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POSTAL SERVICES COMMISSION
Annual Report 2009-10

Presented to Parliament pursuant to Section 45 of the Postal Services Act 2000
Ordered by the House of Commons to be printed 15 July 2010

HC 148

London: The Stationery Office

£14.75

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ISBN: 9780102964929

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID P002363178

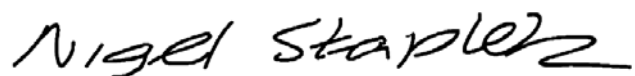
07/10

POSTAL SERVICES COMMISSION (Postcomm)

Annual Report 2009-10

To: The Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills

I enclose the Commission's report for the 12 months ending 31 March 2010 as required by Section 45 of the Postal Services Act 2000.



Nigel Stapleton

Chairman, Postal Services Commission

Overview

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About Postcomm

Postcomm – the Postal Services Commission – is the independent regulator of postal services. We were set up by the Postal Services Act 2000 as a non-ministerial government department. Our primary duty is to seek to ensure the provision of a universal postal service. Subject to this, and among other duties, we must further the interests of postal users in the UK, where appropriate by promoting effective competition.

Our work is steered by a board of independent Commissioners, headed by our Chairman, Nigel Stapleton. Our Commission has considerable experience of business, consumer issues, regional matters, UK and overseas mail operations, the public sector, competition and regulation.

We require Royal Mail to provide a universal postal service, and have licensed a number of companies which can compete with Royal Mail. We regulate some of the prices that Royal Mail can charge and its quality of service.

We are also charged with giving advice and information to the Government on the post office network. We do this by producing annual reports for the Department for Business, Innovation and Skills (BIS).

A list of all of the documents we published this year is available on our website, at <http://www.psc.gov.uk/policy-and-consultations/documents-by-date.html>

Chairman's statement



1. Adapting to changing demands

This time last year, when the Postal Services Bill had passed all its stages through the House of Lords, we were expecting that Postcomm would have been merged into Ofcom by the autumn. However, in July the Bill was postponed and later fell. Postcomm was, therefore, re-affirmed in the role of progressing a new regulatory framework. This is a task on which we have achieved some significant momentum.

A year on, the Government has announced that passing a new Postal Services Bill will be a priority for the first session of the new Parliament. This means that it is a still greater imperative to define the postal market of the future and quickly to put in place the right regulatory framework.

2. Securing the Universal Service

The postal market has changed significantly since the current regulatory framework was set five years ago. Traditional mail volumes are in decline, email, text and other digital communications are growing, and the delivery to our homes of goods that have been ordered over the internet has increased significantly.

Postal operators using Royal Mail's delivery network have won a significant share of the upstream bulk mail market. However, Royal Mail still carries over 99% of all mail over the "final mile".

Royal Mail's financial health is crucial to the sustainability of the UK postal service. Their Letters business has recently reported an improved profit despite a 7% drop in mail volumes over the past year. This has been made possible because of steady progress in addressing Royal Mail's inefficiencies. However the profit margin remains very low and the cash flow is insufficient to fund the heavy costs of implementing the transformation programme.

Postcomm's first and foremost statutory duty is, as it has always been, to ensure the provision of the universal service. The dramatic changes in the postal market require a significant rethink of the regulatory regime. The Hooper Review concluded that the universal service is under threat. I know we can play our part in helping to counter this threat.

3. Postcomm's current priorities

We have taken on board many of the Hooper Report's proposals for improving the regulatory regime. We are undertaking a study of the postal market so that regulation can be confined to those areas where Royal Mail retains significant market power. Between now and August we will be consulting on some wide ranging changes to the regulation of access to Royal Mail's delivery network by other postal operators. We are also building on our more positive relationship with Royal Mail and will work with them to understand better their product costings.

Because our primary duty is to ensure the provision of the universal service, we are also undertaking jointly with Consumer Focus research into users' needs from a universal service. The findings will help us to make sure that the universal service is relevant to current and future users of postal services.

We hope to be able to implement a new regulatory framework by April 2012. However some significant initiatives to give Royal Mail more commercial freedom will be introduced next April provided our ongoing consultations validate these proposals.

We want to make sure that the postal market can be innovative and responsive to users' needs. We will continue to have a dialogue with all those who are interested in our work to make sure we take account of their views and evidence. We want to share as widely as possible our thoughts about the development of the new regulatory framework.

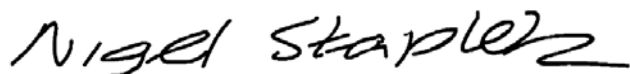
4. People are our key strength

We have a new Commissioner to help us in completing these tasks. Simon Batey joined us in March 2010 with considerable experience in finance, both in industry and consultancy, as well as strong regulatory experience within the utilities sector.

He joins us after the terms of appointment of two Commissioners – Tony Cooper and Simon Prior-Palmer – ended in 31 March 2010. Tony has been on the Commission right from the time that Postcomm was established and has added an important perspective to our work. I would like to thank both Tony and Simon for their valuable contributions.

Finally, I would like to take this opportunity to thank my fellow Commissioners and all the staff at Postcomm for their work during this challenging year. The Executive team have had to cope with considerable uncertainty about their future role and with rapidly changing work priorities. They have done so with good humour and significant adaptability. It is only because of their strong commitment that we were able to restart our work on the new regulatory regime so quickly.

Over the coming year we look forward to playing a part in the implementation of the Government's new Postal Services Bill.



Nigel Stapleton

Chief Executive's report



The year 2009-10 has been a challenging and important one for the market, the universal service and us. With the postponement of the previous Government's Postal Services Bill last summer we spent a great deal of time talking with users of postal services, trade bodies, operators and other interested parties about the future direction postal regulation needs to take.

As a result much of the year has been taken up with developing our plans for regulation, published in our Forward Work Plan in March 2010. This has ultimately led to the publication of our consultation document on a new regulatory framework for 2012, *Laying the foundations for a sustainable postal service*, in May¹.

As many people interested in our work told us, our plan to change postal regulation in the UK is challenging. I believe we should be ambitious. What is at stake is a service essential to people and businesses. I know that we have the expertise and resources we need to achieve our goal of reforming the regulatory framework. To be successful, we will also need everyone interested in postal services to play their part. We can only make changes based on robust evidence about users' needs and the postal market. Our continuing dialogue with postal users, Royal Mail, postal operators and others in the postal industry is crucial.

Our vision for the new regulatory framework to be in place from April 2012 is to:

- Focus regulation only where it is necessary to help sustain a universal service, our primary duty, and to further the interests of users of postal services, including where appropriate, by promoting effective competition and ensuring we have the rights safeguards where Royal Mail has market power
- Put the right safeguards in place so that we can reduce the level of regulation considerably, allowing the market freedom to innovate, meeting users' changing needs
- Put in place a framework that is both flexible and resilient so it can work within any future statutory arrangement.

We have structured our work programme into the following strands:

- **The universal service:** assessing users' needs from a universal service, covering issues such as the range of services provided, quality of service and whether the universal service is affordable for users

¹ *Laying the foundations for a sustainable postal market*, Postcomm, May 2010, <http://www.psc.gov.uk/policy-and-consultations/consultations/may-2010-consultation.html>

- **Analysis of markets:** investigating further the economic markets in which Royal Mail operates, assessing market power and identifying where the markets fail to protect the interests of users of postal services and other operators
- **Regulatory safeguards:** developing the necessary protections for users and other operators. This will include a review of the way Royal Mail provides cost and revenue information; considering the nature of the controls on Royal Mail's pricing and what they should look like in future; and reviewing the access environment to give Royal Mail more freedom where appropriate in the upstream bulk mail postal market while safeguarding competition where appropriate to give users of postal services choice.

The universal service is at the heart of all our work. This is also true for our ongoing activities. In 2009-10, we have:

- Continued to monitor Royal Mail's quality of service, taking action when appropriate
- Continued to monitor operators' compliance with complaint handling regulations
- Surveyed businesses and individual users of postal services
- Re-doubled our efforts to talk to those interested in our work and prepared to set up Consumer Interest Forums. We are pleased that these, and our joint research with Consumer Focus on the universal service, address the perception highlighted in Consumer Focus's Rating Regulators report that we are reluctant to engage directly with customers, particularly individuals and small and medium-sized enterprises
- Completed anti-competitive investigations
- Published our post office network report
- Continued to monitor the working of the Postcode Address File Code of Practice
- Talked to our European partners to understand how postal regulation works elsewhere and how best to implement the Postal Services Directive
- Registered new licensees, bringing the number of licensed operators to 50.

We have also changed the way we work. Above all, we want to continue to make sure we talk with all those interested in what we do on a continuing basis, including as part of informal consultation alongside our more formal processes. Our staff are now working in project teams, in a more flexible structure. Our new team of directors has a wealth of industry experience. We are making our operations more efficient to concentrate resources on our regulatory work.

We all know mail is an integral part of our society and economy. Over half of the companies we surveyed see mail as core to their business. Both large and small businesses, and residential users of postal services, rate highly the service they receive from Royal Mail. Our programme of work aims to put in place a new regulatory framework which is fit to secure a universal service which meets the needs of postal users not only now, but also in future.

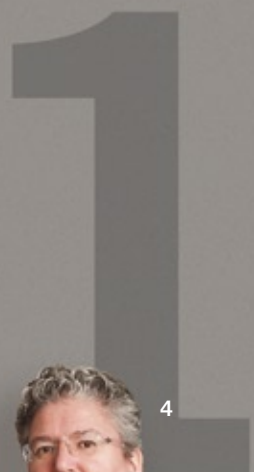
It is important for the industry, particularly for a strong universal service and for its provider Royal Mail, that necessary changes to regulation are implemented as soon as possible. Delays would threaten the health of the postal sector. It is our commitment to work hard to build an effective, robust and flexible regulatory framework fit for 2012 and beyond.



Tim Brown

Chapter 1

Meeting our people



Postcomm's Commissioners

Postcomm's Commissioners are responsible for setting and amending Postcomm's regulatory framework and strategy. They approve all significant regulatory proposals and decisions, licences, enforcement orders, and financial penalties.

They also approve our business plan and monitor performance against business plan objectives. Day-to-day operational issues are delegated to the Chief Executive and Postcomm staff.

The Commissioners are appointed by the Secretary of State for Business, Innovation and Skills (BIS). They meet around eleven times a year. Apart from our Chief Executive, all Commissioners, who are listed below, work part-time on Postcomm business.

1. Simon Batey, MA (Oxon), FCA, was appointed as a Commissioner on 15 March 2010, for an initial three year term. Mr Batey has served as Group Finance Director with three major UK companies, AMEC, United Utilities and Thames Water. Mr Batey currently has non-executive director positions with a number of companies including Arriva plc and Telecity Group plc and has also served as a non-executive director of THUS Group plc. He spent the first 12 years of his career at Armitage & Norton (now part of KPMG), latterly as a partner of the firm.

2. Tim Brown was appointed as a Commissioner and Chief Executive of Postcomm in September 2008. Mr Brown became Chief Executive Officer of Postcomm having been Sales and Marketing Director at DHL Express. Before that he spent 11 years at Royal Mail including Business Strategy Director for the Group, and Sales and Marketing Director of Parcellforce Worldwide. Mr Brown joined Royal Mail having worked at KPMG Management Consultants. His work at KPMG included work with both the private and public sectors including the regulators and the regulated in electricity, water and telecoms. Mr Brown trained as an accountant, having qualified with the National Audit Office.

3. Ulf Dahlsten, MSc (Ph), BSc (Econ), was appointed as a Commissioner for a three year term on 1 January 2008. Mr Dahlsten is on a sabbatical from the European Commission where he is a director at the Directorate-General Information Society. Before joining the Commission, Mr Dahlsten was Director of SECCOM AG and president and Chief Executive Officer of Icon Medialab International. He is also a former president and Chief Executive of Posten AB, the Swedish postal service provider and former Chairman of the holding company of TNT Express Worldwide. He was instrumental in deregulating the Swedish postal market, railways and taxi services.

4. Wanda Goldwag, BSc (Econ) was appointed as a Commissioner for a three year term in April 2005. Her appointment has since been extended until April 2011. With more than 25 years' experience in direct marketing, she is currently a part-time adviser to Smedvig Capital Limited on its portfolio, and a non executive director of the Performing Right Society, True North Human Capital Ltd, Challenge Consultancy and You at Work Ltd.

5. Professor Stephen Littlechild, B Com, Ph D, D Sc (Hon), D Civ Law (Hon), who was appointed as a Commissioner on 1 July 2006 for three years, has had his appointment extended until June 2011. Professor Littlechild was the first UK director general of electricity supply and head of the Office of Electricity Regulation (OFFER) from 1989-98. Since 1999, he has been an international consultant on regulation, competition and privatisation, especially in the electricity and telecommunications sectors, and a policy advisor to governments, the World Bank, regulators and companies in many countries as well as the UK. Professor Littlechild is an emeritus professor at the University of Birmingham and Fellow of the Judge Business School, University of Cambridge.

6. Lucy Scott-Moncrieff was appointed as a Commissioner on 1 September 2008, for a three year term. A solicitor, Ms Scott-Moncrieff is the managing partner of Scott-Moncrieff, Harbour and Sinclair, a legal aid practice. She is a Law Society Council Member and has been elected to the office of President of the Law Society in 2012-13. She is also a member of the QC Appointments Panel, a part time legal president for the Mental Health Tribunal, a director of Edge Training Ltd, a company that offers training on mental health and mental capacity law to health and social services organisations, and an associate with Verita, a consultancy undertaking investigations in health and social services organisations.

7. Nigel Stapleton, MA (Cantab), FCMA, has been Postcomm's Chairman since January 2004 having been reappointed in 2006 to serve until January 2011. He works two and a half days a week for us, combining this role with others as a non-executive director of the London Stock Exchange Group plc and of Reliance Security Group. He is also a Trustee and Scheme Chairman of the Mineworker's Pension Fund and an independent director of KazPost JSC, the postal and banking services provider in Kazakhstan. Mr. Stapleton's earlier business career included 18 years with Unilever and 13 years at publishing and information company Reed Elsevier, where he served as Chief Financial Officer and later as Co-Chairman.

Simon Prior-Palmer's and **Tony Cooper's** terms of appointment as Commissioners ended on 31 March 2010.

Postcomm's directors



Jenny Block, Postcomm's chief legal adviser, heads our Legal team. She joined Postcomm in January 2010 on part-time secondment from international law firm Simmons & Simmons where she is a partner.



Rebecca Churchill, Postcomm's director of the Strategy and Market Development team, is responsible for the strategic and logistical delivery of our two-year work plan as well as our knowledge of the marketplace, our strategic futures work, our relationships with national and international stakeholders and our work on Condition 7, the Postcode Address File and Redirections. She joined us in November 2009 and comes with 13 years' experience of working in senior roles at Royal Mail Group.



Stephen Gibson, Postcomm's chief economist and director of the Economic Policy team, is responsible for directing Postcomm's analysis of mail markets and its investigations into anti-competitive complaints about Royal Mail's activities, as well leading on all economic policy issues. He was previously Principal Economist at Ofcom and Head of Economics at Railtrack. At the start of his career he worked for five years as an economist in the Post Office Group's Corporate Planning Department.



Sean O'Hara, director of the Customer Interest team, is responsible for monitoring Royal Mail's provision of a reliable universal service and Royal Mail's compliance with its obligations to postal users and quality of service. He is also responsible for all other licensed postal operators' duties regarding the security of mail and handling of non-contract customer complaints, and post office policy. Previously he worked in other regulators in a variety of customer protection and competition policy roles.



Robin Pratt, director of the Regulatory Finance team, is responsible for the design and implementation of Royal Mail's price control and formulating some of its major policy decisions, such as appropriate access arrangements. He joined Postcomm from Ofcom in April 2010 and brings with him a wealth of experience in regulatory strategy across network industries such as energy, water, transport, communications and post.



Colin Sharples, director of the Resources team, is responsible for operational matters, including human resources, training, finance and business planning, procurement, IT, office services and accommodation.

Fran Gillon, director of Universal Service and Customer Protection (now Customer Interest), left Postcomm in April 2009 to join the new Legal Services Board.

Gavin Macrae, director of Market Development, left Postcomm in July 2009 to take up a post in France.

William Sprigge, chief legal adviser, retired in December 2009.

Peter Swatridge, director of Regulatory Finance, left Postcomm in October 2009 to take up a position with Network Rail.

Our staff

Following the postponement of the Postal Services Bill (see chapter two), we undertook a thorough review of our People Strategy to ensure we were able to attract, engage, develop, reward and retain employees to deliver Postcomm's objectives and meet our responsibilities.

We have an ambitious workplan over the next two years and reviewed existing staffing requirements to identify the resources required over that period. We are using a mix of permanent, fixed term and interim appointments and secondees from other organisations to resource our projects. This approach to staffing also helps us to be more cost effective, as we can target our resources better when our staffing needs vary with the amount of work we have and the skills we need at different stages of our work programme.

We have also changed our internal organisational structure to help us deliver our programme of work. Our staff are now organised in a more flexible structure which helps us to work in project teams across directorates. This supports the cross-functional, project-based nature of our work.

Chapter 2

Changing the regulation of postal services



The Hooper Report

Postal policy was dominated in the main part of 2009 by proposals to bring radical change to the main provider of postal services, Royal Mail, and to the regulation of postal services, including transferring regulatory functions from Postcomm to Ofcom, the communications regulator.

As we reported last year, the Government announced an independent review of the postal services sector on 17 December 2007. The resulting report (the Hooper Report)² was published on 16 December 2008. The Hooper Report's recommendations were welcomed by us and endorsed by the Government. The Hooper Report concluded that the universal service is under threat, and proposed three key groups of recommendations:

- Royal Mail should be modernised through the introduction of “a strategic partnership between Royal Mail and one or more private sector companies with demonstrable experience of transforming a major business”
- The Government should “tackle the historic pension deficit”
- “A new regulatory regime is needed to place postal regulation within the broader context of the communications market”³.

The Report made specific recommendations about the need for a new regulatory regime. These included:

- The responsibility for regulating the postal sector should be transferred from Postcomm to Ofcom, the communications regulator
- Maintaining the universal service should be the primary duty of the regulator
- A thorough and comprehensive market analysis should be conducted which considers the extent to which Royal Mail has market power
- Ofcom should have competition powers in relation to postal services, so that it can investigate anti-competitive behaviour in any aspect of the postal market
- Addressing the need for transparency of Royal Mail's costs is a priority
- The way in which the access regime is currently regulated should be reviewed.

² The Report's full title is *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom – An independent review of the UK postal services sector*, Cm 7529. The review team consisted of Richard Hooper CBE (Chair), Dame Deirdre Hutton and Ian Smith. Please see: www.bis.gov.uk/files/file49389.pdf.

³ As above, pp6-7.

The Postal Services Bill

The Government sought to implement Hooper's recommendations through the Postal Services Bill 2009. The Bill included provisions to move the regulatory function from Postcomm to Ofcom. However, the Bill was postponed in July 2009 and fell at the end of the parliamentary session. The Government made clear that they therefore wanted Postcomm to retain responsibility for postal regulation.

Following the general election in May, the new Government announced on 25 May that it intended to include a Postal Services Bill in its legislative programme. In particular, the Bill would enable an injection of private capital. The main elements of the Bill, announced in the Queen's speech, are:

- "Enabling the disposal of shares in the Royal Mail to third parties that could raise equity for reinvestment in the business
- Recognising the important social and economic role played by post offices in communities throughout the UK. Post Office Limited will therefore remain in public ownership
- Measures to resolve the problems surrounding Royal Mail's pension deficit
- Potential changes to the regulatory framework for postal services
- Exploring options for employee engagement at Royal Mail, to enable management and the workforce to work together to meet Royal Mail's significant challenges and enable all to share in its future success⁴".

One-year change to the price control

After the Postal Services Bill 2009 was introduced to Parliament, we delayed our work on a new regulatory framework. This meant that we decided to roll the existing price control over for a further year to the end of March 2011.

The price control is a regulatory tool designed to protect postal users when there is not enough competition in the marketplace. The price control ensures Royal Mail cannot raise certain prices or let the quality of service of specified services fall, within limits. The price control encourages Royal Mail to be more efficient, and is also designed to ensure Royal Mail can finance its licensed activities, including the universal service⁵.

In addition, we consulted on and subsequently made some changes to the price control in December 2009 affecting the period from April 2010 to March 2011. These included:

- Limiting the impact of RPI (the measure of inflation used in Royal Mail's price control) on Royal Mail's finances
- Making the formula for limiting individual product price rises (sub-caps) more effective.

⁴ As quoted on the official website of the Prime Minister's Office, <http://www.number10.gov.uk/queens-speech/2010/05/queens-speech-postal-services-bill-50642>

⁵ Licence granted to Royal Mail Group, Postcomm, as amended in December 2009, http://www.psc.gov.uk/postcomm/live/royal-mail-standards-and-prices/Royal_Mail_Licence_December_2009.pdf

A new regulatory framework in 2012

There is a widespread recognition that the universal postal service is part of the fabric of our society and economy. This recognition is not new: it is why our first duty is to secure the provision of the universal service. Of course, the regulatory framework cannot ensure the provision of the universal service on its own. However the regulatory framework must be appropriate to the current challenges faced by the universal postal service, and postal services more generally.

We are proposing changes to the regulatory framework for postal services in April 2011 and April 2012 to meet the current and future needs of the universal service and the postal industry as a whole.

Much has changed since the current regulatory framework was set in 2006. Since then there have been changes to the market. Mail volumes have declined for the past four years, competition from other communications media is causing a switch away from mail, and there has been a greater than expected rise in the mail collected and sorted by companies other than Royal Mail.

In addition, Royal Mail, the universal service provider in the UK, which delivers more than 99% of mail, faces significant financial challenges. The needs of postal users are also changing: for instance, they are now more likely than in the past to receive parcels containing items they have bought online.

Our vision for the new regulatory framework to be in place from April 2012 is to:

- Focus regulation only where it is necessary to help sustain a universal service, our primary duty, and to further the interests of users of postal services, including where appropriate, by promoting effective competition and ensuring we have the rights safeguards where Royal Mail has market power
- Put the right safeguards in place so that we can reduce the level of regulation considerably, allowing the market freedom to innovate, meeting users' changing needs
- Put in place a framework that is both flexible and resilient so it can work within any future statutory arrangement.

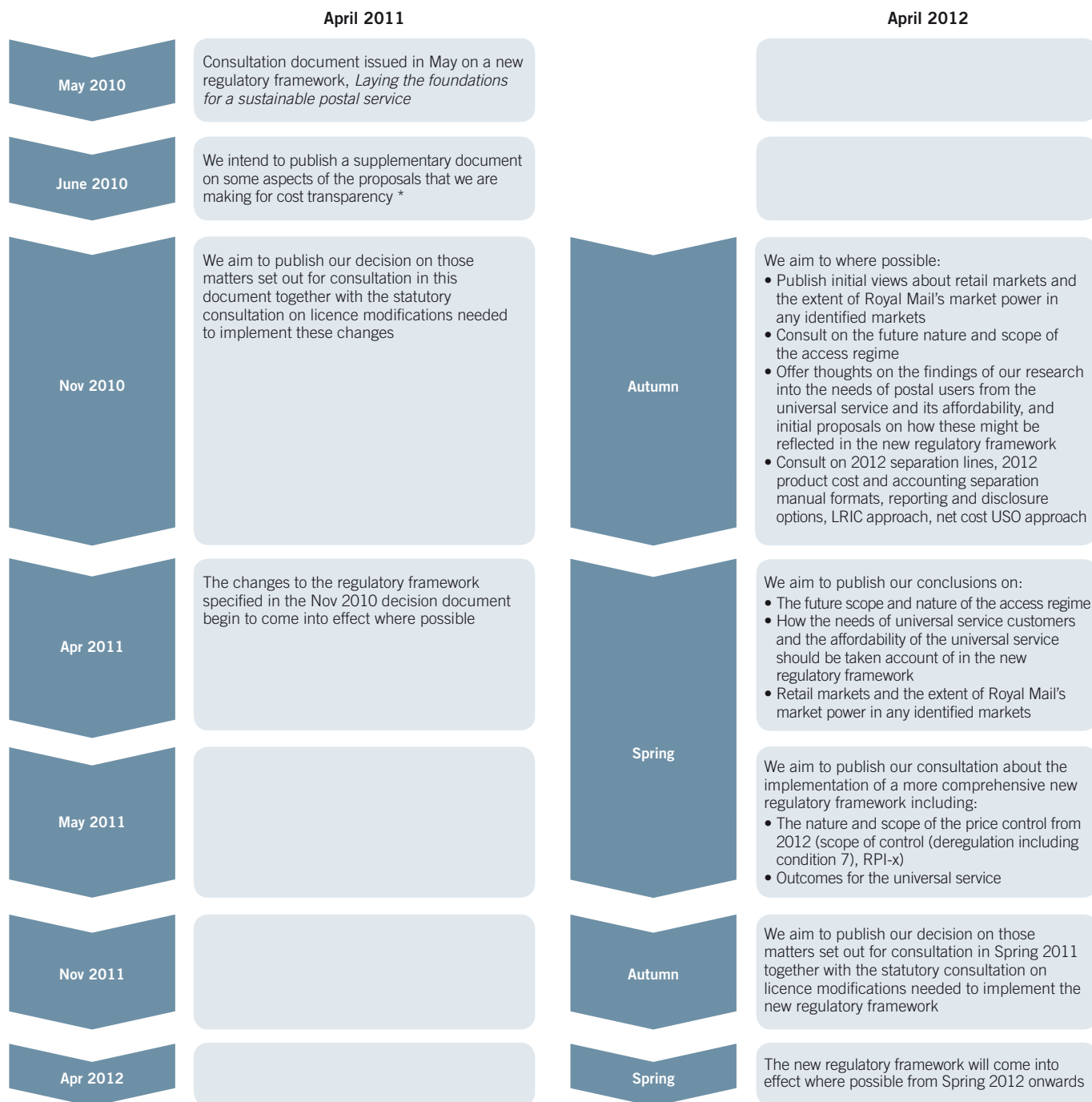
To deliver these objectives, we have structured our work programme into three strands: the universal service, analysis of markets, and regulatory safeguards. We discuss these strands of work in more detail in chapters three, four and five.

Designing and implementing a new regulatory framework is a significant task that requires the input of a wide range of interested parties including postal operators, postal users and Royal Mail. April 2012 will therefore be the first opportunity to introduce a new regulatory framework. To do this, we need to begin laying the foundations in April 2011.

We therefore intend to carry out our work programme in two key steps:

- **April 2011:** the changes that we have proposed in May 2010 will, if implemented, lay the foundations for a new regulatory framework and make those changes necessary to allow the current price control to continue until April 2012
- **April 2012:** implementation of a new regulatory framework.

To achieve our objective of implementing a regulatory framework appropriate for current and future needs by April 2012, we have identified a number of important dates where we intend to publish consultation and decision documents. On 27 May 2010, we issued our proposals for the introduction of the first phase of a new regulatory framework for the postal services market, in our consultation document *Laying the foundations for a sustainable postal service*. The other key dates when we will publish consultation and decision documents are detailed below.



* At the time of publishing we had issued our consultation on cost transparency and accounting separation

Chapter 3

Understanding the postal market today



The state of the market

Market size, trends and share

Mail volumes handled by Royal Mail for 2009-10 have continued to fall and Royal Mail reported a decline of 7.3% in mail volumes in 2010⁶, which brings mail volumes to a total of about 18.8 billion items in 2009-10. In 2008-09, the addressed mail market (which excludes door-to-door mail) was worth around £6.5 billion⁷. Royal Mail still delivers more than 99% of addressed mail in the UK.

Market entry to date

We have issued more postal licences this year, in particular to smaller businesses and sole traders, bringing the number of license holders in June 2010 to 50 (see chapter 9). The main form of competition that these operators engage in, in mail volumes, is downstream access, where the alternative operator collects and sorts mail from customers before transporting it to Royal Mail for final delivery. Large mail customers can also set up direct access agreements with Royal Mail, inputting their own mail into Royal Mail's nationwide delivery network at Inward Mail Centres.

Access volumes

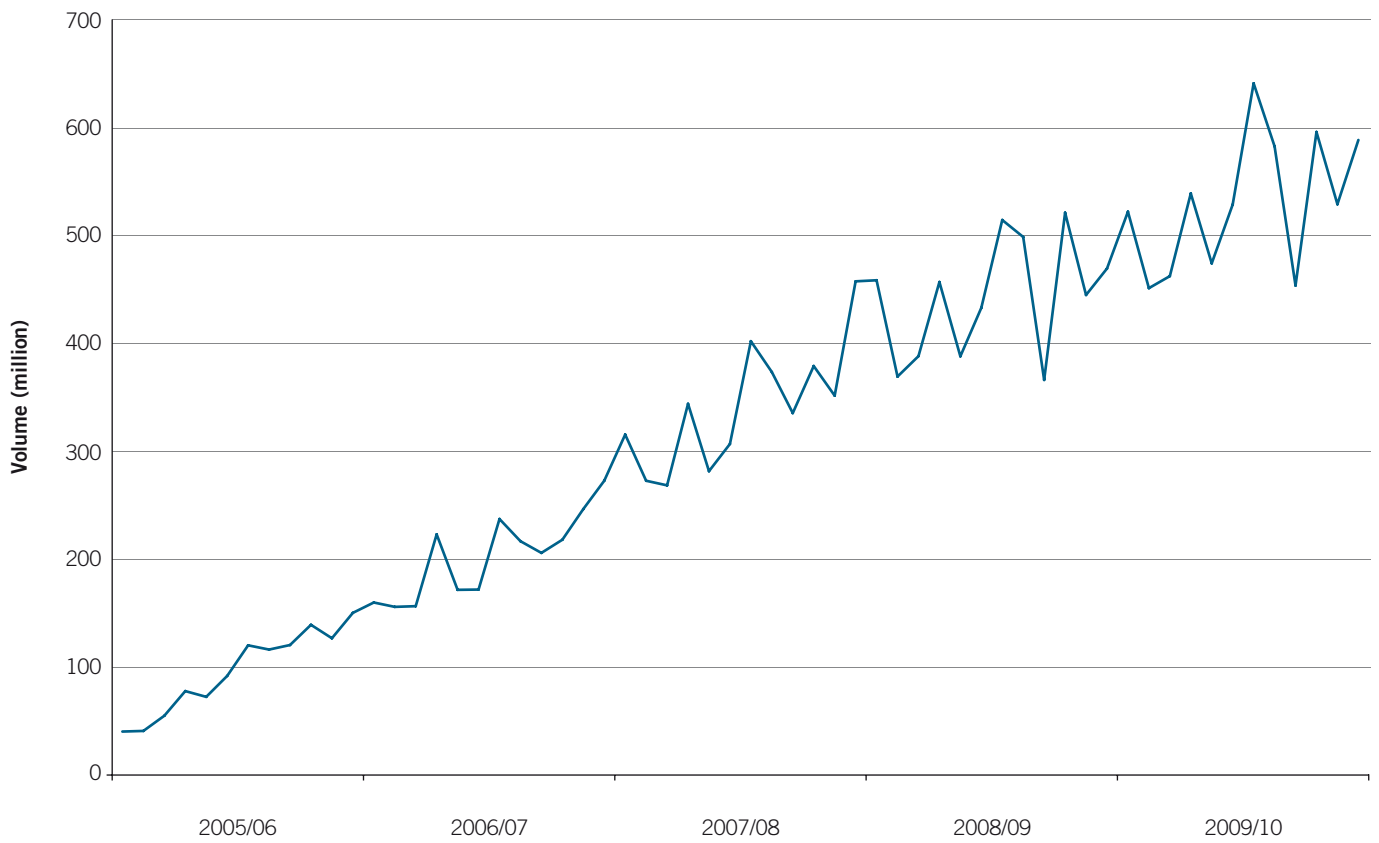
Royal Mail handled 6.4 billion items in 2009-10 through access agreements, which make up about a third of Royal Mail's inland addressed mail volumes. In 2008-09 access accounted for around 26% of Royal Mail's volumes. Of the 6.4 billion items of access mail, approximately 30% of these enter the Royal Mail network through customer direct access agreements; operator access accounts for the remainder. The graph opposite shows that there has been steady growth in access volumes overall since the introduction of competition into the market.

⁶ *Annual report and financial statements, Year ended 28 March 2010*, Royal Mail Holdings plc, ftp://ftp.royalmail.com/Downloads/public/ctf/rmg/2009_10_RM_Holdings_Group_Accounts_Final.pdf

⁷ Based on Royal Mail operational volumes, includes access. Includes all regulated and non-regulated mail, excludes door-to-door. From figures provided to Postcomm by Royal Mail Group under Condition 15 of Royal Mail's licence.



Total access volumes from 2005-06 to 2009-10



End-to-end volumes

The second form of competition is end-to-end delivery competition, where the alternative operator not only collects and sorts mail but also delivers it to the end customer. This has been slow to emerge in the UK. The reported volume of mail delivered end-to-end by alternative operators in 2009-10 fell to 11.9 million items, a decrease of 50% compared to 2008-09, but this decline is due to a couple of the licensed operators changing the way they report licensed area volumes to improve accuracy. Unfortunately, it also means that the figures are not directly comparable. This year has seen an increase in the number of new licensed operators although the majority of these licensees are small and offer only local or regional services.

Postal operator case study: Product Development Corporation UK

Product Development Corporation UK, a York based company, has for over 25 years specialised in the nationwide delivery of directories, leaflets, catalogues and magazines, via their team of over 15,000 temporary distributors. Clients have included BT, Yell, Thomson Directories and over 75 local authorities. Over 500 million items have been delivered since 1984.

The company was granted a licence by Postcomm in October 2009 and they have since successfully completed their first job delivering licensed area addressed mail – *the Really, Really Useful Guide* and vouchers – for the London Borough of Islington.



Product Development Corporation

Market review of the postal market

The reasons for undertaking a market review

A lot of the work we undertook in 2009-10 was focused on our preparations to introduce a new regulatory framework in April 2012, and specifically on our consultation issued in May 2010, *Laying the foundations for a sustainable postal service*. As part of this, we decided to undertake a market review.

We believe that undertaking a formal analysis of the postal services market is important because:

- It follows good regulatory practice and provides a structured way of thinking about the interaction between market power and regulatory safeguards across different wholesale and retail markets
- It will help to inform us about those measures that may be appropriate under the new regulatory framework
- It is relevant to investigations under Condition 11 of Royal Mail's licence.

The initiative was one of the recommendations of the Hooper Report and was supported by the Government.

Information about where Royal Mail has market power will help us identify where regulatory safeguards are needed to protect users of postal services. If we find Royal Mail has market power in a defined postal market, if appropriate we can address the risk of abuse of that power by regulatory measures such as capping the prices that it can charge, requiring tariffs to be published in advance or regulating quality of service. Conversely, where there is no market power, such regulation may no longer be necessary.

The topic our market study is considering

Our market study will consider wholesale and retail letters and parcels markets.

Broadly speaking, the term "retail market" describes those products and services which serve the final customers (or buyers of the postal product): for instance, a first class stamp is a retail product. Other operators also provide retail postal products to customers, although in most cases they use Royal Mail to deliver the mail they collect.

To provide these retail products and services, a number of network activities or "inputs" are needed. This set of inputs can be thought of as a supply chain from the collection of the item of mail to its delivery to the intended receiver. We have defined as "wholesale markets" the inputs provided between collection and delivery that are sold as an intermediary product to provide a retail service, for example access to Royal Mail's inward sortation and delivery facilities.

The packets and parcels services market study considered those postal services used to convey:

- All packets and parcels weighing up to 32kg
- All letters and large letters which are not subject to the licensing requirements (i.e. all letters which cost £1 or more to send or which weigh 350g or more⁸), but excluding letters and large letters conveyed using “vanilla services”, i.e. without add on services such as a signature required.

Our initial conclusions

The first stage of our market study analysed wholesale markets, retail (supply side only) and the packets and parcels services markets. We published our initial conclusions in our consultation document in May, and these conclusions are subject to the views and comments of interested parties. We will publish our initial views on the demand side aspect of the retail market study in the autumn.

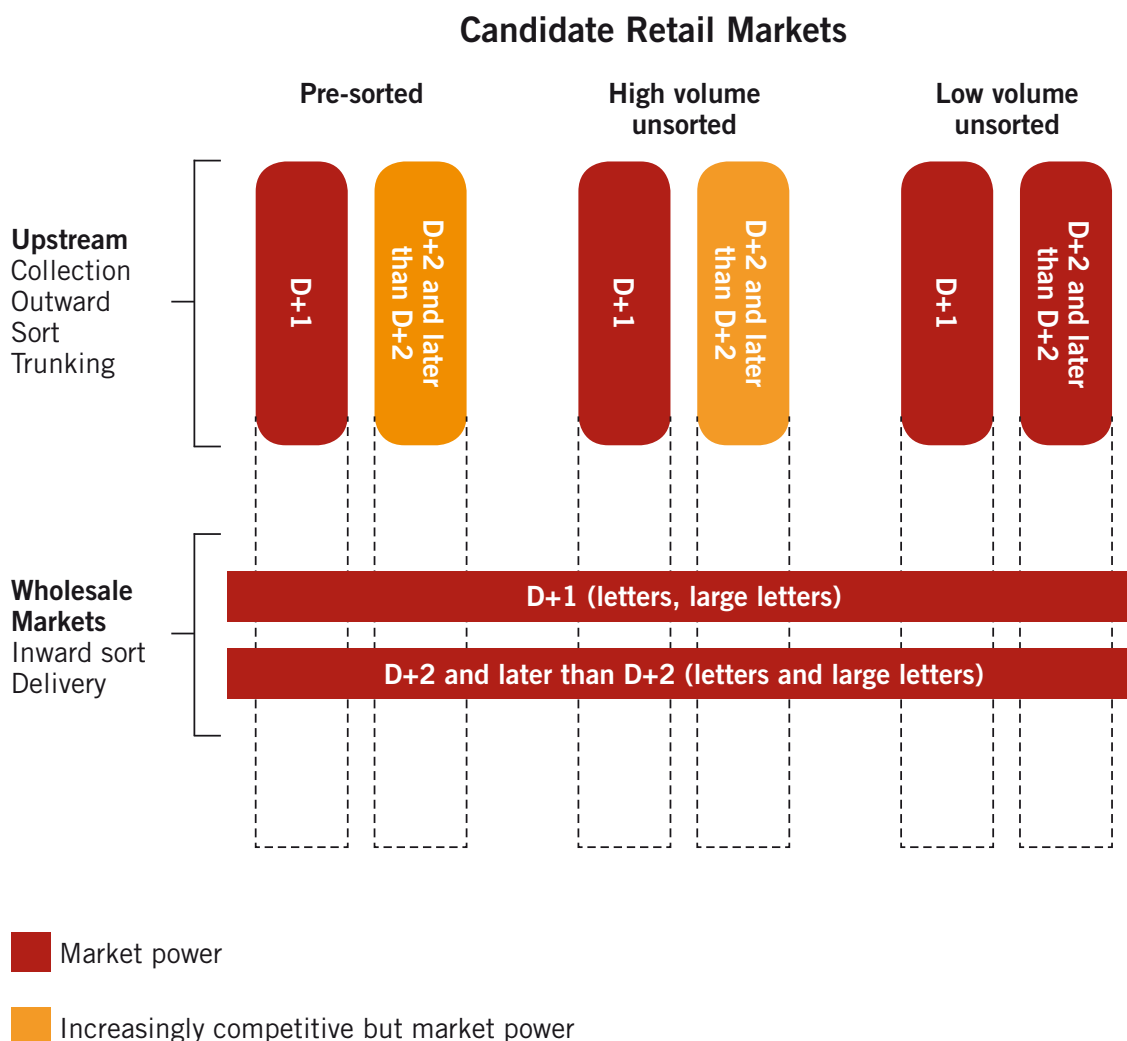
In summary, in relation to letters and large letters, we conclude that Royal Mail has market power in the wholesale markets and in the retail markets we identified. At this stage we split the retail markets into three, with each one then split between D+1 (next day) and D+2 or later (later than next day). The three segments we identified are the following:

- **Pre-sorted:** mailings that are presented to the operator sorted to a predetermined level
- **High volume unsorted:** mailings of greater than 250 items that are not sorted by the sender before presentation to the operator
- **Low volume unsorted:** mailings of less than 250 items that are not sorted by the sender before presentation to the operator.

We have identified different markets based on characteristics of services provided, such as the speed of delivery, which reflect how postal providers are currently operating. The split is based on a supply-side analysis only (considering the potential for competition from other operators entering the market), and we call these markets “candidate retail markets”. In the autumn we will supplement this analysis with evidence on demand-side substitution (the potential for customers switching between products or to other non-postal products). The figure opposite presents a summary of our initial findings.

⁸The Postal Services Act provides that a licence is required to send mail weighing less than 350g and costing less than £1 to send. Postal Services Act 2000, http://www.opsi.gov.uk/acts/acts2000/ukpga_20000026_en_1

Summary of initial views of wholesale markets, candidate retail markets (based on supply side analysis) and market power

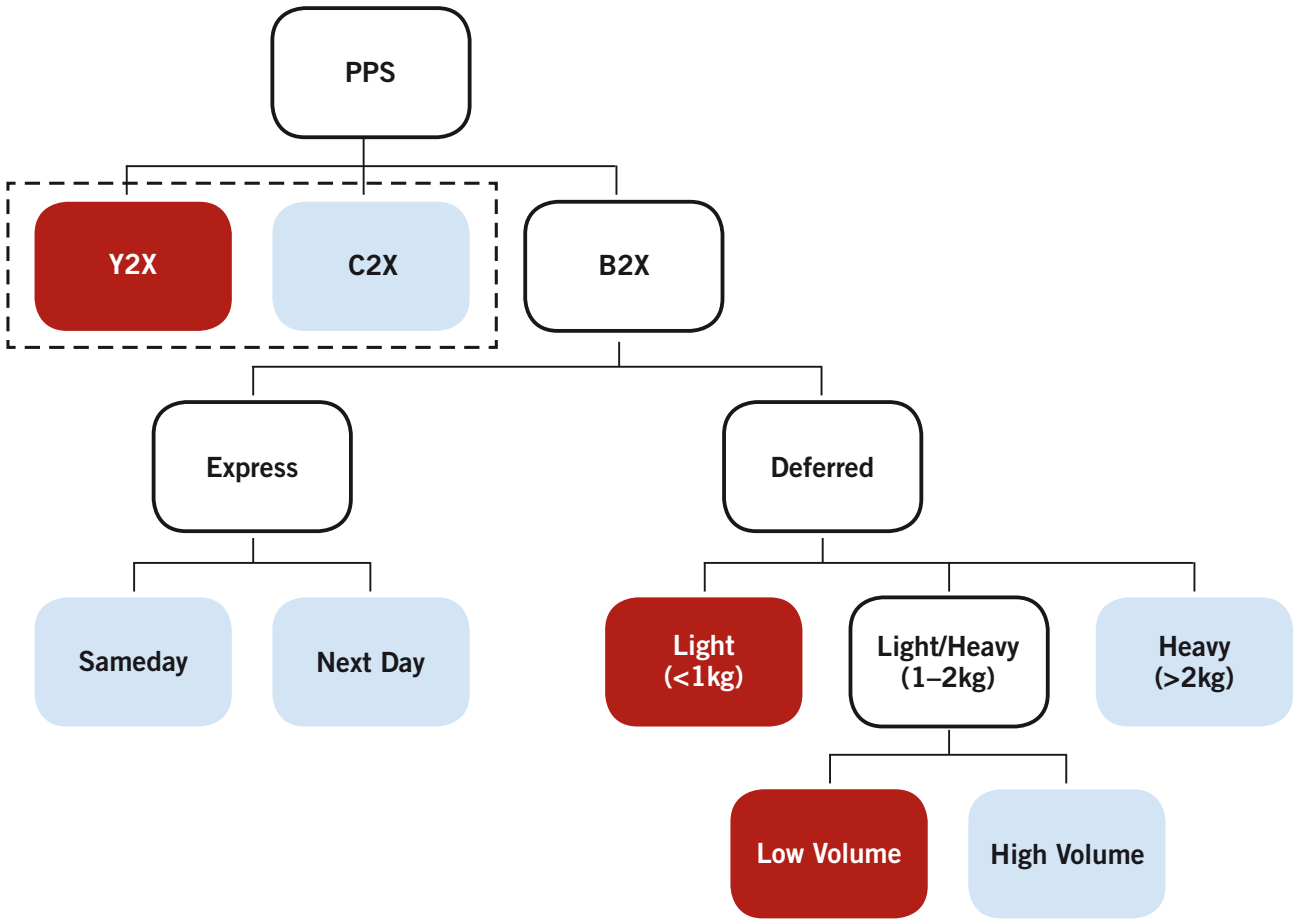


In relation to packets and parcels, we have identified several markets according to the type of sender and specific characteristics of the products, such as weight. The markets provisionally defined are shown in the figure below. We also conclude that Royal Mail has market power in some areas, but that there is likely to be effective competition in others. The markets where Royal Mail does not appear to have market power are:

- Express B2X (B2X means mail sent by businesses to others) markets
- Heavy Deferred packets and parcel services for high volume B2X contracts above 1kg and for all B2X contracts above 2kg
- Heavy Deferred wholesale packets and parcels services above 2kg.

The figure overleaf summarises our findings.

Parcels and packets markets and segments where Royal Mail has market power



B2X: Business to other (where the item is collected from the sender’s premises)
C2X: Consumers to other (where the item is collected from the sender’s residence)
Y2X: Business or consumer to other (where the item is sent from an access point e.g. Post Office)

Market power
 No market power
 Potentially one market



Postal operator case study: City Cycle Couriers

Ken Holder, a former serviceman and firefighter, set up City Cycle Couriers in Plymouth early in 2009. Working alone, he started collecting and delivering important documents and small packages for local businesses within the city centre postcodes.

In March 2009 he was granted a postal operator's licence by Postcomm which enabled him to expand his services to include letter deliveries. Mr Holder now employs two part time staff and in the last year City Cycle Couriers have delivered over 34,000 items.

An environmentally friendly service, all items are delivered by bicycle either the same day or on the next working day and the operation now also includes services such as bank runs, key collections and leaflet distribution.



 **citycycle
couriers**

Chapter 4

Securing the universal service and protecting postal users

4

Our primary duty is to seek to ensure the provision of a universal postal service. The universal service is at the heart of all our activities. This is why we are undertaking strands of work specifically aimed at protecting interests of users of postal services and assessing their needs.

Assessing users' views on postal services

Customer survey

Our survey of residential customers and small and medium sized enterprises (SMEs) monitors their usage of mail and behaviours and attitudes towards the postal service. The findings of the 2009 survey shows that the postal service provided by Royal Mail remains well regarded by both residential customers and SMEs, achieving high scores for overall satisfaction and perceived value for money. This is consistent with the findings from the 2007 and 2008 surveys.

Reliability remains the most important aspect of the postal service as both residential customers and SMEs rate reliability of collection and delivery more highly in terms of importance than any other aspect of the postal service. The reliability and consistency of the delivery time each day is the key driver of overall satisfaction with Royal Mail. A decline in this element of the postal service is more likely than any other to drive down overall satisfaction.

When residential customers and SMEs experience lost, damaged, mis-delivered, or delayed mail, or have made a complaint, their satisfaction rating drops quite dramatically. The majority of complainants were not satisfied with the way Royal Mail handled their complaints, scoring parts of the complaints service an average of five out of 10.

Business customer survey

Our survey of business mailers showed that, as in 2008, around half of respondents think that mail is core to their business. A further 31% think it is critical.

Royal Mail continues to be the main service provider to business customers, serving nearly 100% of the firms surveyed. Even customers that have moved some mail to alternative providers continue to use Royal Mail for most of their mail. Overall, those who use Royal Mail send 94% of their mail with Royal Mail.

The 2009 Business Customer Survey found a reduction in multiple sourcing, from 23% to 13%. However, it should be noted that the wording of the question in the survey was changed this year to remind customers to focus on licensed area mail only, and this may indicate that in previous years, businesses were also naming providers they used for mail that was sent using the express divisions of mail companies, for example FedEx and DHL Express.

In a market where mail volume decline is at its highest in five years, customers are less optimistic about mail volume growth in their own businesses, with 29% predicting that volumes will decrease over the next five years. This is a large increase from 2008, when only 17% predicted a decline in their sent mail volumes.

There has been a large increase, from 26% in 2008 to 37% in 2009, in the percentage of businesses which have moved some of their mail to other media, like email or the internet, in the last twelve months. The main reason for this is to make cost savings, but speed, customer preference and environmental reasons were the next most popular reasons.

Overall, business customers were positive about the service they receive from their mail providers. Royal Mail scored an average of 7.8 out of 10, and alternative operators were rated at an average of 7.9 out of 10. This is despite the fact that the Business Customer Survey was carried out during the industrial action in 2009. More than half (56%) of customers believe that competition has improved the choices open to them.

Enforcing quality of service standards

Monitoring quality of service standards

We monitor Royal Mail's compliance with the quality of service targets set out in its licence. Every quarter, Royal Mail publishes its quality of service results on its website⁹. In 2009-10, Royal Mail met four of 12 quality of service targets. This compares to eight of 12 targets that were met in 2008-09.

Royal Mail has failed to meet its targets for:

- **Retail First Class:** cumulative performance was 87.9% compared to a target of 93%
- **Retail Second Class:** cumulative performance was 96.7% compared to a target of 98.5%
- **Bulk First Class:** cumulative performance was 87.1% compared to a target of 91%
- **Bulk Second Class:** cumulative performance was 95.6% compared to a target of 97.5%
- **Special Delivery:** cumulative performance was 97.6% compared to a target of 99%
- **Postcode Areas:** compared to a target of 118 postcode areas to meet 91.5% for delivery of retail 1st class mail, only 14 postcode areas performed cumulatively at or above 91.5%
- **Percentage of collection points served each day:** cumulative performance was 98.7% compared to a target of 99.9%
- **Percentage of delivery routes completed each day:** cumulative performance was 98.16% compared to a target of 99.9%.

These quality of service targets are for the UK as a whole (except for the postcode area target mentioned above).

Royal Mail says that its failure to meet full-year cumulative targets was due to industrial action in the summer and autumn 2009 and to extreme weather in January 2010.

⁹ <http://www.royalmailgroup.com/portal/rmg/content1?catId=23300505&mediaId=23300506>

Considering Royal Mail's request if it does not meet its quality of service standards

If Royal Mail does not meet all of its quality of service targets in a specific year, it must compensate its bulk mail customers. In addition, for certain products (mainly universal service products such as first and second class stamps), there is an adjustment (called the C-factor) which provides for an automatic adjustment to the revenue Royal Mail is allowed to earn under the price control for the following year. This adjustment can reduce Royal Mail's allowed revenue.

In February 2009, Royal Mail wrote to us to ask us to consider an application to seek relief from the Bulk Mail Compensation Scheme, and the quality of service adjustment factor, in case industrial action due to its transformation plans had impacted on its quality of service performance. In July 2009, we agreed to consider such a request and, in May 2010, Royal Mail submitted its formal application to suspend the Bulk Mail Compensation Scheme, and for a dispensation from the quality of service adjustment factor, for the year 2009-10. Royal Mail's application can be viewed on our website¹⁰.

Investigating the measurement of quality of service performance

This year we also investigated the way that Royal Mail monitors its quality of service. Royal Mail, as part of its licence, is required to have its quality of service performance independently monitored. As part of this, Royal Mail has contracted a market research company called Research International. Anonymous panellists made up of members of the public or businesses working for Research International send and receive "test" letters through the post in order to record time and day of delivery. Royal Mail is required to ensure the identity of such panellists is not known to Royal Mail staff.

Allegations of wrongdoing came to light in February 2009 when we were given evidence by an "informant" who was an employee of Royal Mail. The informant alleged Royal Mail staff, including senior managers, had managed to identify panellists working for Research International within Scotland's Motherwell and other postcode areas and had put together a spreadsheet of their names and addresses. It was alleged these spreadsheets were used to ensure panellists received their letters in good time, so that performance targets were met.

We concluded in our preliminary ("minded to") findings in February 2010 that since July 2006 Royal Mail has failed and is continuing to fail to comply with two parts of its licence condition covering standards of service. However, there was no evidence that the conduct in question had actually had a material effect on Royal Mail's recorded quality of service or bonuses paid to Royal Mail's employees. Royal Mail has co-operated fully and openly throughout the investigation.

¹⁰ See <http://www.psc.gov.uk/news-and-events/news-releases/2010/royal-mail-submits-its-case-on-quality-of-service-failures.html>

Evaluating postal users' needs and affordability

The universal service requires, in summary, the delivery and collection of mail every working day at the same affordable price everywhere in the UK. The universal service requirements are set by the Postal Services Directive¹¹ and the Postal Services Act¹². Neither the Postal Services Directive nor the Postal Services Act identifies which specific products and services should be included in the universal service. As the regulator, we set the terms of Royal Mail's licence, which provides the universal service in the UK. It is our job to specify in Royal Mail's licence the specific postal products and services, and their associated quality of service targets, which are provided as part of the universal service.

As part of putting in place a new regulatory framework for April 2012, we need to gather a strong evidence base to evaluate again which products are provided as part of the universal service.

There are three strands in our work on the universal service:

- Understanding what postal users need from a universal service
- Understanding what "affordability" means to postal users
- Identifying the net cost to Royal Mail of providing a universal service that meets the needs of postal users and is affordable.

Firstly, we need to understand how the needs of users of postal services have changed since we last reviewed products provided as universal services in 2004 and 2005, given that so much has changed with the growth of digital media. This is important so that the universal service remains appropriate to the needs of users, including small and large businesses. We have therefore decided to undertake research to consider what drives use of postal services now and in the future, to determine what users need postal services for. This is a joint research project with Consumer Focus. TNS-BMRB was appointed in March 2010 to undertake this work.

Secondly, both the Directive and the Act require that a universal postal service must be provided at affordable prices. We are keen to understand better what affordability means to postal users. As part of the wider project to review the universal service we will aim to identify whether there is an appropriate and reasonable approach for assessing the affordability of universal service postal prices. Any findings will be taken into account when setting the price controls to come into effect from April 2012.

Finally, we will also seek to understand how any changes to various universal service requirements will impact on Royal Mail's costs and financial position, to make sure that the universal service is sustainable. Determination of the net cost of the universal service is very complex, but we plan to propose an approach to this assessment as part of our future consultation in November 2010 about the universal service.

Any proposals on the universal service will be based on robust evidence. If postal users tell us that their needs from a universal service have changed, we will first report these findings and set out some initial thoughts on potential solutions in November 2010, with a view to undertaking consultation on the universal service in conjunction with consultation on price control proposals for 2012. Any possible changes to be made would not come into force before April 2012.

¹¹ Directive 97/67/EC as amended most recently by the Third Postal Directive 2008/6/EC, to be implemented by 31 December 2010 http://ec.europa.eu/internal_market/post/legislation_en.htm#proposal

¹² Postal Services Act 2000, http://www.opsi.gov.uk/acts/acts2000/ukpga_20000026_en_1

Chapter 5

Developing regulatory safeguards

5

As we mentioned earlier, a lot of the work we undertook in 2009-10 was focused on our preparations to introduce a new regulatory framework in April 2012, and specifically on our consultation issued in May 2010, *Laying the foundations for a sustainable postal service*.

For our new regulatory framework, we aim to focus regulation where it is needed, to ensure that Royal Mail can deliver the universal service, and also on areas of the market when there is not enough competition to protect users. In the absence of competition, regulation ensures that Royal Mail cannot raise certain prices or let the quality of service of specified services fall beyond reasonable limits.

We would therefore like to have less regulation where the market provides protection for users. Generally, we can regulate using both specific controls (e.g. on prices) which we set out in advance, to address potential risks to the universal service and users, and using powers of investigation and sanction if more general rules are not followed.

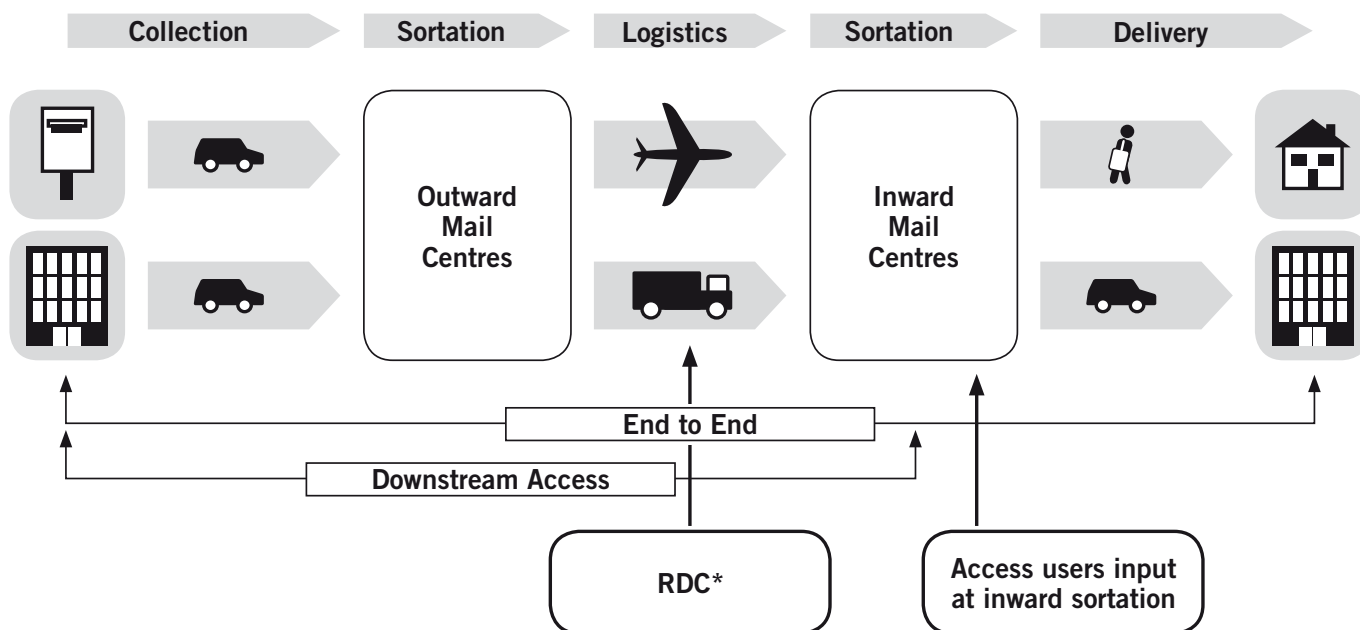
We are now reviewing the regulatory safeguards which are appropriate for us to use, given the current market circumstances. The regulatory safeguards we are looking at include:

- A review of the way Royal Mail provides cost and revenue information for regulatory reporting purposes
- Considering the nature and extent of controls on Royal Mail's pricing
- Examining, with Consumer Focus, views of what should be in the scope of Royal Mail's universal service obligations in future
- Reviewing the way other operators access the Royal Mail network and how we regulate this access.

Before turning to our work on regulatory safeguards, we illustrate below what access to the Royal Mail network means, and what upstream and downstream activities are.

The figure opposite shows the different key components of the Royal Mail's postal network, from collecting a mail item to delivering it. Access competitors to Royal Mail undertake all the collection, initial sorting and transport on behalf of their customers, but rely on Royal Mail for the final delivery of mail.

Royal Mail's pipeline and point of input for access users



*RDCs are Royal Mail's Regional Distribution Centres, which are used to collect bulk mail (e.g. Mailsort services) from customers.

Collecting mail, preparing it for transportation in the outward mail centres and distributing it (or “trunking”) to an inward mail centre are all “upstream” activities. The final stages consist of receiving mail and sorting it for delivery in the inward mail centres (sometimes this includes further transportation to a delivery office or depot), and delivering it. These final stages are “downstream” activities.

Improving cost transparency and accounting separation

Better regulatory information about Royal Mail's revenue and costs will help us make sure the right regulatory measures are in place to ensure the provision of the universal service and protect users. This will allow us to understand better whether, and to what extent, Royal Mail may need to increase prices for some products to be able to fund the universal service. It is also one of the tools which will enable us to make changes, where appropriate, to the way we regulate access by Royal Mail's competitors to Royal Mail's network, including ensuring they pay fair prices for this access. It will also help us reduce regulation of Royal Mail's own retail products where appropriate where there is greater competition, and enable us to act more quickly to deal with complaints concerning potential breaches of Royal Mail's licence.

Cost transparency will provide the key input to the improvements in regulatory information that we need. It will provide us with better information about how much it costs Royal Mail to deliver its services. Cost transparency involves Royal Mail giving Postcomm more information about its costs for collecting, processing and delivering mail and how these different activities contribute to the total costs of different products and services. It will provide information that is consistent from year to year to understand how changes in underlying activity costs and allocation approaches contribute to the changes in different product costs over time.

Accounting separation will provide us with separate financial statements for different parts of Royal Mail's Letters business which, while operating as part of a single entity, must be treated as different parts of the business for regulatory purposes to allow more effective targeting of regulation. This will allow us to understand the profitability of different parts of Royal Mail's business, and to guard against the risks of cross-subsidy involving the regulated business.

In our consultation document published in May, we make the following key proposals:

- Introduction of guiding and methodological principles for product costing, and a change control mechanism, via Royal Mail's licence
- Royal Mail to develop a detailed costing manual to comply with these principles
- Introduction (for pilot purposes) of three potential new lines of accounting separation in accordance with guiding principles to be set out in Royal Mail's licence, and with Royal Mail developing an accounting separation manual to comply with these principles. The lines of separation we have suggested are:
 - A line separating deregulated and non-deregulated products
 - A line separating downstream and upstream operations
 - A line separating bulk and non-bulk products.

We intend to introduce changes gradually, first for April 2011 and then April 2012, with the full separated accounts for 2012-13 being audited and published, and aligned to the scope of regulation in place from April 2012.

Reforming the price control and access regulation

As we explain in chapter two, there have been some significant changes to the postal market since the current regulatory framework was implemented in 2006. These changes include a reduction in mail volumes, changes to the mix of mail as customers move to less expensive products and a rise in the volume of mail collected and sorted by postal operators competing with Royal Mail in upstream services. Crucially, the profitability and cash flow of Royal Mail, and therefore its ability to finance the universal service, has fallen sharply since the current price control was set.

To make sure that the regulatory safeguards that apply to Royal Mail's products are appropriate to secure the universal service and protect users, we need to review these in response to changing market conditions. We want to make sure that the regulatory safeguards allow Royal Mail to have sufficient commercial freedom to participate in competitive markets, change its prices and be innovative, so that it can continue to provide the universal service, and at the same time ensure that postal users are protected from undue price rises and poor quality of service. We also want to make sure that there is sustainable competition based on a fair price for Royal Mail's services, so that postal users can benefit from improvements in prices and services.

Royal Mail's licence includes a number of constraints on how Royal Mail sells its products to its customers. These constraints are split into three broad types:

- **Maximum price constraints, which are referred to as "price controls":** These constrain how much Royal Mail can increase its prices each year. Incentives to sustain minimum quality of service are part of this price control framework.

- **Other price constraints which are more related to giving greater certainty to the market about Royal Mail's prices:** This is particularly important where competition is developing. These include "sub-caps" which limit the amount any individual prices can change, compared to the average. It also includes a "headroom" control which requires Royal Mail to maintain a minimum gap between the price charged by Royal Mail for a range of second class bulk mail products, and the prices it charges to other operators for the related access services.
- **Non-price constraints:** For example, a requirement for Royal Mail to notify and publish details of new products and changes to its existing products three months before their implementation.

As discussed above, we would like to remove some of the regulatory safeguards where Royal Mail does not have market power or competition has developed sufficiently. We proposed a series of changes to the regulatory safeguards, taking into account our analysis of markets, including price and access headroom controls in our consultation document that was published in May 2010.

Our proposals span a number of related aspects of the current price control, with key proposals including:

- Removing price and headroom controls for all of Royal Mail's packet and parcel products which are sold to business customers, where the average weight per item is above 750g. There is no change proposed to the regulation of products sold to social customers, such as stamps
- A package of measures for the regulation of pre-sorted bulk mail retail and access services including:
 - removing price controls for some pre-sorted bulk mail products where we consider that the nature and extent of competition from other operators is such that this regulatory safeguard is no longer required
 - moving from a "retail-minus" to a "wholesale-plus" control of Royal Mail's access prices by directly controlling the price of the relevant access products
 - moving to monitoring headroom across a basket of products, including Mailsort 3 and reducing headroom for Mailsort 2 letters from 4.1p to 3p on average
- Reducing the publication notice period for new products or changes to existing products from three months to six weeks (Condition 7)
- Rolling over all other features of the current price control for another year pending a review of Royal Mail's latest business plans and their financial implications.

Postcomm is reviewing the licences it has issued, both Royal Mail's licence and the standard licence for other operators. We are seeking to identify any licence conditions which need to be "tidied up" or updated in order to deal with issues such as drafting clarity and to reflect changing circumstances identified during the life of the current licences.

The review will identify and propose changes to have effect in either 2011 or 2012. The amendments we are proposing to make in 2011 will largely update references to legislation and where appropriate clarify and update drafting to reflect current practice.

Chapter 6

Talking with all those interested in our work



This year we have renewed our emphasis on making sure we have an ongoing relationship with those interested in our work, and strengthened our direct dialogue with postal users.

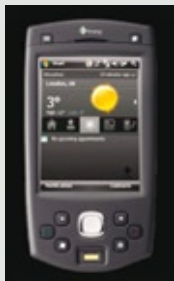
Engaging with postal users, operators and others interested in our work

Our approach to external relations over the 2009-10 period can be split into two distinct phases, before and after the Postal Services Bill 2009 was postponed and then fell. During the passage of the Bill, we concentrated our efforts on helping to smooth its journey through Parliament in order to ensure a fast and efficient transition of regulation from Postcomm to Ofcom. After the Bill fell, the Secretary of State for Business, Innovation and Skills announced that Postcomm would continue as the regulator for the foreseeable future, and our approach to external relations changed as a result. This second phase consisted of meetings and events to re-engage with the marketplace, in order to start swiftly the process for a much-needed new regulatory regime fit for the environment in which postal services now operate.

Engaging with Royal Mail, postal users, Consumer Focus, operators, trade bodies and other parties interested in our work is a two-way process: for us to listen and understand developments in the postal markets, and to explain how we propose to change postal regulation. We talked with users and the industry in a number of ways, through roadshows, workshops, and a lot of individual meetings. To deepen our understanding of the rapidly changing marketplace in which we operate today, all staff have been going on regular site visits to hear about customer and postal competitors' operations first-hand. In addition, staff have had training on Royal Mail's operations from collection to delivery.

Talking to all those who are interested in our work continues to be critical to the essential work that needs to be completed now in order to introduce a new regulatory regime for 2012. We have risen to the challenge and will continue to work hard to ensure all interested parties are actively involved in our efforts to ensure the most appropriate regulatory regime for a better postal service today and tomorrow.

Postal operator case study: The Satellite Distribution Company



The Satellite Distribution Company has provided door-to-door distribution services for a number of London councils since 2001. In 2007 they were awarded the contract for distribution services for the Olympic Delivery Authority, delivering 750,000 leaflets across four host London boroughs.

The company has invested in an advanced satellite tracking system which enables clients to monitor real-time reports and gain immediate verification of delivery.

In February 2010, the company was granted a postal operator's licence by Postcomm and they have already completed their first deliveries of addressed mail, for the London Borough of Brent, the Lewisham Labour Party and Lambeth Council.



Setting up Customer Interest Forums

We are keen to strengthen our direct conversation with users of postal services on postal issues. Hearing their views is central to developing and implementing postal regulation. In order to gain better insight into the views of residential and micro-business customers we are in the process of establishing a series of Customer Interest Forums to enable us to ask postal users for their views on a range of postal issues. We intend to use these Forums as one way of obtaining information to support our consideration of the needs of postal users from an affordable universal service.

We expect the Forums, which will comprise around 100 customers from a broad section of society, to meet three times a year. The Forums are based in five locations across the UK. It is expected that participants may also take part in telephone or online surveys during the time they are Forum members.

At the time of writing, Forum members are being recruited, with the first Forums expected to be held in July.

Chapter 7

Undertaking our regular activities



Although we have been focused on putting in place a new regulatory framework, we also continue to carry on our other activities to further postal users' interests and fulfil our other specific duties.

Conducting anti-competitive investigations

As the single provider of the universal service in the UK, Royal Mail has developed a comprehensive UK-wide delivery network giving rise to significant economies of scale and scope in collection and delivery that rival postal operators do not enjoy. Royal Mail used to be the monopoly provider of postal services in the UK and the market was fully liberalised only in 2006.

For this reason, Royal Mail's licence contains specific provisions designed to ensure that we can intervene if Royal Mail is engaging in certain behaviour which impacts on the development of effective competition. We have wide-ranging powers to gather information and investigate complaints about such behaviour in the mail market. In 2009-10, three such investigations were ongoing.

Term Contracts investigation

Royal Mail began offering Term Contracts in 2008. Term Contracts are a form of discount available for customers who enter into a commitment for Mailsort services for a minimum annual volume of one million items and a minimum of one pre-scheduled collection per week. The discounts are 1.4% (for a one year commitment) and 2% (for a two year commitment). Mailsort is a pre-sorted bulk mail service offered by Royal Mail to its account customers.

We reported last year that we had decided to proceed to a full investigation of Term Contracts. In May 2010, we decided to close our investigation because we were not satisfied, on the basis of the evidence presently available, that Royal Mail was in breach of its licence in offering Term Contracts.

Mailsort Light investigation

Mailsort Light is a special discounted service offered by Royal Mail to senders of bulk advertising mail. For mailing campaigns of 40,000 items or more, Mailsort Light is a lightweight (15g) mailshot (bulk mail advertising) teaser or follow-up to the customers targeted in the main campaign, but offered at a discount of 4.5p per item.

We received complaints that the pricing of the service was unduly discriminatory and amounted to a margin squeeze and launched an investigation into whether Mailsort Light contravened or was likely to contravene Royal Mail's licence obligations, including those relating to the promotion of effective competition.

We closed our investigation into Mailsort Light because we concluded that there was insufficient evidence to find that Royal Mail was setting prices for Mailsort Light that were predatory or applying a margin squeeze. A margin squeeze means that the margin between the price Royal Mail charges access operators and the price it charges its own retail customers is reduced to a point where an efficient firm can no longer compete in the market.

The original complaint also raised concerns relating to Mailsort 3 pricing more generally. On Mailsort 3 pricing, we considered that we were not in a position to reach a definitive view, in part due to the lack of robust costing information. We are therefore considering this issue as part of our work towards a new regulatory framework.

Packets investigation

In March 2009 we launched an investigation into the way Royal Mail prices its access and retail packet services for business users. The investigation followed complaints from the Mail Competition Forum and TNT Post Group. Both alleged that margin squeeze was occurring for some second class packet services. As we said above, a margin squeeze means that the margin between the price Royal Mail charges access operators and the price it charges its own retail customers is reduced to a point where an efficient firm can no longer compete in the market.

The investigation is examining the margin allowed between the retail and access prices for packets weighing up to 2kg and whether it is sufficient for other operators to be able to access Royal Mail's wholesale network fairly. It will also investigate whether other operators are able to compete in the retail market and look at alleged unfair differential pricing structures which are said to exist between some Royal Mail retail and wholesale packet services.

This investigation is ongoing.

Giving advice and information on the post office network

We have a duty under the Postal Services Act to give advice and information to the Secretary of State about the number and location of post offices, and their accessibility to users, which we do in a report published every year. In 2009 we decided that we would focus more clearly on the Act's requirements of giving information and advice on the number and accessibility of post offices, resulting in a more streamlined report. This will allow Consumer Focus to take forward the important role of championing the needs of post office customers in relation to other issues such as queuing times and the provision of non mail related activities such as financial services.

This year we reported that, by the end of March 2009, there were 11,952 post office branches in the UK, compared to 13,567 at the end of March 2008. Our report noted two key developments for Post Office Ltd in the year 2008-09. Post Office Ltd completed the closure programme announced in 2008 and, crucially, retained the contract for the Post Office Card Account, which is used for collecting pensions and benefits in cash at the local post office.

Importantly, although the government subsidy for the network (the Social Network Payment) should be taken into account, Post Office Ltd was back in profit for the first time since Postcomm started to report on the post office network in 2000. Post Office Ltd made a profit of £41 million in 2008-09. Continuing this encouraging trend, Royal Mail Group's Annual Report and Financial Statements for 2009-10 reported that Post Office Ltd made a profit of £72 million in 2009-10 (including the Social Network Payment from the Government).

Commissioning research on the social value of the post office network

Last year, we commissioned research on the social value of the post office network, at the request of the Secretary of State for Business, Innovation and Skills (BIS). We commissioned external consultants NERA, in partnership with Accent, to carry out the research, and published the report in October¹³.

The main piece of research considered "the social value" of the post office network and the individual services it provides. This was determined by identifying a customer's willingness to pay for the post office network as a whole and the individual services it provides.

Overall, the research validated the widely held assumption that there is a social value for customers in the post office network. It confirmed that respondents value the individual services provided by post offices. Of these individual services, postal services were given the highest social value. It also showed that respondents value the post office network's "wider social benefits", which was determined as the difference between the value of the post office network as a whole and the value that can be attributed to specific services. The research showed that respondents mainly use the post office network for postal services, and respondents generally like/value the convenience of the post office network.

The research also provided an estimate of the costs to the taxpayer of the post office network providing services with a social value, compared with alternatives, an assessment of the proportion of post offices that have attached businesses, and of these, the proportion which are viable or not viable.

Monitoring the Postcode Address File Code of Practice

The Postcode Address File (the PAF) is a list of all postal addresses and postcodes in the United Kingdom, built up and managed by Royal Mail. We continued our watching brief on the regulatory framework for the management of the PAF, set out in our 2007 decision document on Royal Mail's future management of the PAF. This included observing meetings of the PAF Advisory Board, discussions with Royal Mail on PAF-related issues such as the PAF profit and loss accounts, and informal discussions with those affected by planned changes to Royal Mail's licensing of PAF who approached us.

We followed up allegations concerning the incorrect removal of properties in the Highlands of Scotland from the PAF, supporting the work by the PAF Advisory Board. With the PAF Advisory Board, we took steps to ensure that Royal Mail corrected the mistakes and that Royal Mail put measures in place to avoid a recurrence of such errors.

In addition, in 2009, we conducted a consultation on changes proposed by Royal Mail and Consumer Focus to the PAF Code of Practice. We published our decision document in May 2010, and the revisions are designed to improve aspects of the code's operation and to bring it up to date.

¹³ *The Social Value of the Post Office Network*, Report for Postcomm, NERA Economic Consulting, 5 August 2009, http://www.psc.gov.uk/postcomm/live/post-offices/research/2009_09_10_nera_final_report_090805.pdf

Gathering information on international markets and future developments

Information on postal markets and the regulatory framework in other countries helps us to understand better developments in the UK markets, and to consider the possible impact of changes to regulation in the UK.

We maintained an active programme of participation in international events and benchmarking, including involvement in the Postal Directive Committee, chaired by the European Commission.

We were active in the European Committee for Postal Regulation (known as CERP) where we were represented on various project teams and helped to prepare the associated reports on best practice in the areas of market data, consumer issues, and an implementation guide on the universal service. We also chair the group on the role of national regulatory authorities. CERP has members from 43 countries and the various project teams are chaired by different countries on a voluntary basis.

We organised meetings involving countries of particular interest to the UK such as France and the USA to assess the market and regulatory developments in those countries. We also visited the Jersey regulator where we discussed cross-border issues and the idea to set up a British Isles Regulatory Forum. We received delegations from Japan, Sweden and Spain to discuss issues of common concern. In addition, we spoke at a number of international postal conferences such as the annual Rutgers Conference on postal and delivery economics¹⁴ and contributed papers on sector specific regulation versus competition policy and on focusing regulation on bottlenecks.

We maintained contact with the European Commission's postal unit in the Internal Market Directorate and contributed to discussions in early 2010 to assess the implications of the Commission's intention to establish a new European Regulators' Group for Post for independent national regulatory authorities from EU Member States. This group would aim to advise the European Commission on regulatory issues and to monitor and promote best practice.

We have also started a project to make sure that our thinking is informed by a comprehensive understanding of the future developments, trends and scenarios likely to affect UK postal services. This work is being used internally to inform our thinking for each project within the review of the regulatory framework. This is an ongoing piece of work underpinning other strands of work, which we are discussing with the industry.

Using our resources effectively

Postcomm aims to be an effective and efficient organisation, continually improving and we regularly benchmark our performance against the performance of other regulators. We continually seek ways to reduce our costs and make efficiency savings.

We aim to:

- Remain a small organisation compared to other regulators, but ensure we have excellent people who work well together and are supported in both their work and their personal development
- Maintain a friendly, supportive and open culture, so that we get the best ideas and solutions from staff at all levels

¹⁴ Further information on the Rutgers Conference is available on <http://crrl.rutgers.edu/references/post/index.html>, and the programme is available on <http://rbs-cms.rutgers.edu/files/pc10.pdf>

- Ensure that all staff have access to effective and appropriate business tools, technology, training and support. We have an Information Management Strategy that aims to improve our methods of managing our knowledge and information to increase our efficiency and effectiveness
- Learn constantly from experience about our business, our market and our stakeholders, so we can react swiftly to protect users’ needs and put the right regulatory responses in place to foster a successful postal market in the UK.

Staffing

We recruit on the basis of fair and open competition and selection on merit, in accordance with the Recruitment Code laid down by the Civil Service Commissioners. Internal and external checks are carried out to ensure compliance with this code.

We recruited 15 members of staff between April 2009 and March 2010. On 31 March 2010 excluding ten interim staff members and our six external Commissioners, Postcomm employed 51 people. The table shows a breakdown by gender, ethnicity and disability.

Postcomm, 31 March 2010

	Men	Women	Ethnic minority	Disability	Total staff
Chief Executive and directors	4	2 ¹	0	0	6
Other staff	22	25	6	3	47
Total	26	27	6	3	53²

¹ These two directors are interim members of staff.

² Including two interim directors

Programme, project and risk management

Risk management is an integral part of our business planning process and is proactively managed at corporate, project and operational levels within the organisation.

We have revised our business model during the year and have a dedicated Risk Manager, supported by the resources team, for monitoring corporate, operational and finance risks, and the 2012 Programme Support team for the review of programme and project risks. All staff involved in delivering projects are trained in project management, planning and risk assessment.

Project risks are escalated to the Chief Executive, Programme Board or Executive Board, depending on the severity of the risk. The Risk Manager reports quarterly to the Commission’s Audit Committee on any risks that have changed status. The Corporate Risk Register in its entirety is reviewed by the following Boards / Committees:

- The Programme Board or Executive Board on a rolling monthly basis
- The Audit Committee at least on a six monthly basis
- The Commission on an annual basis.



Finance

Postcomm is funded mainly by licence fees paid by Royal Mail, the single provider of the universal postal service in the UK. Our budget and forecast outturn for 2009-10, compared with the outturn for 2008-09, is summarised in the following table (these figures are subject to audit). Our statutory accounts are due to be published in July 2010.

Postcomm budget and outturn

	2008-09 Actual outturn £000	2009-10 Budget £000	2009-10 Forecast outturn £000
Staff costs ¹	4,287	4,383	3,950
Agency/interim staff	243	738	729
Other running costs ²	2,047	1,697	1,481
Outside consultants, lawyers etc ³	2,847	3,070	1,620
Sub-total	9,424	9,888	7,780
Depreciation ⁴	339	410	275
Cost of Capital	(34)	10	(61)
Total	9,729	10,308	7,994
Capital expenditure	143	150	107

¹ Relates only to those staff on the payroll and excludes the cost of agency staff to provide cover for holidays, sickness or vacancies.

² The costs of the building, IT support, telephones, finance, payroll, etc.

³ The cost of those external economists, lawyers, and other specialists used to supplement the in-house teams.

⁴ Relates to the non-cash cost of depreciation.

The underspend is accounted for by a number of factors. There was a reduction in our normal level of activity both in the run up to the expected transfer to Ofcom and subsequently during the renewal phase whilst we were preparing our new forward work plan and planning the 2012 programme. The underspend also reflects ongoing efforts to use resources more efficiently and, during the preparation of our new forward work plan, we budgeted for a planned underspend of £1.2m during 2009-10. It was agreed with HM Treasury that this planned underspend could be used during 2010-11.

Postcomm has already agreed with HM Treasury to reduce its budget for 2010-11 by £0.5m and will seek to reduce this by a further £0.6m and deliver our programme of work in 2010-11 as contained within our forward work plan.

Sustainability

Postcomm has continued its efforts to improve sustainability and the energy efficiency of its offices which lead to efficiency savings by:

- Removing all individual desktop printers in the office so that all staff print to two existing networked multifunction photocopiers with the capacity to act as networked printers. This helps us reduce the amount of paper, colour toner and energy we use. These two copier/printers have duplex printing and monochrome set as a default and a facility to delete unwanted print jobs before printing. They are energy efficient, and will go to standby during periods of inactivity and automatically switch off at night. Removal of all desktop printers has also reduced the amount of non-biodegradable waste
- Using glasses instead of disposable plastic cups
- Setting the timers on our air conditioning controllers to switch the units off at night
- Improving the quality of overhead lighting, to reduce the need for additional desk lamps
- Replacing bottled water with tap water
- Using an energy efficient boiler, rather than kettles to produce hot water to reduce electricity consumption
- Using infrared sensors to control the low energy lighting throughout the office, which automatically switch off the lights after a period of inactivity
- Rolling out Citrix XenApp to allow staff to securely log-on to the Postcomm's network from any location without the need for additional computer equipment
- Purchasing low grade recycled paper for everyday draft printing, with better quality paper for use on final version prints
- Increasing the number of recycling bins for waste paper by approximately 30%
- Increasing our use of public transport.



Postal operator case-study: **Enermail**

Enerco2 Ltd, trading as Enermail, offer post and courier services (pick up and delivery) within Hull and its surrounding area.

The company originally started out delivering environmental solutions, offering their domestic customers energy management advice within the home and commercial customers an energy certification service. They diversified into post last year, delivering an environmentally friendly postal service from businesses to business and business to consumer. They were granted a licence by Postcomm in November 2009.

Enermail's postal operation uses bio diesel vehicles to deliver their items and they will introduce pedal assisted electric cycles as their volumes increase.

They also have plans to launch a Green Prepay service, in which customers would be supplied with recycled envelopes at a price which would include the cost of postage.

The company are nearing completion of their induction process and working procedures, which will enable them to offer 16-18 year olds an apprenticeship programme at NVQ level 1 and 2 in Mail Services.



Chapter 8

Licensing postal operators



In June 2010¹⁵ there were the following 50 licensed operators, including Royal Mail, the universal service provider. We highlight operators we licensed since we issued our previous Annual Report with an asterisk¹⁶.

A.K. Carriers Limited*

28 Hunters Way, Darland, Gillingham, Kent, ME7 3BA

A McLay & Company Limited*

Longwood Drive, Forest Farm, Cardiff, CF14 7ZB

A.P.P. Logistics*

Unit 3, Eastman Way, Stevenage Business Park, Stevenage, SG1 4SX

A.S.A.P. Letters (trading name of Mr Christopher Barry Adams)*

11 Park Street, Uttoxeter, Staffordshire ST14 7AG

Bolton Logistics (trading name of Mr John Francis McGrath)*

257 Ainsworth Lane, Bolton, Lancashire, BL2 2QQ

Cambridge Postal Services (trading name of Mr John James Dove)*

c/o TEAMHOST IT Services, PO Box 706, Cambridge, CB1 0PD

CFH Total Document Management Limited

St Peters Park, Wells Road, Radstock, BA3 3UP

Citipost AMP Limited (formerly Alternative Mail and Parcels Limited)

16 Gunnery Terrace, Cornwallis Road, Royal Arsenal, London, SE18 6SW

¹⁵ Specifically, the list was checked and correct on 11 June 2010.

¹⁶ One licence was removed: DHL Express Limited (formerly Securicor Omega Express) (interim licence).

City Cycle Couriers (trading name of Mr Kenneth Holder)

The Business Centre, 2 Cattedown Road, Plymouth, PL4 OEG

City East Post (trading name of Mr Muhammad Razan Uddin)*

337 Barking Road, London, E13 8EE

City Link Post (trading name of Target Express Parcels Limited)

Woodlands Park, Ashton Road, Newton Le Willows, Warrington, WA12 0HF

CMS (trading name of Royale Research Limited)

Record House, 236 Record Street, London, SE1 1TL

Cycle 4U (trading name of Mr Stephen James Young)*

Friends of the Earth Warehouse, 54-57 Allison Street, Birmingham, B5 5TH

Cycle Link (trading name of Mr Joseph Dillon)*

42-46 Bethel Street, Norwich, Norfolk, NR2 1NR

Cyclepost Limited*

7 The Knibbs, Smith Street, Warwick, CV34 4UW

D2D Distribution Limited*

2-4 St Peters Street, St Albans, AL1 3LF

Enerco2 Limited*

Suite 109, The Enterprise Centre, Cottingham Road, Hull, HU6 7RX

DHL Global Mail (UK) Limited

4-8 Queensway, Croydon, Surrey, CR0 4BD

Document Outsourcing Limited

Document House, 3 Phoenix Crescent, Strathclyde Business Park, Belshill, ML4 3NJ

DX Network Services Limited

DX House, Ridgeway, Iver, Bucks, SL0 9JQ

FedEx UK Limited (formerly ANC Limited)

Parkhouse East Industrial Estate, Newcastle-under-Lyme, Staffordshire, ST5 7RB

First Scottish Group Limited*

St David's House, St David's Drive, Dalgety Bay, Fife, KY11 9NB

Fully Franked Local (trading name of Mrs Julie Wilson)*

86 Maxwell Gardens, Orpington, Bromley, Kent, BR6 9QU

Go Post! – Glasgow’s Own Post (trading name of Mr Spencer Hugh Pryor)*

15 Ardbeg Avenue, Burnside, Glasgow, G73 5NF

Intercity Communications Limited

64-70 Vyner Street, London, E2 9DQ

LDS Cambridge Limited

12 Garlic Row, Cambridge, CB5 8HW

Letterbox Distribution (trading name of Greatbatch Limited)*

Unit 65, Lancaster Road Industrial Estate, Lancaster Road, New Barnet, Hertfordshire, EN4 8AS

Lewis Direct Mail Marketing Limited*

433 Caledonian Road, London, N7 9BG

Living Active (trading name of Mr Terence Denis Keen)*

48 Furness Road, Eastbourne, East Sussex, BN20 7DD

Northern Mail (trading name of The Mailing House Group Limited)

Nelson Park, Nelson Way, Cramlington, Northumberland, NE23 1JY

Parcelpoint Limited*

First Floor, Skyways House, Speke Road, Liverpool, Merseyside, L70 1AB

Pedal Post (trading name of Mr Stephen Booth)*

Penny Farthing Post (Couriers) (trading name of Mr Stephen Richard Cooper)*

Suite 8, Central House, Maltmill Lane, Halesowen, West Midlands, B62 8JA

Peoplepost Limited

83 Bison Place, Leyland, Lancashire, PR26 8HA

Post 123 (trading name of Mr Aaron Leitner)

26 Roston Road, Salford, M7 4FS

Product Development Corporation UK (trading name of Product Development Corporation)*

First Floor, Regency House, York Business Park, York, YO26 6RW

Racer Consultancy Management Services Limited

101 Legacy Centre, Hanworth Trading Estate, Hampton Road West, Feltham, TW13 6DH

Red Star Parcels Limited (a UPS company)

St Davids Way, Bermuda Park, Nuneaton, Warwickshire, CV10 7SD

Regional Mail Services Limited*

Unit a4, PortView Trade Centre, 310 Newtownards Road, Belfast, BT4 1HE

Royal Mail Group Limited

Customer Services, Freepost, 20 Turner Road, St Rollox Business & Retail Park, Glasgow, G21 1AA

Scotpost (trading name of Mr Wesley Pollock)

325 Braehead Estate, Bonhill, G83 9NF

Secure Mail Services Limited (formerly Special Mail Services Limited)

PO Box 390, Northampton, NN3 6YG

Secured Mail Limited

Unit 4A, Bechers Drive, Aintree Racecourse Business Park, Liverpool, L9 4AY

Securipost Limited

5th Floor, Telford Plaza 2, Ironmasters Way, Telford, Shropshire, TF3 4NT

The Satellite Distribution Company Limited*

19 Canfield Place, Finchley Road, London, NW6 3BT

TNT Post UK Limited

Unit 1, Globeside Business Park, Fieldhouse Lane, Marlow, Berkshire, SL7 1HY

UK Mail (trading name of UK Mail Express Parcels and Mail Limited)

Express House, Wolseley Drive, Heartlands, Birmingham, B8 2SQ

Wightpost (trading name of Mr Peter Camplin)*

34 Hill Street, Ryde, Isle of Wight, PO33 2QN

Yellow Jersey Delivery Limited*

PO Box 4772, Coventry, CV7 7UZ

Zip Mail Limited

47 Chancery Lane, London, WC2A 1RF

Chapter 9

Statutory requirements



Statutory reporting requirements under Section 45(2) of the Postal Services Act

General survey of developments

A general survey of developments over the year is given by the report of the Chief Executive. This should be taken with chapters in this report headed *Changing the regulation of postal services*, *Understanding the postal market today*, *Securing the universal service and protecting postal users*, *Developing regulatory safeguards*, *Talking with all those interested in our work*, and *Undertaking our regular activities*.

Compliance with obligations under the Postal Services Directive

The UK's obligations under the Postal Services Directive are given effect through the Postal Services Act and conditions in the licences granted to postal operators and in particular the universal service provider, Royal Mail Group Ltd. In addition, Royal Mail has prepared and submitted accounts which comply with Article 14 of the Directive.

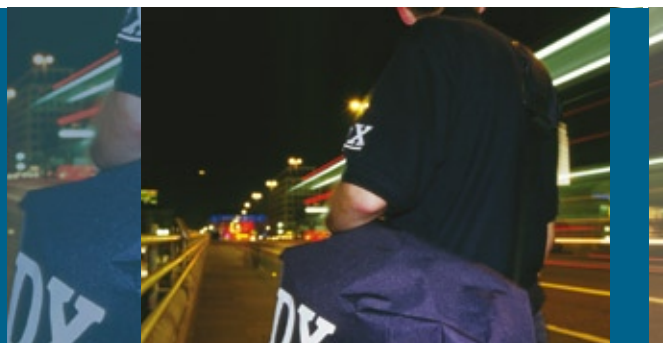
The Third Postal Services Directive entered into force on 27 February 2008. This Directive amends the provisions of the 1997 Directive and the UK has until 31 December 2010 to transpose the provisions of the new Directive into domestic law. The Department for Business, Innovation and Skills and Postcomm are currently considering what amendments to the licence and to the Postal Services Act are required to implement the new Directive.

Consumer obligations

With Consumer Focus, the consumer body that succeeded Postwatch in October 2008, Postcomm monitors Royal Mail's compliance with its licence obligations, including for services provided to meet the universal service obligation under the Directive. Postcomm has worked closely with Consumer Focus to ensure that the concerns of retail customers are taken into account in its regulatory decisions.

A key objective of the Consumers, Estate Agents and Redress Act 2007 is to make licensed companies take responsibility for their own complaints about licensed services. During 2008 Postcomm made new complaint handling regulations and approved an independent redress scheme.

Since then, Postcomm has monitored the compliance of licensees with the complaint handling regulations and the requirement to participate in the redress scheme. Postcomm has also monitored how the redress scheme operates in relation to the approval criteria set by Postcomm.



Achievement of specified standards of performance by each licence holder

As reported in previous years, only Royal Mail holds a licence with detailed requirements for the setting and monitoring of standards of performance.

Royal Mail's performance against its standards of service is reported on its website at <http://www.royalmail.com/portal/rm/content1?catId=400126&mediaId=21000423>. Royal Mail's performance against its licence standards was affected by industrial action.

Final and provisional orders made during the year

No final or provisional orders were made during the year.

Penalties imposed during the year

There were no penalties imposed during the year.

Progress of projects described in the forward work plan

Progress on the projects listed in Postcomm's forward work programme for the year is reported in the Chief Executive's report and in the chapters headed *Changing the regulation of postal services*, *Understanding the postal market today*, *Securing the universal service and protecting postal users*, *Developing regulatory safeguards*, *Talking with all those interested in our work*, and *Undertaking our regular activities*.

Reports on other matters required by the Secretary of State

Postcomm's ninth report on the post office network was published in October 2009.

Reporting pursuant to paragraph 17.5 of the guidance given by the Secretary of State under Section 43 of the Postal Services Act 2000

Performance in relation to social and environmental aspects of Postcomm's work

- **Universal service:** Royal Mail continued to be able to discharge its obligations under its licence to provide a universal postal service in the UK. Postcomm kept Royal Mail's financial performance under close review throughout the year. Postcomm made two changes to the price control which limits certain prices Royal Mail can charge its customers for the period from April 2010 to March 2011. Postcomm is also working on changes to the regulatory regime to come into effect in April 2011 and April 2012. The proposed changes to the price control and the regulatory framework are covered in the chapter of this report headed *Changing the regulation of postal services*.
- **Affordable prices:** Competition is increasingly ensuring that prices for bulk business customers remain affordable. For individual customers, expenditure on postal services continues to be a very small proportion of their overall outgoings. The price control introduced into Royal Mail's licence ensures that universal postal services remain affordable. Postcomm is also undertaking a project as part of its development of a new regulatory framework to consider whether there is an appropriate and reasonable approach to assess the affordability of universal postal services, and if so, how this might be taken into account when setting prices as part of the price control for 2012.
- **Environmental:** The incentives to efficiency in Royal Mail's price control continue to be the most important means by which Postcomm contributes, indirectly, to reducing the adverse environmental effects of postal operations.

Providing postal users with clear and readily available advice and information on postal services

Responsibility for the provision of advice to postal users on postal services lies in the first instance with Customer Focus. In addition Postcomm publishes a number of factsheets and has a comprehensive website.

The situation of vulnerable postal users

Postal users receiving Royal Mail's free services to the blind are now included in the revised retail compensation scheme for lost, damaged or delayed mail.

There has been no change in the licensing requirements setting standards for proximity of letter boxes and post offices to users.

Glossary

Access	Allowing other companies operating in the postal market, or users of postal services, to use Royal Mail's facilities for the provision of a postal service. Access to Royal Mail's postal facilities could in principle be at any point in the pipeline activity (e.g. a mail centre or delivery office). Condition 9 of Royal Mail's licence enables mail users and postal operators to make commercial agreements with Royal Mail allowing them to use the company's facilities to carry mail for part of its journey.
Downstream	The activities of inward sortation and delivery.
Downstream access	Access to Royal Mail's distribution systems at an inward mail centre or any point in the postal activity chain after that.
Large letter	Any postal item exceeding the dimensions of a PiP Letter and equal to or less than 353mm x 250mm and 25mm thick, and below 750g in weight.
Letter	Any postal item equal to or less than 165mm x 240mm and 10mm thick.
Licensed mail area	This is the range of services for which a licence under the Postal Service Act 2000 is required, broadly to send letters weighing less than 350g and/or costing less than £1 to send.
Market	A market has both a product and geographic dimension. The product dimension includes all products and/or services that are regarded as interchangeable or substitutable. The geographic dimension is the area where operators are involved in the supply and demand of the product and/or services and where the competitive conditions are reasonably similar, and are different from neighbouring areas.
Packet	Any postal item that is greater than 250mm x 353mm of any thickness or less than 250mm x 353mm but more than 10mm thick. Packets are now categorised as letter packet, flat packet, packet and bag.

Packets and Parcels Services (PPS)	Services used to convey items up to 32kg which are not within the licensed mail area, whether they are handled by mail or parcel operators, express or courier companies or any other operator. This excludes letters and large letters for services without any tracking or other premium attribute.
PiP	Pricing in Proportion.
PiP Letter	Any postal item equal to or less than 165mm x 240mm and 5mm thick and below 100g weight.
Pipeline	Stages involved in the production and distribution process of a good or service from the initiation of the process to the delivery of the final product. In postal services the pipeline refers to all the stages from collection to final delivery.
Pre-sorted	Products where the sender has sorted their mailing items to a predetermined level before handing them to the operator.
Retail	A postal service serving a final customer.
Retail minus	Where access prices are equal to the retail price minus the cost, including appropriate contribution to profit, of the activities provided by the business requiring access.
Universal (postal) Service	Postal products and associated minimum service standards that must be made available to all 28 million addresses in the UK.
Upstream	The activities of collection, outward sortation and trunking.
Upstream access	Access to Royal Mail's distribution systems at a point in the postal delivery chain before the inward mail centre.
Wholesale	Postal activities that are sold as intermediary products to provide a retail service.
Wholesale plus	A mechanism where wholesale prices are directly controlled and retail prices are set by adding a margin to the directly controlled wholesale prices.



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