

- [Accessibility](#)
- [Email alerts](#)
- [RSS feeds](#)
- [Contact us](#)

www.parliament.uk Search

- [Home](#)
- [Parliamentary business](#)
- [MPs, Lords & offices](#)
- [About Parliament](#)
- [Get involved](#)
- [Visiting](#)
- [Education](#)

- [House of Commons](#)
- [House of Lords](#)
- [What's on](#)
- [Bills & legislation](#)
- [Committees](#)
- [Publications & records](#)
- [Parliament TV](#)
- [News](#)
- [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Committee Publications](#) > [All Select Committee Publications](#) > [Commons Select Committees](#) > [Trade and Industry](#) > Trade and Industry

Select Committee on Trade and Industry [Twelfth Report](#)

TWELFTH REPORT

The Trade and Industry Committee has agreed to the following Report:—

THE 1999 POST OFFICE WHITE PAPER

Introduction

1. On 8 July 1999 the Government published its long-awaited White Paper on the future of the Post Office,^[1] thus bringing an end — or at least bringing an end in sight — to the uncertainty caused by the process of almost continuous review originally begun in July 1992. It is intended to introduce primary legislation soon to give effect to the White Paper proposals: secondary legislation giving effect to some of them has already been made. The process of change does not of course end there. The regulatory Postal Services Commission to be appointed will soon have a noticeable impact on postal services within the UK. The European Commission is expected to produce its proposals for further liberalisation in the near future. Postal services worldwide may well form part of the next trade round following the November 1999 WTO Ministerial meeting at Seattle. In the longer term the question of ownership of the Post Office and its subsidiaries is likely to arise again. Nevertheless, the reform package unveiled in July should give the Post Office some space to respond to the challenges which have stacked up over the years of reviews, proposals and counter-proposals.

2. This Committee has been closely involved in scrutinising the process of review over recent years, publishing substantive Reports in March 1994, March 1995, and January 1998, and the results of additional oral evidence heard in October 1996 and December 1998.^[2] Our January 1998 Report sought to set out a generally acceptable way forward, based on —

- conversion of the Post Office to an independent publicly owned company
- a 40 per cent dividend payable to the Government
- commercial freedom on borrowing and pay
- an independent regulator to provide for fair competition, protection of service standards and transparency in accounting
- preservation of the network.

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

In April 1998 the then Secretary of State Mrs Beckett announced in response to our Report a second phase of the Post Office Review, which it was hoped would be able to announce its conclusions "by the autumn", recognising that it "needs to be completed swiftly so that its conclusions can be implemented in good time to enable the Post Office and other operators in the postal services market to take full advantage of the changing framework of the domestic and world markets."^[3] Autumn having come and gone, we arranged to hear oral evidence from the Minister and others on 9 December 1998, which may have prompted the 7 December 1998 statement to the House by the then Secretary of State Mr Mandelson, laying out the bare bones of the outcome of the review. On 15 December 1998 we agreed to a Report setting out the detailed matters which we expected the White Paper to address, and published the evidence we had received.^[4]

3. The Minister told us that he wanted to achieve 3 milestones in the first half of 1999 — publication of the White Paper, application of the EU Postal Services Directive, and agreement of a Strategic Plan. The timetable has unfortunately slipped, in part at least because of the need for the White Paper to reflect the decision on the Horizon automation project. After the cancellation of several provisional arrangements to hear oral evidence on a White Paper which failed to appear, we heard oral evidence from the Post Office and from DTI officials (in the unavoidable absence through illness of the Minister) on 14 July 1999. We also received written evidence from a number of those organisations from whom we have received evidence in the past as the review progressed. There is little in the White Paper that could and should not have been agreed last autumn. **We welcome the Government's acceptance of most of our proposals made in January 1998, and its response to our December 1998 requirements as to the substance of the White Paper; we have however to record some dismay at the time it has required to complete a review initiated in May 1997.**

4. On 24 May the Government announced that the Horizon project for automation of Post Office Counters and the introduction of a magnetic strip card system for social security benefit payments was being radically amended. In view of the size and prominence of the programme, as one of the largest PFI programmes, and of the significance of the perceived threat to the national post office network, we decided to inquire separately into the events which led up to the May 1999 announcement and into future prospects. We have reported separately on this issue, in our Eleventh Report.^[5]

Overall reaction

5. The reaction to the White Paper has been generally favourable. The Post Office expressed itself as "broadly content", accepting that it was a balanced package of measures, some of which they would naturally have preferred to avoid. The Chairman told us that "we think it is a very good White Paper, one that we welcome very much"^[6] although "the balance is less good in the White Paper than it would have been if the Horizon decision had not been taken a couple of weeks before".^[7] The CWU/CMA told us "The package as a whole is very welcome to us". United Parcel Service described the outcome as "a very workable and fair new postal structure": DHL as "a coherent framework for the future": and the Direct Marketing Association "applauded and welcomed" the Government's goals as set out in the White Paper. The Post Office Users' National Council (POUNC) welcomed most of the proposals. **While a number of aspects of the White Paper require critical scrutiny, we share the broad consensus that the White Paper does at last provide what the Post Office and its millions of clients and customers require.**

Strategic Plan

6. The immediate next stage is DTI's approval of the Post Office's annual 5-year Strategic Plan, which has already been submitted to the department. It was largely drawn up in advance of the May 1999 decision on Horizon, whose anticipated financial effects are therefore not apparently fully reflected in the Plan.^[8] While most of these come after 2003, and therefore at the end of the planning period, it is essential that the Plan be adjusted to reflect the new and less favourable outlook. A Post Office Director told us "We managed to put in a strategic plan to the Secretary of State last month which just about, with a struggle, balances the books and keeps the Post Office in a sensible financial position. It does require us to make some good improvements in both revenue and expenditure."^[9] If it was a struggle then, it will be more of a struggle now. **We recommend that the Strategic Plan be revised prior to approval by Ministers so as to reflect as fully as practicable the effects of the Horizon decision and the White Paper proposals, so that profit forecasts and dividend figures are based on realistic forecasts.**

Legislation

7. Both the Government and the Post Office see a degree of urgency in conversion to plc status. If Ministers are right in their judgement of the advantages which would flow from the status, they too must be concerned at the prospect of delay. The proposed legislation would also bring about a number of other necessary changes.

- The regulator and POUNC will be given their "full range" of rights and responsibilities, which at present are limited to those that can be incorporated in secondary legislation as flowing directly from the EU Directive.^[10]
- Modernisation of the definition of the areas of activity permitted to the Post Office under the 1969 Post Office Act: it seems that some of its activities and those of its subsidiaries may already, on a strict construction of the law, go beyond its statutory ambit.^[11]
- Reduction in the Post Office monopoly, which can at present only technically be temporary, will be put on a permanent basis.^[12]

It is therefore desirable that a legislative slot be found as soon as possible for Post Office reform, in tardy fulfilment of the UK's obligations under the 1997 EU Directive, and in the light of repeated delays to the programme of review. We note the Secretary of State's recent remarks on the prospects.^[13] If it proves impossible to find time in the 1999-2000 session, Ministers should consider the production of a draft Bill, and a relatively faster passage in 2000-2001.

Ownership and structure

8. Five years have now passed since the previous Government published its Green Paper proposing privatisation of Royal Mail and Parcelforce. The new Government came into office in 1997 committed to giving self-financing organisations within the public sector "greater commercial freedom to make the most of new opportunities". Two years and much internal reviewing later, there is at least a clearer view of the organisational way ahead, combining eventual incorporation of the Post Office as a plc with a commitment to its retention in public ownership.

9. The idea of conversion to an independent publicly owned company (IPOC), which was the solution we have favoured and which was advanced by the management and workforce of the Post Office as the best solution, has apparently been considered in detail and found to be inappropriate, as having "fundamental weaknesses over management and ownership issues and lines of responsibility".^[14] Lord Sainsbury of Turville told the House of Lords that the argument against an IPOC "is simply that it is not at all clear what it is ... it could mean a body that is exactly the same as the body we have today It could describe exactly the organisation that we are putting in place."^[15] In contrast, the main arguments for plc status are that it is clearly understood by all concerned, including by those entering into commercial relations with the Post Office, and by its competitors: that it makes a clear distinction between the rights and duties and responsibilities of management and ownership: and that the model has worked well for postal services elsewhere, notably in Scandinavia and Australasia.^[16] The White Paper comments — "Unless there is a transparent framework of accountability it is difficult to see how things can be very much different than they have been in the past."^[17] **Many would now accept that there is indeed value in using the tried and tested status of a plc. While tempting to use the forthcoming legislative opportunity to create some theoretically admirable hybrid structure, it could confuse those in the UK and overseas likely to be commercially involved with the Post Office in future years.**

10. **The remaining issue is fundamentally one of ownership.** The evident difference between plc status and the proposed IPOC status is that the latter would have excluded the eventual possibility of any partial privatisation by sale of equity: whereas, whatever the present Government's declared intentions, conversion to plc can be presented as what the CWU/CMA called "a significant step towards privatisation".^[18] The conversion of a publicly owned corporation into a public limited company would normally allow for subsequent sale of shareholdings without primary legislation so long as the Government retained a majority or controlling interest. The Government is for example actively considering the sale of a minority shareholding in BNFL plc. In order to assuage those who suspect that this or another Government might embark on a sale of all or part of the Government shareholding, the Secretary of State told the House that —

"The Act of Parliament to create the Post Office as a public limited company will make it clear that we would not seek to dispose of Post Office shares without further primary legislation."^[19]

This is a substantially stronger safeguard than the deliberate uncertainty of the December 1998 statement or the reference in the White Paper to any proposal for a sale or exchange of shares needing "further approval" by both Houses of Parliament, presumably by resolution. We assume that a statutory prohibition on any sale of shares is envisaged, which would evidently require primary legislation to repeal it should a Government wish to sell shares.

11. One problem arises from the perceived possibility that the Post Office "might wish to enter into a joint venture or strategic alliance with another company, and *might wish to cement this with a limited sale or exchange of equity*". The Secretary of State noted that in such cases "it would not always be sensible or practical to seek parliamentary approval through a separate Act of Parliament. However, I can assure the House that any such proposal would be debated and voted on in both Houses of Parliament".^[20] It therefore seems that it is envisaged that there should be an exemption covering "limited" sales or exchanges of equity, arising from joint ventures or strategic alliances. **Given the potential sensitivity of such a sale or exchange, particularly with the likelihood of it involving an overseas post office or postal services company, the definition of the proposed exemption for limited sales or exchanges of shares is crucial and must be openly addressed before the presentation of legislation.**

12. The 8 July statement and White Paper referred only to "Post Office shares", which is presumably intended to cover the issue of further shares as well as existing ones.^[21] The Post Office is a statutory Corporation, which acts in effect as a holding company for a number of wholly owned businesses and subsidiaries. One of these, Post Office Counters Ltd, is already a plc, with a paid up share capital of 50,000 ordinary £1 shares wholly owned by the Post Office. No legislation was required to convert it into a plc. Royal Mail could be similarly converted. Further subsidiary undertakings include finance, insurance and investment companies: Subscription Services Ltd (SSL); Royal Mail US Incorporated the holding company for German Parcel; and Envision, a joint venture with Bull Holdings and WPP formed to bid for the BBC contract for television licensing and enforcement, in which the Post Office has a third of the shares but apparently "exercises dominant influence". Other joint ventures include Quadrant Catering, on which we have previously reported the concerns of the postal workers' unions. Although holding a 51% share of the company, the Accounts record the Board's view that the other shareholder — Granada — "exercises dominant influence". The Post Office is a minority shareholder in General Parcel (23%) and the Swedish private postal operator City Mail Sweden (10%). **It is at the subsidiary level that joint ventures and partnerships are formed. Whether it is desired to exclude the possibility of sale or exchange of even limited amounts of equity in subsidiary companies without explicit Parliamentary consent, or indeed to facilitate such deals without requiring that consent, the question of the application to present and future Post Office subsidiaries of the latest undertakings on equity sales or exchanges needs to be explicitly and urgently addressed.**

Monopoly

13. The terms of the EU Postal Services Directive, agreed on 1 December 1997, require only a marginal reduction in the upper limit of the "reserved" or monopoly area, from the present £1 limit set in 1981 to 92p, and a broadly commensurate reduction in the equivalent weight limit. Noting that inflation had in any event substantially reduced the limit in recent years in real terms, we concluded in our January 1998 Report that "We do not favour any further abrogation of the monopoly area at this stage, other than in fulfilment of the latest EU directive".^[22] The Government's reply in April 1998 noted that it had been suggested by some organisations responding to the 1997 round of consultations that "research was required to determine objectively the level of monopoly necessary to support the universal letters service". Meanwhile, it confirmed that the Government had "no current plans to change the monopoly other than in relation to changes being made throughout Europe", although consideration of further changes were not ruled out in the next phase of the review, "subject to their compatibility with the maintenance of a universal postal service at a uniform tariff".^[23]

14. The first public confirmation that a reduction was envisaged came in December 1998. Although the Secretary of State's statement of 7 December referred only to the regulator having "a duty to promote competition by a careful and phased liberalisation of the monopoly postal area ...", he announced in response to subsequent questions that "I am proposing to reduce *significantly* the Post Office's monopoly activities ...".^[24] In oral evidence to us two days later, the Minister suggested that, rather than waiting for liberalisation to be imposed, it might be preferable to "take action to make sure when it comes you are the most effective player in the market to take advantage of it".^[25] The Post Office has been rather less enthusiastic. In November 1997 the Chief Executive warned that if the monopoly level were set too low there could be cherry picking and that reductions should be done "very slowly", by weight steps generating a particular price. Some in the commercial sector however see no justification for a monopoly level above the price of a first class stamp,^[26] and others would do away altogether with the monopoly, as has indeed happened in some countries.

15. On 8 July the Secretary of State announced a reduction in the monopoly from the existing £1 limit to 50p or 150 grams, with effect from 1 April 2000. An Order giving effect to the change was laid that same day. In his oral statement, he told the House - "greater commercial freedom must be matched with some liberalisation ...": in response to questioning, he agreed that it might be appropriate to link the 50p limit to the RPI, but also expressed his confidence that "the figure is pitched at a level that will ensure that the Post Office can still meet its universal service obligation".^[27] The White Paper expressed the Government's belief that "greater competition will bring benefits to the consumer" and described the reduction as "a major first step towards liberalisation", with the Postal Services Commission (PSC) to report within a year of its appointment on the scope for further liberalisation.^[28] It went on to pray in aid "studies carried out in Europe for the European Commission" which indicated that "there may be considerable scope for introducing greater competition in postal services without undermining these essential [universal] services exposing the Post Office to greater competition ahead of many of its EU counterparts should put it in a better position to take commercial advantage as markets are liberalised." Recent examples given of successful liberalisation were the Netherlands, Sweden, Finland, New Zealand and Argentina. The White Paper also noted that the PSC would be free to consider "the further development of niche licences" for competition within the monopoly area.^[29]

16. The reduction is unwelcome to the Post Office, and the postal trades unions. The Post Office is of necessity prepared to live with it as part of a package, but the Chairman candidly accepted that on its own the proposed reduction would not have been acceptable.^[30] They would welcome some opportunity for further discussion on the proposed reduction, and for the new level to be index-linked.^[31] The Post Office modelling suggests that over 3 years the reduction in the monopoly could lead to lost profit building up to £100 million: a figure which DTI felt might be "on the pessimistic side", but accepted was likely to be about right in broad terms.^[32] Some reliance seems to have been placed on the study of the monopoly area of European post offices carried out for DG XIII of the European Commission, by Cton, a copy of which we procured following our visits to Brussels, together with other related studies. The study concentrated on the experience of those few countries, including the UK, which have already lower weight and price limits than required by the Directive. It found that real competition appeared only after liberalisation of significant volumes: and that larger commercial concerns would enter as niche suppliers or concentrate on business mail. While some postal operators would benefit from an overall market growth, others would indeed decrease in profitability. It is noteworthy that in none of the relatively deregulated European markets has there been a strong challenge to the monopoly operator. In Finland, for example, where there has been no letter monopoly since 1994, "100 per cent of the domestic letter market is still served by Finland Post": and in Sweden, similarly liberalised since 1993, Sweden Post still has around 96 per cent of the market.

17. The reduction seems to have been intended more as a gesture towards competition than as a change designed to make any radical inroads into the Post Office's revenue or profits. DTI told us that only 6 per cent of Royal Mail's traffic lies between £1 and 50p:[33] the studies have operated on the assumption of the loss of around a third of that market over time.[34] The Post Office provided us with a note on the financial impact which set out the detailed assumptions made, which assume more attractive entry for operators: it told us that the methodology used in making the estimate had been independently scrutinised and explored at technical conferences.[35] Private sector operators have however confirmed their view — which may of course prove wrong — that the reduction is insufficient to offer much of a market opening to the private sector. The Mail Users' Association suggested that it would have "little or no impact on the dynamics of the market." [36] While there may be some growth in private business mail, and possibly in local services (for example in geographically detached parts of the country), there is little immediate prospect of a major shift. **The purpose of what is described as a "first step" is evidently as a signal that there will be more competition in a liberalised marketplace, and to expose the Post Office to a foretaste of the chill winds of competition and liberalisation to be introduced under a regulatory regime.**

18. Given that the December 1998 statement referred to the regulator's responsibilities for "careful and phased liberalisation" of postal services, translated in the White Paper and in the Postal Services Regulations as a duty to report within a year of appointment on proposals for further liberalisation of the market, it does at first sight seem premature to halve the monopoly in advance of the anticipated requirements of the regulator or of European Directives, and in the absence of a thorough independent analysis of the implications. It may be that the reduction proves greater than is prudent in view of maintenance of the Universal Service Obligation: if that were so, it would in real life be difficult for the regulator to raise the limit. The notion that it could be raised in line with RPI is not really practicable:[37] inflation acts in practice as a relatively painless way of bringing down the monopoly threshold closer to that of a first class stamp, and the real monopoly threshold has more than halved in this way since it was set in 1981.[38] It may on the other hand prove to be the case that the level could readily be lowered further without undue harm to the Post Office's obligations: and that is evidently what DTI expects.[39] **Ministers have in effect substituted their judgement for that of the prospective regulator. Given that the regulator may be in office by the autumn, we recommend that the Government consider withdrawal of the Order so that the Postal Services Commission can consider evidence put to them of the effect of a reduction in the monopoly threshold, and recommend to Government an appropriate monopoly threshold.**

Regulation and consumers

19. In January 1998 we recommended that the Government's proposals should include "a relatively detailed scheme for a system of regulation" and that the Post Office Users National Council — the voice of consumers of postal services — would require increased resources and a higher profile in an era of liberalised postal services.[40] The December 1998 statement set out the proposed duties of the independent regulator to be appointed, and announced — to the evident surprise of POUNC — that it would be given "a more central role and its powers increased".[41] It was also announced that the regulator would be appointed in the first instance by an order under the European Communities Act 1972, giving effect to the EU Postal Services Directive, thus avoiding any delay while awaiting a slot for primary legislation. Following the request made in our December 1998 Special Report, a draft of these Regulations was published on 8 July at the same time as the White Paper, giving until 19 July for any comments. The paper included a most useful checklist on how the various Articles of the 1997 Directive were to be or had been implemented.[42] The Regulations were in the event made and laid on 27 July 1999, so that the steps necessary to establish the Postal Services Commission could be taken over the summer months. **We welcome the ready response of Ministers to our request for publication for purposes of consultation of a draft of the Regulations to establish the Regulator and to enshrine in UK law the terms of the Universal Service Obligation, and the publication therewith of a memorandum setting out in detail the proposed transposition of the relevant EU Directive into UK law. We recommend that the Cabinet Office ensure that in future an equivalent implementation memorandum be made available to Parliament together with primary or secondary legislation giving effect to EU Directives.**

20. The system of regulation and consumer representation is set out at some length in the White Paper.[43] The principal concern raised by the Post Office was the difficulty confronting the regulator in fixing prices in the monopoly area while having to balance on the one hand financial targets set by the Government — the Post Office's owner — and on the other the Universal Service Obligation, social and environmental guidance, maintenance of service standards, and minimum access criteria.[44] The Post Office also emphasised, as did evidence from POUNC, the importance of the proposed Memorandum of Understanding between the Regulator and POUNC, particularly in areas such as monitoring of performance where there is a hint of duplication of role: as the Chief Executive of the Post Office put it — "What we would hate is to find that we have got two elements of regulation." [45] Evidence from POUNC which expressed concern at the possible exclusion from its remit of some Counters services underlines the importance of developing clarity in this respect.[46] Much remains to be spelled out over the months ahead, including the setting of social and environmental objectives in Ministerial Guidance apparently to both the Regulator and the Post Office.[47] These objectives may indeed be, as the Chief Executive of the Post Office hoped, "more at the level of principle and policy rather than specific". [48] **We hope that the Secretary of State will draw on the experience of similar social and environmental guidance to the utilities and use the opportunity to go beyond pious generalities.**

21. Following our earlier recommendations, we particularly welcome the intention to breathe some fresh life into POUNC. As the Minister noted in evidence in December 1998, "I do not want you to get this wrong, but when I did go to meet them [POUNC] it was a bit of a culture shock. I thought I was at a Masonic Lodge meeting POUNC needs to reflect more accurately the customer base of the Post Office." [49] The new structure is intended to reflect the changes to be introduced shortly to the pattern of consumer representation in the privatised utilities: the phraseology used in the White Paper mirrors that in the various recent DTI papers on *A Fair Deal for Consumers: Modernising the Framework for Utility Regulation*. [50] **It would be helpful for the Government to set out how the regulation and consumer representation model proposed for postal services differs from the reformed regime proposed for the privatised utilities, together with the reasons for those differences.**

22. Draft Regulation 5(b) gives the Commission power to require the Post Office to furnish it with such information as it requires, but does not give it equivalent power in respect of licensed operators within the monopoly area, let alone commercial operators in the competitive area. The Post Office found this omission "disappointing". [51] DTI told us that it was intended that the regulator's power, including that of requiring information, would only apply to the Post Office or other licensed operators, since the competitive area was already operating competitively without the need for regulation. [52] We wrote to the Minister on 15 July to ask him to consider laying the regulations in an amended form to reflect our view that experience of other regulators had demonstrated the difficulty in obtaining necessary information, for example in investigating allegedly unfair practices or abuse of a dominant position by the Post Office in the competitive area. The regulations were laid on 27 July 1999. In a response dated 31 July 1999 the Secretary of State repeated the view that it was neither right nor necessary for the Commission to have such powers, and expressed his confidence that the information required would either be readily available or would be provided by businesses if asked. [53] We note that the powers to be given in primary legislation may include information to be gathered in connection with an alleged breach of the monopoly. **In drawing up the primary legislation, we recommend that due weight be given to requests from the regulatory Commission now established for extensions in its powers to gather information.**

23. Although the separate Post Office Users Councils for Scotland, Wales and Northern Ireland are to be subsumed within the UK-wide POUNC, it will be under a specific statutory duty to maintain offices and national committees at country level, with the Chairmen to be appointed by the Secretary of State for Trade and Industry. [54] **While we appreciate that postal services are a reserved matter, we recommend that the Chairmen and members of the proposed POUNC country committees in Scotland, Wales and Northern Ireland be appointed following consultation with the devolved administrations.**

Competition

24. Some of the concerns raised with us in evidence in November 1997 and December 1998 by private sector operators of postal and courier services, and by those in areas of business in which the Post Office is, or intends to be, involved, have not been allayed by the White Paper. [55] Both UPS and DHL seek explicit restraints on the use of profits from the monopoly area either to subsidise Post Office services — principally Parcelforce — in the competitive area, or to fund acquisitions. The DMA, while welcoming the freedom given to introduce differential pricing for commercial customers, repeated its concern at the Post Office's entry into direct marketing activities, and specifically called for an urgent investigation into RM Electronic Services. Given the pending appointment of the Postal Services Commission as a regulator, and the policy of minimising cross-subsidies set out in the White Paper, these are by and large issues not hitherto fully addressed by the DTI as both proprietor and regulator, which the Commission will be called upon to consider at an early stage.

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

25. Our past Reports have referred to the alleged privileges enjoyed by the Post Office which irk its competitors, notably VAT exemption, preferential treatment from HM Customs and Excise and exemptions from road traffic regulations. These issues were again raised in evidence to us. The White Paper stated that —

"The Post Office enjoys a range of special privileges granted through legislation in order for it to meet its USO and uniform tariff obligations. These include exemption from traffic regulations, the power to require the conveyancing of mailbags and compulsory land purchase powers. The Government intends that these privileges should be maintained ...".
[56]

In the past, we have been told that such exemptions in relation to traffic are more imagined than real. In response to the Committee's March 1995 Report, the Government set out in May 1995 the position on —

(i) *parking*, where limited exemptions are granted by local authorities:

(ii) *driving regulations*, where it was confirmed that, while technically exempt from EC legislation on hours, tachographs were fitted and used:

(iii) *Customs*, where a modified Customs regime of necessity applies to letters and parcels carried under Universal Postal Union arrangements:

(iv) VAT. [57]

The Post Office Chief Executive conveyed his surprise at the reference in the White Paper to the maintenance of privileges of whose existence he was unaware.[58] DTI provided us, in response to our request for further information, with a list of privileges, exemptions and special legal provisions, such as compulsory purchase powers and powers to require carriage by coasting ships.[59] **The pending preparation of primary legislation offers a good opportunity for a detailed revisiting and consolidation of the mixed bag of the Post Office's statutory exemptions and privileges.**

26. There has for some years been understandable resentment among the Post Office's commercial competitors in the parcels business at the way in which Parcelforce has been kept afloat by loans from the Post Office, despite a record of losses in successive years. In November 1997 the then Post Office Chairman identified Parcelforce as one of his two principal remaining concerns.[60] In December 1998 his successor implicitly accepted that one test of the outcome of the proposed granting of commercial freedoms to the Post Office would be its ability to bring Parcelforce back into profit. The private sector suspects a degree of hidden cross-subsidy from the monopoly area. The December 1998 statement raised these concerns higher as a result of reference to the Post Office being free to "rationalise internal boundaries", which was understood by some to be a code for the reintegration of Parcelforce into Royal Mail, as had been sought by the trades unions.[61] The White Paper revealed that some realignment had already taken place, but in the opposite direction, with the transfer in April 1999 of Royal Mail Priority Services (registered and special delivery) to Parcelforce. Much of the operational activity will however continue to be carried out by Royal Mail. Before agreeing to the change, the Government sought advice from its auditors for the Post Office, Ernst & Young, to ensure that it was "on a defensible basis from a competition point of view and with accounting transparency". In the light of that advice, "the Government has confidence that the arrangements are satisfactory".[62] We requested and were provided with a copy of that advice, in the form of a summary of the review carried out.[63] It is also proposed that from April 2000 or later larger Royal Mail packets should be transferred to Parcelforce.[64] **An early task for the regulatory Commission will be to reassure commercial competitors of Parcelforce that they are not being subjected to unfair competition.**

Money

Extra funds

27. At the end of his 8 July statement to the House, and in response to subsequent questions, the Secretary of State referred to an "immediate cash boost to the Post Office of £175 million" and to "an extra £600 million" for the Post Office over three years.[65] These figures require some clarification. £225 million of the £600 million referred to arises from the new loan facility, on which not only the principal will in due course have to be repaid from income, but also interest at a commercial rate. The remaining sum of around £400 million over the next three years is attributable to a reduction in the amount of dividend which the Government *might* have removed. These figures are themselves based on the Post Office's inevitably speculative assessment of future profits and a hypothetical level of dividend "foregone".[66] It is good news that the Post Office is to be allowed to retain a larger proportion of its post-tax profits, even if other measures are likely to lead to reductions in these profits: and that it is to be allowed to borrow for capital investment, at commercial rates. **It is however questionable how far either new borrowing facilities at commercial rates or the Treasury foregoing the excessive level of dividend previously taken can fairly be represented as "providing" vast sums of extra money for the Post Office.**

Borrowing

28. The Post Office has long sought the ability to borrow money on commercial markets, hindered in large measure by Treasury concerns at the effect on the Public Sector Borrowing Requirement (PSBR) and the difficulty in ensuring fair competition given the implicit Government guarantee behind any such borrowings. In January 1998 we called for the Post Office to be allowed to raise capital.[67] The April 1998 response noted that the majority of those consulted who supported a more commercial financial regime were in favour of the Post Office being allowed to borrow on commercial markets to finance its activities.[68] The December 1998 statement confirmed that the Post Office would be free to borrow, in connection with "larger growth investment, including acquisitions and joint ventures", with the Government to approve "normal Post Office requests for borrowing for investment cases that are commercially robust. Separate fast-track arrangements will be put in place for considering the largest strategic investments". In neither the statement, subsequent oral answers in the House or in evidence to us in December 1998 were Ministers willing or able to give any details, even as to whether borrowing on the commercial market would be permitted.[69] From the Secretary of State's July statement and the White Paper,[70] it is now clear that —

- the Post Office will be allowed to borrow up to £75 million a year in one or several tranches for this and each of the next 5 years at the equivalent of commercial rates from the National Loans Fund, such borrowings to require timely notification to the DTI rather than its prior approval;
- the Post Office will require Ministerial approval for borrowing over £75 million: the process of approval will be completed within 28 days of receipt of a full business case.

Neither the statement nor the White Paper explicitly addressed the issue of expenditure by the Post Office financed from its own retained profits: but evidence from DTI confirmed that the introduction in earnest of a reformed relationship between the Government as shareholder and the Post Office as a commercial entity did indeed mean that these would not require authorisation.[71] We note that the criteria to be applied to requests for authorisation for larger borrowings include that they should "pose no undue risk to the taxpayer"; [72] given that the Post Office is to remain in public ownership, that does not seem unreasonable to us. **We broadly welcome the**

arrangements proposed for the introduction of at least quasi-commercial borrowing by the Post Office, although of course much depends on how they work out in practice.

29. The reference in December 1998 to "fast-track arrangements" for decisions on major proposals prompted a former Chairman of the Post Office, Lord Dearing, to note that the quickest decision he had had was one year.[73] The present Chairman of the Post Office noted in December 1998 that his idea of fast-tracking decisions had not always been shared in the departments, and that "28 days is a long time in the commercial arena to get an approval process".[74] Where acquisitions are involved, it is crucial that decisions are arrived at within weeks and not months. We note the speed with which permission was given in December 1998 for the purchase of German Parcel.[75] We welcome the Government's response to our request for publication of a target for decisions on major borrowings. **The 28 day period must be treated as a maximum and not a standard period, given that any formal application from the Post Office should have been preceded by substantial communication at official level.**

30. The £75 million threshold required for Ministerial approval of borrowings seems rather low, given the profession of a new "arms-length" strategic relationship. The Chairman of the Post Office noted in December 1998 that shareholders would not normally be consulted over decisions of such a nature below a level of around 10% of the capitalised value, and hazarded £500 million as a possible equivalent threshold.[76] The Post Office apparently sought a sum nearer £100 million; the DTI, while accepting that the sum agreed upon was indeed nowhere near enough to cover a major purchase, felt that it was "manageable in the circumstances".[77] There is no mention of any facility to carry forward what is in essence a 5 year drawing facility from one year to the next. The last thing which we or the Treasury would seek is an incentive to use up such a facility in a hurry at the year's end. **We recommend that a degree of flexibility be given to the Post Office to carry forward unused loan facilities from one year to another and that the £75 million threshold for Ministerial approval of borrowings be subject to formal review after two years of operation of the scheme.**

German Parcel

31. The Post Office took out a commercial loan in December 1998 to finance its purchase of German Parcel, for £247 million, as recorded in the Group Accounts published on 14 July 1999. The notes to the Accounts record a bank loan bearing interest at 0.25% above Euro Libor rate, repayable in three annual instalments from 2001 and a final instalment in April 2004.[78] The outstanding balance of the loan is £76 million. The DTI told us that the new tranches, and the earlier tranches, "will be reset on a commercial rate borrowing from the National Loans Fund" and that it would be as a result "quite clear to all concerned, both here and in Brussels, that borrowing which underpins that transaction is commercial." [79] Given the recent Commission decision to investigate the financing of a number of large purchases made in recent years from surpluses built up by the German Post Office, that is an important assurance. We note that the National Audit Office is to examine the acquisition, including the National Loans Fund rate agreed. **We recommend the greatest possible degree of transparency compatible with the genuine requirements of commercial confidentiality on this and future major purchases by the Post Office.**

Dividend

32. In 1998, reflecting a widespread view of the ill-effects of the removal by Government of an arbitrary and substantial slice of the Post Office's post-tax profits, we recommended the introduction of a commercial dividend policy, set in the first instance at 40 per cent of profit.[80] That is broadly what was announced in December 1998, with the 1999-2000 dividend reduced to 50% of estimated post-tax profits, and a level of 40% to be taken in subsequent years. The Minister confirmed in evidence to us in December that this would be 40% each and every year, and described it as a critically significant change in policy from the previous one whereby the Post Office was treated as a milch cow with 80 pence in every pound of its profits being removed.[81] The July 1999 Statement and White Paper confirmed these arrangements, with the addition of a floor on the proportion of post-tax profits to be taken as a dividend to give "some certainty to the Government as owner, in the same way that private companies aim to maintain dividends in the face of lower outturn profits." [82] and to "provide an incentive for the Post Office to ensure its Plan can and will be effectively implemented". We note that the floor for the current financial year has yet to be set, and will form part of the discussions on the 5 year Corporate Plan. Given the difficulties foreseen over the next few years, we share the thought expressed by the Chief Executive of the Post Office that "I would hate to go back to the last five or seven years where through a different mechanism we are being used as a back door method of raising tax".[83] While it is now only right that time should be allowed for the reformed system to bed down, we are concerned that the good intentions behind the reduced level of dividend do not founder on the rocks of any obduracy in the Treasury.[84] The floor must not be set at an unrealistic level; consultation with the management of the Post Office — as would normally be the case — should precede any decision. **We recommend that the level of minimum fixed dividend to be taken from the Post Office be set low rather than high, to give the Post Office a reasonable level of retained profits in years of disappointing results.**

Interest on surpluses

33. We also note the response to our request to set out in the White Paper the future arrangements for interest on past Post Office surpluses held in Government gilts. The dividend will only continue for another three years as hitherto to be invested in gilts or deposits with the NLF, with the interest on these accumulated surpluses payable to the Post Office, an arrangement which brings the Post Office an income of over £100 million a year. From 1 April 2002, by which time it is assumed that the Post Office will have been incorporated as a plc, the Post Office is to cease to receive this interest.[85] The situation over many years whereby, in the absence of any statutory authority to require the Post Office to pay surpluses to the Exchequer, the sums accumulated in gilts and in the NLF cannot be regarded as a model for public finances. As DTI pointed out in oral evidence, the interest accruing "has been an extra resource for the Post Office which in a normal dividend situation would not have occurred".[86] The interest payable has no doubt been a welcome addition to the Post Office's finances, and will be all the more so in the difficult times it faces over the next few years. Half of the costs of automation of Counters over the next few years will also be met from these accumulated surpluses.

Pay

34. The Post Office has long sought greater freedom in managing the pay and conditions of its workforce, to enable staff to share in the successes — and failures — of the business.[87] The December 1998 announcement was enigmatic: the Board was invited to bring forward proposals which will "within the necessary context of public sector pay policy, allow more flexible means of reflecting performance in the various parts of the business." The Minister's evidence in December 1998 went no further than repetition of the willingness of Ministers to consider proposals from the Post Office.[88] The Trades Unions emphasised in evidence to us the importance of "practical expression" being given to the repetition of the fairly general comments made in recent years. The Chief Executive confirmed that what was envisaged in broad terms covered the bulk of lower-paid staff as well as managers and suggested that "bonus payments" might be proposed.[89] In our subsequent Special Report, we called for the White Paper to address in detail —

"the practical significance of the reference in the statement of 7 December to "the necessary context of public pay policy", in relation to proposals for more flexible pay arrangements to be brought forward by the Board, indicating whether departmental controls are to be maintained on, for example, the total Post Office pay bill or annual basic pay rises, and the Government's view of any local or regional pay arrangements within the Post Office."

35. In response, the White Paper did little beyond reaffirming its belief that the Post Office should be allowed "more flexibility within the necessary context of public pay policy" and announcing that "following consideration of outline proposals from the Post Office, the Government and the Post Office will be looking at the possibility of developing a general framework of parameters for overall pay settlements rather than requiring the Post Office to put forward each settlement for approval".[90] The Post Office told us that they were awaiting a response to their proposals for a long-term framework for "proper collective bargaining" and means to share success with staff.[91] The DTI confirmed that these outline proposals, and a paper from the CWU, were being considered and that "there will be further discussions leading to resolution on 1 April 2000." [92] The Chairman of the Post Office told us "while there are some warm words in the

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

White Paper we have yet to go through the detail".^[93] **We look forward to publication in due course of details of the pay regime envisaged going beyond the "warm words" referred to by the Chairman of the Post Office, and expect it to give the Post Office some degree of genuine flexibility over pay settlements.**

Network

36. There has been no shortage of expressions of support for, and commitment to, the national network of post offices. In our January 1998 Report we insisted on the maintenance of the national network of both Crown Post Offices and of sub-post offices. The Government confirmed that the maintenance of a nationwide network had been regarded as "of fundamental importance" by those consulted in the course of the 1997 review.^[94] The December 1998 Statement made similar observations. The White Paper declared

"The Government remains firmly committed to a viable network of post offices across the country"

and announced minimum criteria for access to post office counters services. The Regulator will monitor the network against these criteria and "give timely warning of a potentially serious reduction in access to Post Office facilities". Recognising the difficulties confronting the Post Office in finding a replacement in the event of closure of a sub-post office, often following the retirement or death of a sub-postmaster, and that there may be a difficult period of transition as the network moves to new means of service delivery, the White Paper also states —

"The Government stands ready to play its part in easing this transition with an eye in particular to supporting those post offices of special value to the local community",^[95] and that regular reporting will enable the Government "to consider any potential problems that might arise, and examine whether action can be taken".^[96]

37. The 24 May announcement on the Horizon Project evidently represents the major issue for the national network of post offices. We are reporting separately on that. But even if the project had by now been up and running — as was the intention three years ago — the network would be facing familiar challenges, as sub post offices close and Crown Offices are converted to franchise operations. The broad Objective 5 set out in the White Paper — "To support a viable network of post offices so as to ensure nationwide access to a range of public and private sector services ..." — is fine so far as it goes: but it signally fails to provide an indication of *how* this is to be achieved. The role of Government in this is unclear: it evidently goes beyond the task of conventional platitudes and bromides, and indeed beyond monitoring a decline in service levels against neatly ordered "access criteria" and algorithms, and bewailing the outcome. The unanswered question is what a regulator can do if the Post Office is simply unable to maintain a sub post office without excessive financial loss. There are hints — no more than that — in the White Paper of actual assistance from Government, in rescuing "post offices of special value to the community". There is some benefit in moving beyond the stage of paying lip-service to the notion that all post offices are special to recognition that there are varying levels of dependence of a community on a particular post office.^[97] No indication has been given as to whether Government funds might be found if that could help maintain such a post office.^[98] **Given the fragility of the network, only in part owing to the change in benefit payment systems, it is time for Government to consider whether it should continue to rely on income generated from a range of postal and other services to maintain a national network which it regards as necessary for broader social and economic objectives: or whether it should accept that the network is a national asset — as recently demonstrated by its role in providing more or less instant passport renewal services — which may require an appropriate level of national financial support.**

38. Following a programme of conversion or closure of directly run Crown Post Offices which led to a fall from around 1500 in 1989 to 600 in 1997, the incoming Government announced in May 1997 a moratorium on further closures or conversions, awaiting an outcome of its review. The moratorium was lifted by the December 1998 Statement, with the Government recognising that "some further conversions will be beneficial to customers". In oral evidence to us in December 1998, it was apparent that there remained grounds for further detailed discussion between the Government, the Post Office and its workforce on the minimum core of Crown Post Offices to be maintained, to be defined, not in terms of numbers, but of the proportion of Counters business transacted there.^[99] The figure arrived at is, as was foreshadowed in December, 15 per cent of total business "for the foreseeable future": but with the welcome if surprising additional remark by the Secretary of State that "where appropriate, new Crown Offices may be opened", confirmed later in response to questions when he declared "Crown Offices *will* be established".^[100] It is of course possible that a relative increase in business transacted in sub post offices, or a fall in Crown Office business, could call for new Crown Offices in order to meet the 15 per cent minimum level: and the process of replacing two Crown Offices by one may technically involve a new office. We understand that a new Office has indeed been established for the Scottish Parliament. **We welcome the prospect of additional Crown Offices, and in particular the commitment to improved procedures on public consultation on conversion of Crown Offices, following our earlier recommendations.**

1 *Post Office Reform: A world class service for the 21st century*, Cm 4340 [Back](#)

2 For detailed references, see Third Report of 1997-98, HC 380, paras 2-3 [Back](#)

3 Fifth Special Report, HC 684 of 1997-98, para 27 [Back](#)

4 First Special Report, HC 113 of 1998-99: for full Government response to these, see Ev, pp10-15 [Back](#)

5 HC 530 of Session 1998-99 [Back](#)

6 Qq 180, 189: see also Q 270 [Back](#)

7 Q 198 [Back](#)

8 Qq 273ff, 247, 251, 272 [Back](#)

9 Q 193 [Back](#)

10 Eg HC Deb, 8 July 1999, col 1181: Q 288 [Back](#)

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

- 11 Cm 4340, p 50, paras 12-14 [Back](#)
- 12 HC Deb, 8 July 1999, col 5820w [Back](#)
- 13 HC Deb, 15 July 1999, cols 642: *ibid*, 8 July 1999, col 1181 [Back](#)
- 14 HC Deb, 8 July 1999, col 1189 [Back](#)
- 15 HL Debs, 8 July 1999, cols 1033-4: Q 181 [Back](#)
- 16 HC Deb, 8 July 1999, cols 186: HL Debs, *ibid*, cols 1033-4 [Back](#)
- 17 p51, paras 15-22 [Back](#)
- 18 Ev, p27 [Back](#)
- 19 HC Deb, 8 July 1999, col 1177: also col 1184 [Back](#)
- 20 *Ibid*: see Q 253 for prospect of share swaps [Back](#)
- 21 See Q 181 [Back](#)
- 22 HC 380 of 1997-98, para 9 [Back](#)
- 23 HC 684 of 1997-98, paras 7 & 19 [Back](#)
- 24 Col 38, italics added [Back](#)
- 25 Q134 [Back](#)
- 26 Eg Q59 [Back](#)
- 27 HC Deb, 8 July 1999, cols 1176, 1184 [Back](#)
- 28 p5, para 11 [Back](#)
- 29 Pages 19-22, *passim* [Back](#)
- 30 Q184 [Back](#)
- 31 Qq 182, 186 [Back](#)
- 32 Qq 185; 264-8 [Back](#)
- 33 Q258 [Back](#)
- 34 Q263 [Back](#)
- 35 Ev, p 36-8 [Back](#)
- 36 Ev, p44 [Back](#)
- 37 HC Deb, 8 July 1999, col 1184: Qq 182:262 [Back](#)
- 38 Q187 [Back](#)
- 39 Qq 262, 269 [Back](#)
- 40 HC 380, paras 30 and 31 [Back](#)
- 41 HC Deb, 7 December 1998, col 22: Qq 29-32, 36-7 [Back](#)
- 42 *Implementation of the Postal Services Directive in the UK*, URN 99/962 [Back](#)
- 43 Cm 4340, pages 23-34 [Back](#)
- 44 Qq 180, 182, 193 [Back](#)

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

45 Qq 219-223 [Back](#)

46 Ev, p26 [Back](#)

47 Cm 4340, p44 [Back](#)

48 Q 236 [Back](#)

49 Q 138 [Back](#)

50 Cm 3898 [Back](#)

51 Qq 224-8 [Back](#)

52 Qq 289-90 [Back](#)

53 Ev, p43 [Back](#)

54 Qq 291-2 [Back](#)

55 Ev, pp23-25 (UPS): pp29-30 (DHL): pp31-35 (DMA): p36 (AICES) [Back](#)

56 Cm 4340, page 22, para 13 [Back](#)

57 Third Special Report of Session 1994-95, HC 441 [Back](#)

58 Q 242 [Back](#)

59 Ev, p39-42 [Back](#)

60 HC 380, para 39 [Back](#)

61 Eg Qq 45ff [Back](#)

62 Cm 4340, page 49, para 9 [Back](#)

63 Ev, p42-3 [Back](#)

64 Cm 4340, p48, para 7 [Back](#)

65 HC Deb, 8 July 1999, col 1177 et seq [Back](#)

66 Ev, p39 [Back](#)

67 HC 380 of Session 1997-98, para 18 [Back](#)

68 HC 684 of Session 1997-98, para 8 [Back](#)

69 Eg Qq 128-9 [Back](#)

70 Cm 4340, page 55, paras 30-32 [Back](#)

71 Q 276 [Back](#)

72 Qq 201-3 [Back](#)

73 HL Debs, 7 December 1988, col 751 [Back](#)

74 Q90 [Back](#)

75 Q254; HC Deb, 8 July, col 1182 [Back](#)

76 Qq 88-89 [Back](#)

77 Qq 204-6, 277, 282 [Back](#)

78 Group Accounts, pp22 & 24: Qq 212-3: Ev, p38 and p39 [Back](#)

05/11/2024, 09:40

House of Commons - Trade and Industry - Twelfth Report

79 Q 255 [Back](#)

80 HC 380 of Session 1997-98, para 18 [Back](#)

81 Qq 125-6 [Back](#)

82 Cm 4340, p54, para 28 [Back](#)

83 Q 210 [Back](#)

84 Cm 4340, p54, para 28 [Back](#)

85 *ibid*, p56, para 33;Qq 285-6 [Back](#)

86 Q 285 [Back](#)

87 Eg HC 380, para 19 [Back](#)

88 Qq 149-157 [Back](#)

89 Qq 102-104 [Back](#)

90 Page 10, para 27: page 57, para 36 [Back](#)

91 Q229 [Back](#)

92 Q305 [Back](#)

93 Q180 [Back](#)

94 HC 684, para 5 [Back](#)

95 Page 63, para 19 [Back](#)

96 Page 65, para 21 [Back](#)

97 Q 297 [Back](#)

98 Qq 218: 298 [Back](#)

99 Qq14-18 (CWU/CMA) [Back](#)

100 Post Office Reform: A world class service for the 21st century, Cm 4340 [Back](#)

[Previous](#)

[Contents](#)

[Next](#)

[Commons](#)

[Parliament](#)

[Lords](#)

[Search](#)

[Enquiries](#)

[© Parliamentary copyright 1999](#)

Prepared 21 September 1999

- [A-Z index](#)
- [Glossary](#)
- [Contact us](#)
- [Freedom of Information](#)
- [Jobs](#)
- [Using this website](#)
- [Copyright](#)