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Consumer and Postal Affairs

20 April 2012

Dear Colleague,

I am writing to update you on Royal Mail and the Post Office. The recent decisions on stamp prices were clearly difficult for both the Independent Regulator and Royal Mail. It is important however to remember that this is one of a number of significant actions being taken to secure the viability of the Universal Service. I know that there is considerable interest in the future of these cornerstones of British life and I hope you will find this summary of a number of crucial recent milestones informative.

A new regulatory framework for post

The Postal Services Act 2011 made provision for large-scale reform of the regulatory framework for post. On 27 March Ofcom, the independent Regulator, published its final decisions on the new regulatory framework.

Following the publication of Ofcom's decision, Royal Mail announced a rise in the price of stamps, to take effect from 30 April. Price rises are never welcome, particularly in these tough times for households, but they must be viewed in the context of the serious financial challenges facing Royal Mail. The universal service, and the high service quality levels enshrined in this, is currently loss-making. The company's own significant efforts to cut costs alone are simply not enough to secure this service into the future. The Business Select Committee produced a report on stamp prices on 2 March, which acknowledged that some increase in stamp prices was appropriate, whilst noting concerns about the impact on SMEs and vulnerable consumers. In this regard I welcome Royal Mail's announcement of a scheme to offer discounted stamps to some vulnerable consumers this Christmas.

I am also aware of the recent coverage of apparent shortages in the supply of stamps. Whilst this is an operational matter for the business I have been assured by Royal Mail that there is more than sufficient stock nationally particularly at Post Offices and that there is no general shortage.

Post Office Ltd

I am pleased to report that the European Commission has approved the Government's funding for the Post Office over the next three years. The total funding package of £1.34bn represents the largest investment programme by Government in the Post Office's history. The last Government's closure

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programmes reduced the number of post office branches by a third. The coalition's funding commitment will ensure that there are no post office closure programmes under this Government and that there will remain at least 11,500 branches across the country. The funding will also allow the Post Office to transform half its network into new models, helping to secure a sustainable future of the post office network in the long-term. The Post Office's unparalleled branch network makes it well placed to act as a front office for Government. It has recently added the collection of biometric data for residence permits to the long list of Government services it provides.

As of 2 April, Post Office Ltd is no longer a subsidiary of Royal Mail Group, but a separate sister company with its own independent Board. The Post Office will remain in public ownership as the Government explores options for converting the business into a mutual, owned by those who run it and use its services.

Royal Mail Pensions

Royal Mail has historically been burdened with a large and volatile pension deficit, restricting its ability to invest in much-needed modernisation and resulting in uncertainty for pension plan members. Following approval from the European Commission on 21 March, the Government has now relieved Royal Mail of this historic pension deficit.

As a result of Government's decisive action, members of the Royal Mail Pension Plan, including Post Office members, now have greater certainty over the pension benefits they have earned; Royal Mail has been left with a fully-funded scheme which is more affordable for the company; and the taxpayer will be able to benefit from a stronger Royal Mail better able to deliver the universal postal service that so many of our communities and businesses rely upon.

Next Steps for Royal Mail

The relief of Royal Mail's pension deficit and Ofcom's new regulatory framework are key to securing the future of the universal service. The final piece of this complex jigsaw is to secure private sector investment into the Company. We will need to allow time for the new regulatory regime to be established and for Royal Mail and the rest of the market to enjoy a period of regulatory stability. Meanwhile, Royal Mail will need to continue to make good progress with its modernisation programme. For those reasons, we are not yet in a position to take decisions about the form or precise timing of any transaction process.

British Postal Museum

Finally, I am delighted to say that I recently made a joint announcement with Royal Mail and the British Postal Museum and Archive (BPMA) on plans for a new home for the BPMA's collections. The agreement reached between Royal Mail Group, the Post Office and the BPMA will establish a new museum on Royal Mail's Mount Pleasant site in London, providing the dedicated exhibition space these wonderful

collections deserve and allowing the BPMA to exhibit objects currently held in storage. This is a real achievement that will ensure that the UK's pioneering role in establishing postal services continues to be recognised and celebrated.

I am placing a copy of this letter in the Libraries of both Houses.

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NORMAN LAMB MP