



HM Treasury

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Mr Dennis Grainger
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Dear Mr Grainger

Thank you for your correspondence dated 28 February to the Prime Minister. Your letter has been passed to the Treasury. As it is not practical for Ministers to respond personally to all the correspondence they receive, I have been asked to reply.

In responding to your call for an inquiry and compensation for shareholders, it might be helpful if I establish the background and action taken in the case of Northern Rock. As you are aware, the then government implemented measures to stabilise Northern Rock in September 2007, after it had become affected by heightened turbulence in the financial markets which threatened to undermine the bank's ability to fund its operations. Had the bank been unable to meet its liabilities it would have failed, with serious consequences for wider financial stability in the UK.

The emergency funding provided by the Bank of England and the guarantees provided by the government at the time were intended to provide the firm with time and space to seek a private sector solution to stabilise it in the long term. It was not feasible to provide public support to Northern Rock in the long-term. The government is clear that taking an institution into Temporary Public Ownership (TPO) should only ever be used as a last resort. However, uncertainty in the marketplace made it difficult to attract potential buyers for Northern Rock. Two detailed private sector proposals were received: one from the Virgin Consortium; and the other a Northern Rock-led restructuring plan. Both proposals involved a degree of risk for taxpayers and very significant implicit subsidy from the Treasury. The then government assessed that these proposals would not have provided value for money to the taxpayer, as the private sector rather than the taxpayer stood to secure most of the future value created by the bank. The previous government rejected the proposals in favour of taking Northern Rock into public ownership.

When taking Northern Rock into public ownership, the then government provided that former shareholders of Northern Rock should receive compensation for their shares in line with the value that those shares would have had if the government had not stepped in. This was set out in the Northern Rock Compensation Order. A copy of the Order can be found here: <http://www.legislation.gov.uk/uksi/2008/718/contents/made>.

The Order provided that the amount of any compensation would be assessed by an independent valuer, Andrew Caldwell, who published a consultation document on 8 December 2009. This document set out his provisional view that there was no value in Northern Rock's shares immediately prior to the company being taken into TPO and, therefore, no compensation was payable to former shareholders. Former shareholders, like all other affected parties, then had the opportunity to feed their comments into the consultation process.

On 1 October 2010, after examining requests for reconsideration, Mr. Caldwell issued his Revised Assessment Notice. Mr. Caldwell stated in his Revised Assessment Notice that he remained of the conclusion that no compensation was payable by the Treasury to former shareholders of Northern Rock (or other affected parties). Mr. Caldwell published the Revised Assessment Notice online in addition to replying to each of the people who sent him a request for reconsideration.

A number of former shareholders then referred the case to the Upper Tribunal. On 6 October 2011, the Upper Tribunal announced that it had upheld Mr. Caldwell's decision. A summary of the Upper Tribunal's decision can be found on its website at: www.tribunals.gov.uk/financeandtax/Decisions.htm.

Subsequently, the former shareholders appealed to the Court of Appeal against the decision of the Upper Tribunal. The hearing of that appeal was heard on 22 and 23 January 2013 and the Court of Appeal upheld the judgment of the Upper Tribunal, that no compensation was due. The full text of the Court of Appeal judgment can be found at: <http://www.bailii.org/ew/cases/EWCA/Civ/2013/492.html>.

Following the Upper Tribunal's 2011 decision to uphold the independent valuer's conclusion that no compensation was payable, the government believes that the issue of compensation for former Northern Rock shareholders has been settled and does not intend to revisit this decision or initiate a public inquiry.

Your letter states that you wish for 'events to be fully reviewed and understood, and lessons to be learned...' I hope that you are reassured by the fact that in March 2009 the independent National Audit Office (NAO) published a review of the nationalisation of Northern Rock¹. This report examined the government's actions leading up to, and following, Northern Rock's nationalisation, and made recommendations to the Treasury.

Your letter mentions the Northern Rock Foundation and the charitable work it funded in the North. As you note in your letter, this government is committed to levelling up across the UK by raising productivity and growth in all nations and regions, creating opportunity

¹ The report is available at the NAO's website at <https://www.nao.org.uk/wp-content/uploads/2009/03/0809298.pdf>

for everyone, and addressing disparities in economic and social outcomes. The March 2020 Budget announced a range of measures that will benefit people in the North East including:

- the increase in the National living Wage this April will benefit around 99,000 people;
- the increase in National Insurance Thresholds in 2020-21 will result in a tax cut for 1.1 million people;
- £700 million for strategic road schemes between 2020 and 2025; and
- £198mn for the North East through the Transforming Cities Fund.

I hope this letter clarifies the government's position on compensation in the case of former Northern Rock shareholders.

Yours sincerely,

Financial Stability
HM Treasury