

ROYAL MAIL & POST OFFICE LIMITED

Top Lines

Royal Mail

- Royal Mail needs to modernise much more quickly. To create the conditions for that to happen, Hooper recommended a strategic partnership for Royal Mail; tackling the company's historic pension deficit; and a new regulatory regime.
- Government believes that these three measures are a package. The Postal Services Bill creates the necessary powers to do all three

Delay to finding a private-sector partner for Royal Mail?

- Ministers have said from the outset that the process of finding a private-sector partner involves a detailed negotiation; and reaching a deal may take more time than it takes to reach agreement on the Bill.
- He said "I want to retain the slot [for the Bill] ... but I have to concede that the original linking of the legislative passage and the bidding process for the strategic partner has been decoupled"

Delay to the Bill?

- The Secretary of State confirmed this morning that the Government stands behind all three of the Hooper measures – as a package – and, therefore, stands behind the Bill.
- There is much to do in the remaining weeks of the Parliamentary session. It is for the business managers to decide on the date of the second reading and subsequent stages.

Cameron offer to give up an opposition day for Bill's second reading

- That's a matter for the business managers in the House of Commons.

Post Office Limited (POL)

- Bill is primarily about RM. But a healthy RM is vital for a healthy POL.
- The Bill ensures that POL remains owned in entirety by HMG. It also increases transparency of POL's performance, requiring both annual accounts and a report on the network to be laid before Parliament

Detailed Lines

Timing of the Postal Services Bill

- There is much to do in the last few weeks of the Parliamentary session. The Secretary of State said this morning that the Bill is “jostling for space” in the legislative programme.
- But he confirmed that it was still the Government’s intention to legislate before a general election.
- Secretary of State has also made clear that the recommendations of the Hooper Review are a package: introducing a minority partner for Royal Mail, tackling the pension fund deficit and a new regulatory regime.
- The Government does not intend to tackle Royal Mail’s pension deficit without bringing in a strategic partner to help modernise the business more quickly.

There were clear messages from the Hooper Report

- The universal service is under threat. The explosion of digital media has prompted an unprecedented decline in the letters market. Now predicted to be a 10% decline this year.
- Royal Mail is the only company which has the national infrastructure to deliver to all 28.4 million residential and business addresses six days a week.
- But Royal Mail is much less efficient than many of its European counterparts and faces severe difficulties. The House of Commons Business & Enterprise Select Committee was very clear to agree with this.
- A radical reform of Royal Mail’s network is inevitable. The company has a plan to achieve this. But the pace of change needs to accelerate significantly.
- Hooper said that faster modernisation required a combination of commercial confidence, capital and experience of managing large-scale change.
- To do that, he recommended a strategic partnership between Royal Mail and one or more private sector partners with demonstrable experience of transforming a major business.
- As part of a package of measures, he also recommended that Government should tackle Royal Mail’s historic pension deficit, and appoint Ofcom to regulate the postal sector.

Bill provides new protections for Post Office Ltd (POL) and transparency for Parliament

- The Bill makes it clear that Post Office Ltd must be owned in its entirety by Crown. Existing powers which enable Government to sell part of Post Office Ltd will be repealed.
- POL will be under new duty to publish its annual accounts, and for those accounts to be laid before Parliament. This will address concerns about the transparency of Post Office Ltd’s finances, expressed by many including Business and Enterprise Committee.
- Bill requires POL to produce annual network report, again laid before Parliament, including info on number and location of Post Offices and their availability to consumers, particularly the most vulnerable

Not separating POL from Royal Mail

- Will remain in the same group of companies
- Will be a sister company rather than a subsidiary of Royal Mail Group Ltd

Not jeopardising POL's relationship with Royal Mail.

- POL will continue to offer Royal Mail's services throughout its network
- Arm's length commercial arrangements will continue
- Two businesses will remain in the same group of companies.
- The success of the two businesses is very much interconnected
- Healthy Royal Mail business good for POL

Questions

1. So does this mean you're still trying to get Bill through this session? If not now, then when?

- We still intend to legislate before the election.

2. If the Bill doesn't get through this session, would it need to start afresh in the 5th session and go through Lords' consideration again?

- Yes.

(House of Commons Standing Order 80 (a) states that Bills that start in the Lords cannot be carried over. If the Bill had started in the Commons, it would have been eligible for carry over.)

3. Has the deal process been halted?

- The Secretary of State has not said that the deal has been halted. The Secretary of State has said that finding a strategic partner for Royal Mail will continue on a separate timetable from the legislation.
- That reflects the fact that economic circumstances are difficult. Ministers have always been clear that they would only do a deal with the private sector if it represented value for money for the taxpayer.

4. What about the pension plan? Donald Brydon has said he's going to have to close it without Govt taking on the deficit - is that what you're going to let happen now?

- The pension is a matter for the Company and the Pension Trustee. That has always been the position. The Government has been clear about the basis on which it would be prepared to take on the pension deficit.

5. If this whole package was all so urgent, why is the Govt backtracking?

- Govt not backtracking. Still committed to the legislation.

6. Do you think that the Government was remiss in not asking the Hooper Review to look at the future of the post office network?

- No. Hooper was set up in December 2007 to look at how to maintain the universal postal service.
- Main focus was Royal Mail's mail business which had not been reviewed by Government for 10 years.
- Royal Mail Group Ltd and POL provide different services and have different challenges
- Had already been a consultation on the future of the post office network in the previous 12 months and new funding arrangements had been put in place in May 2007.

7. Shouldn't the proceeds of any transaction be used to support the post office network if it has been separated from Royal Mail Group?

- We have said that the proceeds from the proposed transaction will be used to fund modernisation.
- Cannot be specific about what will happen to the proceeds as the exact nature and timing of the partnership deal and the value of the proceeds is not known

8. Once the Government has taken on the pension fund, will the £850m in the pension escrow account be used to support POL?

- No decisions have been taken on how the funds will be used

9. With the future of post being parcels, surely we need more post offices to meet the demand? Can the Government guarantee that RMG will use the post office network to meet that demand rather than use other outlets?

- POL will continue to offer Royal Mail's services throughout its network under the existing, arm's length commercial arrangements.
- We see nothing to prevent the current commercial arrangements continuing for the long term.
- Royal Mail has to ensure that it has sufficient access points to meet its obligations to provide a universal postal service.
- Other mails providers are also using the post office network - PO signed a contract with DX Group in April to allow collection of parcels from PO's

10. Will the Government use future dividends from Royal Mail Group to help modernise the post office?

- Will continue to support the post office network beyond the end of the current funding deal in March 2011, subject to EU clearance.
- Whether the funding comes from Royal Mail dividends or central funds is not relevant
- Expect that Royal Mail would retain profits until it has completed its modernisation

Pensions is a big issue, but its resolution does not solve Royal Mail's ills

- Action on pension deficit alone would not deliver and accelerate modernisation.
- Not fair on tax payer to take responsibility for the deficit if the other challenges facing Royal Mail, ie modernisation, are not also addressed.
- Pension holiday taken when scheme in surplus. Deficit due to poor investment returns, plus changes to longevity assumptions.

Regulation similarly does not offer a panacea

- It is true that UK stamp prices are some of the lowest in Europe. But a significant increase in prices will simply encourage people to use electronic alternatives even more quickly.
- Hooper concluded that it was impossible to judge with any certainty who benefited from the current access price. Bill gives Ofcom powers to establish the cost of Royal Mail's services, to ensure that the access regime is regulated fairly.
- Postal competition not the problem - RM estimates that it loses £100m to competitors but £500m to electronic communications such as e-mail.
- Mail volumes fell by 5.5% over the last year and are expected to fall by 10% in 2009/10, 3% more than predicted in the Hooper Review.
- RM financial position precarious. £321m operating profit not full story:
 - only £58 million came from letters business on a turnover of £6.7 billion;
 - RM had negative cash flows of £373 million last year;
 - RM group as a whole made a **loss** after exceptional and tax of **£229m**; and
 - pension deficit more than doubled in the last year, to £6.8 billion on an accounting basis.
- RM's decreasing revenues will not be able to fund future investment. It needs capital in hundreds of millions of pounds in addition to the debt funding already agreed in 2007 (£1.2bn debt facilities).
- Partnership brings experience and expertise of network transformation not just capital.
- Partnership gives Royal Mail more commercial confidence by removing perception of Govt interference.

11. Why do we have competition in postal services? It's hurting Royal Mail and its hurting Post Office.

- All EU postal markets liberalised by 2012 (most by 2010)
- Problems of PO and RM are caused by changing technology
- We have to deal with the situation as is – no going back

12. Should POL be a limited company when it's essentially a social service?

- POL is a part of the Royal Mail group of companies under ultimate ownership of Royal Mail Holdings plc. That company is established on an arm's length basis from Govt under the Postal Services Act 2000.
- While POL plays vital social and economic role in communities throughout UK, almost without exception the markets in which it operates are competitive. There are other ways of sending mail, other providers of financial and telephony services and other ways of accessing Government benefits and services.
- These are commercial activities. So for POL, and its network, to thrive it is imperative that it has all of the flexibility to compete that is provided by its limited company status. This therefore enables POL the best opportunity to deliver the social and economic benefits that so many rely on.
- In addition, clear commercial ties between POL and Royal Mail. Income from Royal Mail currently accounts for around 30% of POL's total revenue. And the nationwide network of post offices provides vital business for Royal Mail from consumers and small businesses: approximately 3/4 of Royal Mail's retail business is sourced through POL.
- So there is a clear rationale for maintaining the corporate link between the two businesses - and this will be ensured even after any strategic partnership for Royal Mail is established

Extracts from Financial Times & BBC Breakfast – Monday 29th June

Financial Times

...Lord Mandelson admitted he may be forced to put on ice his planned sale of a minority stake in Royal Mail, which is fiercely opposed by Labour MPs.

He had planned to present legislation to the House of Commons before the summer break, but says he is being "jostled" for space in the legislative programme.

"I want to retain the slot, but...I have to concede that the original linking of the legislative passage and the bidding process for the strategic partner has been decoupled" he said.

He pointed to the depressed state of the markets as a reason for delaying legislation to allow the sale.

Lord Mandelson said it was still his intention to legislate before the election and that he would not retreat on his insistence that there would be no tax-payer bail-out of the Royal Mail pension fund unless the private sector was involved.

BBC1 Breakfast

Lord Mandelson: "...on the Royal Mail we are committed to the proposals that were made by an independent body to turn round the finances, the business organisation of the Royal Mail, and the reason we want to do that is to sustain the high quality letters delivery service that we depend on in this country, and therefore we remain committed to making these changes.

Charlie Stayt: "...You were very insistent...on the Andrew Marr programme just a couple of weeks ago, saying that this process would go through before the summer recess. What's happening?

LM: "No...I didn't say that at all. I said I hoped it would but I wasn't sure that it would be possible to do, and the recess is in...three to four weeks' time.

CS: "So if not now, then when?"

LM: "Later."

CS: "...this is an emotional subject for many people; they'll be baffled as to why...you're happy to sit there and when I ask you when something will happen...the best you can do is say 'later'".

LM: "...I think you'll need to wait until you see the Government's statement today on building Britain's future...What the Government is going to do today is to move on and to focus on the policies and changes that the public want..."

Extract from Building Britain's Future – published today (29 June)

Text as approved by SoS over weekend. Statement and report due to be published this afternoon:

"Though postal services are under pressure from technological change and growing competition, the Post Office network and letters service are still vital to our economy. The Hooper Report clearly set out the need to modernise. We are committed to maintaining a universal letters service and to placing Royal Mail on a sustainable footing for the future.

We are currently taking through Parliament legislation to modernise Royal Mail on the lines Hooper recommended."

Summary of David Cameron's comments, press conference, 29 June

Prime Minister talking about making tough decisions for the future but now Govt has 'completely bottled it' over RM.

PM in all but name (Mandelson) now saying the Bill was jostling with other business to get before the House. Ahead of going on longest summer recess break ever.

Opposition would be happy to give up one of their Opposition Days before the recess for the Bill to get a 2nd reading.

Happy for the parliament to be made to run for longer if Government wishes, so the Bill can get a reading.

Not sure if this is possible, but may ask House of Commons themselves if they can arrange the 2nd reading.