

19 May 2009

Adam Swinburn
Policy Manager
Postcomm
Hercules House
Hercules Road
London
SE1 7DB

Dear Adam,

**Financial implications of quality of service failure due to industrial action
– 2009- 10**

Consumer Focus is the new statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, Northern Ireland. We are the voice of the consumer and work to secure a fair deal on their behalf. We were created through the merger of three consumer organisations – energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

I am writing in response to Postcomm's letter on the suspension of the bulk mail compensation scheme and the C-factor adjustment for 2009-10 in the event of industrial action taking place in response to Royal Mail's transformation activities. Turning to the consultation questions you have posed, Consumer Focus would comment as follows:

1. Do you agree with our 'minded to' decision to provisionally agree to Royal Mail's request on the same basis as last year? Why, or why not?

Consumer Focus agrees with Postcomm's 'minded to' decision to provisionally agree to Royal Mail's request on the same basis as last year, as the reasoning underpinning last year's decision has not changed.

It is imperative that Royal Mail undertakes the necessary transformation activities to enable it to sustain the provision of the Universal Service. The fear of financial penalties resulting from transformation related industrial action which could detract them from this fundamental task should be removed.

Although Royal Mail's current financial accounts for 2008/09 (when ignoring the pensions deficit) are healthy, with mail volumes expected to fall significantly (possibly by as much as 10% this financial year) the financial impact upon Royal Mail of the penalties incurred from quality of service failures caused by transformation related industrial action could prohibit or delay it from undertaking the necessary transformation activities required to safeguard the Universal Service.

However, a 'minded to' agreement must be accompanied by stringent and transparent criteria which Royal Mail must meet if they are to receive any financial relief at the end of the year. Our views on what criteria should be included are contained in our response to the third question.

2. What information do you think we need to take into account when making this provisional decision?

Postcomm should have the following information at its disposal when making the provisional decision:

- Royal Mail's evidence of industrial unrest and detailed plan to avert strike action.
- Royal Mail's transformation programme for 2009/10 and any available longer term plans.
- Royal Mail's contingency plans.
- Royal Mail's financial accounts.
- Details of the lessons learnt and experience gained from the nationwide strike of summer 2007 including the effects on consumers and the effectiveness of Royal Mail's contingency operations.

3. If we agree to Royal Mail's request, what factors do you think we should take into account when making a final decision in relation to an application made by Royal Mail at the end of the year?

Postcomm's basic acceptance criteria and procedure from the 2007-08 application is sound. The procedure should therefore take the following format:

- Royal Mail submits an application for relief at the end of the year with the evidence it believes supports its case that strike action:
 - a) arose as a result of transformation and not for some other reason; and

b) has had a direct causal link to quality of service failures. The methodology employed by Royal Mail to calculate the impact on quality of service of industrial action caused by transformation must also be independently audited.

- The regulator should arrange an open meeting to consider Royal Mail's case and allow relevant stakeholders to air their views before making a final decision (details of the proposed procedure for 2008/09 would constitute a sound basis for the procedure. This is contained in Fran Gillon's letter to Michael Prince on 14 August 2008 annex 2).

However, Consumer Focus's predecessor organisation, Postwatch, made a number of criticisms when responding to Postcomm's decision to make a 'minded to' decision last year with regards to the definition and detailed criteria upon which Postcomm would make its final decision. Consumer Focus also believes it should be strengthened and is pleased that a number of these criticisms have been addressed by Postcomm, as detailed in Fran Gillon's letter to Michael Prince on 14 August 2008 (please see pages 3-4 and annex 1).

The regulator should refer to the following factors and enforce the following criteria when deliberating on its final decision in the event of Royal Mail submitting a claim for 2009-10:

- A clear definition as to what constitutes transformation activity for 2009/10, as was the case for 2008-09. There must also be a transparent timescale so that legitimate transformation activity can be distinguished from normal day-to-day business activities. For example, the pay freeze announced this year by Royal Mail, which we believe constitutes everyday business management, and the switch to flexible working practices, which we would define as transformation activity.
- A clear definition as to what constitutes acceptable recovery time which includes a mechanism to calculate reasonable recovery time.
- A clear set of targets which Royal Mail must meet showing the completion of phases of transformation activity and consequent benefits to consumers.
- The effectiveness of Royal Mail's communications with customers during periods of disrupted services and strategy to manage mailing accounts.
- Demonstration by Royal Mail of reasonable efforts and a robust plan to avert strike action.
- Postcomm must scrutinise particularly closely any Royal Mail claims for relief resulting from 'unofficial' industrial action to ensure that strike action is related to transformation.
- Royal Mail's financial status as reported in their company accounts.
- The extent to which net savings of labour costs incurred during industrial action are taken into account.

- Demonstration by Royal Mail of an appropriate link between employee incentive payments such as bonuses and quality of service during the year.

Finally, Royal Mail and the CWU both publicly state that it is necessary for the universal service to be maintained and agree that modernisation and transformation is essential to achieve this. We would hope that both Royal Mail and the unions can come to an agreement on how to modernise Royal Mail's letters business together and put to an end the damaging industrial relations of the past as outlined in the Hooper Report. Industrial action is of great inconvenience to consumers and will also damage the long term viability of Royal Mail to deliver the universal service. There is a real risk that major damage may be done to the future of the present universal service in the UK, regardless of the proposed removal of financial penalties, as direct mailers may abandon postal services and search for alternative means of communication to advertise their products and services.

We hope you find these comments helpful. If you have any queries about any of the points we have raised in this letter please contact Cem Suleyman on 0207 799 7932 or cem.suleyman@consumerfocus.org.uk.

Yours sincerely,



Robert Hammond
Head of Regulated Industrials