

From Times Online
December 16, 2008

Lord Mandelson: Statement in full

Lord Mandelson - House of Lords Statement: The Future of Royal Mail

Introduction

My Lords, I wish to make a statement about the Royal Mail.

This Government is firmly committed to a universal postal service: that is, the ability of the 28 million homes and businesses across the country to receive mail six days a week, with the promise that one price goes anywhere.

The universal service helps to bind us together as a country. And, as well as its social importance, it is the means by which many companies build and operate their businesses, but it doesn't come free.

Last December, John Hutton invited Richard Hooper to lead a full, independent review of the postal services market. Its purpose was to look ahead to the future and to recommend the steps needed to sustain the universal service in a world where technology, consumer behaviour and the communications market are all rapidly changing.

The review did not cover the Post Office network.

I have now received Richard Hooper's final report. It is a serious, wide-ranging study and makes sober reading. We are publishing it this afternoon.

I am very grateful to Richard Hooper and to Dame Deirdre Hutton and Ian Smith for their work on it.

Hooper's conclusions

Let me set out Hooper's analysis of the challenges facing the Royal Mail.

First, there has been a revolution in communications technology over the past decade as consumers turn to emails, the internet and text messages. In this country 60 billion text messages were sent last year.

And we now send five million fewer letters than two years ago.

Hooper is absolutely clear that the main challenge to the Royal Mail is from the impact of changes in technology and consumer choices. His estimate is that, last year, the shift of mail to these new technologies cost the company £500 million in lost profits. That is five times the impact of business lost to other postal companies in our liberalised market.

The message is therefore clear. Making these other companies go away is not the answer to the Royal Mail succeeding.

Royal Mail's success matters because it is the only company capable of delivering mail to every address in the UK, six days a week. And as Hooper makes clear that will be the case for the foreseeable future.

So a healthy Royal Mail is vital to sustaining the universal service.

The second challenge is efficiency. Hooper reports that Royal Mail is less automated and less efficient than its Western European counterparts. In modern European postal companies, 85 per cent of mail is put in walk-order by machine for delivery to the individual home or business.

By contrast, in Britain, in local delivery offices it is still done entirely by hand. The Royal Mail urgently needs to catch up and modernise.

The third challenge is the Pension Fund. Hooper warns that Royal Mail has a large, growing and volatile pension fund deficit. This is near impossible for the business to manage and is a huge demand on its revenues.

Each year, on top of its regular £500 million contribution to the pension fund, the company is having to find an extra "top up" of £280 million to plug the deficit.

These payments look set to rise substantially when the fund is revalued next year.

Fourth, Hooper says labour relations in the company need to improve. Levels of trust and co-operation are low. Industrial action takes place too often. A fresh start in industrial relations is badly needed.

Fifth, regulation. Hooper also reports a lack of trust in the relationship between the company and the regulator. There are disagreements about basic information and these tensions divert energy from the chief challenge of modernising the business.

So, overall, Hooper's conclusions are crystal clear. The status quo is untenable. The universal service is under threat. The choice we face is either downgrading the universal service as we manage decline or acting now to turn things round and secure the Royal Mail's future.

Hooper's Recommendations

At the heart of the Hooper report are three linked recommendations.

Pension deficit

First, the pension fund deficit. Hooper recognises that this represents a significant challenge for the company.

The Report recommends that as part of a package of changes, the Government should take over responsibility for reducing substantially the pension deficit.

I would stress that Hooper says this would only be justified as part of a coherent package to secure the Royal Mail's long-term viability.

Partnership

Secondly, and closely related, to improve the Royal Mail's performance it should forge a strategic minority partnership with a postal operator with a proven record in transforming its business, working closely with the workforce.

This, Hooper believes, would give Royal Mail the confidence, the experience and the capital to make the changes needed to improve performance and face the future. In other words, save the Royal Mail by investing in its future.

Regulation

Finally, regulation. Hooper proposes Ofcom should take over responsibility from Postcomm for regulating the postal market. Its primary responsibility would be to maintain the universal service in the wider context of the other changes taking place in communication markets.

My Department will want to study the report in detail. I intend to respond with a full statement of our policy in the early part of next year.

With backing from the Government, the Royal Mail has been improving performance in recent years. But progress has been too slow and Hooper is clear that, in the face of the challenges confronting the company, transformation must be faster and more far reaching.

I can say now that the Government agrees with Hooper's analysis and the recommendations. As he does, we reject cutting back the universal service.

Indeed, we share his ambition for a strong universal service and strong Royal Mail. And we intend to take forward the recommendations as a coherent package of measures.

We will fulfil our manifesto commitment to "a publicly owned Royal Mail fully restored to good health, providing customers with an excellent service and its employees with rewarding employment".

Bringing in a partner through a minority stake in the Royal Mail's postal business will help us deliver that goal.

It will bring the Royal Mail fresh investment, new opportunities to grow in Europe and internationally, and to offer new services. It will provide a fresh new impetus to modernising the Royal Mail and securing the universal service.

We and the Royal Mail have already received one expression of interest from the Dutch postal company, TNT, to build such a partnership.

I very much welcome this approach from an experienced postal company, just as I will welcome other expressions of interest from credible partners should they come forward.

My Department will pursue this in the coming weeks.

Finally, I should comment on the Post Office, which was not part of the review's terms of reference.

The network of local Post Offices combines a unique set of commercial, public and social roles. In recognition of this a partnership would not include the Post Office network.

But a healthier Royal Mail letters business will be good for the Post Office.

Today's announcement will help underpin our existing commitment to the Post Office network. We are providing £1.7 billion to 2011 to support a network of around 11,500 branches. We will continue to support the non-commercial network beyond that time.

Noble Lords will recall the recent announcement that the Post Office Card Account will stay with the Post Office. We will now build on that decision to ensure a stable and sustainable network for the future.

We are determined to have a Post Office network offering a broad range of services throughout the country, supporting both social and financial inclusion.

I am delighted that the House of Commons Business and Enterprise Select Committee has agreed to undertake an inquiry into what further services the Post Office could offer.

Conclusion

My Lords, I believe that Royal Mail and the postal market can thrive in the future — provided that decisive action is taken now. Without far-reaching change, the opportunities brought by technology will become overwhelming threats. This need not be the case.

I believe that there are benefits for everybody in the package of measures that we intend to take forward.

- It will protect the universal service for consumers.
- It will give Royal Mail new opportunities to modernise and develop.
- It offers the Royal Mail's staff a future in a modern, efficient postal operator with more secure pension arrangements.
- It offers the whole country a Royal Mail we can be proud of.

I commend this statement to the House.