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Postal Services Bill

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Second Reading

🕒 2.31pm

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Baroness Wilcox >

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That the Bill be read a second time.

The Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills >

(Baroness Wilcox)

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My Lords, many of us in this House will no doubt be experiencing a mild sense of déjà vu. After all, it was less than two years ago that this House debated a Bill of the same name. That Bill, in the name of the noble Lord, Lord Mandelson, was thoroughly scrutinised and improved by this House. However, the previous Government were unable to take it further, thus we find ourselves debating the same issues once again.

The purpose of this Bill is to secure the ongoing provision of the universal postal service and to safeguard the future of the Royal Mail and the Post Office. Before I turn to the detail of the Bill itself, I wish to explain why we must now take action. The universal postal service is a vital part of our economic and social infrastructure. Individuals and businesses across the country rely upon it, as they have done for nearly 200 years. The United Kingdom has been a pioneer in postal services and it is our duty in this House to do justice to this proud heritage and to safeguard the universal postal service for the future.

The noble Lord, Lord Mandelson, stood before this House two years ago and declared that we were living in a digital age. He is right. Our means and methods of communication are changing, with traditional options, such as the letter, increasingly bypassed in favour of electronic alternatives such as e-mail. The previous Government recognised this and, in 2007, commissioned an independent review of the postal services sector, chaired by Richard Hooper. Hooper was unequivocal about the need for action to safeguard the universal postal service. With the letters market in structural decline, he identified an urgent need for the Royal Mail to modernise and increase its efficiency. To do this, he argued, Royal Mail needed access to flexible capital. Noble Lords then in Opposition, and now occupying these Benches, accepted the recommendations of Hooper's excellent report in full and we were prepared to support the Bill that was subsequently introduced by the previous Government. Indeed, we were sorry that, having left this place, the Bill did not complete its passage through Parliament.

It should come as no surprise that one of the first actions undertaken by my colleague, the Secretary of State for Business, on assuming office, was to ask Richard Hooper to update his report. That update, published last September, confirmed that if we are to secure the universal postal service we need to do three things. Royal Mail needs access to private sector capital and commercial disciplines; it needs to be relieved of its historic pension deficit; and the regulatory framework under which it functions needs fundamental reform. But Hooper's most worrying finding was that Royal Mail's already precarious financial position has actually deteriorated in the 18 months since his original report. The fall in letter volumes has, in fact, been more dramatic than was predicted:

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global decreases of 25 to 40 per cent over the next five years. This problem is not unique to Royal Mail but the latter's financial state means that it is not able to respond sufficiently.

To meet the challenges of the declining market, Royal Mail must modernise. Despite some progress, Hooper concluded that Royal Mail is still some considerable way from being best in class. This view is reinforced by Royal Mail's Chairman, Donald Brydon, who told Committee Members in the other place:

"Compared with any other postal operator of quality or substance in the world, the Royal Mail is at the end of the queue in its modernisation".—[*Official Report*, Commons, Postal Services Bill Committee, 9/11/10; col. 15.]

I am sure we will hear from noble Lords who will argue that Royal Mail must remain under the protection of public ownership. However, I put it to your Lordships that it is the Government's ownership of Royal Mail that has failed Royal Mail. This company needs to be freed from the constraints of government ownership if we are to give it a chance to succeed.

I turn now to the Post Office and address some of the concerns raised both in this House and the other place, in particular, the concern that this Bill could lead to loss of business for the Post Office, and ultimately to Post Office closures. The Bill will enable the separation of Post Office Ltd and Royal Mail to allow for the private investment that Royal Mail so badly needs while maintaining the Post Office in public ownership. Opponents of the Bill have sought to portray this as a threat to the future of the Post Office. On the contrary, it is an opportunity for the Post Office. Separation will give its management the freedom to focus on getting the most out of the branch network and growing revenue across the whole business. Two thirds of Post Office Ltd's revenue is unrelated to postal services, coming from areas such as financial services, government services and telecoms. It is in these areas that the growth opportunities for the Post Office lie. Government are far from alone in seeing the benefits of separation. The move has been welcomed by the experts at Postcomm and Consumer Focus, and by Richard Hooper himself.

Opponents of the Bill have argued that a privatised Royal Mail might not use the Post Office, leading to loss of business. Scaremongering over this issue was perhaps inevitable but I refer noble Lords to commitments made by Donald Brydon, chairman of Royal Mail, and a man who knows what he is talking about when it comes to Royal Mail's commercial decision-making. In his evidence to the Public Bill Committee in the other place, Mr Brydon was clear that before any privatisation occurs, a new commercial contract will be put in place between the two companies for the longest time that is legally permissible. This is not a vague statement of hope. We have the chairman of Royal Mail putting on record his commitment that the commercial relationship between the two companies will continue, regardless of who owns Royal Mail, and your Lordships may rest assured that the Government, as shareholder, will ensure that this commitment is fulfilled. So we can be sure that the strong relationship between the two companies will continue, but with the Post Office in an even stronger position with its own fully constituted board and sole focus on what is best for the network.

However, the Government recognise that as well as the freedom to focus on its future, the Post Office also needs the means and support to do so. That is why we have committed to providing £1.34 billion in funding to the Post Office over the next four years. This will enable Post Office Ltd to undertake a substantial modernisation programme for the network and to maintain the network at its current size. This funding will help to put Post Office Ltd back on to a secure and sustainable financial footing. Once it has a stable financial base, the Bill offers the opportunity for Post Office Ltd to be transformed into a mutual. We believe that a mutual could be the ideal way to meet the distinct social and economic roles that the Post Office plays, giving sub-postmasters, employees, customers and communities a greater say in how it is run.

I should like to make one thing abundantly clear: there will be no programme of closures under this Government. Throughout this debate, we must never lose sight of the real reason for safeguarding the Post Office network. It is not about politics; it is about the millions of British people who rely on the Post Office—in particular, the vulnerable and those in rural and deprived communities. It is about the hard-working sub-postmasters and mistresses—the real-life Dorcas Lanes—who selflessly serve people up and down the country and whose value cannot be measured by profit-and-loss accounts alone. A mutualised Post Office will give these people a real voice, and I hope that noble Lords on all sides of the House will support these provisions.

I turn to the detail of the Bill. Part 1 removes restrictions on the ownership of Royal Mail. This is to enable the much-needed injection of private sector capital and disciplines. As I have already made clear, Royal Mail urgently needs to modernise. Some progress has been made already, which we welcome. But Royal Mail will need to continue the process of modernisation and transformation if it is to succeed in a declining market. This requires both capital and commercial disciplines that the Government simply cannot provide. The taxpayer has already made available billions of pounds for the current modernisation programme, and yet this covers only the costs envisaged three years ago. As Royal Mail's Chief Executive, Moya Greene, told the Bill Committee in the other place,

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continuously to keep up”.—[*Official Report*, Commons, Postal Services Bill Committee, 9/11/10; col. 4.]

I think we can all agree that government is neither the most flexible source of funding nor the most timely. There are competing priorities to consider, and any funding we provide to Royal Mail must go through the European Union’s sometimes lengthy state-aid approval process. Besides, government funds are too often accompanied by the spectre of political interference. What Royal Mail needs is flexible investment and commercial disciplines. The private sector is best placed to provide these.

However, a successful company needs more still. It requires a motivated workforce. Royal Mail has some of the best employees in the world, as amply demonstrated in the recent bad weather, and they deserve a proper stake in the future success of the company. That is why the Government have included provision for an employee share scheme which will hold at least 10 per cent of the equity in Royal Mail in the future. This is the strongest legislative commitment and largest stake of any major privatisation, and I hope that your Lordships will support it.

In terms of pension provision, the Bill will allow for government to take on Royal Mail’s crippling and highly volatile deficit—a deficit that ballooned from £2.5 billion in 2007 to more than £8 billion in 2010. We should not underestimate what this means to members of the Royal Mail pension plan. Members are rightly concerned about the security and safety of their pensions. Under the Government’s proposals, we will stand behind their accrued rights, giving members the security and certainty they deserve. Royal Mail itself will be left in a much more secure position with a smaller, more manageable scheme going forward. This is a good outcome for employees, both in respect of pensions and in boosting the financial health of the company they work for.

The Bill will also enable fundamental reform of the regulatory regime. It will transfer regulatory responsibility from Postcomm to Ofcom. This measure is entirely appropriate, given the convergence of communication markets, and has broad support from stakeholders. Crucially, the Bill will ensure that the primary duty of the regulator in relation to postal services will be to secure the continued provision of the universal postal service. The previous Government recognised the need for this, and similar provision was made in the 2009 Bill. This Government, however, have gone further and have added the requirement that in performing this duty the regulator must consider the financial sustainability of the universal postal service. This will ensure that both the service and its financial health are at the heart of everything Ofcom does in relation to postal matters.

As for the meaning of the universal postal service, the Bill sets in statute the six-day delivery and collection of letters at affordable and uniform prices. Again, I should like to address some scaremongering on this issue. The Government have no intention of downgrading the minimum requirements of the universal postal service. On the contrary, this Bill introduces new safeguards: first, that any changes can be made only after Ofcom has conducted a review of user needs; secondly, that any changes are approved by a vote in both Houses; and, thirdly, that prices must remain uniform and there cannot be different minimum requirements in different parts of the country.

There was some debate surrounding the 2009 Bill as to whether it went far enough to ensure fair competition between operators. We have looked again at the relevant provisions and concluded that tougher tests should be met before Ofcom can mandate access to Royal Mail’s network. Thus the Bill before us today specifies that mandatory access can be granted only where it meets all of the conditions of promoting efficiency, promoting effective competition and conferring significant benefits upon users of postal services. This is a departure from the 2009 Bill, which allowed for mandatory access where just one of these conditions was met, and is a change that we feel is vital in ensuring the right balance between fostering competition and protecting the universal service. Our position is clear: competition is beneficial, but it should not undermine the universal service.

This Bill also reflects a deregulatory intent. We are clear that regulation should be imposed only where there is a need for it. We are confident that this Bill, combined with Ofcom’s existing duties under the Communications Act 2003, gives the regulator the tools it needs to ensure that regulation is focused and proportionate, and that it can deregulate rapidly where there is effective competition in the market. I look forward to debating the detail with the many knowledgeable and experienced Members of this House who are, or have been, involved in economic regulation.

Finally, Part 4 introduces a special administration regime. This will enable special arrangements to be put in place should the universal service provider be at risk of entering insolvency proceedings. Their objective will be to maintain the universal postal service. While we do not expect to use these provisions, they are a sensible and prudent additional safeguard for the universal postal service. The measures mirror those that have been taken in the energy and water sectors.

The Bill is largely based on the same evidence and independent analysis as the previous Government’s Bill. However, we have looked at the issues with fresh eyes. The result is a Bill that builds on the consensus surrounding its predecessor, but which also improves upon it. Thus we have a Bill that is better for consumers, who will benefit from a secure universal postal service, and a strong, stable post office network—one that is better for Royal Mail, giving the company the best chance of a successful future while relieving it of a

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while offering them a real stake in the future success of the company through the largest employee share scheme of any major privatisation.

Some provisions before us today will be difficult for some noble Lords to accept. I do not ask them to change their political ideology, but I do ask them to reflect on the fact that the call for action is coming not from this Government alone. It came from the previous Government when they presented their 2009 Bill to the House, and it is coming from individuals who are intimately acquainted with the problems facing Royal Mail and who have no political allegiance, such as Richard Hooper, the independent adviser to both the previous and current Governments, and Royal Mail's senior management.

We will spend many hours debating the detail of the Bill and I have no doubt that it will leave the House all the better for your Lordships' attention. It represents not just the latest but the best chance of securing the future of the universal postal service. I beg to move.

🕒 2.51pm

Lord Tunnickliffe >

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My Lords, I thank the noble Baroness, Lady Wilcox, for introducing the Bill and explaining the Government's position. I will grasp the first note of optimism from her acknowledgement that the Bill will leave the House improved—which can only mean that she will lend a ready ear to appropriate changes. I, too, look forward to today's debate, and in particular to the maiden speeches of the noble Lords, Lord Empey and Lord Dobbs.

My researchers tell me that the Royal Mail was first made available to the public on 31 July 1635 by King Charles I. That certainly indicates a long heritage, but whether it was an entirely happy start only historians will tell us. Since then, it has delivered the post to homes and businesses across the United Kingdom, and has been run as an essential public service in the public interest. Today's Bill would change all that. It would lead to the total sale of the Royal Mail postal service and its separation from the nation's post office network.

We all recognise that the competitive environment for postal operators has changed dramatically. The impact of technological changes such as e-mail, mobile phones and all the other modern ways of communicating continues to be felt. The worldwide postal market is expected to decline by 25 to 40 per cent over the next five years. Of course, action needs to be taken.

There are a number of elements in this Bill that we broadly support, including the principle of employee share ownership, dealing with the historic pension fund deficit and the transfer of regulation to Ofcom. We also agree that the possible mutualisation of the post office network deserves positive examination. However, the central question that the House must ask today and in the coming weeks is whether the Government have made their case convincingly that the way forward proposed by the Bill is the best one available. Secondly, if Royal Mail is privatised, have they made sufficient safeguards for the public interest, in particular in relation to the universal postal service and the future of the post office network?

We believe that abandoning the commitment to keep Royal Mail as a publicly-owned organisation is wrong. Among other things, it would pose a threat to the universal service obligation and to the future viability of the network of post offices throughout the country.

It used to be said that Royal Mail could not change without an injection of private investment and management. However, an important agreement was reached in March 2010 between the Communication Workers Union and Royal Mail, supporting the £2 billion modernisation plan. Both the CWU and management should take credit for the start that has been made. Sir Richard Hooper acknowledged that corporate experience has been injected, not least through the appointment of a new CEO, previously the head of Canada Post, who seems to have attracted universal praise.

The Government propose rightly to relieve the company of the historic pension fund deficit, worth £280 million per year in annual payments. There is also general agreement that the access prices set for bulk mail sorters have placed Royal Mail at a disadvantage. The company estimates that the value of this is about £160 million per annum. Investment funds are in place to complete the modernisation programme. In these circumstances, the Government should explain the anticipated capital requirement and why a 100 per cent sale is necessary to achieve it.

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elsewhere. There has been no explanation of how best value will be secured for the taxpayer. Will the Government publish an independent valuation? What do they intend to do with the sale proceeds? They have not made clear the timing of the changes. In what way do they intend to discharge their obligation for transparency and accountability to Parliament over the nature of the sale and therefore the type of Royal Mail organisation that will emerge?

The Government have made it clear that they are not interested in who the purchaser is, and have no objection to a sale to a foreign owner. Is there anyone to whom they would not sell? Will privatisation be by a general sale of shares, or by sale to another postal company or to a private equity group?

I turn to the universal service obligation. As the noble Baroness said, Clause 30 sets out the terms of the universal postal obligation. It includes letter and packet delivery, letter and packet collection, affordable and uniform tariffs, registered items, insured items, services to the blind and partially sighted, and legislative petitions and addresses—so far, so good. The Bill proceeds to provide for changes to the level of the USO. Ministers have said they intend to maintain the USO. I do not question their good intention, but why does the Bill not only permit but require Ofcom to review the level of the obligation after only 18 months? The Bill also provides, in certain circumstances, for more than one universal service provider. Ministers may protest they do not intend this, but why does their Bill provide for it? The regulatory framework encompassing the universal service obligation is a very important issue. We will need to consider carefully in Committee whether the regulatory framework designed for a publicly owned company remains as well designed for a privatised Royal Mail.

The Bill breaks the umbilical link between Royal Mail and the network of local post offices, prized by residents of communities up and down the country. It does so in a way that threatens the future of thousands of local post offices. I have no need to emphasise to Members of this House the social value of the nation's post offices. Local post offices are at the centre of many communities. Many thousands of pensioners still collect their pension from their local post office. A nearby post office is vital for many people with mobility problems or some form of disability. In many rural areas and poorer urban districts, the local post office is vital.

The postal service is also vital to British business, because 84 per cent of small businesses use Royal Mail to dispatch parcels or express items. The local post office is the usual point of access for them. Again, Ministers protest that they wish to maintain the current network of post offices. They have continued the previous Government's social network subsidy to maintain a network of 11,500 post offices in four years' time. For that, we commend them and thank them. However, there is no guarantee that after that point a privatised Royal Mail will have to use the current post office network to its full extent. As Consumer Focus says,

“following privatisation of Royal Mail, subsequent contracts would require a competitive tender process with no guarantee that [Post Office Ltd] would retain this contract”.

We would like to hear from the Government what guarantees can be given about the future of local post offices, not just in the next four years but in the medium and longer term. What are they doing to build up the government business that is done through the Post Office? Why was the case for a post bank rejected? The National Federation of Sub-Postmasters has supported the principle of the Bill but it has stated that,

“ministers must recognise that their plans will only succeed if they deliver on access to government and Royal Mail work at post offices. If they fail on this, not only will plans to mutualise the Post Office be doomed to failure; there will be no way back for the network and our post offices will face even greater jeopardy”.

Part 4 of the Bill sets out the provisions for taxpayers to step in through administration if a privatised Royal Mail becomes insolvent. That should put paid to the idea that, once Royal Mail is privatised, the taxpayer will no longer need to worry about or bear any expense for failure. It seems that we are to privatise profit but perhaps nationalise risk.

This is a very serious Bill. It must be considered seriously and in detail in the weeks ahead. Whatever the good intentions of Ministers and the leadership of Royal Mail—and I do not doubt their good intentions—there is no guarantee that the same people will be in place when the crucial decisions are made. We cannot simply rely on good intentions. If the Bill is flawed, as we believe it is, sufficient protection will not exist.

So far, the Government have declined the invitation to secure a 10-year inter-business agreement, which would underpin the link between Royal Mail and the post office network. They have rejected calls to strengthen the commitment to the post office network or the universal service obligation. The Government have still not made the fundamental case for the full-scale privatisation that they have proposed; nor have they addressed the concerns that exist. Like the Minister, I look forward to the Committee stage, when we will probe and scrutinise the Bill most carefully.

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My Lords, the importance of the issues dealt with by the Bill could not be demonstrated better than by the number of your Lordships who have put their names down to speak in this very important debate. We also very much look forward to the maiden speech of my favourite political novelist, the noble Lord, Lord Dobbs, and that of the noble Lord, Lord Empey, to whom I had better not yet put an epithet.

We have of course been here before, as the noble Baroness said, and I am delighted to see the noble Lord, Lord Mandelson, in his place. Whether he is going to show the scars on his back that he obtained when he was here before, I know not. However, we have been here before and we gave very detailed scrutiny to the Bill that he brought forward when it came to this House but was then, as the Minister indicated, withdrawn before it reached the other place.

As the Minister indicated, the reasons behind the legislation have not really changed since the noble Lord, Lord Mandelson, felt it necessary to bring that Bill forward on the recommendation of Sir Richard Hooper. The competition for Royal Mail from e-mail and the internet continues, resulting in shrinking volumes in its business. I do not know whether noble Lords who received lobbying from organisations that wish to maintain Royal Mail more or less in its current format noticed how much of that lobbying came by e-mail rather than through Royal Mail. That could be no better indicator of the problems that Royal Mail has in competing with the internet. Losses are continuing and, unless they are stopped, they will ultimately be the responsibility of the taxpayer. Then there is the massive issue of the pension deficit, which overhangs Royal Mail's balance sheet.

The noble Lord, Lord Tunnicliffe, was brave enough to accede that this Bill contains a lot of similarities to the Bill that we considered last year or the year before. First, the pension deficit is dealt with and taken on by the taxpayer, as was the case in the Bill of the noble Lord, Lord Mandelson. Secondly, there is improved regulation, and I am glad that the noble Lord endorses the transfer of regulation to Ofcom. As is clear from both Bills—this one and that of the Labour Party—we all believe that that will give better protection to the universal service obligation, which is absolutely at the heart of Royal Mail's business. Thirdly, as in the Bill of the noble Lord, Lord Mandelson, although it goes somewhat further than that Bill, this Bill provides for Royal Mail to have access to private capital.

There are of course a number of additions to the Bill which I suspect the Labour Party will agree with, although they were not in the Bill of the noble Lord, Lord Mandelson. There are new safeguards in this Bill to protect the universal service obligation, as was mentioned by the noble Baroness. First, before any recommendation to alter the universal service obligation can be made, Ofcom is required to take into account the interests of the users. Secondly, there is an absolute ban on any alteration to the uniformity of the service, as the noble Baroness explained, so that different prices cannot be charged in different places and a different service cannot be provided in different places. Most importantly, particularly in the context of the last Bill that we debated—I am sure that this will commend itself to your Lordships—no change to the universal service obligation can be made without an affirmative vote of both Houses of Parliament. Therefore, there is parliamentary control of any change.

Perhaps I may apologise briefly to my coalition colleagues for the point that I am about to make. I cannot let the moment pass without recording the fact that there are a number of issues in this Bill which are dear to the heart of Liberal Democrats. Of course, a Liberal Democrat Cabinet Minister is responsible for this Bill and a Liberal Democrat Minister took the Bill through another place. The latter is Edward Davey, who has extensive experience of post offices and mail services throughout the world. Of course, there are issues in this Bill that we endeavoured, but failed, to persuade the previous Government to include in theirs. The first is a much bigger commitment to employee shares. As the noble Baroness indicated, if the Bill goes through in its current form, the employee share ownership in Royal Mail will be the largest of any UK organisation. Secondly, the Bill provides for mutualisation of post offices. Liberal Democrats have always been keen on the mutualisation concept. We believe that, when Post Office Ltd becomes a mutual, that will be massively in the interest of all the sub-post offices, which, as the noble Lord, Lord Tunnicliffe, indicated, are at the heart of many British towns and villages.

We have all been assailed by endless lobbying on the Bill, which demonstrates the importance of the issue to the public. There seem to be two overall objections to the Bill, which no doubt other Members of your Lordships' House will voice. The first is that Royal Mail does not need to be reformed. The noble Lord, Lord Tunnicliffe, has said that there has been a significant improvement in labour relations and that the technological developments that are necessary to compete in the modern world can be introduced without any resort to private capital. I do not accept that and I do not think that the coalition accepts that. If we want a comparison we can look at the fact that during the previous Labour Administration, 65,000 jobs were lost in the Royal Mail, at huge personal cost to

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investment of £11.6 billion over the past 10 years in forming and modernising its network. Those two statistics demonstrate very graphically why the Royal Mail needs access to private capital.

The second objection, which the noble Lord, Lord Tunnicliffe, put extremely effectively, concerns why the relationship between the Royal Mail and the Post Office Limited cannot be enshrined better in this Bill. The Government have used two arguments for this, which I expected. First, any attempt to put that on the face of the Bill could be open to legal challenge as regards the privatisation mechanisms and the competition mechanisms. Secondly, and more importantly, it is attempting to say in 2011 what relationship will be necessary between the Post Office and Royal Mail in future years. How can we predict? That must be a matter for commercial negotiation between the Royal Mail and Post Office Limited. It seems almost inconceivable that anyone running the Royal Mail would not want to take advantage of the network of sub-post offices out there to help to distribute the mail. What other network would they use? That seems to me to be entirely a matter for commercial negotiation as the two organisations move into the next five, seven or 10 years.

The critical issue for Post Office Limited, as the noble Lord, Lord Tunnicliffe, indicated, is how it develops new business. From the Liberal Democrat point of view, I do not think that we will take any lessons from the Labour Party or our colleagues in the coalition Government about closures of sub-post offices. Many of us have campaigned for years to try to keep sub-post offices open while both the Tory Government, under Margaret Thatcher and John Major, and then the Labour Government, under Tony Blair and Gordon Brown, presided over huge closures of post offices. In the commitments that have been made by the new coalition, first on the investment fund, which the noble Baroness referred to, and, secondly, on commitments to explore new ways of developing business for the Post Office, coupled with, as I indicated, the advantages once the post office network can become a mutual, I think that the future of the Post Office is much more secure than it has been for many years.

🕒 3.13pm

Lord Empey >

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My Lords, I trust that I might be permitted a little latitude as I make some opening remarks to your Lordships' House. As someone who has been a lifelong believer in the union, I find it a great honour to come here, to this Chamber and to this building, and to see it adorned with all the symbols of the four home countries and the history that we have shared together over many centuries. It is also an honour to come here on behalf of those whom I have represented. I have had the opportunity to serve in politics since I was a student and I have spent the past 25 years as an elected representative serving at local, European and ministerial level in Northern Ireland. Coming here is a great honour and I look forward to making a meaningful contribution to the business of your Lordships' House. I thank those officers of the House who have helped me both before and since I was introduced last month. Their guidance throughout that period has been most helpful.

Obviously, coming from my background, I have been involved in the peace process. I see at least one distinguished former Secretary of State for Northern Ireland in his place. We have worked together with others in this House over many years to try to improve the livelihoods and the quality of life of our fellow countrymen as they have faced huge challenges.

When it was made public that I was coming here, I had a number of comments from friends and colleagues and, especially when I arrived here, from a number of your Lordships. I was given some guidance on what to expect. I was told that we have here a concentration of expertise from all walks of life among people who are somewhat freed from the shackles of the day-to-day political cut and thrust that one sees in the other place. I must confess that my experience over the past few weeks has not quite measured up to that, as the circumstances in the House have been a little unusual. With tongue in cheek, I said last week when I was going home for the weekend that I was glad to go back to Belfast to some civilised politics. I am sure that this House will return to that which I was advised was the standard that I should expect.

I turn to the comments of the Minister. Having had a responsibility for Northern Ireland's economy for a number of years as a Minister, I can say that Royal Mail and the Post Office are issues that perhaps go beyond the narrow confines. The general public do not distinguish between the Royal Mail and the Post Office; they see it all as the same thing. You put your letters in a red box and you used to make telephone calls in a red box. People do not understand the mechanics.

I think that we should look at the issue in this way. This is a serious piece of national infrastructure—it is just as important as broadband and it is just as important as roads and the electricity grid—because the service that it provides is vital in bringing our nation together. I cite Hooper, who said in the revised report in September last year that it,

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That is how I see it. If we wanted any evidence that that is the case, during the recent bad weather in December, before Christmas, how many businesses came on to the radio and television to say, “We can’t get our money in. We can’t do our business. We can’t get our products out”?

Although everybody understands the economics that Royal Mail and the Post Office face, we should not underestimate the significance of the service that is provided. We throw large amounts of public money at rural development policies. Indeed, European money comes in which we spend on rural development. We are trying to build up not only tourism but small manufacturing—cottage industries and so on. Many of them rely on Royal Mail services to distribute their products. Many of those businesses trade on the internet. Although they are in a rural part of the United Kingdom that does not have good transport access, they are able to get on a level playing field through the internet. Then they can distribute their products through the services provided by Royal Mail.

I have to say to the noble Baroness that there appears to be a little contradiction in some of the things that have been said. For instance, as the noble Lord, Lord Tunnicliffe, said, the 18-month review seems a little sudden. As I said, I have run a department and I know what a review means, or can mean. We have to be clear that we do not create an undercurrent of uncertainty within the business. We need to be careful about that. Secondly, coming from Northern Ireland, I know that population distribution is significant. We have a large geographical area where the population is spread thinly. That adds extra costs, but it is necessary to create a level playing field so that people in those more remote areas can compete. After all, we are trying to encourage business and to get people to compete and we are telling them that distance should not be a huge barrier to them in building up their businesses.

The population settlement patterns are different in different parts of the country. In some areas, they are concentrated in small villages and towns; in other areas, such as Northern Ireland, they are spread out. When the Government come to look at these issues, it is important that the universal service obligation means what it says. Equally, it is important that we understand that Royal Mail cannot be left with one arm tied behind its back, unable to compete, while allowing other operators to cherry pick the good bits, leaving Royal Mail as the deliverer of last resort. None of us would want that, because it will lead, ultimately, to a spiral downwards in revenues and profits. Therefore, the task in the Bill is to ensure that the USO survives in a meaningful way that frees Royal Mail from the shackles of debt and allows it to compete with its rivals, which are steadily eroding its current market base.

If we are serious about providing the meaningful infrastructure essential for the well-being of our economy in the years ahead, we would do well in the coming weeks, as the Bill goes through its stages, to ensure that the USO will survive, that there is certainty, that both customers and workforce fully understand where they are going and that the business is set an achievable target that will benefit all of the United Kingdom in the years ahead.

🕒 3.22pm

Lord Low of Dalston >

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My Lords, I count it a privilege to rise to offer the congratulations of the House to the noble Lord, Lord Empey, on what I am sure all your Lordships will agree was a most impressive maiden speech.

The noble Lord, Lord Empey, comes to us as a most substantial figure in Northern Ireland politics. He has been a Belfast city councillor for 25 years, as he told us, and mayor on two occasions. He is a Member of the Northern Ireland Assembly. He spent nine years on the police authority of Northern Ireland, which means that he must be blessed with a broad pair of shoulders and a tin hat—perhaps these will equip him well for the political rough and tumble in your Lordships’ House. He played a prominent part in the Northern Ireland peace talks in the 1990s and was leader of his party from 2005 to 2010. What is most notable is that he is a man of moderation and a man of peace. He not only has a broad pair of shoulders but clearly has a wise head on them. I am sure your Lordships will wish to hear from him on many occasions to come.

Turning to the Bill, my noble friend Lord Empey talked about the need for certainty underpinning the provision of postal services and the need to secure and firmly anchor the universal service obligation. These issues will figure prominently in my remarks. The Bill clearly has a number of features one can welcome. It provides a basis on which it should be possible for Royal Mail at least to attain a degree of stability. The Government will relieve Royal Mail of the crippling burden of its pension deficit, which was put at £10.3 billion at the most recent actuarial valuation, and the lifting of the restriction on the sale of shares in the Royal Mail Group will provide the means of bringing badly needed capital into the business. It is perhaps a moot point whether this need could not have

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Privatisation is certainly not popular with the public according to a YouGov poll last October, but at least the Bill, if it passes, as opposed to being stillborn like the previous Postal Services Bill, will point a way forward for the business.

My main concern is with regulation and the universal postal service. Royal Mail welcomes competition, but it maintains that the regulatory regime needs to achieve a more level playing field. That seems to be right. The access headroom rule already means that Royal Mail is competing with one hand tied behind its back. The regulatory regime means that Royal Mail's competitors are guaranteed access to Royal Mail's network at any point and enjoy a guaranteed margin. In other words, Royal Mail is regulated in such a way as to be forced to subsidise its competitors by 2.5p per item, which comes to a total of £160 million. Indeed, 80 per cent of the business is regulated. In introducing the Bill, the Minister pointed to the declining financial position of Royal Mail, but a good case could be made for saying that the draconian regulatory regime has a good deal to answer for in this regard. In order to be able to compete effectively, the proportion of the business that is regulated needs to be reduced so that Royal Mail can negotiate commercially, certainly with its larger customers. The postal service in no other country is regulated in this way. The Communication Workers Union agrees about this so, at a stroke, the Government have achieved the singular feat of uniting Royal Mail and the Communication Workers Union.

This is linked to the universal service obligation or the universal postal service, as it is now to be known. The Royal Mail is currently undertaking a vast modernisation programme costing hundreds of millions of pounds. This is based on the assumption that Royal Mail will continue to provide the universal service for the foreseeable future. Indeed, Royal Mail's whole business plan is based on providing the universal service. However, the Bill designates Royal Mail as the universal service provider for a period of only three years. After that, the regulator can consider allocating the service to another provider or providers. This does not provide a stable planning horizon long enough to justify this level of investment. Something much more like 10 years would seem appropriate.

Such a short timescale also potentially undermines the interbusiness agreement with the post office network, 37 per cent of whose income comes from Royal Mail. Notwithstanding the Minister's professions of good intent regarding the maintenance of the post office network, the loss of Royal Mail business could put many post offices at risk. The unpopularity of Royal Mail privatisation is as nothing compared to the hostility which would attend another round of cuts to the post office network, which is truly seen as part of the fabric of British society, as has already been underlined in the speeches that we have heard.

The universal postal service, a delivery and collection service for six days a week at a uniform and affordable price, is further put at risk, as the noble Lord, Lord Tunnicliffe, has pointed out, by the requirement in Clause 29 that Ofcom should carry out a review of the universal postal service within 18 months of Part 3 of the Act coming generally into force. A review of the universal postal service can go only one way: down, not up. The universal service obligation is loss making, and any private operator will inevitably seek to reduce the burden that it places on them. In the Netherlands, the privately owned incumbent, TNT, which has been mentioned as a possible investor for Royal Mail, has described the universal service obligation as a kind of Jurassic park that we should get rid of.

Ofcom, which will take over regulation from Postcomm, will have a primary duty to secure provision of the universal service obligation. In discharging this duty, it must give specific consideration to the financial viability and efficiency of the service. This contrasts with Postcomm's primary duty to ensure provision of the USO, unqualified by considerations of finance and efficiency. This change is not in keeping with the public service character of the USO and can only tilt the balance in the direction of degrading it.

The Bill thus makes the universal service vulnerable, whatever the noble Baroness says. One reason—not the only one, but the one that I wish to highlight at a little more length in the time that remains to me—why this is of particular concern to me is that the universal service obligation is of particular importance to people with disabilities, given their greater reliance on and use of mail services. Postcomm recently carried out some research with Consumer Focus into consumers' needs, which found that people with a disability are more likely to use mail services as a means of communicating than those without a disability, are more likely to rely exclusively on traditional means of communication such as mail, and are less likely to predict that their use of mail for communicating with family and friends will decline in the next three years.

The research also indicated that people with a disability are particularly vulnerable to reductions in the service or increases in a cost that a privatised Royal Mail is likely to push for. They are more likely to rely on second-class post, and are less likely to be willing to pay for specific delivery options or go to a delivery office to collect a package. They also receive less fulfilment mail—the more profitable items for Royal Mail. They also place greater value on the post office network, and use it more heavily for posting mail than those without a disability. There are also just under 4 million Post Office card accounts for the payment of benefits and pensions.

As I have already suggested, the separation of the post office network and Royal Mail could jeopardise the future of the Post Office. I am particularly concerned about the integrity of the universal service obligation because it includes the articles for the blind scheme. This stipulates that Royal Mail must provide, free of charge, first-class postage for packets of up to 7 kilograms in weight that contain

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through the articles for the blind service in 2006-07, at a reported cost of £5 million to Royal Mail. A private operator is bound to wish to minimise such costs. The requirement for Ofcom to consider the financial viability of the USO is bound to come into play at this point.

When the previous Postal Services Bill was going through your Lordships' House, I managed to persuade the Government to include the articles for the blind scheme in the universal service obligation. Initially, the scheme was protected only by a complicated series of licence agreements, but I argued that it was not enough simply to rely on ministerial assurances. Ministers might fully intend, as I am sure the noble Baroness who has introduced the Bill today fully intends, the articles for the blind scheme to be safeguarded, but who can say what will happen in conditions of financial stringency?

Ofcom is currently consulting on abolishing its Advisory Committee on Older and Disabled People and merging this with its Consumer Communications Panel and the Advisory Committee for England into an advisory committee for the nations and communities. These individual committees were set up to support Ofcom's specific duties to consumers under the Communications Act 2003. With no dedicated committee rooting for the consumer, the practical effect of these changes is likely to be a downgrading in the prominence given to these issues in Ofcom's decision-making.

As we are constantly being reminded, we are experiencing conditions of extreme financial stringency. I can already hear the Minister's words ringing in my ears, "Believe me, I would like nothing more than to be able to maintain the articles for the blind scheme. If it were up to me, how much I would wish it were possible to do so. But sadly it is just not sustainable in the current economic climate".

The present USO is enshrined in statute, or at least it will be when this Bill is passed; I believe it should require an Act of Parliament to change the universal service obligation, or it should at least be guaranteed for a period of five or 10 years. I shall be seeking changes in the Bill in Committee to provide for this.

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