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To: Mr McCorkell

From: Craig Lewis

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Copy: Mrs Graham
Mr Hanson (o/r)

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Timing For information only.

Background Please see the attached Hansard report of a Select Committee Reform debate about the Post Office, which took place on 13 January 1999 about Post Office. The debate included two references to the automation project. Mr Richard Page asked if the Minister of State, Department of Trade and Industry, would make an announcement regarding the Government's commitment to the Horizon automation platform. In response, Ian McCartney confirmed the Government's public position on the project, using our agreed lines to take. Mr McCartney also attributed the delays to the Horizon project to the previous administration, something we have not done before now.

Craig Lewis

GRO

Irrelevant

Post Office

12.30 pm

Mr. Richard Page (South-West Hertfordshire): I am grateful for this opportunity to raise the subject of the Post Office. I have regularly submitted my name in the ballot for the past three months on this item, so I am obviously very pleased to have secured a place in today's Adjournment debates. It is particularly apposite because the Select Committee on Trade and Industry reported on Monday and, this week, the Post Office has made an important overseas purchase, on which I shall touch later.

The Post Office is an important and massive business. We must remind ourselves time and again that, through its four main operations—the Royal Mail, Parcelforce, Post Office Counters Ltd. and Subscription Services Ltd.—it employs 190,000 people and has a turnover in excess of £6.7 billion. It is facing increasing, serious competition from overseas rivals, as well as pressures from the growth of fax and electronic mail services. There is also the prospect of greater liberalisation through the European Union.

To me and several others, it has been clear for some time that such a situation could not be maintained indefinitely without losing market share—notwithstanding the announcement by the previous Secretary of State for Trade and Industry, the right hon. Member for Hartlepool (Mr. Mandelson), just before Christmas. A publicly owned and financed business that is subject to all the traditional constraints on pay, pricing, acquisitions, borrowing, partnerships and joint ventures has become increasingly at odds with the commercial world.

As the previous Secretary of State announced just before Christmas, postal administrations in countries such as Denmark, Germany, the Netherlands, New Zealand and Switzerland are already benefiting from much greater commercial freedom. The Dutch postal business, KPN, has bought the private sector carrier TNT, which operates in this country and throughout the world, for the massive sum of 2 billion Australian dollars. Such sums will be necessary if we are to create a world player in our Post Office. The German post office has bought a 20 per cent. share in DHL, for which it also paid a substantial sum.

In both the Netherlands and Germany, and in France, the machinery and rules of the European Union are being used to strengthen their postal organisations before they are fully or partially privatised. It is certain that, when the European Union directive on postal markets starts to work fully, direct mail and cross-border services will be open to more direct competition. Unless we are very careful, our rivals will be better placed to utilise and take advantage of it.

It is with regret that I say that the previous Government did not reach a final conclusion on these challenges. I felt at times that they should have gone much further, although I plead in mitigation the obvious lack of a substantial parliamentary majority. This Government cannot plead that. The decisions announced in the House by the former Secretary of State on 7 December 1998 show that the Government are fundamentally divided on the way in which to proceed. Signs of a major quarrel between the Treasury and the Department of Trade and Industry were all over his statement. The

“radical new form of public sector enterprise”—[*Official Report*, 7 December 1998; Vol. 322, c. 22.]—

[Mr. Richard Page]

that he announced, in which a minority shareholding in a prospective public limited company can be sold, and which allows for an exchange of equity with other businesses, is a slogan, not a solution. As the Communications Workers Union pointed out in September,

"a minority share sale would amount to privatisation for all practical purposes".

It would have been far better to have acknowledged that outright last month and to have followed the union's logic, instead of cobbling together yet another policy fudge.

I understand why the former Secretary of State could not do so. With the Chancellor to his left, the former Paymaster General, the hon. Member for Coventry, North-West (Mr. Robinson), to his right and Charlie Whelan ahead of him, it would have been the political equivalent of the charge of the Light Brigade. But, the political landscape has changed; the Government have suffered a few casualties, and the new Secretary of State has only the wounded figure of the Chancellor of the Exchequer to tackle.

If rumour is right, the new Secretary of State is looking over this terrain again before the publication of the forthcoming White Paper. That is one of the reasons why I was so pleased to be able to secure today's debate. I hope that the White Paper will address the questions raised in the Select Committee report on the degree of control that the DTI will have over Post Office borrowing and the scale envisaged.

All that is second best to my principal hope that the new Secretary of State, unlike his predecessor, will have the courage to accept that the only way in which our Post Office will compete effectively with its European and global rivals is to set it free—just as the previous Government had the courage to set free British Telecom—to transform itself from a national player to a major contender on the world stage, just as BT has done.

I shall give a few simple examples of the problems facing our Post Office and what the Government's policies will entail if they remain unchanged. On Monday, the Post Office purchased the German Parcel Company, the third largest carrier in the Federal Republic, which has annual sales of £250 million. We do not know what the Post Office paid for it—it wants the matter to remain commercially confidential—although estimates in the press range from £200 million to £300 million.

Even with the reduction of the Government's dividend from Post Office profits from an average of 80 per cent. in recent years to 40 per cent., which I welcome, such a transaction will inevitably effect the Post Office's capacity to invest in its automation and development programme—unless, of course, the money comes directly from the Treasury. We do not know whether that will be so. If such sums come directly from the Treasury, we must ask about accountability. We might ask what other sums are earmarked for future purchases. To operate in such a way is a recipe for confusion. Let us not forget that the purchase, which I welcome and on which I congratulate the Post Office, is only the start of creating a world-class, worldwide postal business. Entrées into the Spains, Italys and Frances of this world must be found and funded. That is when we shall start to talk about serious sums of money.

I remember being in the House when, before BT was privatised, it announced that it wanted £2 billion for an investment programme. We ran around in circles trying to facilitate that within Treasury rules. There was talk of Busby bonds, and all sorts of alternatives were examined. At the end of the day, the only way that BT could get its money for expansion was through privatisation.

Private companies operating within national borders will be purchased at an increasing premium as major players strive for world positions. To put it bluntly, it will get harder and harder for the Post Office to make further acquisitions under the rules of external financing that were announced in December. Internally, Post Office revenues will fall by several millions of pounds when the adjustment to the Rheims agreement is made. I shall not go into the details of the Rheims agreement, suffice it to say that it is an arcane form of internal and exterior movements of mail. It boils down to—the figure is from two years ago—the enhancement of the Royal Mail's profits by £40 million. Following the adjustment, we shall lose that amount, and probably more. All that will restrict the Post Office's ability to expand.

Anyone discussing the commercial freedom or privatisation of the Post Office is told that such moves would put daily deliveries at risk throughout the country, that it would affect the universal price for letters and that the network of rural post offices would face extinction. I do not believe that. We heard exactly the same alarmist scare stories from the same sources when BT was privatised. Were we not told that prices would soar, and that country telephone boxes would go? What do we have now? We have more telephone boxes, new operators and competing services—which benefit the public, as consumers, more than ever before—along with much lower prices.

I believe that greater freedom—indeed, privatisation, with the spur of competition from other providers—will bring comparable gains to our Post Office. At the same time—and this is the underlying *raison d'être* of all that I am saying—it will bring about the creation of our Post Office as a world player. I think that, if the right measures are adopted, that can be achieved alongside the maintenance of a nationwide postal service. I am not here to outline Conservative party policy, but I am sure that Conservative Members are as committed as anyone to a universal service and to sustaining a viable network of rural post offices, whatever method of privatisation may be employed.

Inevitably, there will be changes in the location and number of post offices. Although 28 million people use rural post offices every week, the number in operation has fallen from 20,000 to 18,000 in the past few years. It is a brutal commercial fact of life that a minimum amount of business must be done in a post office if it is to be viable, and that minimum rises every year. New policies must be devised if the sub-post office is to give its postmaster or postmistress a decent living, and also provide the local community with a wide range of services. I know that the aim of the sub-post office movement is the creation of a bank in every village, and I want that as well.

I would be more confident about the Government's assurances to sub-post office operators last month had they not so far failed to commit themselves to the Horizon platform for automation. Perhaps the Minister will announce such a commitment today; if he does, I shall be delighted. If he says that the last Government made no

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such commitment, I shall roll over and say that I entirely agree. The fact is, however, that no one wants a future of indefinitely diminishing returns and ever-lengthening hours for the operators of sub-post offices, but unless changes are made that is a real danger.

The prospect of a Post Office obliged to submit its strategic plans to the Department of Trade and Industry, subject to Treasury approval for its borrowing to finance new investment and operating without "undue cross-subsidy"—whatever that delicate phrase means—between Royal Mail and Parcelforce, with employees paid within the necessary context of public-sector pay policies, is frankly disappointing. It constitutes a return to the way in which the state-owned organisation was run in the past, and from that it will be only a short step to the lunchtime directive. It represents a false and not a new dawn. Realistically, can any hon. Member envisage the Treasury giving our Post Office enough money to purchase an organisation such as TNT? A purchase of that kind, however, is necessary if the Post Office is to move into the world market.

I see nothing wrong with an open and transparent accounting system, or an independent regulatory system to ensure standards of service and fair competition, and I know that is what the private operators in the sector want. Without change, we shall have a Post Office with its hands tied behind its back, exposed to increasing competition, particularly from European postal organisations. I realise that the Minister cannot pre-empt the White Paper which I hope will soon be before us, but I hope he accepts that what I suggest would benefit the Post Office in the long term, and that the status quo is not a long-term option.

12.45 pm

The Minister of State, Department of Trade and Industry (Mr. Ian McCartney): I congratulate the hon. Member for South-West Hertfordshire (Mr. Page) on securing the debate, and am happy to respond. If I did not remember the hon. Gentleman's record as a Minister responsible for the Post Office, I would not disagree with much that he said; but he has a record of failure as long as his arm. I would not have mentioned that if the hon. Gentleman had not been rather churlish in his speech about the steps taken by the Government so far—first to deal with the shambles that the hon. Gentleman left us, and secondly to introduce measures for the future of the Post Office in a sophisticated way, involving all the stakeholders who use it daily as ordinary customers or as business customers for whom it is a major distributor.

The reforms announced by my right hon. Friend the Member for Hartlepool (Mr. Mandelson) on 7 December 1998 broke the deadlock with which the last Government left us. They give us a real opportunity to provide the Post Office with commercial freedoms. The hon. Member for South-West Hertfordshire was, in fact, responsible for the Post Office on two occasions: one would have been bad enough, but he returned for a second bite at the cherry. He claims that he was always in favour of reform, but he never achieved it. His party enjoyed a majority in the House for 18 years, and, owing to an intellectual straitjacket, the only show in town was the privatisation of the Post Office. The Conservatives allowed it to float away in the ether, which damaged management, personal relationships and the Post Office's economic future and

offered a prospect that was wholeheartedly rejected time and again by the British people, and by management and workers in the Post Office.

The hon. Member for South-West Hertfordshire is known in the Department of Trade and Industry as "Swag-bag Page". As a Minister, he was responsible for the second biggest hike in the external financing limit ever imposed by the Government. He took 91 per cent. of post-tax profits in 1995–96, and came back for a second bite in 1996–97. That money—91p in every pound—was money that the Post Office needed to invest in new opportunities, here and throughout Europe. It was hamstrung by a Minister who handed the money over to the then Chancellor of the Exchequer, who squandered it rather than investing it in postal and telecommunications services.

There was chaos. Industrial relations were in turmoil, with 810,900 days lost through industrial relations in the second year during which the hon. Gentleman was a Minister. It has taken the present Government to resolve the position, securing a 1,800 per cent. reduction in the number of days lost through industrial action.

Not one joint venture was established with the Post Office on either occasion when the hon. Gentleman was a Minister. Since I have been the Minister responsible, I have established a number of joint ventures. The Post Office has acquired a stake in a Swedish mail delivery company, linked up with a Dutch letters and parcels delivery company, established a joint venture for the catering arm and, in conjunction with Microsoft, launched a service enabling customers to receive paper mail sent electronically. Since day one of their inheritance, the Government have sought proactively to establish a new framework for the Post Office, and new opportunities for it to compete here and abroad.

I am grateful to the Trade and Industry Select Committee for the timely publication on Monday of its report following an evidence session on 9 December. The memorandum summarising the main points that the Committee expects to see in the White Paper is helpful in itself. I hope that I can be as successful in meeting the Committee's expectations as we were in fulfilling the recommendations of the report that it published this time last year.

The Post Office is a great national institution, on which we all rely. It delivers post to every address in the United Kingdom each working day, handles more than 70 million letters per day, is beaten only by Coca-Cola as the most strongly recognised brand image, and has more than 19,000 post offices in the UK. Almost 60 per cent. of villages have a post office; only 5 per cent. have a bank. The Post Office is visited 28 million times a week on average—half the UK population. No wonder the Tories wanted to privatise such a special asset, owned by the British people.

We want the Post Office to remain one of the great success stories of the UK, contributing to the commercial success of other businesses, providing the modern communications infrastructure that we need commercially and socially, and contributing to the social cohesion of our nation. I trust that Conservative Members share that desire. Indeed, the hon. Member for South-West Hertfordshire went out of his way to say that that was the case. It is just that his policies in government failed to meet those challenges. It has been up to this Government

[Mr. Ian McCartney]

to meet them effectively. We are keen to put in place as quickly as possible the reform package that was announced last month.

I want to put in place three main pillars of the reform package by the middle of the year at the latest. First, we shall publish a White Paper putting flesh on the bones of the announcement on 7 December by my right hon. Friend the Member for Hartlepool. The hon. Member for South-West Hertfordshire is right; I will not pre-empt that in the debate.

The White Paper will redefine the relationship between the Government and the Post Office, as well as explain our plans for implementing the comprehensive reform package. I look forward to positive contributions in response to the White Paper by anyone and everyone who is interested in providing genuine commercial freedoms to the Post Office.

Secondly, we will implement the European Union postal services directive. We will introduce regulations under section 2(2) of the European Communities Act 1972, enabling us to ensure early implementation of significant parts of the reform package, especially the establishment of an independent regulator. Thirdly, we will agree with the Post Office the strategic plan, which will form an essential part of the new arm's-length relationship between the Government and the Post Office Board.

The hon. Member for South-West Hertfordshire raised the issue of the Horizon automation project. The Government are committed totally to the project. The deep-seated problems over the project—I do not mean the comment in a personal way—were inherited from the previous Administration, who failed to deal adequately with the introduction of such a complex programme.

We are absolutely 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 do and it remains our objective. However, we have been concerned at the substantial delays that have been suffered by the Horizon project, mainly due to the previous Administration. We continue actively to monitor its progress.

The Benefits Agency and Post Office Counters Ltd. continue to work closely with the supplier, ICL Pathway, to resolve the problems. The Government remain committed to a nationwide network of post offices and to ensuring those benefit customers who wish to do so can continue to draw their benefits in cash at post offices.

The hon. Member for South-West Hertfordshire also talked about German Parcel. I will try to be as helpful as I can in relation to that. We can all be proud about that achievement. Within weeks of the Government giving greater commercial freedoms to the Post Office, it was able to acquire German Parcel. That signals a big step forward in achieving the Post Office's strategic objective to become one of the top global distribution companies.

As the hon. Gentleman said, German Parcel is the third largest private carrier in Germany and a major shareholder in General Parcel, an international company that operates throughout thirty European countries. Therefore, it is important that that exciting new venture is a success for the Post Office. It provides an early demonstration that,

with the new freedoms of the reform package that we have announced, our Post Office can respond much more effectively to the opportunities of a changing and dynamic international marketplace to provide wider and better services to meet the growing demands and needs of its customer base.

Many other European post offices have already invested in substantial acquisitions and strategic alliances, so the Post Office is coming from a long way back. Therefore, we have to respond in a way that ensures that, in that dynamic marketplace, the Post Office can secure with some certainty acquisitions in which it has an interest.

The Post Office has shown that it can do that by that particular acquisition. That will become ever more vital as the postal market becomes increasingly globalised and competitive. That significant international acquisition shows the commitment of both the Government and the new Post Office Board to move quickly to implement the agreed reforms, and gives the lie to those who questioned the Government's commitment to their new policy for a public sector organisation.

I know that the Post Office has faced calls to disclose how much it is paying for German Parcel; the hon. Member for South-West Hertfordshire alluded to that in a reasonable way. Of course, the public, as owners, should be aware of Post Office investments and financial commitments and the Government should be as transparent as possible in their dealings, but not in ways that might unduly damage the Post Office's prospects for commercial success. No owner would want that.

As I said, I hope that I can be helpful. The estimated turnover of German Parcel for the current year is around £265 million. A normal core price for such an acquisition might be the annual turnover plus any special assets, so that should give a good idea of the figure in question, but I stress that other publicly and privately owned European post offices are making acquisitions and, in most instances, we do not know how much they are paying. They do not say; nor do they intend to say.

For commercial reasons, our Post Office would dearly like to know what the costs of those other acquisitions are, so we are not going to hand on a plate to Deutsche Post or other serious competitors the figure paid for German Parcel; nor do I think that the hon. Gentleman would wish us to do so.

The figures in question will properly be reflected in both published Government and Post Office accounts and any adjustments to the Post Office external financing limits will be announced in the normal way, but such publication will not necessarily reveal the details of any particular commercially confidential deal. The Post Office investment in German Parcel will stand on its own two feet and we fully expect it to pay for itself.

I return to the reforms. The package is radical. It presents the best way forward. Reviews under the previous Government failed to give the Post Office greater freedoms or disciplines. Instead they left it in limbo and, as a result, starved it of investment. As I have said, the hon. Gentleman played a major part in that starving of investment. Our review gives the Post Office the commercial freedom that it needs.

Pursuing wholesale privatisation, as set out by the hon. Gentleman, was not an option; nor is it an option. It could have put large parts of the network under threat.

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Because of the need for primary legislation, it would have created a long period of uncertainty, which would have seen the Post Office's market further undermined at home and abroad.

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The reform package has several essential elements. One is the new arm's-length relationship. 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. 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.

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Another is the new regulatory regime, which, as I have said, will be substantially set out in the White Paper. In setting that out, we will clearly show the direction the Government will want taken in terms of greater resources for investment.

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My right hon. Friend the Member for Hartlepool has already set out moves on the external financing limits. We decided to change those for the Post Office for next year—1999–2000—to £207 million from the provisional figure of £335 million. That will be about 50 per cent. of post-tax profits, down from the 91 per cent. that was introduced by the hon. Member for South-West Hertfordshire. In subsequent years, it will fall to 40 per cent. of post-tax profits. That will give great incentive to the Post Office to be even more successful than it has been already under the present Administration.

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