

MYTH Privatising Royal Mail means privatising the Post Office

No, it doesn't. Royal Mail and the Post Office are separate companies. Royal Mail is the company that delivers parcels and letters – the provider of the universal postal service. The Post Office is the nationwide network of branches offering a range of postal, Government and financial services. Royal Mail needs private sector investment. The Post Office is not for sale.

MYTH Privatising Royal Mail will lead to Post Office closures

No. Royal Mail and the Post Office are separate and distinct businesses. The Post Office is a unique national asset and it is not for sale. There will be no repeat of the Post Office closure programmes of the previous Government. Separation will give Post Office management greater freedom to focus on growing its revenue and getting the most out of its branch network – and furthermore, the two companies have a long term contract in place and will continue to work closely together.

MYTH The universal postal service can only be delivered by a publicly owned Royal Mail

This is not true - the universal postal service is protected by Parliament through regulation, not by the Government's ownership of Royal Mail. Safeguarding the universal postal service – six days per week delivery and collection, at uniform and affordable prices – is at the heart of our legislation.

MYTH Royal Mail is profitable and a public sector success story

Royal Mail is spending more cash each year than it receives: last year, the company paid out £517 million more than it received. It is cash that Royal Mail needs to pay the bills, not paper profits. Royal Mail needs to reduce its cost base and become more efficient, as overseas postal operators have done, and the historic pension deficit needs to be tackled. Until then, Royal Mail's long term position is precarious.

MYTH Royal Mail is making money while its overseas competitors are losing money

Like Royal Mail, other postal operators are facing declining volumes and their profits have fallen as a result. It is important to look at the results on a like for like basis, and compare underlying efficiency. Looking at the letters business for each company, for every £100 of revenue in 2009-10 Royal Mail made £1.80 of profit, whereas TNT and Deutsche Post each made over £10. Royal Mail's operating profit for its letters business for 2009-10 was £121 million, while Deutsche Post's was far higher than Royal Mail's, at €1.4 billion, and TNT's operating profit was €472 million - indicating that Royal Mail is still far behind its rivals in terms of both efficiency and profitability.

MYTH Growth in parcels from online shopping will outweigh falls in letter volumes

Unfortunately not. Richard Hooper's updated report on the postal sector is clear that the hole created by falling letter volumes will not be filled by the growth in packets and parcels as a result of online shopping. The parcels market is much smaller than the letters market and has been fully liberalised since 1981, making it highly competitive.

MYTH The decline in the letter volumes has been exaggerated

This is untrue – in fact, the decline in the letters market is getting worse. In his 2010 updated report, Richard Hooper is clear that the drop in letters volumes is worse now than when he published his original report in 2008. Mail volumes have fallen by 15% since 2005 – Royal Mail delivers on average 71 million items each day, 13 million fewer than five years ago. And volumes worldwide are expected to decline by 25-40% over the next five years.

MYTH Royal Mail's modernisation plan is already fully funded

But it needs much more investment. Royal Mail has estimated that its current modernisation plans will cost £2 billion, and the Government agreed in 2007 to make available £1.2 billion to support these plans. But this is only the cost of the current transformation programme. Royal Mail needs to go further, faster – it needs to accelerate its cost reduction, improve profitability and cash flow. Royal Mail's management team has been clear that the company's modernisation is being held back by a lack of capital.

MYTH Privatisation means Royal Mail will be broken up and sold.

Our proposals will not break up Royal Mail's letters business. The Post Office is already a company in its own right. It will not be part of any sale process, so we will separate Post Office Ltd from the Royal Mail letters business. This separation will enable Royal Mail to source the private sector investment that it requires, and will allow the possibility for the Post Office to become a mutually owned organisation in the future.

MYTH Government is stealing assets from Royal Mail's pension scheme

This is simply not true. The pension scheme has assets that are worth around £26 billion, but it has liabilities in excess of £34 billion. With insufficient assets to balance the liabilities comes a deficit – in Royal Mail's case, a pension deficit proportionately larger than that of any other major UK company. So, to allow Royal Mail's modernisation through private sector investment, the Government will take responsibility for the historic pension deficit by taking on both the relevant assets and the corresponding – and much larger – liabilities.