

**Pat McFadden MP**

Minister of State for Business,  
Innovation and Skills

The Rt Hon Tessa Jowell MP  
House of Commons  
London  
SW1A 0AA

Our ref: AOK/157904

Your ref: 01093575

18 November 2009

*Dear Tessa,*

Thank you for your letter of 10 November to Peter Mandelson, on behalf of a number of your constituents, about the Postal Services Bill. I am replying as Minister of State for Business, Innovation and Skills.

### **Government's Action**

The Government firmly believes that the implementation of all the elements of the Hooper recommendations is the best way to secure Royal Mail's future and to maintain the universal postal service. We have emphasised since we accepted the recommendations that they were a package of measures and not a menu to pick and choose from.

The Secretary of State announced on 1 July, that market conditions in the European postal sector have made it impossible to conclude the process to identify a partner on terms that we can be confident would secure value for the taxpayer. This has been a priority for the Government and it would be irresponsible to proceed unless we had such confidence that the tax payer received a good deal.

There is, therefore, no prospect in current circumstances of achieving the objectives of the legislation the Government introduced to Parliament in March. However, as we believe that this remains the best way to secure Royal Mail's future, when market conditions change we will return to the issue.

## **Industrial relations and modernisation**

But the need for the modernisation of Royal Mail has not gone away. What is needed now is real action from Royal Mail's management and the unions to take forward Royal Mail's transformation plans.

In Royal Mail, there has regrettably been a pattern where change is agreed in principle and then frustrated in practice. Agreements nationally are slowed down locally. Confidence is lost, strikes take place and the whole process takes much longer than it should.

Royal Mail – management and union – must break free of this pattern and now deliver real change and modernisation. Over coming months, we will be looking for full delivery of the changes to Royal Mail's operations and working practices agreed under the 2007 pay and modernisation agreement between the company and the CWU. Endless industrial relations problems must stop and we will look for evidence that there really is an appetite for modernisation in the company.

## **Pensions**

The Government's position on Royal Mail pensions, as consistently explained since we first set out our policy, is that we will not implement the pension solution in isolation. The Government will not 'cherry-pick' elements of the legislation to implement. To do so would be a bad deal for the taxpayer and would cause significant State aid approval issues. The critical thing now is for management and workforce to proceed with modernisation.

This means that the pension funding arrangements are a matter for the Company and the pension trustee. This was always the case absent the implementation of Hooper. The company and the Trustees will now have to engage on the funding arrangements for the scheme. They will need to reach agreement by June 2010.

## **Regulation**

Postcomm will continue to regulate the postal market for the time being. The Secretary of State will write to Postcomm to give clear guidance on how they should tackle regulation of the market going forward. This will include a steer away from the previous agenda and programme, instead to progress a new regulatory agenda to enable smooth transition to Ofcom in due course.

Postcomm's powers will remain the same but they acknowledge that they will have to take full account of developments in the postal market where volumes are falling at unprecedented levels and must regulate against the backdrop of converging markets, where post is facing significant competition from digital communications.

We encourage and support Postcomm working more closely with Ofcom so that it can benefit from its knowledge and experience of wider communications markets to help it develop its regulatory strategy. How it will do this is for further discussion for the parties involved.

The Government remains committed to the universal service. While we are not able to take forward the implementation of the Hooper report, as I said above, we will return to it when conditions are right. But in the meantime we are pushing for change. Change in industrial relations in Royal Mail that will enable modernisation to proceed and a change in Postcomm's regulation of the postal market.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Pat', written in a cursive style.

**PAT McFADDEN**