



House of Commons
Trade & Industry Committee

Industrial action at Royal Mail

Oral Evidence

22 October 2007

*Rt Hon John Hutton MP, Secretary of State for
Trade and Industry, Department of Trade and
Industry*

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Oral evidence

Taken before the Trade and Industry Committee

on Monday 22 October 2007

Members present

Peter Luff, in the Chair

Roger Berry
Mr Brian Binley
Mr Peter Bone

Mr Lindsay Hoyle
Mr Mike Weir
Mr Anthony Wright

Witness: Mr John Hutton MP. Secretary of State for Business, Enterprise and Regulatory Reform, Department for Business, Enterprise and Regulatory Reform, gave evidence.

Q1 Chairman: Secretary of State, thank you very much indeed for agreeing to come before this Committee. I know there is a rival attraction going on in the Chamber but we still seem to have quite a lot of interest.

Mr Hutton: I will do my best to compete.

Q2 Chairman: Can I put on record my gratitude for the very flexible way you have approached this Committee over the recent couple of weeks. I was very anxious that we did not disrupt the industrial relations process as a Committee and I am very grateful to you for, I think, cancelling events this afternoon to be able to come and join us, which is much appreciated. We think it is important that we have an account from you because you do have oversight of the general policy area of the regulator itself. You are the shareholder in the Royal Mail Group, and postal policies, obviously, are a mainstream issue of your department, as are the competitiveness issues that flow from the way in which that market works for the broader economy and the society in which we live. Perhaps you could begin by confirming where you think we are now at 3.31 on Monday afternoon.

Mr Hutton: This morning the Postal Executive did meet to consider the latest draft of the agreement and approved the package and I think will recommend it to be accepted by the wider membership of the union in a ballot that I think will take place over the next couple of weeks. That is enormously encouraging. I think this agreement can be a mandate for modernisation in the Royal Mail. I think it is affordable; I think it will help the Royal Mail cut costs and improve the efficiency and value for money service that it provides, and for us here, the custodians of the public purse, all of us, it is within the financial envelope. We were not prepared to put any more money in to finance a more favourable deal because we think that would be wrong. The Royal Mail needs to reduce costs, not increase them, so all in all hopefully the ballot will produce a "yes" vote because I think this is in the interests of the workers for the Royal Mail too.

Q3 Chairman: Why did it take so long?

Mr Hutton: The agreement is a complicated one. It is fundamentally about how the organisation has to modernise and change and it does address some

pretty fundamental issues about working practices in the organisation. In fairness to all sides, I think those issues were always going to be difficult to resolve but I think they now have been resolved. These negotiations, I think it is worth reminding ourselves, started back in March, so they have gone on for quite a considerable time and, as I said, Chairman, they have proved to be very controversial and difficult. I am very grateful to the work that the TUC have done here. Brendan Barber in particular, I think, has done a very good job in trying to bring the parties together and now that has happened, and, as I said, we have now all got to hope that the membership of the union recognise that this is a good deal for the business, a good deal for them and a good deal for the public.

Q4 Chairman: Is it correct to say that pay and pensions were largely resolved; at the end it was working practices or certain specific practices that were the last issue to be resolved?

Mr Hutton: Yes, I think that is fair.

Q5 Mr Hoyle: Secretary of State, the first question I would like to open up with is what role has the Government played as the shareholder and owner of Royal Mail, because the Government was quite clear it wanted an end to this dispute like everybody in the country, in ending this dispute?

Mr Hutton: We have the obvious role of encouraging parties to come together and talk. I think it is talking that resolves disputes, not striking. I do not believe the industrial action was ever justified. It has hurt the public and it has hurt businesses, particularly small businesses, who overwhelmingly rely on the Royal Mail to deliver their mail and therefore the cheques and so on that they depend on. That was our primary role, to facilitate a coming together of the parties, and we did finally discharge that role. We have another role, of course, which is to safeguard the public investment that has gone into Royal Mail, and it has been very considerable over the years, but what our role was not, I think, was about taking over the conduct of the negotiations. The relationship that Parliament has decided should be the right relationship going forward was set out in the Postal Services Act 2000,

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and our role now is as that of a shareholder in a commercially run organisation. You would not expect shareholders to be involved in the detailed operational day-to-day matters of the company and we are going to keep out of that, but our role, as I said, was to try and make sure that the dispute came to an end as quickly possible and on terms that were sensible and fair to all concerned. That is the role we tried to discharge, and we did it through meetings and contacts and phone calls and the usual things that you can imagine.

Q6 Mr Hoyle: So is it unfair criticism when they suggested that while Royal Mail was burning the Secretary of State was fiddling?

Mr Hutton: I do not know who said that but give me their name and address and I will pursue it myself. I think that is unfair. It is important for all of us, I hope, to come to an understanding about one very important thing. Since the legislation in 2000 ministers have not had day-to-day operational responsibility. We have very limited powers of direction in relation to the Royal Mail, and I think rightly so. We have some broader strategic responsibilities to discharge about the appointment of the chairman and board and the approval of the company's strategic plan. We have some limited role in relation to borrowing when it goes above certain limits but ministers do not take day-to-day responsibility for the Royal Mail, not because we are trying to duck out of it but because I think in the modern age that is a completely inappropriate role. This sector of our economy is changing very rapidly indeed and I think we have a fundamentally baked-in interest in ensuring that we have got a management team in there which is capable and competent, understands the scale and breadth and scope of the changes that are going to affect this sector and is doing its best to make sure the Royal Mail can respond and rise to the challenges of the needs of our economy. That I think has to be a job for professional managers, not politicians.

Q7 Mr Hoyle: Obviously, you are right, but in a modern setting most people say it is about shareholder power, so you have to be aware that you have got the power. You were very kind and very generous in your comments about Brendan Barber and the TUC, but what role did ACAS play?

Mr Hutton: ACAS were involved, I think, during the summer. When I became the Secretary of State I think there were meetings taking place between the union and the company and ACAS. Sadly, they were not able to come to a satisfactory outcome, but ACAS were involved, I think, in the spring and the summer.

Q8 Mr Weir: Just listening to what you were saying there, Secretary of State, you said in the House two weeks ago, "We are not going to take sides in this dispute", but is that compatible with the statement made by the Prime Minister and echoed by yourself that "the dispute should be brought to an end on the terms that have been offered as soon as possible", considering that at that time the union did not accept

the terms, and indeed the dispute seems to have been settled on different terms that you yourself have described as sensible and fair terms this afternoon?

Mr Hutton: I think what we were trying to do was speak up for the public in all of this. We were not trying to take sides in relation to the parties to the dispute but the public have an obvious interest in bringing this industrial action to an end as quickly as possible and that is why the Prime Minister made the comments that he made and I obviously support them 100%. I think the package that was on offer was a fair and reasonable one and it has been broadly accepted by the Postal Executive. There have, I think, been a number of small changes to that agreement but I think broadly, in terms of its affordability and the change to working practices, that was the offer that the Prime Minister was referring to in the House a couple of weeks ago. We have tried very hard not to fall into the trap, and it would have been a trap, of taking sides in relation to the parties to the dispute because I do not think that is the role we should play. We have to safeguard, as I said, the investment that has gone into the Royal Mail. We have to try and speak up for businesses and the public who were massively inconvenienced by this dispute. It is obviously better for there to be an agreed settlement. I am not in favour of heavy-handed management imposing changes on working practices without proper discussion and, hopefully, agreement. Those were the things that mattered to us in all of this. We saw a process that was very long and protracted. It started in March and was still going until a couple of hours ago. I do not think anyone could accuse the company in particular of trying to fast-track these negotiations and push them through. I do not think the evidence supports that, so I think on every sort of level we have reached the end of a process and I think the public were anxious to get this industrial action called off. They have a lot of respect for the staff of the Royal Mail. I do. We all do in our constituencies; we see what a good job they do, and I believe that the vast majority of the staff of the Royal Mail were anxious to get back to work too, and I am very glad to say today that I hope that is a step closer.

Q9 Mr Weir: But, even given all that, do you not accept that saying that they should go back on the terms that had been offered at that time was equivalent to taking one side, the management side, at that point?

Mr Hutton: No, I do not accept that. I think the interest that we were trying to articulate was the public interest, but we would not have articulated it in the way that we had if we did not think the offer was a genuinely fair and reasonable one and affordable for the business and therefore for taxpayers. That is why we made the comments we did.

Q10 Mr Weir: Moving on from that, you have said that you have an interest in safeguarding the investment the taxpayer has made in the business, which I think we would all accept, but are you

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confident that Royal Mail management at national, local and regional level is up to that task, given what has happened in this dispute?

Mr Hutton: Yes, I am.

Q11 Chairman: You have absolutely full confidence in them?

Mr Hutton: Yes.

Q12 Mr Binley: Secretary of State, I want to refer to the matter of your involvement as the major shareholder, in fact the only shareholder, in what is our prime postal service. I take the point totally that small business has suffered dramatically, particularly in terms of cash flow, because of the dispute. They would rather not have had a dispute at all, quite frankly. You say, and the Prime Minister has said, that you did not intend to take sides and that you did not see that it was your job to get involved, and yet on 15 October the responsible Minister stated that the Secretary of State and he had had a number of meetings with Adam Crozier, Allan Leighton, Bill Hayes and David Ward to discuss the postal dispute. What were you talking about?

Mr Hutton: What do you think we were talking about?

Q13 Mr Binley: I do not know. I want to know. It is for you to answer the questions and for me to ask them, quite frankly.

Mr Hutton: I think it is pretty obvious what we were talking about.

Mr Binley: Well, tell me then, so I can be assured that—

Q14 Chairman: Brian, give him a chance.

Mr Hutton: I do not have to answer it if you do not want me to, Mr Binley, but we were talking about the dispute and the terms of the dispute.

Q15 Mr Binley: So you were just there to listen?

Mr Hutton: We were there to encourage both parties to reach an agreement.

Q16 Mr Binley: So, after having said, “I want you to reach an agreement”, you had no further involvement other than listening to what they had to say?

Mr Hutton: Would you like me to have been running the negotiations?

Q17 Mr Binley: No, but I would like you to have taken a definite role as the shareholder. I think that is one of the shareholder’s jobs, quite frankly, when a business is in trouble.

Mr Hutton: Shareholders do not negotiate the pay and conditions of staff.

Q18 Mr Binley: No, but when a business is in trouble they start to use their weight and that is when I would have expected you to use yours. I still do not understand why you had a number of meetings to listen to the same thing.

Mr Hutton: Because it is an iterative process. You may not be familiar with these sorts of disputes; I do not know.

Q19 Mr Binley: In business, oh yes, I am familiar with them.

Mr Hutton: But probably not in a business on this scale.

Q20 Mr Binley: With a big company, yes.

Mr Hutton: Well not of a £9 billion—

Q21 Mr Binley: Courage I was involved in.

Mr Hutton: Well, fine, good for you. We were trying to get this dispute over as quickly as possible in a responsible fashion and I think that is what we have done.

Q22 Mr Binley: During the first six weeks of the postal dispute Royal Mail refused to negotiate with the CWU and that resulted in four bouts of industrial action. Why were you not at that time urging Royal Mail to get involved as responsible management should do?

Mr Hutton: I did get involved very early on when I took on my responsibilities as Secretary of State. There was a background to this dispute that preceded my appointment as the Secretary of State, as I am sure you will be aware, but I did make it my business to meet the unions early on. I think I met the union in July a couple of weeks into my tenure as Secretary of State, which I think was the reasonable thing to do. I met management, I think, slightly earlier than that because I wanted to understand from their point of view what the dispute was about and how important the issues were for them. I have tried to keep involved, and my junior Minister, Pat McFadden, has as well, with the conduct of these negotiations, so I reject absolutely your allegation that ministers were not involved or interested in this dispute. We were very interested in it. I just repeat what I said earlier, and I think this is very important. I do not believe it is the role of the principal shareholder to conduct the negotiations between the two sides. ACAS tried to resolve those disputes. That is an entirely appropriate and decent and honourable thing for them to do. They failed, and when they failed the TUC stepped in and Brendan Barber did a very good job in trying to bring the parties together. Over the summer there was a period of several weeks when industrial action was called off. I welcomed that; I am sure you did, and the parties tried to get the dispute resolved during that time as well but they failed. I think when it was clear that industrial action was starting again we made the comments that have been referred to in the House, and I made comments as well making quite clear what our position was. I genuinely believe that the interventions that ministers have made have been correct. I believe they are consistent with our role and the new relationship between the Royal Mail and ministers which is enshrined in the legislation, and the dispute now, I hope, has come to an end.

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Q23 Mr Binley: Are you then saying to me that the management did not listen to the concerns expressed by the shareholder?

Mr Hutton: Yes, they certainly did.

Q24 Mr Binley: They did not or they did?

Mr Hutton: Of course they did, yes.

Chairman: Did? There is a double negative there.

Q25 Mr Binley: Yes, there is a double negative.

Mr Hutton: Of course they listened to the points I made. My job was, as I said, to make sure that the deal that was on offer was affordable, was right for the business going forward, given the scale of change affecting the Royal Mail.

Q26 Mr Bone: It seems to me, Secretary of State, that the Government was very involved with the negotiations, with the private meetings, the fact that the management consulted you on what would be acceptable and what would not be. I do not think a criticism of Government could be that it was not involved, it clearly was involved, but its statement that it was not taking sides and leaving it to the management and the union are just not believable.

Mr Hutton: No, I do not think that is fair and proper either. You cannot have it both ways. On the one hand we were accused of being the invisible party, and now you have just accused me of being hands-on and forcing the terms of the negotiations and taking the side of the management. I do not think you can have it both ways. We were trying to facilitate the earliest possible end to the industrial dispute and I think that was a proper role for us to try and play, but fundamentally our role as a responsible shareholder was trying to make sure that the value of the business was preserved and protected. Ministers have acted very clearly on the advice of officials and the advice we received from the shareholder executive throughout this, and I think we have acted properly in relation to our role as the shareholder here.

Q27 Mr Bone: I do not think I was ever suggesting that you were not involved. I think it is clear from all the things you have said that you were involved, and quite properly involved. The fact that it might have been done behind the scenes and people were not aware of it is fair comment as well, but clearly you cannot then stand up in public and say, "We are hands-off. We are leaving it totally to the management and the union to sort out". You, Secretary of State, cannot have it both ways.

Mr Hutton: We were not trying to pretend that we did not have meetings with the union and the managers. Why on earth would we want to do that? We were not, and if we were asked by—

Q28 Mr Bone: My question was, why did you pretend that you were not involved when you clearly were?

Mr Hutton: We did not pretend that we were not meeting both sides. That is quite ludicrous. I would like you to point out any point where ministers said they were not meeting the union or management.

Q29 Mr Bone: Is it not true, Secretary of State, that you were absolutely behind the management and you wanted the management's position to succeed, and you were in effect against the union and for political reasons you could not say it?

Mr Hutton: We wanted a fair and affordable outcome to these negotiations and we were clear about what was a fair and affordable outcome and we made that position very clear, but we wanted these negotiations to be concluded as negotiations. It is in no-one's interest for there to be imposition. I think there are two fundamental conditions that are essential for the Royal Mail going forward. One is that the investment goes in and the business changes, and the second is that both management and the workforce share a common understanding about the challenge the business faces and are committed to trying to address it. It took much longer than I would have liked, than anyone would have liked, but what has come out of this negotiation I think is an agreement between management and the union about the need for change in the Royal Mail and that I believe is very important for the long term viability of the Royal Mail.

Q30 Mr Bone: Just picking up on those comments, if this had been a totally private company and there had been no government involvement, would you not say the management, who are pretty well-paid management, have failed pretty dismally when you get to a series of national strikes? If I am on a board and we get to a state where my workers think that they have to go on strike because there is no other avenue left open to them, in all cases is that not a failure of the management, to get to that stage in the first place?

Mr Hutton: I think it is fairly dangerous to generalise and say that in all circumstances in all situations it is going to be the failure of management when there is industrial action. I think that is probably stretching the point too far.

Q31 Mr Bone: Let us be specific then. With some highly skilled, and you said, I think, excellent management, in response to Mr Weir you said you fully supported them. Have they not failed, because how can it be under your watch that this management has landed you with such a painful series of strikes, hurting so many people across the country? It must be a failure to get to that stage and I just do not believe that this is the sole responsibility of the union. It seems to me the average postman or postwoman is an extremely decent person whom the country has a high regard for. They are not the sort of people that go on strike willy-nilly. Do you not just accept that one point, that it must have been a failure to get to that stage?

Mr Hutton: No, I am not going to accept that. If it would be helpful for the Committee, Chairman, I will write and set out to the Committee the full chronology of events from the early part of March when these negotiations started. It would not be a terribly constructive thing to do for me to point the finger of blame. There have been failures in the system, of course. This industrial action I believe, as

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I said earlier, should never have started, but I think it is not fair to say that the sole responsibility for that is with the management of the Royal Mail. I think there are always, to quote a very familiar phrase we will all be aware of, two sides to every argument.

Q32 Mr Bone: But you would also accept from that then that there was failure by the management?

Mr Hutton: Your question to me was that they were solely responsible for what happened.

Q33 Mr Bone: And I think you said they were partially responsible, or you implied in your response.

Mr Hutton: No. I think with hindsight we can all say what was this dispute about, why was it necessary, but hindsight, sadly, is one of those things that is rarely available when you need it, and it serves precious little point, I would respectfully suggest, to try it now, hopefully, now that the dispute is beginning to end, and to accuse management of being entirely responsible or the union for being entirely responsible, and I am not going to do that.

Q34 Mr Bone: So in fact they were both to blame?

Mr Hutton: As I said, this industrial action should never have started.

Q35 Roger Berry: However, Secretary of State, constituents of mine who work for the Royal Mail have identified criticisms of management with which you will be very familiar. For example, in relation to the conditions of employment and so forth, Mr Leighton, in a letter in 2003, in a style that perhaps only Mr Leighton is skilled at, addressing the demands from the workforce, for example, made it perfectly clear that the practice of delivery workers leaving their shifts early if the work was completed, the so-called "job and finish" procedure, was entirely acceptable to him, it was a good thing and he was very happy about it. Therefore, did you appreciate that a few short years later, when management seeks to change working practices, from the union's point of view arbitrarily, they were saying, "Hang on. He is moving the goalposts". Does that resonate at all? Is that a reasonable observation for Royal Mail workers to make?

Mr Hutton: It is an observation, for sure, for them to make and it was put to me by my own constituents who work for the Royal Mail too. I will just say two things about that. First, remember, negotiations (and there were negotiations) and proposals started in March, and I think the Royal Mail management were keen to get an agreement on changes to flexible working practices. I do not think it was ever their intention that they would simply sort of descend from on high and impose changes. They were trying to negotiate the changes that were necessary. Secondly, I am aware of the correspondence that you refer to, but the only thing I would say about that is this, and it partly comes back to what I said in relation to Lindsay's questions. The sector is changing very quickly indeed and the Royal Mail, if it wants to be competitive, provide a good service and retain as much market share as possible, is going

to have to change, and that means the working conditions. It also means the way and the speed at which it gets in the new technology and the new machinery that will help it to compete with the best providers out there, and they are more efficient and more competitive than the Royal Mail, so I do not think you can ever fairly say that one thing is going to be set in stone for ever irrespective of the business circumstances in which you are trading. I am afraid the simple economic reality is that things are changing very quickly indeed and the Royal Mail will have to respond to that, including looking again at working practices, if it is going to succeed.

Q36 Roger Berry: I absolutely understand, Secretary of State, but some things did change pretty quickly. Not least was Allan Leighton's attitude towards pensions. It was not just in his letter of 2003 where he was proclaiming that he had been asked to secure pensions, which he had, and he wrote, "We will secure everyone's pension by putting £100 million into the fund each year until the current pension gap is filled"; no suggestion of reviewing the pension arrangements. Indeed, in March of this year, literally just before the beginning of the dispute, the Royal Mail Pension Plan people write out to their members saying, "No changes are being made to members' benefits or the rate of members' contributions as a result of these funding arrangements". Then, just before the proposals came forward, they effectively started talking about shifting the basis of the pension scheme when assurances had been given to workers that there were going to be no changes to the pension scheme consistent with the assurances given a few years earlier by Mr Leighton. Do you not accept, Secretary of State, that Royal Mail employees might find opening the debate on pension entitlement literally within days of receiving a letter saying that was not going to happen might just have created concern, alarm, disquiet, anger at management?

Mr Hutton: Of course I am sure it created all of those things.

Q37 Roger Berry: And was that not unreasonable?

Mr Hutton: It is just as important to remind ourselves that the pension Trustee will be involved in necessary scheme changes and regulations, and there is a proper 60-day consultation period that has to be pursued now in relation to these scheme changes, but, again, I think you will find that the Royal Mail is in the same position as virtually all of Britain's leading companies at the moment in having to look again at aspects of their pension offer. There is a significant deficit in the Royal Mail pension scheme, several billions of pounds, I think probably the largest of all of Britain's biggest companies, and it has to be addressed in a sensible way. I do not dispute that it is very difficult when workers are given these sorts of options and choices. None of them is palatable. Of course it will create the sort of emotion and reaction that you have described, but that does not mean that therefore the only response for management is not to engage in making those kinds of changes.

Q38 Roger Berry: No, but, Secretary of State, Mr Leighton has years of experience. If he was saying four years ago that there was no problem in relation to pensions then either he had done his homework and there was no problem in relation to pensions or he clearly had not done his homework and he was misleading people. The fact is that you and I know perfectly well that a large number of Royal Mail employees believe they were deliberately misled, and when a letter goes out in March assuring people that there are no proposals to change pension arrangements to then open negotiations in relation to this matter within a few days creates a groundswell of anger. As Members of Parliament we have just received our pension statements. Can you imagine how we would respond if in the next 24 hours somebody were to say to us, "Oh, by the way, forget that letter you have just had through the post with the assurances from top management. We are going to start negotiating on pension plans"? We would regard that as unreasonable.

Mr Hutton: I do not dispute for a second that having to engage with these issues about making the pension scheme affordable and sustainable in the long term going forward does involve some very difficult choices for pension scheme members. I accept that and I am quite sure from my own experience of how we would all feel ourselves that dealing with these changes is always going to be very difficult; it is difficult. Of course, I am not going to dispute either that this might well have cast some shadow or cloud over the negotiations as well. I am obviously prepared to accept that; that is a simple statement of the obvious, but I will just come back to one other point that I am trying to make, obviously not very well, that despite all of those difficulties this has to be done; this has to be addressed. I am not going to argue with you about the timing and the sequencing and everything else, you might be perfectly right about that, but I think there is no hiding from the fact that these issues will have to be addressed going forward. There is a consultation period. I think the union still has one or two issues in relation to the scheme changes that are being proposed and that discussion should continue, and obviously this is an issue that has to be resolved, again in that context, but I just think it is again a statement of the obvious—I have made one; I will make another—that these changes have to be engaged with and there is no place you can go where you can somehow brush this away.

Roger Berry: I think perhaps we are talking past each other. I entirely agree that one always has to look at flexibility in working practices continuously; no question about that, and if Mr Leighton did not know this four years ago everybody else did. Pension funds are facing difficulties and these issues have to be addressed. I am not arguing for maintaining the status quo in any respect. My point is not that. My point is, is it not understandable that Royal Mail employees felt an enormous lack of confidence in management that was telling them one thing one day and then coming along with a package of changes the next day that were going to fundamentally—

Chairman: Almost literally the next day.

Q39 Roger Berry:— almost literally the next day that were going to fundamentally affect their working practices, their pension rights and so forth? My issue is not that we should not all have to address greater flexibility in our work. My issue is not that there are not issues about pensions that need to be negotiated properly. My issue is, is it not entirely understandable that a lot of Royal Mail workers found it beyond belief that the management of Royal Mail kept shifting its position? One minute it was, "I'm the nice guy. I write really chatty letters. We have listened to your views about pensions. It is sorted. We agree with going home when you have finished the job. We agree with all that. Trust me: it's fine", and then turning round and changing it. That is my point, that management, it seems to me and certainly to my constituents with whom I have discussed this and, as you say, Secretary of State, you have discussed it with yours as well, it is this issue about, "Can we trust them? They are trying to pull a fast one again". That to me has been a major cause of the concern and in my view that seems legitimate. You are, if I might say, in a slightly difficult position perhaps in this as the sole shareholder, but you do confirm you understand why there has been real anger on the part of many people who work for Royal Mail because of management shifting their ground?

Mr Hutton: I do accept there is a lot of anger in the organisation and it is aimed, yes, at management, some of it is aimed at the union, and some of it is aimed at me. That is obviously so. There is a lot of anger in the room. I hope you feel a bit better now. Let me make two points about what you have just said. I need to reflect a little bit more carefully and maybe come back to the Committee, Chairman, about the chronology that you are describing here because I am not sure it is absolutely 100% accurate. My understanding is that on 8 February the Royal Mail made it clear that they were looking at pension reform and would be taking forward proposals shortly. I would like to come back to the Committee about this particular point.

Q40 Chairman: Secretary of State, I will share with you the letter of March 2007 from the Royal Mail Pension Plan Chair of the Trustee, Jane Newell, which does include a caveat which says, "The Trustee will write later this year in connection with the recently announced Royal Mail consultation on pensions". To be fair, it does say that, but the tone of the letter is overwhelmingly reassuring.

Mr Hutton: From the Chair of the Trustee?

Q41 Chairman: Yes. I will share this letter with you. I would take it as meaning, "Your pensions are not going to change much".

Mr Hutton: Again, I think it might be important to be clear what we are talking about. It may well have been the case, and I need to check this too, that the Chair of the Trustee of the pension scheme was talking about whether there would be any need for scheme regulations as a result of any changes to the fundamental package of the pension offer that the Royal Mail were providing to their staff. I have met

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the Chair of the Trustee and she said to me that she still was not clear whether, even taking into account the changes that were being proposed, that would necessitate a change in the scheme regulations. This is a matter for the Trustee to reflect on and I do not have that letter in front of me so I do not want to argue the toss about that; I am not in a position to do that. I do not think it is a matter of dispute, Chairman, that on 8 February the Royal Mail management themselves said that they were looking at pension reform and would be bringing forward proposals in that regard. I really do not think that is a matter of dispute and I can set out the details of the 8 February announcement, if you like, in due course. The second point that Roger made, and I think this is more fundamental, with respect, is this question about trust. The organisation is facing some very aggressive competition, I should welcome that competition; it is the best way to drive up innovation and service improvement. I welcome that and I think the Royal Mail does too; it should do, but if it is going to really thrive in this more competitive market place a fundamental pre-condition for that will be that everyone in the organisation shares the challenge and they trust each other to deliver it. Of course, it is going to be much harder to make these changes if there is an absence of trust in the organisation. Trust might well have been affected by all of these debates and problems in the last few months and the industrial action; it is fairly clear it probably has, but the focus now, I would respectfully suggest, now I think we are closer to getting this agreement ratified, is to try if we can to put that behind us and focus on the challenge ahead because it is a big challenge. If we go on raking over the coals then I do not think the organisation is going to be best placed to rise to the challenge it faces from its competitors.

Q42 Roger Berry: Yes, everyone, I think, hopes the matter is now resolved. The sad thing about select committees is that we exist to rake over the coals. My points about perceptions and management style and so forth have been made; they are on the record. They are issues that clearly do need to be addressed, as you rightly say, because at the end of the day an organisation will only thrive if there is trust between management and the workforce and that is critical.

Mr Hutton: Very quickly, Chairman, before you move on to something else, there is the opportunity in the agreement for people to build, hopefully, a stronger basis of trust going forward. One of the working groups that will be set up post the agreement, if it is ratified, will be to look at future industrial relations within the Royal Mail. Clearly that needs to be done and I think that is going to be very welcome.

Q43 Mr Weir: I am very glad to hear that because one of the things that seemed to happen during the dispute was that some of the statements from management were almost throwing petrol on the flames; it appeared like that to outsiders. Do you believe the tone adopted by Royal Mail management was helpful during the dispute? You

have just said that there will be a working group looking at this. Do you think that Royal Mail management have to perhaps look more closely at what they are saying to their workforce when they are in negotiation or dispute, given what has happened here?

Mr Hutton: Do you have any specific examples for me to consider about throwing petrol on the fire?

Mr Weir: I remember the case when Adam Crozier made a statement about workmen, and I cannot remember the exact words, which I believe led to some wildcat strikes.

Chairman: Can I just come in? There was a sense for me, and perhaps it was just my impression and I formed it wrongly, that in some sense management was trying to demonise the union for practices that had been freely offered by management a few years earlier, or in some cases even insisted upon, for example, flexibility in sorting centres. The basic jobs of sorting, delivering and driving, they used to enjoy mixing and matching them. In the early nineties the then management took that away and said, "We insist you are one or the other", and then there was a sense that they were being blamed by current management for saying, "But that's what you said we had to do 15 years ago". It is that sense of workers being demonised for practices management either freely offered or insisted on in the past.

Q44 Mr Weir: And referring to the Spanish practices, I think, that there were at the time and being unable to come up with a list of the 92 that they claimed went on in the Royal Mail.

Mr Hutton: I have not seen any statement made by Royal Mail management that demonises the staff at the Royal Mail. If you feel that there are statements that demonise staff at the Royal Mail I would very much like to see them. I think what management was trying to do was point out the need for change in the union position.

Q45 Chairman: But they got it wrong in the past. They should have said, "We should not have offered you that and we need to change it", not, "It is your fault for doing it". It should have been, "Sorry".

Mr Hutton: I personally have a lot of sympathy with that particular point of view.

Chairman: There is a letter I have got here from July 2003. I do not see many letters from Mr Leighton to his staff, but Roger rather kindly referred to it as his inimical style, and it almost literally begins, "I got into trouble last time for writing to you direct . . . telling it straight. Well tough, that's how we do things around here now". I just do not think that is the way a grown-up writes to a workforce, frankly. That is four years ago, to be fair.

Q46 Roger Berry: Not unless it has had the desired effect.

Mr Hutton: Chairman, Allan Leighton is the Chairman of Royal Mail. He is clearly free to write to staff in whatever terms he wants to, but, of course, there are consequences if the style and tone misfire.

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I do not personally feel that if that is the limit of the quotation that can reasonably be described as demonising Royal Mail staff, with great respect.

Q47 Chairman: It just all adds up to a picture that is slowly emerging of the attitude to the way industrial relations are conducted.

Mr Hutton: Look, he has to put the argument in the way he thinks is best. That is his job as Chairman.

Q48 Chairman: It clearly was not best. They had a big dispute.

Mr Hutton: Yes, but I doubt personally whether the dispute really was down to those two sentences in a letter of July 2003.

Chairman: No. To be fair, I do not think that is right as well.

Q49 Mr Wright: What I want to say on this particular point is that where we were talking about pouring petrol on the flames was when Royal Mail provided the *Daily Telegraph* with a list of 12 of the 92 Spanish practices in the middle of a dispute. To supply the newspaper in the middle of negotiations with some of the details of the negotiations that were going on I think was certainly unhelpful at that particular time. I just think that sort of thing would not be helpful in any dispute, however long it had gone on, and would certainly be saying, "These are the outdated customs and practices", albeit they were customs and practices that no doubt were negotiated and were given freely at that particular time. I believe that if they want to make these changes it should be through negotiations on a one-to-one basis and not through a third party, especially through the media. In that particular case it did not help them out, and okay, it was probably at the beginning of October, but I think at that particular time it was more sensitive than anything. Obviously, I am very pleased that the matter has been resolved now but I really do not think what we should be party to is using the power of the media, if you like, to say, if we want to demonise or put it clearly, "These are the working practices". To be perfectly honest, these should have been negotiations behind closed doors between the union and the management to say, "These are the issues that we need to address", and not put the details out to the general public and say, "Look: this is Royal Mail. This is what we are defending here". That was not the way to do it.

Mr Hutton: You might be right, but maybe it was not just the Royal Mail that was trying to get out into the public consciousness what the dispute was about. I do not think you can say it was just the Royal Mail management that were trying to communicate to the public about what this dispute was about. The Communication Workers' Union were doing so as well and I have to say from my perspective I did not feel that it was inappropriate for the Royal Mail to make those comments. I do not feel it was inappropriate for the Communication Workers' Union to stand up and say, "Look: this is what we think the dispute is about and this is what we are fighting for". I think it is very unlikely that a

dispute that has gone for as long as this, and for several months involving quite extensive industrial action, was ever going to remain an entirely secret process which the public were going to be excluded from. The public had every right to know, if I am being honest, what this dispute was about. Of course, you can argue about the impact on the negotiations and so on, but I think if you were to look at the events, when did things actually start to come together and reach an agreement? It was from the early part of October when you are describing the Royal Mail's intervention as being profoundly unhelpful. I would just respectfully say that it was not just one side that was trying to get its point across to the public.

Chairman: I want to move on to the future, which is also very important.

Q50 Mr Bone: I am glad, Chairman, we have got to the bottom of this matter. It is obviously all the fault of the European Union because it is Spanish practices. Seriously, you have heard the criticisms from Mr Berry, Mr Weir and Mr Wright about the management. When the dispute is finally signed and sealed are you going to call the management in and say, "You landed me with a complete disaster. You embarrassed the Government. You made us look incompetent, you made us look as if we could not run our own postal service. You have got to do a lot better or you are fired"? Are you going to say that to them or are you going to just do nothing?

Mr Hutton: The business has got to do much better and that is the responsibility ultimately of management. Of course, there will be consequences for the management team if the business does not improve. We have made significant amounts of investment available on commercial terms, predicated on the assumption that there is a proper return, and management ultimately holds the buck. If the taxpayer is not getting a proper deal then, of course, there will be a need for change in the Royal Mail, but I am not going to sit here today, Chairman, and negotiate over senior management's jobs in the Royal Mail. I am not going to get involved in personalities or in anything specific because I think would be quite improper at this point.

Q51 Mr Bone: But you must be concerned. As a government minister you cannot be happy with the Royal Mail going on strike.

Mr Hutton: No, I am not.

Q52 Mr Bone: You must be concerned. Something went wrong and you have got to—

Mr Hutton: Of course.

Mr Binley: Just very quickly on this point, I am sorry that you have been hammered, and I think you have been hammered unfairly because it is not your fault, quite frankly.

Mr Bone: Oh, I do not know.

Mr Binley: No, I do not think it is. The Secretary of State has only been in the job for a very short time and the management have been there for quite a long time. There is no doubt, talking to my postal

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workers, that they feel that the way they have been spoken to over a lengthy period of time is totally unacceptable. I am a businessman. I have been around for a very long time in business. When a postal worker said, "This is not a fair-minded businessman. It is a business bully we are dealing with", I have to take some note. I recognise you cannot negotiate in this meeting but at some stage somebody has to tell the man that style is important in terms of industrial relations and I wonder if you might think about doing that, and I do not expect an answer, but for the good of our Post Office you need to.

Q53 Chairman: You can take that as rhetorical if you like. Secretary of State.

Mr Hutton: I think I do need to respond to one point that Brian is making. I do not accept the criticism that the Royal Mail has acted like a bully boy in this case; I do not. I think they started negotiations in March and negotiations lasted a very considerable period of time. The fact that they did not reach an agreement I think cannot fairly or exclusively be laid at the door of management. I just think that is an unreasonable analysis. I think it is a flawed analysis and I think it does not take into account the complexity of the package of changes that the management were trying to get through the business in a short period of time to meet the challenge of competition as they see it. Yes, people can do things better. Are there lessons to learn? I am sure there are, and that is why one of the things that will be done jointly between management and union is looking forward at how industrial relations should be done in the Royal Mail. I welcome that. I think that is necessary. You cannot go through this type of experience in a company and think that everything is fine. Things are not fine in the Royal Mail, that is palpably obvious, and I think what both union and management must do, because there are two sides to this and the two of them have to work together, is find a sensible way to put this behind them and get on with the job. I do believe that there are grounds for optimism for the Royal Mail but they are going to have to pull their finger out, all of them, and try and respond to the challenge of a changing market place if the taxpayer is going to be confident that it is ever going to get a return on the huge investment that we have put into this organisation.

Q54 Mr Hoyle: You have given us a lot of reassurances. Can you give us another reassurance; that we are going to retain the ownership of the Royal Mail?

Mr Hutton: We are not looking at the issue of ownership.

Chairman: What I will do is interrupt there and ask Tony Wright to ask his question. It may flow from those points.

Q55 Mr Wright: In respect of the dispute we know that it will do some damage. People will look for other deliverers and the service that they provide. Have you made any assessment of the damage to Royal Mail's reputation and future prospects?

Mr Hutton: We have not made a quantitative analysis of that. I think it would be quite difficult to do there. There is no doubt at all that there has been economic damage done to the Royal Mail. I think we will probably all only understand the damage over the next few weeks and months. Will it have lost some customers? I think pretty certainly it has done, business customers in particular, and it is going to have to work flat out to restore its reputation which has been pretty badly tarnished by this whole sorry state of affairs.

Q56 Mr Wright: You mentioned earlier setting up a working party to look at this. Will part of that working party look at examining the plans for the future of the Royal Mail?

Mr Hutton: The working party that I referred to, we are not setting up. The Union and the Royal Mail management are setting it up. This is something that has been encompassed within the terms of this agreement that has recently been ratified by the Executive. There is commitment in my party's manifesto to do during this Parliament a review of the liberalisation rules as they affect postal services and I think we will now need to reflect on how quickly we can get that review under way now that, hopefully, the industrial dispute is over. I think it would be wrong to have done this during the dispute; I think it might have created certain tensions which we could have done without, but I think we should now consider very quickly how we can proceed with this. Just going back to the point about Europe, because I know Peter made it, I would have thought in this case and in this sector you would be celebrating the contribution that the European Union has made because it has been through pressure in Europe that we have now got to a situation where across the European Union we will have a proper liberalised market for postal services, and it will be happening.

Q57 Mr Bone: I actually said that there have been a number of colleagues appalled at liberalisation—

Mr Hutton: There has been, yes, but we have got agreement now, and I think you cannot possibly say—

Q58 Mr Hoyle: Why did we liberalise in front of Europe?

Mr Hutton: Exactly.

Q59 Chairman: Can we come back to Lindsay's question? Privatisation of the Royal Mail—on or off the agenda?

Mr Hutton: It is not on the agenda. We are not looking at that at the moment.

Q60 Mr Wright: At the outset of the dispute Royal Mail had asked Postcomm whether or not they would take into account the dispute in their delivery targets. Do you know whether this has taken place?

Mr Hutton: I do not know the outcome of that. I think that is still a matter for discussion between the Royal Mail and Postcomm.

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Q61 Mr Wright: Finally, one of the concerns that the CWU has expressed, and indeed it was mentioned early on in the dispute, was over the question of the loan that was given by the Government to Royal Mail, that it was not being spent effectively. As a matter of fact, I think as late as June it had not been spent at all. What measures have you got in place to ensure that the £1.2 billion loan given to Royal Mail is going to be used quickly and effectively in bringing about modernisation?

Mr Hutton: The package has not been approved yet by the European Commission under the state aid rules. I think you are right that none of it has been drawn down yet by the Royal Mail. The precise sequence in which that resource will be drawn down I do not have in front of me but I am very happy to set it out for the Committee if that would be sensible.

Q62 Mr Wright: So you have got no timescale?

Mr Hutton: I am not sure I can give you a specific answer in relation to the timescale on that, but what is certainly true, because of the industrial action, is that the Royal Mail are behind in terms of the modernisation that they wanted to see in place, the improvements in technology and so on. There is a delay now, I am afraid, in getting that investment in but I hope it can be made up.

Q63 Mr Wright: When those discussions are taking place will you communicate with us?

Mr Hutton: Yes. I am very happy to do that.

Q64 Chairman: Can I just clarify, Secretary of State, that point about the state aid procedure? Your predecessor expressed confidence that there would not be a problem with the state aid procedure. I cannot remember what timescale was envisaged by him but I am slightly concerned that here we are in the second half of October and it has not been approved yet. Am I right to be concerned?

Mr Hutton: No, I do not think so. I think it is imminent, but again I would be very happy to write to the Committee setting it out.

Q65 Chairman: I would appreciate that very much indeed.

Mr Hutton: We remain confident that it does satisfy the state aid rules.

Q66 Chairman: There is no indication, informal or otherwise, that there might be a problem with that state aid procedure?

Mr Hutton: No. I have received no indication of that.

Q67 Chairman: Just to clarify my mind, you are going to consider what timescale and what mechanism to use for your manifesto commitment to review the Royal Mail in the light of all this?

Mr Hutton: Yes.

Q68 Chairman: Because already Postcomm have done a lot of work on the redefinition of the universal service obligation, I see, so you will have to dovetail with Postcomm's work, presumably, on the different aspects.

Mr Hutton: Indeed. We will obviously have to take that into account.

Q69 Chairman: Can you just clarify one point of detail for me? The report and accounts, have they been published yet?

Mr Hutton: I think they are going to be published this week.

Q70 Chairman: It is a little later than might have expected. I would have thought it might be well to have had them during the industrial dispute rather than after it.

Mr Hutton: I think it will be later this week. It has to be later this week.

Q71 Mr Binley: Can I just ask a supplementary to that because the commercial agreement reached between the Government and Royal Mail is in reality a commercial loan with the investment from Government having to be repaid over a defined period with interest charged on the money loaned to Royal Mail. Would you be prepared to release the commercial agreement for this Committee to scrutinise?

Mr Hutton: I will have to think about that.

Q72 Chairman: We can do that on a confidential basis if necessary.

Mr Hutton: If it is on a confidential basis it might be possible, but let me have a look at that.

Q73 Chairman: This has had a huge impact on the economy and our society, so to speak. We have talked a lot about the impact on Royal Mail and business lost to its competitors and business lost to the internet and so on as well, but what impact have you made yet with regard to the impact on the wider economy of this dispute? You say we have been raking over the coals a bit. It is true, we have been. It is to make sure that lessons are learned to make sure this kind of damage is not repeated.

Mr Hutton: There is a place for raking over the coals, I do accept that, and this is the place, obviously, for that to be done. We have not, as I said, yet made a quantitative analysis on what we estimate the cost of this dispute has been. It has been significant, I do not think there is any question about that, but in relation to the Royal Mail we will not be clear about the damage and how permanent it has been for some time. My very earnest hope is that now that there is an agreement in sight both sides share this common agenda that I referred to about doing all they can to help the Royal Mail succeed. Without that common bond of trust between staff and management that task will be made very much harder.

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Q74 Chairman: The impacts have been very wide and varied. Charles Kennedy in the House last week or the week before put down questions about loss of blood samples in the post. I was hearing about a care home that has not been able to employ its staff because the post is all held up in Liverpool, which is always a bit of a problem for the post. Whether it is wise to put government offices in Liverpool I am not quite sure when you need a reliable postal service, but never mind; it is one of the more difficult areas for industrial relations in the Royal Mail Group. It is not just an economic impact. It is often a very serious social impact as well.

Mr Hutton: That is undoubtedly true. I think probably some of the keenest damage has been felt by small businesses, and that is a matter of very real regret. There is, in relation to Royal Mail's bulk customers, the prospect of compensation being paid for failure to deliver, but that, I think, is a matter that is being discussed between the Royal Mail and Postcomm at the moment.

Q75 Chairman: And that really helps the finances of Royal Mail Group as well.

Mr Hutton: Well, it will not, but look: you do not have this type of dispute and then somehow imagine that it is going to have a positive impact on the finances of the company. This has been nothing but a problem for the Royal Mail and therefore for the taxpayers who have invested in it.

Q76 Chairman: We have spent a lot of time, implicitly or explicitly, attacking the management of Royal Mail Group and you have insisted there are two sides to every argument. Just give me your assessment of the Union's role in this dispute.

Mr Hutton: I think the Union have tried to respond to the challenge of change that faces Royal Mail. I think in the past they have shown a willingness to change and adapt. My own personal reflection is that I think they found that the size and magnitude of the change now confronting Royal Mail quite a difficult and thorny issue to deal with, but I think they have tried genuinely to engage with Royal Mail. I think they have tried to find a way forward on this but it has proved very difficult for them as well. They have their conference and mandates and so on that they were trying to operate within. With great respect, Chairman, I am going to try my very hardest to avoid pointing the finger of blame at anyone. I think we could run the risk of reopening the discussion we had earlier. My view of all of this is that this should never have come to industrial action. My own belief is that it was perfectly possible to find a way forward on these proposals without industrial action, which I think has now caused massive damage to the company, huge inconvenience to our constituents and a lot of financial loss to hundreds of thousands of thousands of decent, hardworking postal staff who probably themselves now are left scratching their heads wondering what all this was about. Clearly, there are lessons to be learned. I do not dispute that.

Management and unions together have to find a better way of dealing with their business in the future.

Q77 Chairman: I think we are risk of repeating previous answers. I will just move onto the last and completely separate area of questioning. This Committee expects, if we are reborn in the new parliamentary session, as we expect to be, to do an inquiry into the post office closure programme, probably in the early spring of next year, to see what progress has been made. There is one particular issue there now that I would like to raise with you of which I give you prior notice. There was concern expressed over the summer that sub-postmasters and mistresses were not free to express their views, that mystery shoppers were being sent out to ensure they were sticking by the Post Office line. Obviously, that is rather worrying because they need to be able to inform their customers about what is happening and their views on what is happening. The Post Office assured me that that was a mistake. They said publicly that it was a mistake. They withdrew the letter, but the fact that such a mistake was made in the first place alarmed me very considerably and I have seen a report in the *East Anglian Daily Times* from 11 October which said that a spokesman for the Post Office Ltd is quoted as saying that sub-postmasters were "encouraged not to talk about the proposals before they were presented for the consultation process at the agreed time rather than the information coming out during the planning process", so they are still being encouraged—and what form the encouragement takes I do not know—not to be completely frank with their customers and, as I say, that worries me.

Mr Hutton: It worries me too. If that is what is happening it should not be happening, it would be quite wrong to try and gag sub-postmasters and I will try and make sure, Chairman, that if there are any such examples of that we deal with them robustly. The company have made it clear that that letter should not have been sent. They have retracted it and they have apologised to the National Federation of Sub-Postmasters for what I can only describe in my terms—and maybe it is too Allan Leighton-like for this Committee—as a cock-up and it should not have happened.

Q78 Chairman: I think more Adam Crozier-like, actually. The reason that is important is that in my area the consultation process will be taking place during the school summer holidays, the last two weeks of July and the month of August, which I think is outrageous and I am trying very hard to get the Post Office to change its mind. This means that sub-postmasters and mistresses can only tell their customers what they thought of the plans when they are not there, when they are on holiday, and that seems a little unfortunate, so I do hope you will do all you can to ensure there is a maximum degree of openness in this very important and sensitive process.

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Mr Hutton: We will do that.

Q79 Chairman: If no other colleagues have anything they want to say on that issue, at precisely half past four, exactly an hour after we began, I can call this session to a conclusion. Thank you very much, Secretary of State, for your first appearance before

this Committee. I congratulate you on your appointment, of course. When next we meet, according to our plans, we will indeed be the DBERR Committee rather than the DTI Committee, so this is your first and only appearance before us.

Mr Hutton: It was a great pleasure.

Chairman: Thank you very much.

Memorandum submitted by the Department for Business, Enterprise and Regulatory Reform

1. At the oral evidence session on 22 October, I promised to provide the Committee with additional information and to clarify some issues that were raised.

TALKS CHRONOLOGY

2. At the session, I explained that the talks between Royal Mail and the CWU had begun in March and had taken a long time to reach conclusion. I attach a chronology of the talks at Annex A.

3. Throughout the process, both sides expressed a willingness to reach a conclusion through talks. The complex nature of the issues under discussion, which did not just cover pay, was probably a contributing factor to the length of time that it has taken to reach agreement.

4. I believe that the agreement that has been reached is fair and sensible and one that sets Royal Mail on a path to becoming a modern and flexible organisation, capable of reacting to changes in market and changing consumer needs. It is good for all Royal Mail's customers.

PENSIONS

5. I have now had the opportunity to see a copy of Jane Newell's letter of March 2007 to members of the Royal Mail Pension Plan. From my reading, the letter seeks to convey the outcome of the agreement between Royal Mail and Trustees about addressing the deficit over a 17-year period rather than 40 years and sets out the contributions that Royal Mail would pay into the fund. It also explains that £1 billion has been put into an escrow account to act as security for the fund. This follows the agreement by Government to allow Royal Mail to use £850 million on the Royal Mail's balance sheet to be placed in a pension escrow account to support the pension fund. The company contributed another £150 million into a second escrow account thereby creating combined support for the pension fund of £1 billion.

6. At the Committee, members questioned whether this letter and Royal Mail's proposals for pension reform meant that the management was sending mixed messages to members of the pension plan and their benefits. I do not believe that this is the case for the reasons set out below:

Royal Mail made it very clear in its announcement of 8 February 2007 (copy attached at Annex B—*not printed here*) that it intended to come forward with proposals for pension reform. From the press release, I believe that there can be no doubt about this.

The Trustee of the Royal Mail Pension Plan operates independently from Royal Mail management. It was their decision to write to members of the plan in the terms set out in the letter. The letter contains good news as it reflects the agreement reached to address the pension deficit over 17 years and the additional security afforded by the pension escrow accounts. These two developments were significant and it seems sensible that they should be conveyed to the members. The letter clearly states, as you pointed out at the oral session, that the Trustee will write to members later in the year about Royal Mail pension consultation announced in February.

7. Both UNITE and the CWU have announced that they support these proposals but during the consultation process, the CWU has indicated that it wishes to explore with the company alternatives to the closure of the scheme for new entrants and the terms of the new proposed DC scheme.

STATE AID

8. I should clarify the state aid position relating to our support for Royal Mail and POL.

9. As Royal Mail operates in a fully liberalised market, any support that we provide to the mail side of the business has to be on a commercial basis. When putting the package together we have to ensure that it meets the requirements of the Market Economy Investor Principle (MEIP). We do not need to notify the Commission if we are satisfied that the support is commercial.

10. For POL, the support that we are providing is not commercially based and, therefore, we are required to formally notify the Commission and seek clearance.

11. The finance framework that we agreed in March 2007 (the £1.2 billion of debt facilities and the use of reserves on the Royal Mail balance sheet for the escrow account) and previous support provided to the mail side of the business, is under investigation by the Commission. There is no timetable for this investigation. My Department has provided the Commission with information to enable them to assess whether the support meets MEIP requirements. I am confident that the Government's support does meet these requirements and that we will be able to demonstrate this to the Commission.

12. The £1.7 billion funding package for the post office network has been formally notified to the Commission. There have been a number of iterations with the Commission about our notification. We believe that these have gone well but, of course, we must await the Commission's decision which we hope will be published before the end of the year.

COMMERCIAL AGREEMENT BETWEEN GOVERNMENT AND ROYAL MAIL

13. I said that I would consider letting the Committee have a copy of the Commercial Agreement relating to the 2007 finance framework for Royal Mail. After giving this careful consideration, I do not believe that it would be appropriate for me to let you have a copy. The full terms of the agreement are a commercial arrangement between Royal Mail and the Government as lender and are subject to a confidentiality agreement between us.

14. However, I appreciate that the Committee will wish to have details of what is covered by the Agreement so that they can scrutinise them. I have therefore prepared, at Annex C, a summary of the Agreement. This sets out the main points of the Agreement and I believe that it will enable you to understand the nature of the commercial deal that has been put in place.

15. So far Royal Mail has not drawn down on the debt facilities. It will do so on a commercial basis when it requires additional capital for the implementation of its modernisation plan as this progresses over the next few years. Given that use of the facilities involves interest charges, we expect that Royal Mail, like any commercial borrower with similar facilities, will seek to carefully manage its use of these facilities so that it minimises the cost to the business.

16. I hope that you find the above helpful. If you have any further queries about the above or what I said at the session, please do not hesitate to contact me.

Annex A

TALKS CHRONOLOGY

<i>DATE</i>	<i>ACTIVITY</i>
08-Feb-07	Pension strategy briefing
21-Feb-07	Strategic Forum 1—RM explaining the strategy to the CWU
07-Mar-07	Strategic Forum 2—RM explaining the strategy to the CWU
16-Mar-07	Pay Negotiations—Session 1
23-Mar-07	Pay Negotiations—Session 2
26-Mar-07	Pay Negotiations—Session 3
27-Mar-07	Pay Negotiations—Session 4
28-Mar-07	Pay Negotiations—Session 5
02-Apr-07	Pension consultation process starts (the first of 8 formal sessions)
03-Apr-07	CWU Postal Executive Committee (PEC) Meeting
04-Apr-07	Pay Negotiations—Session 6
05-Apr-07	Pay Negotiations—Session 7
13-Apr-07	Pay Negotiations—Session 8
13-Apr-07	Detailed CWU brief to Branches
18-Apr-07	Pay Negotiations—Session 9
26-Apr-07	Pay Negotiations—Session 10
01-May-07	ACAS Senior National Conciliator contacts Royal Mail and CWU
01-May-07	CWU Postal Executive Meeting
03-May-07	Pay Negotiations—Session 11
14-May-07	Pay Negotiations—Session 12
15-May-07	Notice of intention to ballot CWU members
16-May-07	Formal notification of Ballot
22-May-07	CWU Ballot opens
07-Jun-07	ACAS contact both parties to offer facilitated talks
07-Jun-08	Ballot result announced

<i>DATE</i>	<i>ACTIVITY</i>
we 11/06/07	ACAS contacts both parties separately to discuss potential talks
20-Jun-07	ACAS talks
25-Jun-07	ACAS Talks
27-Jun-07	RM Statement to media post ACAS
27-Jun-07	Chairman / CEO meet with Billy Hayes / Dave Ward
29-Jun-07	Strike 1
05-Jul-07	CEO letter to Billy Hayes / Dave Ward
12-Jul-07	Strike 2
13-Jul-07	RM Statement—willing to talk
25-Jul-07	2 week rolling strike begins
31-Jul-07	Further talks at ACAS
02-Aug-07	Further talks at ACAS which conclude without agreement
02-Aug-07	CWU announce further rolling strikes
06-Aug-07	3rd week of rolling strikes begin
07-Aug-07	CWU talks with Chairman / CEO
09-Aug-07	Joint statement issued—cooling down period to facilitate further talks. Notified action withdrawn.
09 Aug–04 Sept 07	RM / CWU talks at ACAS / TUC
04-Sep-07	Chairman / CEO meet with Billy Hayes / Dave Ward
05-Sep-07	Talks continue and widen group to bring in relevant experts.
08-Sep-07	Talks continue through weekend
09-Sep-07	Talks break up without agreement
13-Sep-07	RM informs CWU that it will implement range of changes via executive action. Meeting with CWU
20-Sep-07	CWU announce 48hr strikes (x2) for October
26-Sep-07	RM / CWU talks at TUC. ACAS stepped back to allow talks to continue in a smaller group, but maintain contact with all parties
28-Sep-07	RM / CWU talks at TUC
03-Oct-07	Talks resume at TUC with Royal Mail and CWU.
04-Oct-07	RM & Unite / CMA reach negotiated settlement on Pay and Pension
03-Oct-07	Talks continue with CWU
05-Oct-07	48 hour strike but talks continue
06–07 Oct 07	Talks continue round the clock over the weekend at TUC
08-Oct-07	RM Statement—willing to talk despite breakdown
08-Oct-07	48 hour strike
10-Oct-07	Talks reconvene at TUC
12-Oct-07	Negotiators reach agreement to be put to PEC. Two year deal (5.4% in October; 1.5% from April 2008 provided changes made to working practices; £800 plus 50:50 productivity deal).
12-Oct-07	RM wins injunction on incorrectly notified strike action
16-Oct-07	CWU calls off further Industrial Action
17/19-Oct-07	Talks to consider PEC issues of clarification
19/10/2007	CWU confirm there are no issues outstanding
19-Oct-07	Points of clarification reviewed by the EC
20/21-Oct-07	Further talks / clarification over weekend
22-Oct-07	PE ratifies agreement and decide to ballot members

Annex C

2007 FINANCE FRAMEWORK—SUMMARY

Parties to the Agreement:

- Secretary of State
- Royal Mail Holdings plc
- Royal Mail Group plc

The principle objectives of the Agreement are:

- the Mails Reserve on Royal Mail's balance sheet to be utilised to fund the "Holdings" escrow reserve (to be held on Royal Mail Holdings plc's balance sheet) and to ensure that HMG provides funding to top this up to £850 million;
- Royal Mail Group plc to set up a "Mails" escrow and to transfer £150 million into it;
- the Holdings and the Mails escrow accounts (totalling £1 billion) to be used to provide security in favour of the company's pension fund trustees;

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- the extension and rolling forward of certain debt facilities on commercial terms consistent with the Market Economy Investor Principle as it applies to state aid;
 - the agreement that Royal Mail can implement a phantom share scheme to provide employees with entitlements of a value over the period of the plan equivalent to a 20% economic interest in the projected value of the Royal Mail group of companies on the basis of management's plan.

The extended debt facilities are:

- £900 million senior debt facility, repayable in 2014 at commercial interest rates; and
- £300 million Shareholder loan, repayable in 2016 at commercial interest rates.

The agreement then sets out certain technical issues including:

- the mechanism for topping up the Mails Reserve and the creation of the escrow accounts. The Holdings escrow was to be created and credited with amounts from the Mails Reserve by way of a direction from the Secretary of State under section 72 of the Postal Services Act 2000;
- that the Royal Bank of Scotland is the custodian of the escrow accounts;
- a mechanism for the release of the amounts in the escrow accounts in the event that these are required by the Trustees or can be released for other use in due course;
- that Royal Mail pursues the transformation of the business using the funds made available;
- that Royal Mail, in relation to the phantom share scheme, commits to communicating the details of the scheme (including the agreed rules of the scheme) to participants in a clear and understandable manner and on the agreed terms;
- that participants in the phantom share scheme can receive pay outs of up to the agreed cap of £5,300 including target stakeholder dividends over the period of the plan;
- various general clauses covering information and monitoring arrangements, confidentiality arrangements and completion date mechanisms.

15 November 2007
