The Post Office: a case study

The Post Office (including the telephone and mail services) became a public corporation as a result of the 1969 Post Office Act. As a public corporation, it was not allowed to pay dividends to Government. Instead, the Act required a proportion of any retained profit to be used to purchase gilt securities issued by Government. These gilts remained on the balance sheet of the Post Office but, importantly, could only be used under the direction of Ministers. Until relatively recently, the Post Office was highly profitable. The current value of gilts held by the Post Office is well over £1 billion.

The 1999 White Paper on the reform of the Post Office continued this arrangement. A target of 40% of retained earnings should be invested in gilts each year. There is also a minimum target value of gilts to be purchased each year to ensure that public expenditure is not affected by fluctuations in the trading of the Post Office. The White Paper also set out the circumstances where Ministers would use the financial reserve that has been accumulated. Transfers have been made to maintain rural post offices and to finance reform of the Post Office. These costs have, as a consequence, not had to be paid directly by customers.

It is clear that the creation of this financial buffer over a large number of years has assisted the Post Office in the current business climate. It would seem sensible to adopt a similar approach in our funding of the public sector water industry in Scotland.