

COMMENTary

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Postcomm chairman Graham Corbett

About Postcomm

Postcomm – *The Postal Services Commission* is an independent regulator. It was set up under the Postal Services Act 2000 to further the interests of users of postal services. Postcomm's main tasks are to:

- seek to ensure a universal postal service at an affordable uniform tariff
- further the interests of users where appropriate through competition
- license postal operators
- control Royal Mail's prices and quality of service
- give advice to the government on the future of the Post Office network.

Postcomm's policies are steered by a board of seven commissioners, headed by the chairman, Graham Corbett CBE.

welcome...

Welcome to the first issue of *COMMENTary*, Postcomm's newsletter, a publication that aims to put you in the picture in the developing world of postal regulation.

At Postcomm we know that the decisions we take affect everyone in the UK, so it is important that we explain what we are doing to the widest audience we can. That is why we have produced this newsletter which will be sent out every few months to our regular contacts and posted on our website, www.postcomm.gov.uk.

This issue looks at four areas of work that are crucial for the healthy development of UK postal services: competition; access pricing – how much rival companies should pay Royal Mail for delivering their letters; Royal Mail's price control; and a fresh look at the universal postal service.

I hope you find the newsletter useful. If you have any ideas or comments, please let us know. You can email us at commentary@psc.gov.uk. There are more contact details in a panel on the back page.

Graham Corbett

Postcomm proposes 'final mile' prices

Although there is as yet very little competition for Royal Mail, a number of companies have expressed interest in collecting and sorting post, but then having Royal Mail deliver it on their behalf. Postcomm has accordingly proposed so-called 'access arrangements' which would allow UK Mail Ltd, an independent postal company, to pay Royal Mail to deliver its post over 'the final mile'.

The proposals include a scale of prices that Royal Mail can charge UK Mail for delivering the post it collects. They range from 11.46p up to £4.06 depending on the weight of the letter or package and the work done by UK Mail. Postcomm calculates that the proposed price structure will enable Royal Mail to recover a 6% operating profit on this work by 2006. [Continued overleaf](#)

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Once access arrangements are finalised, UK Mail intends initially to offer a guaranteed two-day delivery service for business customers.

The company aims to collect mail, pre-sort it and deliver it to Royal Mail's 1,400 delivery offices, where it would be further sorted into postal rounds or 'walks' by Royal Mail staff before being delivered, along with other post. Alternatively for a slightly lower price, the mail can be inserted into the network at major mail centres, from where it would be transported by Royal Mail vehicles to delivery offices. The lower price reflects the fact that such mail centres machine-sort much of their mail which costs Royal Mail less than hand-sorting.

There have been press reports of Royal Mail claiming that they will incur multi-million pound losses if the access price for the first weight step is not closer to 20p. But Postcomm notes that

Royal Mail currently offers end to end collection and delivery at 'Mailsort' prices which are already considerably lower than this – and which Royal Mail has further reduced within the last two months.

Because this is the first access determination proposed by Postcomm, the formal Notice has been made public and interested parties invited to comment. The Notice of the determination, *Notice of proposed direction to Royal Mail on downstream access by UK Mail to Royal Mail's postal facilities*, is published on Postcomm's website. Printed copies are available from Postcomm's office – see *the contact details on the back page*. The consultation ends on 20 August 2003, after which Postcomm will decide whether to proceed to a final direction or amend its proposal.

Not as bad as was feared . . .

MPs and many others expressed concern about our plans to allow other companies to compete with Royal Mail from January 2003. We seemed almost alone in doubting the scope for competitors to 'cherry pick' the most profitable parts of the business, and Royal Mail themselves forecast that competitors would by now be delivering five million letters a day.

The truth is rather different. Royal Mail's natural strengths, and other barriers to entry into the postal market, mean that cherries have been noticeably hard to pick and competitors have not yet been able to make a significant impact.

But the threat of competition does seem to be having an effect, in that Royal Mail is now beginning to become more efficient and profitable, and is recognising the need to provide a more reliable service to its customers.

Incidentally, do not be misled by claims that Royal Mail is losing huge amounts of money. The truth is that while Royal Mail Holdings – the group which also includes Post Offices, Parcelforce and overseas interests – makes a loss, Royal Mail, the core letter post business regulated by Postcomm, has always made a profit.

Further detail is in the document *The UK Postal Regulatory Regime: Success or Failure?* in the accountability subsection of our website.

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Over the past 350 years or so Royal Mail has developed its service to the point where it can deliver to every household and every business address throughout the UK – around 27 million of them – six days a week.

The sheer size of this service gives Royal Mail a tremendous advantage over the opposition in the newly competitive market. On their own, the most many competitors can aim for at this early stage of development is to provide a limited delivery service to a restricted number of customers – either in city centres or through existing delivery networks.

But if they could collect mail from their customers, sort it and insert it into Royal Mail's network for its postmen and postwomen to deliver, there are advantages to everyone:

- customers get a wider choice of postal services (innovation)
- Royal Mail gets to keep, and develop its UK-wide delivery network, giving continued employment to postmen and women
- rival companies get access to nationwide delivery at a fair price
- Royal Mail gets a fair price from its competitors for them to use its network
- competitors have the choice of developing their own network or using Royal Mail for final delivery.

More money for Royal Mail – and better customer services

Postal users will get better services, and Royal Mail is guaranteed more income in a new price control set by Postcomm on 31 March.

The new arrangements allow Royal Mail an extra £750m over the three-year life of the price control, by loosening the previous freeze on the price of stamps. At the same time, the control sets new service quality targets and opens the way for an enforceable compensation scheme for domestic and business customers for late delivery of post.



Prince William as he appears on the new 28p 1st class stamp

Royal Mail raised 1st and 2nd class stamp prices by a penny to 28p and 20p respectively on 8 May, under arrangements which allow a 3% increase in prices this year.

Any further price changes are tied to the UK's retail price index (RPI). In years two and three of the control, Royal Mail will be able to change its prices overall by RPI-1%. This means that Royal Mail's overall prices will fall in relation to inflation in 2004 and 2005.

Royal Mail can in addition raise individual prices by more than 1.5% providing these are balanced by reductions elsewhere that keep the overall level of controlled price rises at 1.5%, but any increases above 2.5% will require Postcomm's consent.

For postal users, there is the prospect of an enforceable compensation scheme for late mail. Up to now any compensation has been at Royal Mail's discretion. The new scheme, which is still being finalised, proposes compensation for domestic users that starts at a minimum of 12 1st class stamps for basic claims, up to £10 for mail that can be clearly demonstrated to have arrived 10 days or more after the due delivery date.

Users of bulk mail services will be compensated at the rate of 0.1% of their Royal Mail bills for each 0.1% that Royal Mail fails to meet its national targets. The payment will be from a minimum shortfall of 1% up to a maximum of 5%.

Home and away

Postcomm has a responsibility that includes the whole of the UK. So while we are based in Lambeth, in London, we see it as an important part of our job to get out and about and listen to opinions on postal matters from around the country.

To date, Postcomm teams have hosted 17 public meetings in England, Scotland, Wales and Northern Ireland. At the moment we have just got back from Orkney and Shetland. In July we will be in Bristol.

Our public meetings normally run from 7pm until 9pm and we advertise them in the local press. If you go along you won't hear us preaching Postcomm policy. In fact the people in the audience will be doing most of the talking because the purpose of these meetings is for us to listen to what local people think about postal matters.

Topics often include the impact of competition on Royal Mail, the universal postal service, the quality of local deliveries, the problems of rural Post Offices and local Post Office closures.

In organising the meetings, we work closely with the consumer watchdog Postwatch, a separate organisation that has a number of regional offices. We try to hold our meetings in a hotel or a recognised conference centre so that we can provide coffee and tea.

Our next meeting is in Bristol on 8 July. The venue is Waterside 2, the Watershed Media Centre, 1 Cannons Road, Harbourside, Bristol BS1 5TX.

If you would like to come along, to enable us to plan ahead, please inform Claire Mehegan: **Tel:** 020 7593 2124

Fax: 020 7593 2142 **Email:** cmehegan@psc.gov.uk

We will be pleased to see you.

It's all on www.postcomm.gov.uk

If you want to know what is going on at Postcomm, all you have to do is click on our website. Whenever we make a formal decision, we publish a document on www.postcomm.gov.uk explaining it.

On the website you'll also find background information about Postcomm, and all the documents – consultations, decisions, orders, determinations and press notices – we have published. You will also find our business plan, the advice we have given

the Department of Trade and Industry on the Post Office network and lots more.

Because it is quickest, we publish all our documents first electronically. So if you see something in the newspapers, a click into the *Media Brief* section of the Postcomm website will flag up the press release and elsewhere on the website you will be able to find the document itself. Printed documents are generally available from our office a few days later. All our documents are free.

What do *you* want from your universal service?

For the first time, postal users throughout the UK are being invited to say exactly what they want and expect from the universal postal service.

A three-month consultation launched by Postcomm on 10 April 2003 is the first step towards identifying clearly which services need to be included, and whether any can be left out.

UK legislation sets the minimum requirement for a universal postal service as one collection and one delivery of mail each working day at an affordable and geographically uniform price.

Until now this has been taken to include more than 100 different mail products that Royal Mail provides – from 1st and 2nd class domestic letters to the handling of specialised business post in bulk.

The European Postal Service Directive sets minimum requirements for a universal postal service within member states. A geographically uniform price is not compulsory in Europe, although most member states opt for one. In the UK it is a legal requirement. It is left to

member states to decide exactly what services to include in their universal service.

Under the Postal Services Act 2000, Postcomm is required to safeguard the universal service, but with the introduction of competition into postal services, and the likelihood of new services being introduced, it is increasingly important to define what needs to be safeguarded and why.

“Postcomm’s number one priority is to ensure the preservation of the universal postal service, which Parliament has decreed must lie at the centre of postal services in the UK,” said Graham Corbett, Postcomm’s chairman.

“But as competition develops and the market provides customers with different products, we need to be clear about which services should constitute the universal service and therefore be subject to safeguards and provided at a geographically uniform price.

“I hope domestic and business users will let us have their views. Once we have them, we will move forward to

consult on a definition of the universal service and which services Royal Mail should be required to provide at a uniform price across the UK”.

By the end of the year, Postcomm expects to issue a formal statement setting out its view.

Would you like a leaflet?

As part of the consultation, Postcomm has produced this leaflet which explains the main issues and includes a tear-off pre-paid reply card for responses. It is available free from Postcomm – see *contact details below*.

