

Consumer Focus Board

Paper 8.3

Title: Policy and advocacy focus for postal issues

Purpose: For Decision

Date of meeting: 15 September 2009

Responsible officer: Robert Hammond

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Attachments: Annex A: Letter from Lord Mandelson to Lord Whitty re the Postal Services Bill

1 Overview

- 1.1 This paper outlines the policy and advocacy focus for postal issues, which takes into account the Government's decision to defer the Postal Services Bill and the intention to 're-launch' Postcomm; and the ongoing use of research into the impacts of a sale of a minority stake in Royal Mail, carried out by Europe Economics.

2 Action for the Board

The Board is asked to:

- 2.1 **NOTE** the attached letter from the Secretary of State for Business, Innovation and Skills to Lord Whitty in response to his letter on the regulatory proposals of the Postal Services Bill.
- 2.2 **AGREE** the proposed strategy for postal issues.

3 The key issues

- 3.1 On 1 July Lord Mandelson announced that the Postal Services Bill would be deferred until market conditions changed and a suitable strategic partner for Royal Mail could be found. Consumer Focus subsequently wrote to the Secretary of State calling on the Government to advance the regulatory proposals to establish clarity on the issue of postal regulation and reduce the likelihood of negative impacts for consumers as a result of the Bill's delay. We received a response on 3 August, which reiterated the Government's position that all of the Hooper recommendations should be advanced as a package in order to best secure the universal postal service. Lord Mandelson wrote:

Sustaining the universal service depends fundamentally on modernising Royal Mail, and changes to the regulatory regime alone will not bring about the company's modernisation. Many of the other constraints will remain in place, poor labour relations for example. It is this, modernisation of Royal Mail, which will sustain the

universal postal service and give consumers what they need.... In due course, when conditions allow us to return to the Bill – and subject to the will of Parliament – regulatory responsibility for postal services will pass from Postcomm to Ofcom.

- 3.2 Royal Mail continues to face significant problems, including inefficient performance; its growing pension deficit; the limitations of pricing changes; the state of industrial relations and the relationship with the regulator. On 18 August Royal Mail briefed Postcomm and Consumer Focus on their contingency plans for the escalating industrial action, which has in part been driven by disagreement between the CWU and Royal Mail over its modernisation, which continues to be of critical importance. The impact of the strike action has hitherto not been significant, but the worsening situation is starting to affect consumers and small businesses.

4 Consumer Focus activities

- 4.1 In November Postcomm will 're-launch' as the sector regulator, after which it will carry out both a review of the postal market in collaboration with Ofcom and the delayed price control review. Consumer Focus has met with Postcomm Chief Executive Tim Brown to discuss their plans and also to look at possible areas of cooperation. These meetings along with those with BIS have helped build on our policy and advocacy focus, which comprises four overarching work themes. These themes are being carried through to the new financial year by way of several business cases. These themes are:

- **Challenge to deliver a modern Royal Mail:** This work reflects the need to advance Royal Mail's modernisation and involves collaboration with Postcomm to achieve this. It is underpinned by two calls: one to Royal Mail to get on with implementing a modernisation-focused business plan drawing on funds made available for modernisation, though unused to date; and a call to the CWU to cooperate with Royal Mail to implement the modernisation measures agreed to following the industrial action in 2007. These calls will have to be carefully managed to avoid the contention of being linked with other industrial issues. However, as the statutory postal consumer body, we must ensure pressure is placed on the key parties to ensure consumers and small business are not subject to undue inconvenience.
- **A universal postal service fit for UK consumers:** This theme involves several projects dealing with issues affecting the sustainability of the universal postal service. This work will help inform our contribution to the planned market review and will take into account the impact of declining mail volumes and the pace of Royal Mail's modernisation.
- **Non universal postal services that are fair for UK consumers:** This work aims to ensure consumers get a fair deal for those postal services that sit outside the scope of the universal postal service.
- **Complaints handling processes:** This work will look at the effectiveness of the complaints handling arrangements from a cross sector perspective, including the postal sector. The lion's share of this work will take place in 2010 / 2011 and is likely to be led by the Fair Markets team with contributions from the RI and CPACE teams.

Europe Economics research

4.2 In April Consumer Focus commissioned Europe Economics to carry out research into the potential impacts on consumers of a sale of a minority stake in Royal Mail. The objectives of the research were:

- To inform our policy positions on postal issues with a particular focus on Royal Mail's performance under both existing and proposed ownership arrangements;
- To consider if appropriate for publication in order to contribute to the debate on the proposed sale of a minority stake in Royal Mail.

4.3 The research has been completed and has already made a useful contribution to our policy development and will continue to do so. In particular the research provides volume and revenue projections for Royal Mail under the existing ownership arrangement, which are critical to our planned work on the sustainability of the universal postal service and our contribution to Postcomm's pricing and market reviews. Further work around this is being undertaken to build on this. It is not intended to publish the Europe Economics research given the deferment of the Bill.

5 Next steps

5.1 The next steps will advance the work outlined in the themes above and include plans to:

- Complete the process to determine areas of possible cooperation with Postcomm and the definition of the Consumer Focus role in the planned market and pricing reviews;
- Meet with Royal Mail and the CWU to discuss their respective modernisation approaches;
- Progress the planned project on the sustainability of the universal postal service and the potential impacts on consumers of declining mail volumes and the modernisation of Royal Mail;
- Consolidate the policy and advocacy focus for postal issues in the 2010 - 2011 organisational business planning process;
- Maintain a watching brief on the Postal Services Bill with a view to revisiting the publication of the Europe Economics research should circumstances change.
- Adam Crozier, Royal Mail Chief Executive has accepted an invitation to attend a future Board meeting.