

Q&A for publication of Postcomm's decision on Royal Mail's 2007-08 application for financial relief and its 2008-09 request

2007-08:

**Q: What has Postcomm decided for 2007-08?**

**A:** Postcomm has decided that Royal Mail should be given a large amount financial relief from the effects of failing its quality of service targets, but not all of what it was asking for. Royal Mail will not have to pay out compensation to bulk mail customers, but it will be allowed to earn £21.6m less revenue in future years compared to what it would have been allowed if it had performed well in 2007-08. If Postcomm had not accepted the application, Royal Mail would have had to pay around £77m in bulk mail compensation to customers and would have forgone around £91m in allowed revenue. If Royal Mail's application had been accepted in full, Royal Mail would still have forgone £12m because of its poor Postcode Area performance.

**Q: Why?**

**A:** Royal Mail has demonstrated that most, but not all, of the quality of service failures during 2007-08 were caused by industrial action linked to Royal Mail transforming its business. Postcomm decided a year ago that it was in the interests of users for Royal Mail to transform its business, so where quality of service was poor because of industrial action caused by transformation, Royal Mail would be given relief.

**Q: How do customers benefit from this decision?**

**A:** The main benefit for customers of Postcomm's decision is that the universal postal service is being protected. By making the decision to reduce the amount of money that Royal Mail loses in 2007-08 (from a total of around £168.6m to around £21.6m) because of transformation-related industrial action, Postcomm is making sure that Royal Mail has the opportunity to modernise its business. This will help to ensure the continuing provision of a universal service. Royal Mail made a profit of only £3m on its letters business in 2007-08 so the amount of relief is material.

The £21.6m reduction in allowed revenue (compared to if Royal Mail had performed well) incentivises Royal Mail to ensure that it will do all it can to maintain high quality of service to customers in future. Postcomm has given relief for quality of service failures caused by transformation-related industrial action, but has not given relief for quality of service failures that it considers have not been clearly linked to industrial action.

**Q: Can Royal Mail afford to lose this £21.6m?**

**A:** Yes. Postcomm's primary duty is to exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service. The universal service is currently provided by Royal Mail and Postcomm would not make a decision that would put the universal service at risk. (The Royal Mail Group made a profit of £162m in 2007-08.)

**Q: Has Postcomm considered the issues raised by other stakeholders, such as Royal Mail's communications with customers during the strikes and the bonuses it paid to its staff and management for performance in 2007-08?**

**A:** Yes. Postcomm considered many important issues raised by stakeholders, and its responses to the main issues are on our website. Some of these arguments are more relevant to our consideration of Royal Mail's request to suspend the Bulk Mail Compensation Scheme and adjust the C-factor again in 2008-09, and have been taken into account in making that decision as well.

2008-09:

**Q: What has Postcomm decided for 2008-09?**

**A:** Postcomm's initial decision is that it may be appropriate to suspend the Bulk Mail Compensation Scheme and adjust the C-factor (which affects the amount of revenue Royal Mail is allowed to earn) in 2008-09 where transformation-related strike action causes quality of service failures. At the end of the year, Postcomm will consider a range of issues before deciding the extent to which Royal Mail should be given relief.

**Q: How does this decision differ from last year's decision?**

**A:** Firstly, Postcomm has increased its scope to consider a wide range of factors which affect whether or not it is appropriate to grant Royal Mail relief, including (but not limited to) Royal Mail's efforts to avert industrial action; its communications with customers during a strike; the bonuses it pays to staff during the year; any money it saves through not paying wages during a strike; and the progress made in its transformation plans during the year. Secondly, Postcomm has given a clearer definition of what constitutes 'transformation', and has said that it will consider relief for strike action but not other forms of industrial action.

**Q: Why has Postcomm made these changes?**

**A:** Postcomm has listened carefully to the issues raised by stakeholders in response to its consultations, and has taken into account its experience in 2007-08. Most stakeholders felt that Postcomm should be able to consider a wider range of issues in making its final decision, and Postcomm agrees with this view. Also, stakeholders wanted more clarity with regard to what constitutes transformation and what industrial action Royal Mail can seek relief for. Postcomm considers its changes provide stakeholders with more certainty in these respects.

**Q: Why has Postcomm decided that it may be appropriate to grant Royal Mail relief at all?**

**A:** Postcomm has a duty to exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service.

Royal Mail, the universal service provider, needs to transform its business in order to be able to continue to provide that service. Royal Mail considers that it is in a serious financial position. Postcomm considers that if it does not consider granting Royal Mail relief, this could undermine Royal Mail's ability to transform its business and to continue to provide a universal service.