



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to Postcomm's Forward Work Plan

March 2010

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We welcome the opportunity to comment on Postcomm's Forward Work Plan 2010-12.

Consumer Focus is the independent champion for consumers across England, Wales, Scotland, and for postal consumers in Northern Ireland. We operate across the whole of the economy, persuading businesses and public services to put consumers at the heart of what they do.

Our comments on Postcomm's Work Plan are made from the perspective of our experience of championing consumers' interests in private and public sectors. We have a particular focus on the interests of consumers in markets such as post that are 'designated' by Government as requiring additional consumer advocacy. We work to secure fairer markets, greater value for money, and improved customer service. We have a commitment to work on behalf of vulnerable and disadvantaged consumers, and a duty to work on issues of sustainable development.

Key areas of work

Overall, Consumer Focus believes that the Plan covers important issues in sufficient depth, and we are pleased that there is a clear focus on consumers' interests and on the future needs of consumers in a changing market. We accept the suggested timetable of minor changes to Royal Mail's price control in April 2011 with more substantive changes in April 2012 and hope that Postcomm will achieve what is quite a challenging timetable. However, given that the Postal Services Bill was abandoned by Government on 1 July 2009, we are somewhat disappointed that it took seven months to issue the draft Forward Work Plan for 2010-12 and that even now its timescales are not more precise.

Joint research into consumer needs from the Universal Service Obligation

As the Plan states, Consumer Focus will be carrying out joint research with Postcomm into what consumers need from the UK universal postal service. Consumer Focus recognises the importance of effective joint working on this project to ensure that the best possible results are achieved within the agreed timescales. Mechanisms have been agreed to ensure the independence of both Postcomm and Consumer Focus.

In February 2009 Consumer Focus published *Rating Regulators*, its report into the extent to which the work of six regulators, including Postcomm, was able to deliver benefit to consumers. This report made some criticism of Postcomm for the perception it gave of being reluctant to engage directly with consumers, particularly individuals and small and medium-sized enterprises (SMEs). We are pleased to say that the proposed joint research provides an excellent counter to this criticism. In general, we would welcome the opportunity to continue working closely with Postcomm, and we would be pleased to explore further areas in which we might collaborate and/or learn from one another.

Affordability

We are pleased to see that Postcomm will carry out a project investigating affordability, especially as we are aware this will focus on low-income consumers. We are interested to hear further details of this project as they emerge, and especially any measures, other than price controls that are proposed to ensure future affordability. Consumer Focus cross-sector work on disadvantaged, vulnerable and excluded consumers may be helpful for this project.

Analysis of markets/price control

This is a very important strand of work, as market failure due to lack of competition can adversely impact all consumers. The investigation of market power is a key function of any regulator; the Plan states that Postcomm can, where appropriate, use price and quality of service controls to diminish any potential risk of abuse of Royal Mail's position, if it is found to have market power. However, the Plan also states that this analysis will allow Postcomm to identify any markets that do not require regulation or that have the necessary safeguards to allow a reduction of regulation. Removing or reducing regulatory safeguards should be approached with care, and Postcomm must ensure that rigorous safeguards are in place before any such steps are taken.

This will be closely linked to the projects on regulatory safeguards, and in particular the work on price control. Given the increased competition in the mail market and the fact that Royal Mail is losing market share and suffering declining revenues, Postcomm is proposing to investigate whether it should allow Royal Mail to increase its revenue by raising prices. However, Postcomm must be absolutely certain about the force of competitive pressures on Royal Mail before removing ex-ante regulation from certain products and services.

Postcomm notes that another means whereby Royal Mail could improve its profitability would be by reducing its costs, and therefore Postcomm should investigate this as an alternative to relaxing price controls. Consumer Focus has cross-cutting knowledge of improving efficiencies in regulated markets, and there are many parallels between our work in post and in other sectors such as energy. We therefore suggest that, in order for Postcomm to increase the incentives for Royal Mail to become more efficient, it should pay special attention to new developments flowing from **Ofgem's RPI-X@20 project**¹. If Postcomm deems that price increases are warranted and safeguards secured, we suggest that for Postcomm to recommend price increases Royal Mail must, as far as possible, only raise prices in response to rising 'efficiently incurred' costs.

We are pleased to see that Postcomm will be consulting consumers before making any changes to the current price control system. We are supportive of work on consumer-led regulation particularly as regards involving consumers in price regulation. Engaged consumers are the best judges of their own needs and consumers who are most vulnerable should in particular be empowered to have a greater voice in relation to the goods and services they use.

We would also suggest two further studies that Postcomm should consider:

- Firstly, a study of mail volume growth/decline in comparator markets would provide an interesting alternative perspective; the obvious comparisons would be with mail markets of other European countries, but a comparison with the American mail market might also be useful as the USA has experienced a severe decline in mail volume in recent years

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=emergingthinking.pdf&refer=Networks/rpix20/publications/CD>

- Secondly, related to this would be a study of trends in direct mail. In 2007, 4.65 billion items of direct mail were sent in Britain; this mail contributes revenue to the large fixed costs of Royal Mail's network and thus keeps the cost of postage down for social and SME consumers. However, this market is also in decline, partly due to a switch to internet-based advertising and, in recent times, the economic downturn (although there are signs that the decline has slowed in recent months; spend on advertising in September 2009 was down ten per cent year-on-year, while in May 2009 it was down 16 per cent²). In the context of a research-based assessment of future price controls, this would be an interesting source of evidence

Cost transparency

This is an absolutely crucial strand of work, as without this Postcomm cannot properly deliver a 'fair' price control or access regime. As mentioned above, safeguards are vital if Postcomm is to relax the regulatory environment surrounding Royal Mail, and cost transparency provides one of these safeguards.

In order for Postcomm to better understand Royal Mail's costs in different business areas, Postcomm will require Royal Mail to prepare separate accounts. This is important, and there are cross-cutting lessons that may well apply. For example, Ofgem has recently completed the design of separate upstream and downstream regulatory accounts for vertically integrated power companies³.

The access environment

The outcome of the work on cost transparency will also allow Postcomm to review the existing access conditions. The benefits to all consumers of access competition need to be more carefully considered ie if the access regime is set in such a way that the universal service provider is unable to cover the cost of the Universal Service Obligation (USO), this would be bad for consumers. It is also very important to review the link between access and end-to-end competition and clarify whether regulatory interventions are stifling or promoting the development of different forms of competition. Should this be the case, Postcomm will have to decide whether or not this is acceptable. Additionally, the scope and likelihood of full end-to-end competition should be examined. Despite the full liberalisation of the UK mail market in 2006, Royal Mail still delivers over 98 per cent of mail over the final mile, suggesting that end-to-end competition is not as strong as it might be.

Post Office network

We welcome Postcomm's continuation of their annual report into the Post Office network. We will engage with Postcomm to inform the preparation of the report, including their assessment of the physical coverage and reach of the network against accessibility requirements. Post offices provide an important link in the access chain, and we suggest that, as part of this network report, Postcomm report on Condition 9 – Guidelines for customers requesting access to Royal Mail's postal facilities (only DX group currently has parcel collection arrangements in place).

While we understand Postcomm will not be undertaking projects on the Post Office network over and above their annual report, we welcome Postcomm as a member of our Post Offices Advisory Group (POAG). As the postal regulator, Postcomm is an important voice in shaping and responding to consumer debates on the future of the Post Office

² Nielsen Company's Reading the Recession study

³ <http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Retail%20package%20-%20decision%20document.pdf> (pdf 1.12 MB) pages 33-36

network, including debates on future funding, accessibility and provision of Post Office services.

While Consumer Focus recognises the Post Office network is important as a means of offering universal access to a range of services of general economic interest, post offices remain the primary access point for mails services, and the contribution of Postcomm is important in this respect.

Other issues

We are pleased to see that Postcomm will 'refresh' its website. We would also welcome the return of a regular physical newsletter, and we note that Postcomm's 'COMMENTary' has not been issued since January 2009.

We are also pleased that Postcomm has pledged to use 'plain English' when writing all future documents. This will enable both consumers and organisations such as ourselves to engage more fully with Postcomm. This has particular relevance for Postcomm given the criticisms in *Rating Regulators* that its consultation documents are difficult for stakeholders to read, and its website lacks some accessibility features for disabled users. However, we are pleased to report that over the last year the clarity of Postcomm's documents has improved considerably.

Earlier we expressed some disappointment that timescales in the draft Forward Work Plan are very indicative (simply the relevant quarter of the year). What would be helpful to Consumer Focus and other stakeholders would be if Postcomm could have on its website a list of forward dates for relevant consultations, reports and meetings, updated as regularly as possible and appropriate.

Although there is no mention in the plan of Postcomm considering setting up a Consumer Interest Forum, Consumer Focus is aware that work on this has begun. This Forum would be similar to the Consumer Panel launched by Ofgem in October 2008. Ofgem's Consumer Panel consists of 100 everyday domestic customers, recruited from five locations across Great Britain. The Panel meets at least three times a year, usually in the evening for about three hours, and considers the following type of issues:

- consumer behaviour in relation to the energy market, eg perceptions of different suppliers, switching behaviour and information sources
- the services that more vulnerable customers such as those who are in debt, the fuel poor, and people with disabilities receive from their supplier
- people's attitudes to energy efficiency, environmental concerns and other aspects of sustainability
- issues encountered by those living in rural and remote areas
- customer satisfaction with the service provided by network companies

We suggest that Postcomm examines the case for a consumer interest 'toolkit' or similar process to better embed consumer interests. We recommend for study the Consumer Interest Toolkit developed for the Communications Consumer Panel by PricewaterhouseCoopers and used by Ofcom for several years now, and we would be pleased to facilitate provision to Postcomm of more information on how this toolkit has been developed and used.

Regulating in the consumer interest

Consumer Focus agrees very much with the statement in the Work Plan that

'regulation cannot guarantee a successful postal services industry. It cannot halt the developments of the digital world, stop changing social behaviours, nor change the economic climate. There are also a number of important issues that are outside our control and remit.'

In that context, we would draw to the attention of Postcomm our latest thinking on regulation set out in the booklet *Regulating in the consumer interest*. In particular, we would highlight our suggestion that

'there needs to be clarity over the medium and long-term outcomes that departments and regulators are working towards, in order to fulfil the statutory objectives. This might mean every government department publishing a strategic policy document for each regulated area within its remit. This would spell out the Government's vision and objectives for the sector in the forthcoming parliamentary term; what it intends to do to give effect to that vision; what it expects the regulator to do; and how it intends to ensure co-ordination of these two parallel streams of work. This would draw the Government out to say what it wants to achieve and provide an accountability framework against which the regulator's performance can be assessed.'

We suggest that Postcomm would do well to invite BIS to produce such a strategic policy document shortly after the coming general election so that Postcomm knows the context in which it is operating with its Work Plan and what it as regulator, and BIS as Government, will be doing respectively to fulfil the Government's vision and objectives for the postal sector.

National perspective

Postcomm operates in a devolved setting. One area of development for Postcomm is to increase its presence in Scotland, Wales and Northern Ireland, as highlighted in *Rating Regulators*.

Rating Regulators stated that even when a policy issue is a reserved matter, such as postal services, it is still important for the regulator to have a culture and approach which makes it a genuinely UK-wide organisation. With regard to Postcomm, *Rating Regulators* highlighted that although the needs of postal consumers do not differ as a direct consequence of living in certain nations of the UK, rural consumers may suffer disadvantage – and Postcomm's work priorities do not appropriately reflect the fact that there are greater proportions of rural consumers in Scotland, Wales and Northern Ireland.

We recognise that Postcomm's outreach activity and connections with decision-makers are good, but there are steps that it could consider taking to improve its presence in the nations. For example, Postcomm could:

- establish a physical presence – a permanent office – in the nations (perhaps using shared facilities to help address resource issues)
- appoint a Board member located in the nations, with specific knowledge of how the postal sector operates in these areas
- improve its links with devolved administrations and parliaments, and local consumer stakeholder organisations
- undertake specific projects targeted at the needs of Scottish, Welsh and Northern Irish post customers

One possible future national project for Postcomm relates to the performance of cross-border mail between Northern Ireland and the Republic of Ireland in which Postcomm has a regulatory interest. Consumer Focus Post (Northern Ireland) has recently published its findings into the quality of the standard mail service between Northern Ireland and the Republic of Ireland. A range of recommendations were made aimed at raising performance standards substantially, in the context of the programme of initiatives under the direction of the North/South Ministerial Council to improve communications infrastructure generally between North and South. These recommendations will involve calls for action by Postcomm in conjunction with other key stakeholders in Northern Ireland and the Republic.

Lastly, we were disappointed to see that this Forward Work Plan was not published in Welsh. This is particularly pertinent in light of the introduction by the Welsh First Minister on 4th March of a draft Welsh Language Measure. This is designed to promote the use of Welsh by public and private services in Wales, and will require the provision of a Welsh language service, both written and oral.

We trust these comments and suggestions for your work plan will be helpful. There are many overlaps between the work of both organisations and the opportunities for collaboration should be fully exploited.



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