institutions, for retail investors and of course for the employees.

Chair: Yes, we know you wanted a balance, but it would appear that you got the balance incorrect.

Michael Fallon: Are you suggesting that the £750 cap should have been higher?

Chair: I am suggesting, and it is in line with the NAO report, that a higher proportion could have been sold to the retail market.

Michael Fallon: I think 131 people applied for more than half a million shares.

Chair: We know the figure, but the fact remains that there were only a certain percentage of the shares made available and, in fact, those who did apply got a relatively small number of shares compared with their application.

Michael Fallon: Are you really suggesting that the 25 people who wanted £1 million of shares each should have—

Chair: Minister, you are deliberately taking an extreme. The fact is that the great majority of those applications were under the £10,000 limit and they got a very small proportion of the number that they applied for. It could well have been that greater value for the taxpayer might have been realised had that been different.

Vince Cable: Mr Rucker has explained that there was a complex argument about what was the relative value of having a large retail holding as opposed to a large institutional shareholding. We were persuaded of the merits of having a substantial institutional shareholding, in terms of the stability of the company.

Chair: Can I come to your question again, Brian? Would you like to repeat it?

Q519 Mr Binley: It is a very simple one. PAC, NAC and BIS Select have all found very similar shortcomings, which are certainly worthy of consideration, in terms of maybe tweaking the system to appear to be fairer, as well as being fairer. You have mentioned that there were three objectives and the lesser seems to be the wellbeing of the taxpayer in this respect; that appears to be what happened. The other two were achieved, as you admit yourself, but maybe the interest of the taxpayer, in losing between £1.1 billion and £1.2 billion, was not quite as well served, and it seems to have a lower priority than the other two, which seems to have import. At the end of the day, our job is to scrutinise and hopefully help you learn lessons. I have made that point. Are you saying that this was an absolutely perfect exercise or are you telling us that you have learned some lessons, and would you divulge them if that is the case?

Vince Cable: I want to give you a straight answer, but can I go back to some of the premises of your question?

Mr Binley: Do we really want to go there?

Chair: In fairness, Brian, you were not restricted in how you asked the question, so we should not restrict how he responds.

Mr Binley: Yes, but we ask the questions.

Vince Cable: The simple point is that, of the three criteria that we have repeatedly identified, you say that the first is the taxpayer interest and the other two are something else. Actually, all three of them are the taxpayer interest.

Mr Binley: I understand that. I am not trying to make a point there. I am simply trying to find out whether we can proceed—

Chair: Brian, can you just let them answer?

Vince Cable: The second point in the preamble of your question is the point you keep throwing on of the £1.2 billion or £1.6 billion we could have got. Other people said £750 million. All these figures have been plucked out of the air. You used the really eloquent phrase “squeeze a little bit more out”. This “little bit more” is sort of different in every question and every conversation.

Can I just repeat the fundamentals? In terms of lessons to be learned, there are lessons to be learned about this very specific exercise that we have undertaken and there are broader lessons to be learned about how the Government sells public assets. I will deal with each of them. On the first, I would repeat the phrase again that hindsight is a wonderful thing but, on the basis of the facts we had, the information we had, the knowledge we had of the company, this was a successful transaction, and we do not apologise for it and do not regret it.

In terms of the broader lessons, there is an interesting question, which the NAO raised, about whether an IPO is the best way to sell a large public asset like the Royal Mail. There are other ways of doing it. We have had experiences with trade sales. The experience of QinetiQ, which was the last big one, was not a brilliant one to put it mildly. In the course of the book-building exercise, the advisers did look at a Plan B, which involved a trade sale. There was very little interest and it would have attracted a far lower price than the one that we did.

Then the question is: is there a Plan C? Are there any other ways of doing it? We have an IPO; we have a trade sale. Are there other ways of doing it? Probably there are. The NAO made a constructive suggestion that we should be thinking about other ways of doing it to get the absolute maximum value for future transactions. One possibility, which I know about because I was in the oil industry, is that you can have blind auctions. This is commonly used in the oil industry for licensing. It has been used in telecommunications. It has been used in one IPO in the past. We should look at that and see whether we can learn any value from it. You can get very extreme bids and get a lot of money from blind auctions, but they have their problems. There is the so-called winner's curse, where people bid too much and then cannot invest subsequently, but certainly we should look at that.

The lesson to be learned from this whole exercise is whether this is the best system for getting the maximum value for taxpayer assets. We accept the need to look at different methods. I suspect we may come back to the conclusion that the IPO route was the only one that made any sense, but we are certainly happy to look at others.

Q520 Chair: On that there may be a degree of agreement. Just before we conclude, you quite rightly talked about transparency and the wish to be as transparent as possible. There have been a number of FOI requests seeking names of priority investors. These, I believe, have been refused. Can you tell me why?

Vince Cable: I explained earlier that we were given legal advice to respect commercial confidentiality, and the corollary of that is we would be sued if we did not. As a Minister, I understand why you, the NAO and other public bodies wish to maintain oversight, so I am happy to make it available under confidential purposes.

Q521 Chair: With respect to any lawyers here, you can usually get a lawyer to take one position but find another lawyer who will take another position. How wide-ranging was the legal consultation that you took, and did you get any contrary views?

Vince Cable: There is a debate as to whether we should simply disregard commercial confidentiality. There are legal implications; there are wide implications. I took the view that we should deal properly with the companies with which we have business. There was a legal assumption that their commercial confidentiality should be respected, so we have done that but, at the same time, I want us to be as co-operative as possible with you, the NAO and any other investigative bodies.

Q522 Chair: My interpretation of your response is that basically you did not seek legal advice that would be contrary to that.

Vince Cable: We did seek legal advice.

Chair: That would be contrary to that?

Vince Cable: We did not look for contrary advice. We sought advice.

Chair: It is reasonable to assume that, if you are given advice, you look at the legal implications from both sides, particularly if you are going to use the commercial confidentiality as a legal basis for refusing it—to test it, effectively.

Vince Cable: It is a balance of factors. All of these things are. Indeed, the whole two-hour conversation has been about the balance of considerations. The advice we received was that we should respect commercial confidentiality, and we have.

Q523 Chair: Was that the only advice you received?

Vince Cable: Yes, I believe that was the case.

Q524 Chair: We will come back to it: did you seek any other advice? Did you seek to challenge it in any way?

Vince Cable: I challenged it. Mr Fallon challenged it.

Q525 Chair: Did you get any legal people to challenge it?

Vince Cable: No, we did not. Why should we?

Q526 Chair: If that was your legal advice, did you either write to or consult in any way the priority investors to see if they would be willing to have their names divulged?

Vince Cable: I think conversations have been held along those lines, and the feedback that I have had was that they wanted the commercial confidentiality to be respected.

Chair: In effect, they did not want to be revealed.

Vince Cable: We will reveal them to you, Mr Chairman.

Q527 Chair: We appreciate that but, given the fact that a number of companies now appear to have been outed by at least one organisation—and I am not in a position to say whether this is accurate or not—would it not be better, for the sake of transparency, to prevail upon those companies, if they did object to it, to withdraw their objections?

Vince Cable: We will reflect on that advice.

Chair: On that note, can I thank you, Ministers, for a long and robust session? This is a big issue. Of course, we will be preparing a report in due course. Again, I will say, as I always say, if there are any further questions that we feel should have been asked but were not, we would be grateful for your co-operation in responding to them. Equally, we have asked for some information and we would be grateful for that. Indeed, if you wish to give us any further information that you feel we should have, we would welcome that as well. Thank you very much.