

## **Royal Mail Privatisation – What it Might Mean for Subpostmasters and the Public**

The planned sale of Royal Mail represents a significant change for a company that has been a state-owned institution for 350 years. Governments of all colours have been trying to privatise, or part-privatise, Royal Mail for two decades. Now with the passing of the Postal Services Act 2011 it can actually happen. But why privatise? How might it happen? And what could it mean for subpostmasters?

### **Privatisations**

While the post-war years were characterised by a series of nationalisations of large parts of British infrastructure, since the 1980s many key state-run industries have been privatised.

Major privatisations of nationalised industries began in earnest with the sale of British Telecom in 1984. The Conservative government went on to sell British Gas, British Airways, the British Airports Authority and BP. The denationalisation of steel, water, electricity and the railways followed. Although critical of privatisation when in opposition, once in government Labour continued to increase the involvement of private companies in the public sector.

### **Why privatise Royal Mail?**

Many of the arguments advanced for selling Royal Mail echo those used about privatisation during the 1980s and 1990s. The government says Royal Mail needs more capital investment to protect the universal postal service and provide an efficient world-class mail service fit for the 21st century.

Ministers argue in the current economic climate, it is unrealistic to expect government to continue to provide substantial financial support. The government concludes that Royal Mail needs access to private sector capital in order to modernise.

The government also believes private sector capital would bring with it 'private sector disciplines', and result in a more efficiently run service. Additionally, private sector capital would be more flexible than government funding. It can be raised more quickly and does not require lengthy State Aid clearance - which can take up to 18 months - from the European Commission.

### **Controversy**

Proposals to sell Royal Mail are not uncontroversial. Many MPs, trade unions and commentators have expressed concerns about the plan.

The main fear is that privatisation will result in downgrading the universal six day a week, one-price-goes-anywhere service, and massive price hikes for the public.

Opponents of privatisation believe the public's interests are better protected by a Royal Mail serving the interest of a government shareholder, than by one

serving the interest of a shareholder seeking to maximise its dividends. It is argued that public services like the postal network should be delivered for reasons of social need instead of profit, and that they should operate to transparent rules of public accountability instead of under cover of commercial confidentiality.

Critics argue privatisation has led to a three day week rural delivery service in the Netherlands and postage costs twice as high as ours in Germany. But the UK government dismisses such claims as scaremongering and says safeguards in the Postal Services Act will prevent this sort of thing from happening here.

### **Impact on post offices**

The privatisation of Royal Mail will inevitably affect the post office network. Mails business is critical to post offices, as income from Royal Mail transactions brings in around one-third of subpostmasters' pay and one-third of Post Office Ltd (POL) income. Of this, around 60% is variable income based on the levels of transactions undertaken; while 40% is fixed income, based on post offices providing bricks and mortar access points for the public to use postal services. Postal services also bring in footfall – generating more than half of all visits to post offices.

Under the government's proposals Royal Mail and POL will be separated prior to the sale of Royal Mail. POL will not be put up for sale. However, these changes will inevitably result in a re-drawing of the relationship between Royal Mail and POL which are currently both part of the same group. The NFSP has expressed concerns that as a separate company, Royal Mail may seek to renegotiate existing contracts, reducing the amount paid to POL. It may also choose to use other retail outlets, like supermarkets or a high street chain, in addition to post offices.

Concern that these changes could lead to a loss of Royal Mail work at post offices, or reductions in remuneration for this work, has led to the NFSP lobbying hard for a minimum 10 year Inter-Business Agreement (IBA) between the two companies, which would guarantee POL continues to act as Royal Mail's exclusive retail outlet.

Many opposition MPs have pressed the government to include the IBA in law, but ministers say this must be a commercial agreement between the two companies. Royal Mail and POL have offered assurances about their future relationship. The chief executive of Royal Mail, Moya Greene, has made clear it is "unthinkable" that there would not be a long-term relationship between Royal Mail and POL.

Paula Vennells, POL's managing director, says Royal Mail will not want to use rival retailers because the post office network has a massive rural reach, one that no single alternative provider can match. The Post Office also has an enormous amount of expertise in providing access to mails services, and is continuing to make improvements, such as longer opening hours, making the network even more attractive to Royal Mail.

### **How it could happen**

In 2009 the Labour government planned to sell only 30% of Royal Mail. However, today's coalition government has made clear it would prefer there to be no government stake in the business. This is relatively unusual – in the European Union, only the Netherlands and Malta have national postal operators with no state ownership whatsoever. On top of this the government has pledged there will be an employee share scheme, with employees holding at least 10% of the equity in Royal Mail.

So how will the government sell the remaining 90%? Ministers say Royal Mail could be sold either through a share flotation on the stock market or to an industry buyer.

In many of the major privatisations of the 1980s and 1990s, the government opened up the sale to members of the public by selling shares on the London Stock Exchange. Such retail sell-offs usually involved a major publicity blitz, like the famous "Tell Sid" advertising campaign, which intensified interest in the sale of British Gas. Historically these sell-offs have been hugely popular with the public, but in the long run most individual investors sold their shares on to institutions. The government may choose to float Royal Mail, although this type of sale is very expensive to administer.

The government's other option is to sell Royal Mail to another company. This could be a sale to a national mail provider, like the Dutch TNT or German Deutsche Post DHL, both of which expressed an interest in the proposed 2009 sale of Royal Mail. Sale to a non-British company is controversial and has been opposed by many MPs. The NFSP also argues that the new Royal Mail must remain British owned to ensure that its chief concern is mails issues within the UK. It is feared foreign ownership would lead to a decline in UK investment while the company prioritises its home market.

Alternatively Royal Mail could be sold to a private equity group, such as CVC, which was also a potential bidder last time around. However, private equity firms are often regarded with some suspicion as many financial reporting regulations do not apply to them. Private equity has had a bad press recently, with a number of scandals and asset-stripping charges laid against it in cases like Southern Cross care homes, Boots and Woolworths.

### **Timescales**

Royal Mail Group's recent financial results, which showed the letters business lost £120m in the past year, have led to speculation that it might be difficult to find a buyer for the company. Indeed, when the Labour government's plans to part-privatise Royal Mail were put on hold in summer 2009, it was partly because the price offered by bidders was too low. However, the coalition government seems confident that this time the sale will progress.

The government has confirmed the next steps in preparing for sale include the separation of Post Office Ltd and Royal Mail, which could take place as early as this autumn. The government will also take on Royal Mail's pension deficit

and significantly reduce the company's £1.7bn debt to government. It's hoped there will be European Commission approval for this financial support by March 2012 – privatisation could take place any time after this. But the government has said timescales depend on “getting best value for the taxpayer and market conditions”, and so has no set target dates for the sale.

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