

RETURN *to* **SENDER**

**IS NOW THE RIGHT TIME
TO PRIVATISE ROYAL MAIL?**

BY BEN HARRIS-QUINNEY

With contributions from

**THE RT HON MICHAEL FALLON MP
& 'SAVE OUR ROYAL MAIL'**

The
BOW
GROUP

JULY 2013

EXECUTIVE SUMMARY

The Royal Mail is one of Britain's oldest and most patronised institutions, spanning 500 years of British history it is more than a mere functionary postal service, it has come to form an important part of our national and cultural fabric, as well as our economy.

Any changes to its form and function must therefore be the subject of intense public debate to ensure that both its tradition of universal provision of service and our national heritage are maintained and that the British taxpayer is actively considered in the debate.

The 2011 Postal Services Act, effectively privatising the Post Office, was passed with little fanfare or debate in public forum. The product of a Liberal Democrat Secretary of State following the failed policy of the last Labour Government, it was also the Conservative Party's Coalition Government partner that steered that legislation through Parliament. The Postal Services Act has proved to be extremely unpopular with voters since being enacted, and does not serve as an effective example of successful privatisation either economically or politically.

Since 2011 there has been little public debate about the merits of privatising Royal Mail, and to the public eye it may appear that we have transitioned from an unheralded Act of Parliament to an equally unheralded privatisation, without fully considering the impact this might have on the provision of postal service, British heritage and on the Conservative Party politically.

This can perhaps be easily explained in all three major Parliamentary parties strongly supporting the privatisation, the result has been inadequate scrutiny to a Bill which, while relatively popular in Parliament, is conversely deeply unpopular among the general public.

The polling data released in this paper shows that almost half of those surveyed were not aware of the imminent privatisation of Royal Mail, and almost 70% of those surveyed were opposed to it.

This polling data should be of concern to the supporters of the Bill, but these are not insurmountable figures for the Conservative Party to overcome, and The Rt Hon Michael Fallon MP has shown great maturity in his willingness to debate and engage with the issue, actively considering the anti-privatisation argument which he himself once supported when in opposition.

It is, however, of great importance that the Conservative Party and the Government pause and consider the implications of privatisation at this time, that a comprehensive free and public debate is had, and that if moving ahead the Government take the



necessary time to consider amendments and compromise solutions to elements of the Bill which raise the greatest public concern.

This Bow Briefing Paper therefore aims to consider the arguments for and against privatisation, as put forward by The Rt Hon Michael Fallon MP, Minister of State for Business and Enterprise, The Royal Mail, and the campaigning organisation "Save our Royal Mail". The paper will demonstrate polling data produced by YouGov on public knowledge and support for the Bill, and will conclude as to amendments to the Bill and future policy that could facilitate greater public and industry support, as well as better value and protection for the taxpayer.

THE ARGUMENT FOR PRIVATISATION NOW

THE RT HON MICHAEL FALLON MP

ROYAL MAIL – ENSURING LONG TERM SUCCESS

This financial year will be significant in Royal Mail's history. It has been in public ownership since 1635 as a Government Department, a public corporation and, as it is now, a publicly owned company.

The Government intends, in this financial year, to give Royal Mail access to the capital and commercial disciplines that it will need to have a sustainable future in a rapidly changing postal market. We will give it commercial freedom by selling shares in the company.

A thriving Royal Mail allows Government to achieve the overarching objective of its postal market reforms – securing the universal postal service. The 6 days-a-week service, at uniform, affordable prices that delivers throughout the UK. A service that is vital to the UK economy.

CASE FOR REFORM

Claims that this is a rushed process bear little scrutiny. Our reforms go back to middle of the last decade when mail volumes began to fall in spite of a growing economy. This prompted the Labour government in 2007 to commission the Independent Review of the Postal Sector – led by Richard Hooper.

The Review concluded that there was a substantial threat to Royal Mail's financial stability and that the universal service was under threat. It recommended that three steps should be taken to secure the universal postal service: postal regulation should transfer to Ofcom; Government should tackle Royal Mail's historic pension deficit; and Royal Mail should enter into a strategic partnership with one or more private sector companies to give it commercial confidence, access to capital and corporate experience.



62%

of Conservative voters were aware of the government plans, the same as Liberal Democrats, while Labour and UKIP voters were less informed



The previous Government accepted these recommendations and was prepared to legislate to implement them, including a sale of Royal Mail shares but the Bill was dropped due to market conditions.

In 2010, the Coalition Government, following an updated report by Richard Hooper which confirmed his initial findings apart from the need to gain access to private capital through a strategic partnership, introduced a Bill to enable implementation of the Review's package of recommendations.

Since the Postal Services Act received Royal Assent two years ago, we have implemented two elements of that package by establishing Ofcom as the postal sector regulator – with stronger powers to protect the universal service - and taking on Royal Mail's historic pension deficit.

ROYAL MAIL PROFITABLE

By removing these major barriers Royal Mail has begun its journey to long term sustainability. It is now profitable and its overall financial position has improved. The challenge is to maintain this momentum - we should not forget that the Royal Mail Group has in recent history swung between profit and loss. Royal Mail's core UK letters and parcels business suffered losses in 5 of the past 12 years to 2012. Overall, losses were around £1bn over this period. During these 12 years around 60, 000 jobs have been lost.

Resting on the current levels of profitability is not enough. The core UK network made a margin of 3.9% in the last financial year – this is an improvement on the previous year but still well below international peers such as Deutsche Post and Austrian Post which were over 8% and Belgium Post which had a margin of 17% 2012/13. A more profitable Royal Mail will be able to better weather any future market weakness but more importantly also be able to take advantage of new opportunities.

The company also needs future access to private capital to be able to continue its modernisation programme and to seize opportunities for growth such as the boom in on-line shopping.

SALE OF SHARES

The final phase of our reforms is the sale of Royal Mail shares which will give Royal Mail future access to private capital.

It is consistent with developments in Europe where privatised operators in Austria, Germany and Belgium have been profitable and continued to provide high quality services. Only last week, there was a successful sale of shares in the Belgium post operator – bPost. The share price was 14.50euros which was near the top end of the proposed price range. This confirms the feedback we have received that there is appetite in the market to invest in the postal sector.

The Government's decision to sell shares is not ideological. It will be a practical, logical and commercial decision. It is not a fire sale. The powers to sell shares have been on the statute book for two years.

ACCESS TO CAPITAL



This is a business with a £9bn a year turnover and over 150,000 employees in the UK. A company of this size and importance to the UK economy should be able to access flexible capital.

Over the past years, Royal Mail's investment in the business has increased from £555m to £665m. Royal Mail is profitable but its margins are still behind those of its competitors. Investment remains important if it is to continue improving margins and providing the services that customers' demand.

Unless Royal Mail has the capability in the future to access equity markets, every £1 that it borrows, is another £1 on the national debt. No responsible party could propose that when Royal Mail – run on a fully commercial basis – has the capacity to be cash generative, profitable and perfectly able to raise the capital it needs from the private sector.

OPTIONS FOR A SALE

The Government has said that it is attracted to selling shares via an IPO. This remains our preferred option and it is our intention to conduct a sale this financial year.

But we will not sell Royal Mail 'on the cheap'. We are approaching the sale as a commercial shareholder and will be seeking fair value for the shares and the best deal for taxpayers.

EMPLOYEE SHARE SCHEME

The Government remains committed to making available 10% of Royal Mail shares to employees. The scheme – the largest statutory commitment of its kind - will enable employees to share in the company's future success and dividends. As the Nuttall Review on employer ownership shows, employee-owned or part-owned businesses have greater economic strength, a happier workforce, and higher profitability.

MYTHS

Given Royal Mail's importance it's essential to debunk some myths. A change of ownership will not mean that Royal Mail can stop delivering to rural areas. It will not lead to VAT being added to stamp prices. It will not mean that Royal Mail will no longer provide free services for the blind. Nor will free services for the armed forces be stopped.

I accept that some people oppose a sale but trying to win support through this type of scaremongering is nothing short of scandalous.

POST OFFICE

Opponents of a sale of shares often pray in aid Margaret Thatcher. Yet her views were based on when Royal Mail and the Post Office were one company. That is no longer the case - they are distinct businesses and operate independently. Nonetheless, they are natural partners and a long-term commercial agreement between the Post Office and Royal Mail for the continued supply of services was signed in 2012.

CONCLUSION



The action that this Government has taken so far and giving Royal Mail future access to private sector capital will ensure that the company has a sustainable and viable long term future. And most importantly, these actions will ensure that we can all continue to have access to a high quality universal postal service.

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THE ARGUMENT AGAINST

“IF IT ISN'T BROKEN – DON'T TRY AND FIX IT”

MARIO DUNN, CAMPAIGN DIRECTOR, SAVEOURROYALMAIL.ORG

This sale will mark the beginning of the end of the Royal Mail as we know it. It is inconceivable that in the long term a business that has shareholder return as its primary focus, and is facing fierce competition in urban areas will want to maintain loss making rural services.

That reassuring daily visit by the postman will, for many, become a thing of the past.

It is said that letter communication is a product of a previous time, rendered obsolete by electronic communication. Indeed letter volumes are in decline, but the services provided by Royal Mail are as vital as they have always been. What enables Royal Mail to deliver from Lands End to John O'Groats for a single, affordable price is the massive growth in parcel and packet delivery, another by-product of e-commerce.



43%

were unaware
of the
government
plans to
privatise Royal
Mail

For this privatisation to return the necessary profit to its new owners a radical process of cost savings must take place. This will inevitably mean cutting out loss making (mainly rural) services and raising prices. Save Our Royal Mail has been launched in response to this. Our aim is to ensure that the current levels of service Royal Mail provides are not diminished by a sale, nor are prices sent shooting up.

To reassure the public that selling off this successful public sector enterprise will be in their interests, the government has used all the powers it has at its disposal to “protect” what is called the universal service provided by Royal Mail.

But those protections are not enough and will certainly not endure. Despite the promises, it will not be possible to guarantee a privately owned business will want to (or be able to) maintain 6 day a week collection and delivery

services throughout the country. Indeed the 2011 Postal Services Act allows the regulator OFCOM to establish a fund to finance loss making deliveries. Royal Mail plc or whatever its privatised name is – RPost perhaps? – in the long term will surely want to pass the responsibility for loss making services onto the regulator to finance.

As well as cut backs to rural services, Save Our Royal Mail has identified four other areas that leave cause for concern. Our campaign is highlighting the impact of price rises on business and small businesses in particular. Many are dependent on Royal Mail. The delivery of letters and parcels to any address in the UK is an engine on which our economy runs.

For many small businesses, especially those in rural areas, there is often no alternative to the Royal Mail. Suffering from high energy bills and other overheads, businesses can ill afford to see the cost of using the postal service shoot up, least of all in these difficult times.

We also believe this privatisation will deal a further blow to the sub post office network. Already broken away from Royal Mail, post offices throughout the country are struggling to survive. They benefit from favourable terms for handling Royal Mail's parcels and letters. A



new owner might not look so kindly upon these terms and seek to squeeze more from post offices.

Finally we must not forget Royal Mail's heritage. A few years ago Royal Mail attempted to rename itself *Consignia*. Fortunately the public outcry forced a u-turn. Its name, which dates back to 1635, is just a small part of the heritage of Royal Mail.

The traditional red liveried vehicles, the use of Her Majesty's head on stamps and the distinct pillar boxes are all part of the rich history of Royal Mail and a feature of our towns, cities and countryside.

So were those iconic red GPO telephone boxes.

The glue that binds this heritage together is the public service ethos of Royal Mail. Private businesses naturally seek to cut costs wherever possible. For example, it would be far more cost efficient to have European style yellow tin post boxes instead of those expensive, big red pillar boxes. It would drive profits to have, say, adverts from pay day lenders on stamps. None of that can happen if Royal Mail remains subject to public scrutiny.

No doubt we will be told that selling Royal Mail is necessary to make the business more efficient and cheaper to the customer. Few of us who pay our energy bills or use the railways would agree. What we have seen is a consistent pattern across the utility sectors, price rises and service reductions. We don't want Royal Mail to go down that well trodden route.

The public will also look aghast as a number of banks line up to take millions of pounds from this unnecessary sale. It is estimated that they will earn £30m from this sale – a “bargain” we are told by the government.

Banks raking in £30m is of course, chickenfeed compared to the riches that await the new owner of Royal Mail. Having just posted a £440m year-end profit in the public sector and acting as a public service business it's no surprise that large investment vehicles are interested the Royal Mail.

Without so much as licking a stamp, the new owners will inherit a business providing an annual return of some £440 million, and that's before cost cutting, price rises and cut backs in loss making rural services.

These Croesus like riches do not appear from thin air though. Someone has to pay.

Someone always has to pay. Unfortunately that's where the public come in.

Our campaign is asking Ministers to press “pause” on this sale. There has been so little debate about the future of postal services and how long term consumer protections can be put in place. At the moment the government seems keen to rush the sale but not so keen to debate the issues in Parliament and elsewhere.

We welcome this contribution from the Bow Group. It is typical of so many from across the political spectrum. The public, when they are made aware of this sale, are also opposed to it. Our own petition on Change.org is about to reach 100,000 signatures, and that is before the starting gun on the sale has even been fired.

The importance of both Royal Mail and Post Office services in rural communities in particular cannot be overstated. They are part of the fabric of local life. They are glue that binds our communities together. This was instinctively recognised by Margaret Thatcher and that is why she shied away from selling Royal Mail.



THE FUTURE FOR ROYAL MAIL

BEN HARRIS-QUINNEY, CHAIRMAN, BOW GROUP

The modern Conservative Party is broadly supportive of the concept of privatisation.

Generally we have a jaundiced view about the ability of the state to provide services to the public effectively or efficiently. However, that is not an absolute view. Few of us would argue the case for the outright privatisation of all public services, and certainly not without significant protections and restrictions. Even Margaret Thatcher, who most successfully pioneered a government with privatisation at its heart, made her opposition to any privatization of Royal Mail clear stating that she was "not prepared to have the Queen's head privatised".

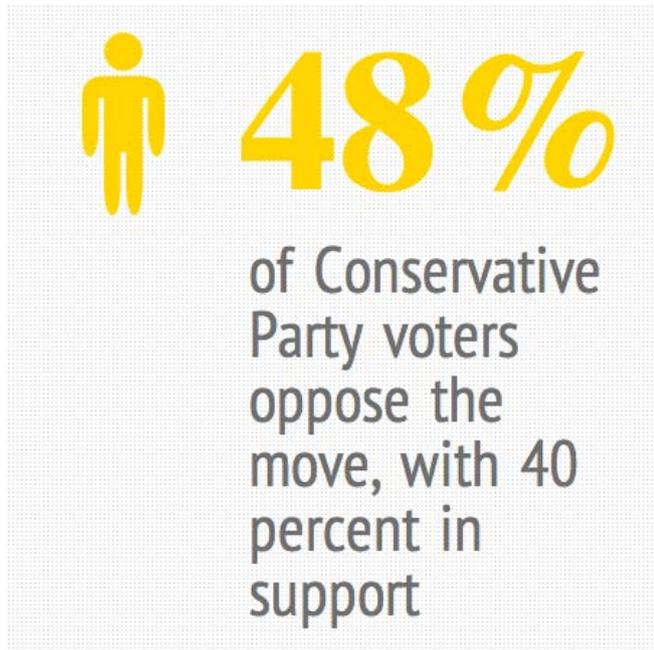
Conservatives cherish much more than just private ownership. We are *the* Party of the countryside, the strength of our party comes, to an important degree, from the people who live and work outside of cities. Our outright opposition to Labour's hunting ban, or the more recently proposed Forestry privatisation were a demonstration of our historic commitment to rural life. We support the development of high speed broadband to the countryside but not the building of developments on the green belt. We want local shops to thrive in Villages but feel uncomfortable about the development of large out of town supermarkets. Any Conservative Government must consider what best constitutes our nation, and fiercely protect that which does. So when it comes to changes significant changes to British life, Conservatives are invariably conservative about it.

Equally we are a party that values entrepreneurship and the endeavours of those whom establish and run their own business and small business people in particular are a pillar of support to our party. They have the hardest of jobs, battling red tape while struggling with high energy, business premises and employment costs that hold back that spirit of enterprise.

However, the rapid development of web based communication has given birth to a new breed of entrepreneur and indeed a new outlet for established ones. Those that can create a virtual commercial presence at the stroke of a keyboard are invariably those whom rely upon an affordable postal infrastructure to support that presence. These are the new generation of small business people. Their values and goals should be no different from ours; we as a party should be offering them a vision with which they can identify.

Another key demographic for Conservatives are the elderly. Of all the age ranges in the electorate we have the highest following among the 60 years plus age group. This group is Instinctively conservative, less likely to embrace digital technology and wary of change.

Coincidentally it is these three groups – people in rural areas, small business people and the elderly who need the services of Royal Mail perhaps the most. It is also these three groups



that will have the most to lose and will be the most alarmed if the current privatisation goes through.

ROYAL MAIL TODAY – AND TOMORROW?

Royal Mail is evolving as a business. As Richard Hooper¹ and others have pointed out, letter volumes are declining steadily. Hooper states that across the globe it is estimated that postal administrations will see a decline in mail volumes over the next five years of 25 to 40%. In the UK this will follow a similar 25% decline in letter volumes since 2006. The postal services regulator Ofcom² recently noted that 64% percent of Royal Mail's costs are "people costs". This is unsurprising. Door to door delivery is inevitably a labour intensive activity. Royal Mail employs some 130,000 postal workers.

It must do this because it currently holds what is known as the universal service obligation, a series of "must dos", with the principal obligation to manage collections and deliveries to all UK addresses six days a week.

Of course Royal Mail would be bankrupt if it had to depend on letter traffic alone. In contrast the growth of the number of packets and parcels sent has exploded – mostly due to the development of e-commerce and the need for "fulfilment". However, virtually all packet and parcel delivery in the UK is subject to competition, indeed there are a plethora of small, medium, large and global logistics companies competing in the parcels business. According to Ofcom:

"Outdoor delivery costs...do not vary significantly due to the number of items delivered to each household or business address. For example, the cost of physically delivering the mail will not be significantly lower if the postman delivers five or only one or two letters to the same address on the same day. The cost of delivery is also generally higher in rural areas as there are greater distances between addresses so that fewer deliveries can be achieved in one delivery round".

Faced with these circumstances a new owner will have the additional challenge of having to consistently generate even higher revenues than at present. While the Royal Mail modernization programme must continue to be financed the owner will also be required to generate returns for its shareholder(s).

Royal Mail can of course continue to increase the price of its activities that are not price regulated. However, most of these are subject to competition so there are limits to how far it can do this. A recent significant increase to the price of postage for small packets has provoked a significant backlash from the small business community.

Despite a 30% increase in the price of a first class stamp in 2012 (from 46p to 60p) the increase of revenues in its letter business was just 2%, a consequence of continually declining volumes.

So how exactly can a new owner extract greater value from Royal Mail? The simple answer is to reduce the services that are non-profitable.

Conveniently the government has carried legislation allowing a new owner to do just that. The 2011 Postal Services Act allows Ministers to create a special administrative regime to

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31808/10-1143-saving-royal-mail-universal-postal-service.pdf

² <http://stakeholders.ofcom.org.uk/binaries/research/markets-infrastructure/economic-geography.pdf>



maintain the universal service obligation. It is highly probably that after a few years, a buyer will conclude that it can no longer fulfill its legal requirement to undertake its legal obligations. It will then simply transfer the rump of its non-profitable business back onto the tax-payer, taking with it the highly profitable urban letter and parcels traffic.

In response the regulator will be tasked with ensuring some form of letter delivery in rural areas is maintained. Its first act will be to reduce the requirements of the universal service, at a stroke cutting deliveries to rural areas to possibly two or three days a week.

Ofcom will then in turn have to tender contracts on a regional basis to deliver the universal service obligation with significant taxpayer subsidy. Royal Mail, having exited this particular market will not want to tender. Rather it would give up elements of its rural infrastructure to the new operators. A regional network of smaller state subsidised postal operators will then emerged to undertake to maintain the less onerous requirements set by the regulator.

So over a period a time, Royal Mail will go from a state owned, financial success story to a privately owned business shorn of any obligations to deliver mail where it does not want to.

THE FUTURE OF THE POST OFFICE NETWORK

The local post office is a focal point for the life of so many small towns and villages across the UK. Where pubs and other shops have disappeared, the post office has remained. But when that goes, the life of a village often disappears. The government rightly pledged £1.3bn to guarantee the future of the Post Office network as it recognised the importance that network to economic and social life, particularly in rural areas.

If ever there was an interest group that should be content with the support they have received from government it should be the sub-postmasters. But they are not. Only recently the National Federation of Sub-Postmasters (NFSP) called upon the government to postpone Royal Mail privatisation. Are they ungrateful? Hardly. The 2001 Postal Services Act fully separates the Post Office Counters' network from Royal Mail. That network relies on business from three principle sources – the public, the government and Royal Mail. The NFSP is deeply concerned that privatisation will undermine the business relationship the post office network has with Royal Mail. The government will point to a recently signed ten-year business agreement between the two of proof of Royal Mail's intent in this regard. But that cannot guarantee that a private owner, free to do as they choose, will honour that agreement in full. For example they may wish to re-negotiate its terms or move more of its business to other retail outlets.

Furthermore as private carriers take on increasingly larger amounts of letter and parcels traffic from Royal Mail, the post office Counters network also loses increasingly larger amounts of business too.

In respect of the post office network the government is sending very mixed signals. It has provided a significant subsidy to keep post offices open but at the same time it has continually withdrawn business from those post offices (e.g. TV licensing). It has separated that business from its lifeline with Royal Mail and the final straw as far as those who run these businesses are concerned is the proposed sale of Royal Mail.

THE HERITAGE OF ROYAL MAIL

Our country's heritage means a lot to Conservatives. In a speech in 1993 Bow Group President Sir John Major said:



“Fifty years from now Britain will still be the country of long shadows on county grounds, warm beer, invincible green suburbs, dog lovers and pools fillers and - as George Orwell said - “old maids bicycling to Holy Communion through the morning mist” and if we get our way - Shakespeare still read even in school. Britain will survive un-amendable in all essentials.³”

Sir John’s quote from *The Lion and the Unicorn* was made in the context of the impact of European integration on British life. It is a point well made and if he had quoted the next paragraph:

“Yes, there is something distinctive and recognizable in English civilization. It is a culture as individual as that of Spain. It is somehow bound up with solid breakfasts and gloomy Sundays, smoky towns and winding roads, green fields and red pillar-boxes”.

This is an eloquent summing up of our heritage. We may have fewer smoky towns but if you had to characterise Britain in one symbol a red pillar box serves as an effective icon (once it might have been an equally distinct red but now disappeared GPO telephone box.)

Royal Mail’s heritage and brand is virtually unparalleled in British history. The Royal Mail can trace its history back to 1516, when Henry VIII established a "Master of the Posts", a post which eventually evolved into the office of the Postmaster General. The Royal Mail service was first made available to the public by Charles 1st on 31 July 1635.

No private business, even those much greater in size, can boast of such pedigree. Indeed it is typical for many large businesses to evolve into other entities or disappear completely. Companies such as International Computers Ltd, British Leyland, Woolworths, Abbey National were the leading businesses of their day but no longer exist. Most of the biggest brands are a product of modern times.

The Royal Mail brand and heritage has endured for so long for good reason. With its Royal crest and deep red liveried colour it provides reassurance. Like other pillars of the state, such as the police service and the NHS, we associate Royal Mail and the local post office with the values we as Conservatives cherish.

In the case of Royal Mail this is localism, a presence in our towns and villages – often where there is no other. People in rural areas value the daily visit from the postman, who often knows your name and will stop for a quick chat or keep an eye on your property if you go away.

Similarly the local post office, invariably the last remaining centre of economic activity in villages, represents a significant part of our heritage. Often the focal point for community life, the local post office is often the heartbeat of the village. When it goes, the village slowly dies with it.

What this demonstrates is that Royal Mail and the Post Office are so much more than economic entities. They provide a service that contributes towards the social fabric of many of our communities. It is hard to put a price on this. Indeed any business solely focused on making profits would eschew such a community role.

Royal Mail’s heritage is irrevocably tied to its public sector status. Invariably brands will evolve to meet the challenges of competition and changing consumer tastes. A privately owned Royal Mail will inevitably want to reduce the costs of its heritage (for example, why

<http://www.johnmajor.co.uk/page1086.html> Speech to the Conservative Group for Europe April 22nd 1993



would it want to maintain big red pillar boxes when smaller European style tin post boxes are more cost efficient?).

Much has been made about the future of Her Majesty's head on postage stamps. The government points to the 2011 Postal Services Act which includes a provision ensuring Her head is kept on stamps. However, when one looks at the actual section⁴ it refers to "Her Majesty" (as opposed to a general reference to our Monarch) and limits the compulsion to use Her head to postage stamps set out in a direction.

A privately owned Royal Mail might well want to maximise revenue opportunities by using postage stamps as advertising space. It is quite possible, for example, in a few years postage stamps that sit outside the Ministerial direction have no Royal visage but instead carry adverts for payday lenders or bookmakers.

SPECIALIST SERVICES

A further aspect of Royal Mail's public ethos is the fact that it delivers a freepost services to two very important communities – the blind and partially sighted, and our Armed Forces serving in conflict zones. Freepost services for the blind and partially sighted are protected in law. The new owner would not be able to reduce these to any significant extent.

However, the British Forces Post Office Freepost service utilises Royal Mail for the a collection and delivery of parcels from serving forces loved ones for onwards transmission to conflict zones. For this service the Ministry of Defence reimburses the cost of postage to Royal Mail. The most recent figures show that the MoD has reimbursed £15.1m for this service. However, the cost Royal Mail is far greater. It must maintain a separate infrastructure to manage this, regardless of demand.

Unfortunately there are no parallel legal protections to compel a privately owned Royal Mail to continue this service. Without the safeguard of public oversight, the new owner may well decide that the network is better utilised on more greater profit generating activity and ask volunteer organisations to undertake the collection and delivery of Force's Freepost Service.

Should this decision be taken there is nothing Ministers' will be able to do to stop it.

ROYAL MAIL PRIVATISATION – WHAT IS THE ALTERNATIVE?

Business Secretary Vince Cable has said there is only one policy option for Royal Mail - privatisation. The justification for this has been that the business needs access to private capital to invest in modernisation to compete with private carriers and the growth of electronic communication.

What has been surprising has been the lack of debate about the other options for Royal Mail the government might want to consider.

If Royal Mail is not fully privatised it is important that it is able to continue to invest for growth. Those very services that we value can only be maintained if the business is profitable and it can only remain profitable if it continues to modernise its operations.

With its universal service requirement inevitably Royal Mail will remain a labour intensive operation. That characterises the unique nature of the company. Sat behind the daily visit

⁴ <http://www.legislation.gov.uk/ukpga/2011/5/section/62>



from the postman is a complex, nationwide collection, sorting and distribution network that is being modernised by investment in state of the art mail address recognition and sorting machines.

Unlike with other privatisations, the rationale and the case for the sale of Royal Mail has not been made. Indeed there is almost nothing the business cannot do in the public sector that it can in private hands.

There is a consensus that government must exercise a “hands off” policy when it comes to the strategic management of Royal Mail. Indeed that is largely the case now. Ministerial interventions should be occasional and only in extreme circumstances. For example the ludicrous decision by Royal Mail to rename itself *Consignia* in 2001 was stopped because of a combination of public ridicule and the fact that it is a publicly owned company.



18%

of UKIP
supporters
back the
move, while
76% oppose it

No Minister would ultimately have allowed that happen. Of course government could exercise no such sanction over a privately owned business.

The justification for the privatisation of Royal Mail appears to boil down to one issue – its ability to raise private capital. This issue needs to be resolved if the business is to remain a publicly owned enterprise.

Royal Mail's results for 2012/13 were hugely impressive. Royal Mail made £440m profit for the year by a combination of rising stamp prices, growth in parcel volumes and large increases in unaddressed mail. Revenues enjoyed were £9.3bn.

So a combination of profits and Royal Mail's own credit rating would comfortably allow it to raise private capital for investment. The argument that this would take money away from schools and hospital s is disingenuous. Royal Mail should be able to raise capital and be solely liable for it. It cannot be beyond the wisdom of Treasury Officials to devise such a system – all it requires is the political will.

POLLING DATA – AWARENESS AND SUPPORT FOR PRIVATISATION

The YouGov polling data shown below demonstrates that only 52% of the general public are aware of the imminent privatisation, while 67% oppose it. These figures demonstrate that not only does more need to be done to increase public awareness and debate around the issue, but there is also a significant and entrenched opposition, entirely out of sync with Parliamentary opinion across the political spectrum. Of particular interest to psephologists will be the strong opposition to privatisation among UKIP Members, the only major Political Party in Britain not to have supported privatisation.



| And to what extent would you support or oppose plans to privatise the Royal Mail? | TOTAL | Voting intention | | | |
|---|-----------|------------------|-----------|-----------|-----------|
| | | Con | Lab | Lib | Ukip |
| Strongly support | 4 | 8 | 2 | 2 | 5 |
| Tend to support | 16 | 32 | 9 | 15 | 13 |
| TOTAL SUPPORT | 20 | 40 | 11 | 17 | 18 |
| Tend to oppose | 31 | 28 | 29 | 37 | 35 |
| Strongly oppose | 36 | 20 | 49 | 35 | 41 |
| TOTAL OPPOSE | 67 | 48 | 78 | 72 | 76 |
| Don't know | 12 | 12 | 10 | 10 | 6 |

| The Government is currently making plans to privatise the Royal Mail later this year. Before taking this survey, were you aware of these plans? | TOTAL | Voting intention | | | |
|---|-------|------------------|-----|-----|------|
| | | Con | Lab | Lib | Ukip |
| Yes, I was | 53 | 62 | 56 | 62 | 55 |
| No, I was not | 43 | 35 | 41 | 36 | 41 |
| Not sure | 4 | 3 | 3 | 2 | 4 |

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,779 adults. Fieldwork was undertaken between 8th - 9th July 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

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CONCLUSION

The role that Royal Mail and the Post Office play in our communities, particularly rural communities, is significant, unique, much cherished and much needed.

The universal service obligation, including a single stamp price protects and enhances our countryside and could serve as a foundation for a new high-tech economy, but rural deliveries are far from profitable. This leads us to the inevitable conclusion that a privately owned Royal Mail would, over time, seek to denude those high cost services and focus its activities in the more competitive but highly profitable urban areas.

People in rural towns and villages are only too aware of this and that is why, when it is realised that Royal Mail may be sold off, there is significant opposition. That might also explain the reluctance of the government to address this matter publicly or in Parliament.

We have discussed how we see the business developing as a public sector enterprise – the safest way to guarantee rural services.

Conservatives should apply some simple political tests before proceeding with this controversial sale – has the case for privatisation been adequately publicly made? Are all possible protections for service and heritage in place? Is it the best deal for the country? Is it popular with the public? Is it politically beneficial to our party? As reflected in our polling in all cases the answer is currently “no”.

Electorally it could be quite damaging for the Conservative Party, but this is not just a left/right issue – successive governments have tried to sell Royal Mail and failed. Perhaps there is a good reason for this. The economic outlook suggests that the tax payer will not be able to realise full value from a sale at this time. Indeed it is estimated that revenue from a sale might be as low as £2bn – hardly a sum that can compensate for the national and political damage it will cause.

Though there are clearly alternatives, if privatisation must occur Ministers can save themselves a lot of headaches if they argue that tax payer’s interests must come first, and postpone the sale whilst implementing key amendments to the current privatisation.

KEY POLICY RECOMMENDATIONS:

If moving ahead with privatisation the Bow Group therefore calls on the Government to:

- Engage in a public campaign of advertising and debate to increase awareness of both the privatisation and the opportunity for the tax payer to purchase shares similar to the 1980s “Tell Sid” campaign;
- Offer long term legislative guarantees for the universal service in its current form beyond 2025;
- Re-introduce regulatory control to the price of first class post;
- Offer long term protection and assurances of continued Government business for the Post Office counter network;
- Enact legislation to enshrine in law freepost services for HM Armed Forces serving abroad and on operations.



It is never taken lightly to advocate a change of policy from a government you support, but we have seen with other issues such as gay marriage and the Forestry sell off, that we interfere with institutions that are sacrosanct to British life and the grassroots of the Conservative Party, without considered national debate, at our great peril.

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