

The Rt Hon Vince Cable MP

Secretary of State for Business
Innovation & Skills

To All Members of Parliament and All Peers
Houses of Parliament
London

13 October 2010

Dear Colleague;

The Government has today published the Postal Services Bill, and an accompanying document setting out our vision for the postal services sector: "Delivering for the future: a universal mail service and community post offices in the digital age" (which is available at <http://www.bis.gov.uk/policies/business-sectors/postal-services/postal-services-bill-2010>).

The purpose of the Bill is to secure the future of Royal Mail, and the universal postal service – the delivery and collection of letters, from any postbox to any address in the UK, six days a week, at uniform, affordable prices.

The Royal Mail and the Post Office are two different businesses, providing different services. Royal Mail is the company that collects and delivers our mail, and is responsible for delivering the universal postal service. The Post Office is the nationwide network of around 11,500 retail outlets through which people access Royal Mail services, as well as a wide range of Government and financial services. The Government is committed to ensuring a successful future for both companies.

The Context for Action

We are acting on the recommendations of Richard Hooper, who chaired the independent review of the future of the universal postal service. He reported in December 2008 that the universal postal service was under threat because the provider, Royal Mail, was in grave difficulty. The previous Government accepted Hooper's recommendations and introduced legislation in 2009, but that Bill did not complete its passage through Parliament.

In May this year, this Government announced its intention to legislate in the Queen's Speech. Subsequently I asked Richard Hooper to update his 2008 report to see if his original conclusions remain valid. His updated report, published on 10 September, found that Royal Mail has made some progress with respect to modernisation, and has improved its relationship with the union and the regulator.

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However, Richard Hooper concluded that overall Royal Mail's position is now worse than it was in December 2008. The decline in the number of letters sent has been even more profound than originally forecast; the pension deficit has ballooned in the last two years; the regulatory regime still needs to be reformed; and the overall financial health of the company has deteriorated.

The report concludes that the recommendations of the 2008 report remain valid: Royal Mail needs access to private sector capital and disciplines; Government should relieve Royal Mail of its historic pension deficit; and the regulatory regime must be reformed. This is a complete package of measures required to secure the universal postal service.

The state of the public finances means that government cannot continue to invest the capital that Royal Mail needs to modernise and survive, nor can it risk Royal Mail collapsing, which would leave taxpayers at much greater financial risk.

The Bill

We are introducing the legislation required to solve these problems. Drawing on the recommendations of Richard Hooper but also reflecting our wider objectives for the Big Society, the Bill will:

- allow for private sector investment in Royal Mail to bring in commercial disciplines and the potential for new capital;
- as part of the private sector investment
 - require that at least 10% of Royal Mail's equity be made available for its employees in the future;
 - enable the transfer of the historic pension deficit to a new public sector scheme;
- make clear that the Post Office is not for sale, but allow for the possibility of a mutual ownership structure in future;
- modernise the regulation of the postal services sector, placing post in its rightful place as part of the wider communications market, competing with email and other digital media.

Taken together, these measures will safeguard the future of the universal postal service and Royal Mail, so that we can continue to benefit from the essential service it provides.

The Benefits

We firmly believe that this Bill will bring benefits to all those who work in, use, and have an interest in the universal postal service:

- The Bill is good for the Royal Mail. It means that Royal Mail can get the private sector capital it needs to modernise, with more investment and more flexibility than Government could ever provide. At the same time, the company will be relieved of the crippling pension deficit;

- The Bill is good for the employees of Royal Mail. It will ensure the survival of Royal Mail; improve employee engagement through the establishment of an employee share scheme; and provide employees with greater security over their pensions;
- The Bill is good for consumers. Both businesses and individuals will reap the rewards of a more efficient and innovative Royal Mail that operates under an improved regulatory regime. The Bill will ensure that the universal postal service will continue, and that the Post Office network will be protected;
- The Bill is good for taxpayers. At a time when the demands on taxpayer's money are so great, it will mean that we can concentrate funding where it is most needed, rather than asking the taxpayer to pay for the clean up if the company collapses.

What Happens Next

The Bill received its first reading today, and the second reading should follow shortly. We will be holding a briefing and Q&A session for members of both Houses in advance of this. We shall also hold a further session for Members of the House of Lords, prior to the Bill being introduced to that House.

A handwritten signature in blue ink, appearing to read 'Vince Cable', with a large, stylized flourish at the end.

VINCE CABLE