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Post Office

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3.30 pm

The Secretary of State for Trade and Industry

(Mr. Peter Mandelson)

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I wish to make a statement on the future of the Post Office.

It has long been recognised that the postal sector worldwide has entered a new and turbulent age. Competition for business will be fierce. With greater uncertainty will come opportunities for expansion. Change is absolutely necessary if the Post Office is not to fall behind.

Globalisation of postal services, the growth of electronic mail and the internet, changing customer demands and greater liberalisation of markets are the key drivers of change worldwide. The main uncertainty is not whether markets will become more competitive, but how far and how fast.

Other post offices are gearing up for the revolution, seeking greater commercial freedom to do so. Within Europe, for example, the Dutch and German post offices have been investing in substantial acquisitions, Sweden and Finland are free to acquire and invest in other companies, and Denmark has already entered a number of strategic alliances. France also enjoys considerable commercial freedom, and has a wide spread of joint ventures and acquisitions. In Australia, New Zealand and the Nordic countries, the post offices have become independent plcs. Germany has announced its intention to privatise, and the Netherlands and Singapore have moved to partial privatisation.

Not surprisingly, the British Post Office has been demanding changes to its own organisation for years, but without anyone in government, until now, prepared to act. In the face of market pressures from other public post offices, private postal operators outside the monopoly area, other communications media and distribution organisations, the Post Office wants to be in a position to deliver a wider range of faster, more reliable postal services, differentiated products and prices that meet individual customers' requirements.

Notwithstanding its successful attempts to adapt and its current profitability, the Post Office cannot meet these challenging times in its present condition. It must change or increasingly find its business confined to a diminishing high-volume, low-mark-up sector of the postal market, with all the consequences of falling value and shrinking profits and employment base that that would involve.

The Government are not prepared to sit back and allow that to happen. We have therefore decided to embark on the most radical set of reforms since the modern Post Office was created in 1969. In future, the Post Office will be driven by a combination of effective market disciplines and commercial freedoms, which will transform its performance and its ability to do business.

Our starting point is that the relationship between the Post Office and Government has to change. I should make it clear that we certainly do not rule out the possibility of introducing private shareholding into the Post Office—for example, through the sale of a minority stake in it—at a later stage.

However, at present wholesale privatisation would not be a realistic option. It would take a long time to introduce, cause massive uncertainty, and diminish the chance of immediate reform now, which would be the worst outcome of all, as the management of the Post Office have made clear to me.

Instead, a radical new form of public sector enterprise, operating at arm's length from Government, needs to be created. That new framework will contain the following features. The Government's role in the Post Office will be restricted to the strategic level, both on matters of commercial direction and on setting social objectives. The Post Office board will become clearly accountable for its success or failure in running the business.

An independent regulator will be established to protect consumer interests including standards of service; to regulate prices; to ensure that the Post Office is able to meet its universal service obligation; and to ensure fair competition. Once adequate regulatory provisions are in place to oversee fair competition, the Post Office will be able to form joint ventures, enter into partnerships and make acquisitions within the United Kingdom beyond the present limit of £20 million per annum.

The regulator will have a duty to promote competition by a careful and phased liberalisation of the monopoly postal area, while maintaining the universal service obligation.

We will require the Post Office to present a rolling five-year strategic plan each year for approval by Government. That is essential to protect taxpayers' interests.

On the basis of that plan, the Government will agree a profit target for the Post Office and the equivalent of a dividend to Government, as shareholder, in line with normal commercial dividend practice. In effect, that will mean more than halving the rate at which profits are removed from the business. The external financing limit—EFL—for the Post Office for the next year, 1999–2000, will immediately be reduced to £207 million from the provisional figure of £335 million. In future years, the EFL will be on a more commercial footing. The Government will expect a dividend of 40 per cent., in contrast to the recent average of 80 per cent.

That increase in retained profits will enable the Post Office to finance an increased level of investment in the maintenance of its existing business. However, the Government recognise that larger growth investment, including acquisitions and joint ventures, may require prudent borrowing if the Post Office is to grow successfully with new products, partners and markets. The Government will 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.

It will now be possible for the internal boundaries, for example, between the Royal Mail and Parcelforce to be rationalised, if the Post Office board so decides, while ensuring that there is not undue cross-subsidy from monopoly to non-monopoly areas. Therefore, approved and transparent accounting structures must be put in place.

The Post Office Users National Council will be given a more central role, and its powers increased. A uniform public tariff will be maintained for those activities that fall within the obligation on the Post Office to provide a universal service. However, the Post Office will be given the freedom to price flexibly for volume users, and, within the monopoly area, the regulator will restrict prices to ensure that the Post Office is not making excess monopoly profits. That will be a real spur to efficiency, and it will ensure that the general public are paying no more than they should for normal postal deliveries.

We intend to provide statutorily for the newly appointed independent regulator to carry out those duties as part of the implementation of the European Union postal office directive next year. Therefore, I will be bringing forward measures under section 2(2) of the European Communities Act 1972 to put that framework in place.

The Government remain firmly committed to a network of post offices throughout the country. The sub-post office in particular plays a valuable role in local communities and offers real service, particularly to the less mobile. We will set a social objective for the Post Office, and for the regulator, of maintaining an effective network.

The individual business men and women who run the post-office-cum-village-shop often have to be very enterprising to keep them afloat. With the best will in the world, the Post Office cannot sustain a network if it is not used, and nor can Government. However, we intend to ensure reasonable access nationwide to those who need post office service, on an electronic basis or face to face with the sub-postmaster or mistress. As the Post Office will be at a strategic arm's length from Government, we will set criteria for public access to the services of Post Office Counters that will be policed by the regulator.

There has been a moratorium on the Crown office conversion programme. I have now agreed with the Post Office a strategy, which reflects proposals put by the Post Office to the trades unions, of retaining a core of directly owned and managed Crown offices that account for a significant value of the business done at post office counters. The strategy also recognises that some further

conversions will be beneficial to customers and the business. That is a sensible way forward, and I am therefore lifting the moratorium.

If the Post Office is to operate on a commercial basis, it must be able to reward staff for their efforts, taking account of the success of their business, but cutting the cloth to fit in difficult periods. The Government therefore intend, as part of this staged process of reform, to invite the Post Office board to come forward with proposals that will, within the necessary context of public sector pay policy, allow more flexible means of reflecting performance in the various parts of the business. It is important that, where appropriate, the Post Office should be able to reward success.

Events will no doubt continue to move rapidly in this constantly changing commercial environment, and further structural changes might be required which enable the Post Office to grow and to meet customer needs and which are in the best interests of the Post Office and its staff. As I said, we do not rule out the possibility of making further changes to equip the Post Office for success, such as a minority share sale or an exchange of equity with other businesses. Those options will be kept under review. We will need legislation in due course, in any case, to reflect the long-term nature of the reform package that we are putting in place, including turning the Post Office into a plc to underline the commercialisation of the business.

The reform programme that I have outlined will provide a balanced package of freedoms and disciplines for the Post Office. I believe that it is the best possible package of reforms available to the Post Office, which to date has been left starved of resources to invest in growth and unable to step up to new market challenges in the way that other European postal services have done.

Over the past year, we have appointed a dynamic new chairman, and refreshed the board with new non-executives with wide and complementary business skills. They have a vision of a world-class British Post Office that aims to be among the most successful in the world. We must give the Post Office the opportunity to bring that about.

Considerable benefits to the consumer will be the result in terms of choice, price and quality of service. We are ushering in the start of a confident, bright new dawn for the Post Office, and are looking to its management and work force to seize the opportunities, putting right the neglect of the past. Everyone stands to be a winner from our reforms, which I will set out in more detail in a White Paper early in the new year. In the meantime, I commend them to the House.

Mr. John Redwood
(Wokingham)

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I thank the Secretary of State for his statement, a statement that has as many holes in it as a Gruyere cheese. It has been so well aired that the whiff of it has been on the airwaves for a very long time. It is sad that he took so long to come to the House to tell us what we have learnt from many a leak over recent weeks.

The Secretary of State and his predecessor dithered and delayed for 18 months while the Netherlands and Singapore moved to partial privatisation and Germany decided to privatise—18 months of precious time lost to Britain by the great vacillators.

The Parliamentary Under-Secretary of State for Trade and Industry
(Mrs. Barbara Roche)

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What did you do?

Mr. Redwood

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The Minister asks what we did. The Conservative Government did not have the majority to do what we wanted and the then Labour Opposition would not have supported us. The Labour Government have the necessary majority, and furthermore the Opposition would support privatisation. If the Secretary of State has trouble with the left wing of his party, I promise him the support of Her Majesty's Opposition in doing the right thing by the postal workers of this country.

For the past 18 months, the Post Office has had to watch as its overseas rivals have bought the pick of the businesses abroad to create modern global success stories. Now that we have a policy from the Government, most of the uncertainties remain for the Post Office. Will the Secretary of State confirm that the Post Office's remaining in the private sector means that it can still be raided when

the Government need more cash from an easy source? Will he tell us how many hospital waiting lists will grow longer because of his giving away £128 million for next year in this policy?

The Secretary of State says that the Post Office will have to heed Ministers in its five-year plan and its overseas acquisitions—indeed, he says that it is to be cursed with strategic commercial direction from the Government. Will he now tell us how that can conceivably be good news for those trying to run a commercial business? At best, the Post Office will move from fighting with both hands tied behind its back by the Government, to fighting with both hands tied to the Treasury. Today's is a second-class statement that will not be delivered on time. The Treasury has inflicted a defeat on the Secretary of State, because it knows that it needs to keep its hands on the money.

In pursuit of that elusive popular election to Labour's national executive committee, the Secretary of State has swapped sides, from being in favour of privatisation to being against it. Caving in to the left on the Post Office may be only a down payment on his party ambition—*[Laughter.]* The Minister of State, the hon. Member for Makerfield (Mr. McCartney), laughs the laugh of victory, because he has got the better of his boss, and persuaded the right hon. Gentleman to give in, in the interests of his wider popularity within the Labour movement. However, the Secretary of State need not have worried about his unpopularity, for it runs so deep that a single half-hearted and ambiguous retreat will not put it right.

For the benefit of his hon. Friends, will the Secretary of State tell the House when he might sell shares in the Post Office? When will he finally make up his mind on that crucial matter? From his statement, may I infer that he can still privatise the whole business? He has not ruled that out, but he cannot yet bring himself to tell his colleagues that he might consider it. Conservative plans for the Post Office would protect small and rural post offices, and would let postmen become shareholders on favourable terms.

Mrs. Roche

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Really?

Mr. Redwood

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The hon. Lady should have read my article setting out Conservative policy on the Post Office, which was published months ago in the hope that the Government would learn something from it, and get on with the job.

Will the Secretary of State answer the following questions. First, how will major investment and borrowing limits be fixed for the new business that he is to establish? Secondly, how much freedom does he propose for the foreign ventures that are so crucial to success? In his statement, that point is as clear as mud. Thirdly, will he confirm that taxpayers will be liable for any overseas losses that may be run up by the new Post Office company? Fourthly, will he tell us how much money the taxpayer will lose as a result of the changes over a full Parliament, given that £128 million will be lost to the taxpayer next year, which is the first year of the policy?

Fifthly, will the public sector pay policy still apply to the Post Office or not? The statement is completely ambiguous: the right hon. Gentleman says that it will not, but then adds that the Post Office will have to abide by certain guidelines because the Government do not want pay to get out of control. We need to know whether the Post Office is to be free or controlled and, if controlled, how it is to be controlled. Sixthly, how many other changes to the monopoly will be needed to bring us into line with the European Union postal office directive? How will that affect jobs in the Post Office?

Now that the Secretary of State has a policy on the Post Office, it offers us the worst of all worlds. The taxpayer loses money, while the Post Office still does not know where it stands in respect of investment for the future. That proves that Labour is bad for business. The Secretary of State does nothing while manufacturing collapses; he will not answer questions, and will not debate the issue. Now, he offers the Post Office little certainty. His attitude is as damaging as that of his Cabinet colleague who refuses to back British business abroad, while travelling at the taxpayer's expense. The tragedy is that the Secretary of State for Trade and Industry will not back British business at home, either.

Mr. Mandelson

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The kindest thing that can be said about that response is that it should be stamped "return to sender" and dispatched back to Conservative party central office. It was a very lame response, and we have clearly shot many of the right hon. Gentleman's foxes in our statement. It is a bit rich to be accused of dithering and delaying by a member of a Government who spent 18 years doing nothing about the Post Office. At least we have come to a conclusion and announced it. The previous Conservative Government tried to privatise the Post Office and failed, and then ran to ground and did nothing.

It is clear that the right hon. Gentleman wrote his response before listening to my statement. The Post Office will face tough competitive pressures created by us, and will have strong commercial freedoms. It is absolutely clear from the right hon. Gentleman's remarks that, if he were at this Dispatch Box and had his way, there would be full-scale privatisation straight away. Sub-post offices would face closure and rural postal services would face the axe. There would be a queue of takers for the rich pickings available for those able to buy the most lucrative parts of the Post Office.

That is what the right hon. Gentleman's policy would mean: no half measures or careful judgment, but full throttle and full steam ahead for privatisation—with or without the support of Tory Back Benchers. Coming so soon after its die-in-the-ditch stand for hereditary peers, the right hon. Gentleman's statement shows how out of touch, divided, lacking in leadership and unfit for government today's Conservative party is.

Every one of the right hon. Gentleman's questions has an answer in my original statement. Importantly, my statement sets out what our policy means for the Post Office—hon. Members will notice that that was not at the heart of the right hon. Gentleman's concerns or remarks. There will be a new arm's-length strategic relationship between the Post Office and Her Majesty's Government. Do the Opposition support that? We do not know. Do the Opposition support retained post-tax profits at an increased commercial level? We do not know. What about greater pricing freedoms? Does the right hon. Gentleman support that measure? Does he support greater freedom to invest using retained earnings?

Do the Opposition agree with the freedom to borrow for growth investments within the agreed strategic plan? They do not have the foggiest idea. What about the freedom to structure the business as the board sees fit? I would have thought that that was the sort of market-driven corporate capitalism that the Opposition would support. However, they do not know whether to support it, because they do not know whether they are coming or going. Our measures are good for the Post Office, for its business and for its customers. That is why they will command the overwhelming support of the British people right across the country.

Mr. Alan Johnson

(Hull, West and Hessele)

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I welcome the statement on behalf of not only the Post Office and its users, but the public of this country who want that business to be retained within the culture that made it successful. I remind my right hon. Friend that, when the right hon. Member for Wokingham (Mr. Redwood) had his first spell in opposition—which hon. Members will remember was when his party was in government—he was not a great supporter of the proposals of the right hon. Member for Henley (Mr. Heseltine) for the Post Office. I shall check the record, but I think that the right hon. Member for Wokingham, along with many of his colleagues, opposed privatisation.

Does my right hon. Friend recall that the previous Government ran up the white flag on Post Office privatisation four years ago? Four months later, they offered their one constructive suggestion about the future of the Post Office in response to a Trade and Industry Committee report, and said that they would reduce the external financing limit to 40 per cent. of pre-tax profits.

Does my right hon. Friend remember the statement being made from the Dispatch Box, and does he recall what happened to that pledge? Six months later, the external financing limit was hiked up to £365 million. That is why the Post Office got into further trouble, after a review that lasted four years. I congratulate my right hon. Friend once again on making the only constructive statement on the Post Office that any Minister has made from the Dispatch Box in the past six years.

Mr. Mandelson

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I am grateful to my hon. Friend for his remarks. I recall what Conservative Ministers said and what they subsequently did in relation to the Post Office, which is why the British public felt so betrayed by the Conservative party in office.

My hon. Friend is right about the right hon. Member for Wokingham. I do not know whether he is coming or going in his response. I checked what the right hon. Gentleman said about the Post Office only this summer. He said:

“The Government needs to think globally. The Post Office needs to form worldwide alliances, joint ventures and businesses”—”

that was in my statement.

The right hon. Gentleman continued:

“The Opposition would give a fair wind to proposals that free the Post Office to invest abroad—”

that was in my statement—and that the Government

“should start to prise open the Post Office monopoly”.

Very wise words, and that is exactly what I am doing.

The right hon. Gentleman made the case for “liberalising the Post Office” and “introducing greater competition” into the Post Office. All this I propose in my statement. He asked for a policy that

“allows the Post Office to expand abroad”—”

I agree with that—claiming that the business was “stultified” by the Government’s “lack of imagination”.

What lack of imagination is there in the statement that I delivered? The right hon. Gentleman describes it as “fudge”, but now that he gets the whiff of a Tory party leadership contest in the air, he is lurching further to the right in order to re-heat the old privatisation nostrums of a failed Conservative party.

Mr. David Chidgey

(Eastleigh)



We broadly welcome the statement. We have long argued from these Benches for greater commercial freedom for the Post Office, and at last such a policy is being set out by the Government, which we welcome. However, there is a danger that the main issues have been fudged. I see from the statement that there is still a need for Government approval of borrowing. We will want to examine that closely in the White Paper.

We agree with the reduction of the external financing limit to £207 million, but it is a bit rich to call that commercial freedom. The Government’s demand for a dividend of 40 per cent. is beyond the wildest dreams of any commercial operator of which I have ever heard. Reducing the Post Office’s investment capital will make the Post Office fight for its now open market share with at least one hand tied behind its back.

When the Government open up the Post Office’s monopoly to the market, what action will they take to ensure that our Post Office has access to the other national delivery service contracts in Europe and around the world? The quid pro quo is important.

The Secretary of State said that sub-post offices were vital to communities, and I agree. Can he confirm that the Benefits Agency and Post Office Counters computerised switchcard service will be put in place to provide essential income and service support for the Post Office? Is he taking action to overcome the problem of the reduced number of post offices that can issue motor tax certificates? He must be aware that only 3,000 post offices out of 19,000 are allowed to issue motor tax certificates. What action is he taking to persuade the Driver and Vehicle Licensing Agency to open up the net to more post offices?

The right hon. Gentleman must be aware of the number of branch offices being closed in small communities around the country by the major clearing banks. What action is he taking to press the clearing banks to transfer over-the-counter banking services to sub-post offices, to give them another line of business to make them more viable?

Mr. Mandelson



The Post Office is already undertaking, in co-operation with banks and building societies, a number of pilot projects of exactly the kind that the hon. Gentleman suggests. We strongly support that. It is the way forward for post offices, and they will receive every encouragement from us to continue.

I share the hon. Gentleman's concern about sub and rural post offices. It is clear that, if we were pursuing the right hon. Member for Wokingham's policy of privatisation, we would be placing a major axe over the future of large swathes of our sub and rural post offices. If we were to embark on privatisation now, we would create enormous uncertainty. It would be enough to make many sub-postmasters and sub-postmistresses throw in the towel. They would have no idea what the future would bring. The certainty and confidence to enable the Post Office to plan for the future are essential elements, and are characteristic of these proposals.

The hon. Gentleman referred to the Government's approval for large investment projects. It is reasonable for the Government, as shareholder, to have some residual power of approval. It will give the Post Office considerably more latitude than it has had before, or than it expected from this package of measures.

The hon. Gentleman made a good point about a quid pro quo for the Post Office to buy into or obtain equity shares in post offices in other European countries. That is important, and we must consider carefully what further structural changes should be made to enable the British Post Office to do that. Other European national post offices have made considerably more progress along those lines than we have, and I regret that. We are playing catch-up.

On the Horizon project, the Government are committed to providing a modern, secure, convenient and cost-effective means of paying benefits to customers. That is what the benefit payment card has been designed to achieve, and that remains our objective. It is true that we have been concerned about the substantial delay suffered by the project, and we are monitoring its progress. I hope that it will be able to catch up, and that it will be brought to a proper conclusion and completion in due course.

Mr. Bob Laxton

(Derby, North)

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I welcome my right hon. Friend's statement. It will be particularly welcomed by the public, who have expressed their fondness for the Post Office and their keen desire for it to remain in the public sector. It will be much welcomed by sub and rural post offices, as it will give them a sense of stability, and will enable them to continue in business. It will also be welcomed by the Post Office and its work force.

I listened with interest to the entirely predictable comments of the right hon. Member for Wokingham (Mr. Redwood). I noted with rye amusement his comment that he had been unable to deliver a majority in favour of the privatisation of the Post Office. Although the Conservatives were in government, he was obviously yet again in the minority.

The limit on joint ventures is being lifted. It currently stands at £20 million. Will that limit be removed totally, so that there is no cap on it, or will it be increased? Although much has been made of the external financing limit and the arrangements by which the Treasury sucks money out of the Post Office, when the Trade and Industry Committee examined this issue, it found that there was no methodology or formula for the process. It seems that, under the last Government, if the Treasury had a shortfall, it picked a figure out of the air, and decided to rip it out of the bottom-line profits of the Post Office.

One thing that will be ensured now, irrespective of the issue—

Hon. Members

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Question.

Madam Speaker

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Order. The hon. Gentleman is not the only one to have offended in questioning Ministers on statements; most Back Benchers, on both sides of the House, regularly offend in this regard.

Let me tell the House, for the umpteenth time, that hon. Members should not themselves make statements; they should ask the Minister questions. So far, I have heard only one direct question to the Secretary of State. I want those who are rising now to put direct questions.

Secretary of State, will you respond to the question that has been put so far?

Mr. Mandelson

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I will, Madam Speaker—although it is difficult to hold back hon. Members in their enthusiasm for the measures that I have announced.

Madam Speaker

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Their enthusiasm can be expressed to the media outside the Chamber. In the Chamber, hon. Members ask questions of the Government.

Mr. Mandelson

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I was going to make precisely that point, Madam Speaker. There is a waiting Press Gallery to receive hon. Members' comments outside the Chamber.

Let me answer the specific question asked by my hon. Friend the Member for Derby, North (Mr. Laxton) about the way in which the Government will approve investment projects submitted by the Post Office, although I thought that I had covered it in my statement. Let me make it clear that approval will be given for normal investment cases put up by the Post Office. My hon. Friend is right to suggest that the £20 million ceiling will be removed.

The Post Office will be obliged to demonstrate commercial robustness in the projects that it submits, and we shall expect them to be in line with the strategic plan that will already have been agreed between the Government and the Post Office board.

Mr. Richard Page

(South-West Hertfordshire)

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The Secretary of State does not have the excuse of a small majority for such a weak and pusillanimous statement. May I remind him that his party refused to support the then Government when they wanted to present proposals to help, privatise and liberalise the Post Office? Does he not know that the Post Office needs hundreds of millions, if not billions, of pounds of investment, and that his drip-feed of £100 million a year will not be enough? He knows about foreign competition; when will he set the Post Office free? We did it for British Telecommunications, and look at the success of what we did. Why does the right hon. Gentleman not do the same for the Post Office?

Mr. Mandelson

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I fail to understand quite what the hon. Gentleman's point is. Of course we are setting the Post Office free—that is the point of my statement—but we are not simply giving it freedom to go on a spending spree, regardless of whether there is any commercial justification for the investment, strategic alliances and joint ventures that it wishes to undertake. I am surprised that the hon. Gentleman should suggest, as he seems to, that we might act in that way.

As for what the hon. Gentleman said about "drip-feeding" £100 million into the Post Office coffers, I do not recall making any such comment.

Mr. John McWilliam

(Blaydon)

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I congratulate my right hon. Friend on his statement. Does he agree that this is the most fundamental change—maintaining public ownership, while increasing flexibility and competition in public enterprise—since the late Herbert Morrison set up the public enterprise in the first place? Is it not therefore significant that it is my right hon. Friend who is making that change?

Will my right hon. Friend accept the relief of my rural constituents, who now know that universal service will still apply, and that they will still be able to receive their mail? Will he also accept the relief of employees at Blaydon district sorting office who have been campaigning with me, and trying to secure a statement so that they can start planning for the future? May I thank my right hon. Friend on their behalf?

Mr. Mandelson

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I am grateful for my hon. Friend's comments. I think that people throughout the country, not just the Post Office work force—although they are important; there are many of them, whose commitment to the Post Office I acknowledge and commend—but consumers and customers, will be relieved that at long last we are providing some stability and confidence, on the basis of which the Post Office can expand properly and successfully in the future.

My hon. Friend is right to say that, at this stage of the Post Office's development, it would not have been appropriate or desirable either to go for new-fangled privatisation, or to continue with old-style nationalisation. I have every confidence that, were he alive and listening to the statement, my late grandfather, who was famous for being a great moderniser in his time, would recognise that nationalisation has to move on. It has to move on not to privatisation, but to commercialisation. That is what he would applaud, and I am pleased to have the opportunity and privilege of announcing that on behalf of the Government.

Mr. Eric Forth
(Bromley and Chislehurst)

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Will the Secretary of State confirm that what he is really talking about is a publicly owned business with extended borrowing powers, powers to acquire other businesses and powers to engage in competitive, if not predatory, pricing? What does he have to say, therefore, to privately owned competitors of that business, which will thus be able to operate in a favourable environment, but can never go bust if it makes lousy decisions on investment and rotten decisions on predatory pricing? What does he have to say to the private sector?

Mr. Mandelson

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What I say to the private sector, which I am sure will welcome this development—[HoN. MEMBERS: "No."] Well, I have not heard any comments, but no doubt some in various corners of the universe will be eked out if Conservative central office is doing its job this afternoon.

What the private sector will say is that it strongly welcomes the establishment of a tough regulator, among whose duties will be the need and obligation to ensure fair competition. That is the regulator's job. The regulator will be accountable, through me, to Parliament for that job. The right hon. Gentleman should keep his powder dry and give the new arrangements and regulator a chance to work in the interests of the Post Office and of the country as a whole, before trying to shoot them down in flames.

Mr. David Winnick
(Walsall, North)

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Is it not true that the reason why privatisation was not carried out in the previous Parliament, when there was a Tory Government, is that some Tory MPs from rural areas made it clear that they would not vote for privatisation because of intense constituency pressure? Does my right hon. Friend accept that there is no public support whatever for the Post Office to be privatised, and that it is unfortunate that the Tories do not recognise that?

Mr. Mandelson

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I can barely add to my hon. Friend's eloquence. He is absolutely right. To be honest, as a result of hearing what Conservative Members have said, I am none the wiser about the official policy of the Conservative party on the Post Office, but no doubt that will emerge in time as the coming leadership contest hots up.

Mr. John Greenway

(Ryedale)

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In the Post Office Counters business plan, which underlies the Secretary of State's statement, how many rural sub-post offices are expected to close under the arrangement? Is it not a bit rich to keep on blaming privatisation for post office closures, when the existing arrangements are seeing more sub-post offices in rural areas closed week after week?

Mr. Mandelson

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What policies does the hon. Gentleman support? I have already made it clear that the Government and the Post Office board remain committed to maintaining the nationwide network in all parts of the country. Does he support the policies of the Government or does he support the views of some, or all—who knows?—of his right hon. and hon. Friends, who want to privatise the network, which would lead to its effective and speedy collapse?

Of course, there is no arbitrary figure that either I or the Post Office board wish to pluck out of the air. What concerns people is access to services, not the number of post offices, but let me make it absolutely clear that that network is going to be maintained. It is going to be maintained in all parts of the country. As technology changes, and as people gain access to postal services without coming face to face with their postmaster or mistress, that will extend the opportunities and services to which ordinary people have access.

Mr. Jim Cousins

(Newcastle upon Tyne, Central)

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May I give a very hearty welcome to Postman Pete? If my right hon. Friend's grandfather had heard his statement today, I am sure that he would have repeated his remark that socialism is what a Labour Government have done.

May I urge my right hon. Friend to make his priority not the introduction of private capital into Post Office services but the creation of a partnership between the Post Office and private sector interests, so that the Post Office Counters network—our wonderful, priceless national asset that reaches every community regardless of how remote or geographically or socially excluded it may be—can be used as a platform for provision of a whole new range of financial transactions and services? Will he make that his priority?

Mr. Mandelson

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I am very happy to give a ready "yes" to my hon. Friend's question. The Post Office itself wants to undertake precisely that type of partnership and joint venture—for which now, at long last, the Post Office will receive backing from a Government who are strongly committed to its expansion and prosperity. As for the Morrisonian nature of my proposals, yes, they are principled, open-minded and undogmatic. In that respect, socialism is indeed precisely what a Labour Government are about to do.

Mr. Michael Jack

(Fylde)

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Will the Secretary of State explain, first, why there was nothing in his statement—on a business that is very much a people business—about enabling individual postmen and women to develop a financial stake in their own businesses, to become real stakeholders? Secondly—having given another £135 million a year to the Post Office—will he explain what he believes is the real investment deficit? Thirdly, will he explain whether, under the new arrangements, the revised Post Office will be able to invest in enterprises providing communication services that it currently does not provide?

Mr. Mandelson

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No, I shall not give the right hon. Gentleman an estimate of the investment deficit. As a member of the previous Government, he would know more than many of his colleagues about the Post Office's investment deficit. It is not for Ministers to determine the Post Office's investment needs; that is for the Post Office board. I do not think that the right hon. Gentleman understands the nature of the new relationship and new approach that the Government are taking to the Post Office. Perhaps, in the quiet of his room, he would like to re-read my statement, as he would then understand it even better.

I should be very sympathetic to any suggestions that the Post Office board would like to make on a financial stake for the Post Office work force in the Post Office's future. There are a number of very good possibilities and excellent options for ways in which we can continue Post Office restructuring and its progress, and that is certainly an option that I should like to consider very carefully indeed.

Ms Jackie Lawrence

(Preseli Pembrokeshire)

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May I congratulate the Minister on listening to both the British public and the Post Office before formulating today's statement? The British public clearly want the Post Office to remain in public ownership, and the Post Office itself wants commercial freedom to secure its future. Does he agree that evidence from a private poll conducted in July 1998 by BPRI—which shows that 60 per cent. of Conservative Members supported the idea of an independent, publicly owned corporation—demonstrates that Opposition Front Benchers are out of touch not only with the needs of the British public but with the majority of their own Back Benchers?

Mr. Mandelson

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My hon. Friend is right: Conservative Front Benchers barely know what time of day it is—they are so busy fighting among themselves, like ferrets in a sack—let alone the views of their own Back Benchers. She is also right to say that it behoves politicians—members of the Government—to listen to what the public are saying, which is that they want a successful Post Office. They want it to face stronger and tougher competition, and they want that spur to efficiency and innovation which any commercial organisation needs—they are going to get it—but they also want the Post Office to continue to make a vital contribution to the social life and cohesion of this country.

Both those things will be achieved by the measures to be introduced by the Government. I have absolutely no doubt that the public will not only be content with what we have announced, but want the Post Office to go from strength to strength, even if that means making further changes to its structure and organisation. We are at the beginning of the process, not the end.

Mr. Edward Leigh

(Gainsborough)

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Will the right hon. Gentleman acknowledge that two principal difficulties, which have been flagged up in previous reviews, face commercial freedom in the public sector? First, how can the Post Office be a genuinely commercial organisation when it does not have complete freedom to set its own EFL—its dividend to its only shareholder? Secondly, how can it engage in fair competition with its domestic competitors when—uniquely—it will not be allowed to go bust? Surely those are distinctive obstacles to practical commercial freedom in the public sector.

Mr. Mandelson

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The hon. Gentleman might just as well say that he favours privatisation. In his view, public is bad and private is good. The sooner every public service is dragged kicking and screaming into the private sector, the better it will be for him. In my judgment—the measures that I have announced support my contention—it is possible for an organisation to enjoy considerable commercial freedom while remaining in the public sector, as the Post Office does. Other organisations—BNFL, for example—enjoy similar status. It exercises considerable commercial freedoms, but remains in the public sector.

I do not disguise from the hon. Gentleman the fact that we are trying to create a new public policy model of public enterprise through these changes. This is not old-style nationalisation or new-style privatisation, but something completely new and different. To coin a phrase, the approach belongs to the third way of political thinking in this country. *[Interruption.]* Not for a moment do I expect Conservative Members even to begin to understand what on earth we are talking about, because they are so locked into the past. They have not a single idea or shred of new analysis to contribute to thinking for the future, which is why they are over there and we are over here.

Mr. Tony Colman

(Putney)

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I join my hon. Friends in strongly welcoming my right hon. Friend's statement on the commercialisation of the Post Office. The decision will be welcomed outside the House by customers, senior Post Office management and the unions. May I draw his attention to an on-going dispute at the Putney sorting office, which has continued for five years? I hope that he will join me in urging senior management and unions at the Post Office to settle those problems as soon as possible, in their new commercial freedom.

Mr. Mandelson

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One thing is clear, not only in Putney, but right across the Post Office organisation and its network: the Post Office will not succeed in realising the opportunities that we are creating for it if management and work force do not work closely together, united in their commitment to making these new commercial freedoms a success for the Post Office and for consumers.

Many people will stand aside and judge how committed the work force and the management of the Post Office are, and with what skill, ingenuity and imagination they are able to bring about the full realisation of the opportunities that the Government are creating for them. In the light of that, we shall need to consider what further changes and restructuring of the Post Office may be necessary.

Mr. John Bercow

(Buckingham)

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Is the Secretary of State aware that, on the strength of this morning's advance press briefing, Mr. Nick Butcher, the managing director of DHL, said that, if he were an executive in the Post Office, he would be very disappointed, because its ability to develop a strategy that would allow it to be a force in the next decade and beyond is being strangled?

Does the right hon. Gentleman not understand that, by giving way to the Communication Workers Union, to the Minister of State, the hon. Member for Makerfield (Mr. McCartney), and to the unions' sponsor and spokesman, the hon. Member for Hull, West and Hessle (Mr. Johnson), he will come to be regarded not as a mighty Minister, but as a mere dithering minnow around the Cabinet table?

Mr. Mandelson

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The hon. Gentleman is on form. I heard the observations of the manager to whom the hon. Gentleman referred, but he is not a executive of the Post Office, and does not speak on its behalf. I should prefer to wait to hear what the chairman and board of the Post Office have to say. I very much hope that they will strongly welcome the measures that I have announced.

Mr. Harry Barnes
(North-East Derbyshire)

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Does my right hon. Friend remember the arguments that used to go on in the Labour party about public ownership? Some wanted to move quickly towards it, while others developed the theory of the inevitability of gradualness. I hope that the Government are not developing a mirror image of that approach, bearing in mind the ideas on privatisation expressed by the Conservatives. Arguments have been made about possible shareholdings in future. I hope that the Government are not engaging in that and opening the door in the direction that the Opposition want to go. Many would support commercial freedom within public ownership, but would question moving further.

Mr. Mandelson

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I hear what my hon. Friend says. Nobody is trying to move gradually. On the contrary, we are trying to give a sense of urgency to the changes that the Post Office needs to undertake if it is going to catch up and compete with the best in Europe and the world.

That is the challenge that lies before the Post Office. We shall keep its performance under review. If it rises to the challenge, seizes the opportunities that we have created and does well in the form that we are creating, it can look forward to a long and happy future in that form. However, if it does not perform or if there are additional opportunities that we believe the Post Office should take for its success and for the benefit of its customers, we shall not hold it back. We want to move with the Post Office towards its continuing success. We shall keep under review every aspect of its operation.

Mr. Edward Garnier
(Harborough)

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The Secretary of State said that the Post Office board would be accountable. To whom, and how?

Mr. Mandelson

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The Post Office board is appointed by the shareholder—the Government. It will be accountable to Parliament through the Secretary of State.

Mr. Lawrie Quinn
(Scarborough and Whitby)

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We have had quite a few consultations locally when post offices have been forced to close, not because they have failed to deliver, but because private sector interests have decided to walk away from their business. An important part of my role has been to engage and involve the local community in consultations about the future of their post office or sub-post office. I am glad to say that we have succeeded in reinventing local post offices. Will there be any changes to the consultation process to give local people wider involvement in building a new Post Office for the future?

Mr. Mandelson

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The measures that I have announced this afternoon will lead to greater investment in and strengthening of the local post office network, resulting in improved services to ordinary people in every part of the country. I attach importance to what consumers of postal services are saying. That is why we are strengthening the Post Office Users National Council. The regulator will have a duty to make sure that consumers' views are properly tapped and taken into consideration in the future development of the Post Office.

Mr. Edward Davey
(Kingston and Surbiton)

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May I have the Secretary of State's assurance that the model of commercial freedom that he has announced today will be sufficiently flexible to allow local managers to pay the postmen and women working in places such as my constituency, which is a high-cost area, sufficient wages to recruit and retain them in order to reduce staff turnover and improve mail delivery performance? Will it be sufficiently flexible to allow investment in the new state-of-the-art sorting centre needed in Feltham to improve mail delivery performance in my constituency?

Will my right hon. Friend tell the House why his proposals for commercial freedom fall so far short of the models adopted in world-leading postal services such as those in New Zealand, where management can utilise up to four long-term credit lines with private banks, unguaranteed by the state? Those borrowings are free from Treasury spending controls, permission and veto.

Mr. Mandelson

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On the hon. Gentleman's second point, those options and avenues need careful consideration by the Post Office board. They will certainly receive a sympathetic consideration by me, too. As I have made absolutely clear, we are at the beginning, not the end, of the process of modernisation of the Post Office. Indeed, I hope that those and a number of other options will be entertained in the White Paper that I shall publish early in the new year.

As for pay, it is not for the Secretary of State to determine the individual pay policy of the Post Office. Of course, its management has to be cognisant of the overall context of public sector pay, but, as I said in my statement, we want to create some flexibility for performance pay to be strengthened. Whether that descends quite to the level to which the hon. Gentleman referred is a matter for the judgment and operation of the Post Office board.

I hope that, as a result of the measures that I have announced this afternoon, there will be high investment, high productivity and rising income levels for those who work in the Post Office, to the benefit of those who work in the Post Office and those who depend on its vital service.

Mr. Paul Flynn
(Newport, West)

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Does my right hon. Friend agree that the same model should be applied to other state enterprises that the previous Government found impossible to privatise, and would benefit from being turned into operations that combined the strength and security of state enterprise and the freedom of the private sector? Is not one example the Patent Office in Newport, which is highly efficient, but hamstrung by Treasury rules that prevent it from entering sectors that are run by the private sector less efficiently and at greater cost to the public purse? Will my right hon. Friend confirm that his announcement today is a fine example of modern, practical, intelligent socialism?

Mr. Mandelson

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I have no hesitation at all in receiving and accepting that accolade for what I have announced this afternoon. In doing so, I pay tribute to my colleagues in the Treasury, with whom I have had an interesting and useful dialogue, stretching for some considerable time and resulting in the very progressive and enlightened statement that I have been able to make this afternoon, with the full agreement of my right hon. Friend the Chancellor of the Exchequer.

We shall have to see how this new model of public enterprise works, but I am confident that it will work very well. I hope that, in the light of our experience, we shall be able to apply new principles and new practices of public enterprise across the public sector. In that context, we have made a little bit of history in what I have announced this afternoon.

Miss Anne McIntosh

(Vale of York)

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The right hon. Gentleman referred to the liberalisation of postal services across the European Union. Will he say whether the problem of terminal dues has been resolved? While he is being briefed, may I also ask him to say how the measures that he has announced will enable the Post Office to compete with TNT and the Dutch post office?

Mr. Mandelson[Share](#)

On competition, I made it clear in my statement that I want to ensure that there is no abuse of the monopoly area of the Post Office's activities or improper cross-subsidy between monopoly and non-monopoly areas. I fully accept that those are important issues for the private sector, as is the differential application of VAT between those in the public and private sectors who are involved in the postal service. As the hon. Lady probably knows, those rules are being reviewed by the European Commission; we are actively contributing to that process and to the review of the other matter to which she rightly referred.

Mr. Dennis Skinner

(Bolsover)

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Does my right hon. Friend agree that one reason why the Tories are sat over there is that they became besotted with the idea of privatisation, as evidenced by bus, coal, rail, and finally rain? Thankfully, the British people, who are totally against the privatisation of the Post Office, woke up in time, and ensured the Tories' defeat. My right hon. Friend has today made it pretty clear that there is a powerful case against privatising the Post Office, albeit temporarily, but why can he not rule it out permanently?

Mr. Mandelson[Share](#)

The key issue for us was to give the Post Office more commercial freedom urgently and immediately. Quite apart from the dubious justification for privatisation of the Post Office at this stage of its development, it would have taken three or four years if we had embarked on such a course. In that time, the Post Office would have fallen further and further behind international competition, as it would not have been able to enjoy any of the commercial freedom it needs if it is to compete more effectively with the best in Europe and the world.

The commercial freedom that has been given to the Post Office will be sufficiently extensive to ensure, together with the tough competitive pressures that will operate, a considerable improvement in performance—it will vest the Post Office with the ability to succeed in the future. If the Post Office falls short of that ambition, I shall discuss with it any adjustments that have to be made, although I do not foresee that any further changes will be necessary in the immediate future. The Post Office needs a period of stability and certainty in which to build its business; that is what the measures announced this afternoon will provide.

Mr. Andrew Lansley

(South Cambridgeshire)

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Does the Secretary of State recognise that the question whether the Post Office continues in the public or private sector is at the heart of the issue? As a publicly owned organisation, it will not be able to set strategy or determine investment. In so far as it is in a commercial marketplace, its competitors will regard it as having the protection of a public sector or taxpayer guarantee. Will the Secretary of State confirm that, in terms of the commercial marketplace, the Post Office will not enjoy exemption from the provisions of the Competition Act 1998, except strictly in respect of its statutory monopoly activities?

Mr. Mandelson[Share](#)

The newly appointed independent regulator will be extremely mindful of the competition requirements and of the law that operates in this country. That duty will be placed on him or her by the measure that we are proposing. The hon. Gentleman either has failed to notice or has overlooked the fact that I am proposing to reduce the Post Office's monopoly activities significantly, and that matter will be considered further in conjunction with the Post Office. I hope to be able to give a further indication of how far we intend to go in the White Paper next year, so, before the hon. Gentleman and others in the private sector jump to conclusions about our intentions, I ask them to wait a little longer so as to see exactly what we have in mind, which will become clear in the new year.

Mr. Jack

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On a point of order, Mr. Deputy Speaker. The statement that we have just heard from the Secretary of State was clearly of such importance that he felt that he must come to the House of Commons this afternoon to advise hon. Members about his proposals for the Post Office; yet, once again, this information was trailed extensively in the media ahead of his coming to the House. I seek your guidance as to what action can be taken to ensure that, if a matter is of such importance that it merits a statement in the House, it remains the case that the House is the first place that we hear about it.

Mr. Deputy Speaker

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Madam Speaker has said what she feels about how these matters should be ordered, and it is to be hoped that those on the Government Front Bench have taken note of that. However, it is impossible to guard against pre-discussion of events that are known about, and it is therefore inevitable that people cannot behave like Trappist monks. The statement was made here in the House of Commons today.

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