

Postcomm Forward Work Plan 2008-11

April 2008

Foreword

The coming year is likely to be a critical one for decisions on the future of the postal market, which is going through a particularly intense period of change and challenge.

The Independent Review of the UK postal services market, announced by the Government in December 2007, is a welcome move. The introduction of competition and choice has brought direct benefits to business customers, and social customers have gained from the boost to Royal Mail's service reliability prompted by competition and regulation. But the impact of alternative media and other market changes is bringing new challenges.

A forward looking approach should help to ensure that the public continues to benefit from an evolving universal service that it values, and that the market develops to provide innovative, efficient and reliable services that meet the needs of all customers.

In our Strategy Review Consultation Document published last August, we identified three external critical success factors. These are:

- the attractiveness of the mail market;
- the successful transformation of Royal Mail; and
- the public's willingness to accept service changes.

Our focus over the next three years will be to do all we can to promote progress in these three areas. We need to build a regulatory framework which will allow existing and new mail operators to enter all parts of the market with confidence - including delivery as well as "upstream" operations - in an environment conducive to innovation and growth. Their approach should be to build on the opportunities presented by e-commerce and electronic communications as well as to confront the threat of substitution from new media. We will also need to explore further and tackle the constraints that have been holding back the development of end-to-end competition.

Postcomm will also continue to focus on fostering an environment which will promote the building of a healthy, flexible and customer-focused Royal Mail, which

is likely to remain at the core of the UK postal industry and the universal service for the foreseeable future.

Finally, we will aim to ensure that all groups of postal customers, from large business users down to occasional social users, and the devolved administrations, have a voice in the development of postal services and can be sure of getting a fair deal from mail operators. As responsibility for consumer representation passes from Postwatch to the new National Consumer Council, Postcomm will have an important role to play in this, along with some new statutory responsibilities assigned to us by the Consumers, Estate Agents and Redress Act.

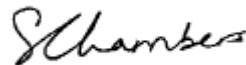
In the early part of 2008/09, we will be focussing substantial effort on the Independent Review, to make sure that the review panel has all the information and analysis it needs to reach good forward-looking and evidence-based conclusions. We may need to reprioritise our work later in the year (and in future years) to help implement whatever decisions are taken following the Review.

And in the meantime we have already started, and must continue at a reasonable pace, our work to prepare for the next set of Royal Mail price and service quality controls, which are due to start in April 2010. If all goes well with other projects, we hope that this will be a lighter touch set of controls than the one agreed between us and Royal Mail in 2006 (reflecting developments in the market in recent years). We are keen to regulate in a proportionate manner, in line with Royal Mail's market power, and in particular to withdraw from detailed regulation in any part of the market as soon as competition or the prospect of effective competition is sufficiently strong to protect customers' interests.



Nigel Stapleton

and



Sarah Chambers

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About Postcomm

Postcomm's statutory duties

Postcomm – the Postal Services Commission – is the independent regulator for postal services. It was set up by the Postal Services Act 2000 to ensure that postal operators, including Royal Mail, meet the needs of users throughout the UK, above all by ensuring that there is a universal postal service.

Postcomm is required, by the Postal Services Act 2000, to exercise its functions in the manner it considers best calculated to ensure the provision of a universal postal service. This consists of the collection at least once every working day of mail (not exceeding 20kg in weight) and the provision of a registered postal service, all at affordable prices that are geographically uniform throughout the UK.

Postcomm is also charged with furthering the interests of users of postal services wherever appropriate by promoting effective competition between postal operators. In doing so, Postcomm must have regard to the interests of special interest groups such as those who are disabled or chronically sick, are of pensionable age, are on low incomes, or reside in rural areas.

Subject to both the duties above, Postcomm has a further duty to exercise its functions in a manner which it considers is best calculated to promote efficiency and economy on the part of postal operators.

In performing all its duties, Postcomm must have regard to the need to ensure that licence holders are able to finance the activities authorised or required by their licences.

Postcomm has also been asked by the government to monitor and give advice on the Post Office network. It does this by liaison with stakeholders, research and producing annual reports to the Secretary of State for Business, Enterprise and Regulatory Reform.

The Postal Services Act 2000 requires Postcomm to play a role in how the postal market develops. Different ways of playing that role may result in different outcomes or in outcomes being achieved quickly or slowly. In addition to consulting on specific policies, Postcomm would like to ask stakeholders for their views on

how it should approach its role in the regulation of the UK postal market in general, so that it can play that role and discharge its duties in the most appropriate and effective manner.

Commissioners

Our policies are decided by a board of seven Commissioners:

Sarah Chambers – Chief Executive

Tony Cooper

Ulf Dahlsten

Wanda Goldwag

Stephen Littlechild

Simon Prior-Palmer

Nigel Stapleton – Chair

Between them, Postcomm's Commissioners have a broad experience of postal services, finance, direct marketing, competition, business, economics, consumer issues, regional matters, trade unions and regulation.

Recent developments

The postal market

The UK addressed mail market was worth around £6.8 billion in 2006/07. Mail volumes amounted to 21.9 billion items, down 2% on the previous year¹. This is the third consecutive year of mail volume decline in the UK. There is growing industry concern that this may be a structural decline based on a mature mail market subject to impacts such as e-substitution. While there is evidence to suggest that substitution has caused mail volumes to decline for the last three years, there is also evidence of areas of growth in the market which appears to be offsetting a more significant volume decline.

According to Royal Mail, 5.03 billion items of direct mail were sent in the UK in 2006, a decline of 2.1% in volume on the previous year. In the past few years, direct mail has shown a slight year-on-year decline, following strong growth from 1996-2003. Direct mailers are now carrying out smaller, more targeted mailings and blending campaigns with alternative media. Direct mail is also used effectively in customer relationship management and cross selling, and although these are lower volume campaigns they may be expected to have a higher return on investment for mailers. Although overall volumes have declined, Royal Mail has pointed to strong growth in certain sectors. For example, direct mail expenditure from building societies grew 18.8% in the last quarter of 2006 compared to the same period in 2005, while the charity sector was up 9.1%.

Transactional mail volume estimates range anywhere from 6bn to 10bn items per year², this volume is estimated to be declining by around 2-3% per year. This is due largely to businesses encouraging their customers to move physical bills and statements online. However, while businesses are trying to reduce the volume of physical statements they send, they tend also to be committed to offering customers a choice of communication channels. Most large transactional mailers

¹ Based on Royal Mail operational volumes, including access. Includes all regulated and non-regulated mail, excludes door-to-door and international.

² OTM (Opus Trust Marketing) discussion paper (www.otmltd.com) – Estimates that in the UK, 20,000 firms issue 6.7bn statements, and a further 7,500 telecoms, financial services and utilities firms issue 3 bn bills each year. OTM offers a range of communication solutions such as direct mail and fulfilment services. Triangle Management Services, UK Transactional Mail Survey, 2006, estimates 6.4bn items of transactional mail sent in the UK in 2004.

expect to maintain 90% of their transactional mail volumes in the medium term due to customer choice³. There is an increase in the use of blank spaces on bills and statements for advertising purposes which helps mailers to offset the cost of transactional mail.

The magazine publishing sector is made up of three main areas; consumer magazines, business to business magazines and customer magazines. Consumer magazines are mainly distributed via newsstands, however there is increasing volume through the subscription channel which now accounts for 14% of magazine sales. In the business to business sector 90% of magazines are currently distributed by post, however Postcomm's evidence suggests that this sector in particular is susceptible to electronic substitution. Customer magazines have a circulation of around 400m and around 72% are mailed out. Mintel estimates that the industry spent over £350m on postage in 2005, and forecasts that the mail bill for customer magazines will reach a value of £1bn by 2010. The industry grew by 16% on year in the last twelve months, and the challenge for the postal industry is to counter the recent trend away from postal distribution toward retail outlets.

Fulfilment mail refers to the delivery of goods ordered by telephone or online. This is a growth area of the market, driven mainly by internet sales. The IMRG (Internet Media Retail Group) recorded e-retail sales in July 2007 to be 80% higher than the previous year, reaching £4.2bn for that month alone⁴. This market is a combination of items sent within the licensed area and parcel and express traffic which falls outside the licensed area. It is also primarily a recipient-driven market, demanding choice in delivery services, unlike most other mail applications where services are driven by the sender.

The customer experience

Customers unfortunately suffered disruption to their mail services as a result of a series of postal strikes in summer/autumn 2007. In 2006/07, customers experienced good quality of service as Royal Mail achieved 11 out of its 12 targets, and this performance continued into quarter 1 of 2007/08. However, the industrial

³ Based on Postcomm interviews with large transactional mailers, 2006-07.

⁴ IMRG E-Retail Sales Index, August 2007

action means it is likely that Royal Mail will fail many of its quality of service targets in 2007/08.

Mail users in the UK do, however, continue to benefit from prices that are still lower than most of the other European countries whilst service quality remained high (apart from during the strikes) and, in general, reliability increased.

Recent research commissioned by Postcomm into the needs of postal users⁵, which will be published in due course, indicates that customers' satisfaction levels with their postal services remain generally high. The research also indicates that the majority of customers consider first and second class services to be very good value for money.

The results of our business customer survey in 2007 has found that the benefits experienced by large mailers, since the market was opened to full competition in January 2006, have now started to spread to smaller businesses. Business customers believe competition has improved their choice of supplier and has resulted in significantly lower prices. They also believe that competition is a reason for the improvement in Royal Mail's quality of service.

Royal Mail performance

Royal Mail's financial performance for the year ended 25 March 2007 was weaker than in the previous year with operating profits (before exceptional items) for Royal Mail Letters' business falling from £344m to £194m, caused by increasing costs, falling mail volumes and constant revenue. For the licensed area, Royal Mail recorded operating losses of £29m in 2006/07 compared with profits of £168m in 2005/06⁶.

The USO remained profitable overall though less so than the previous year (operating profit was £27 million compared with £54 million in 2005/06) with profits from non-licensed mail weighing over 350g continuing to offset losses on licensed mail weighing 0-350g.

⁵ The needs of users of the postal service – customer survey report 2007 prepared by FDS International Ltd for Postcomm

⁶ Consequently, in March 2007, Royal Mail requested Postcomm to review Royal Mail's pricing flexibility and the level of access headroom. On 10 January 2008, Postcomm published its decision, 'Review of Royal Mail's pricing flexibility and the level of access headroom (the 'Interim Review' of the price control)'.

In February 2007 Royal Mail agreed a refinancing package with its shareholder, which will enable it to commence investment in its transformation plan and deliver the cost efficiencies it needs to meet the demands of its customers and secure its future. Implementation of the plan was held up during the period of industrial action in the summer/autumn of 2007.

In 2006/07, Postcomm changed Royal Mail's Quality of Service targets to better reflect customer needs. Royal Mail achieved 11 out of 12 of its targets, compared to 10 out of 16 in 2005/6. Royal Mail's narrow failure to meet the target for the number of postcode areas delivering at least 91.5% of First Class mail the day after posting was due to industrial action in two postcode areas. There is likely to be a substantial failure to meet many of the Quality of Service targets in 2007/08, due to the industrial action that took place in summer 2007.

Development of competition

The UK addressed mail market has been fully liberalised since January 2006, and as at March 2008, there are 17 licensed mail operators in addition to Royal Mail. Competition has so far taken two main forms in the UK, "access" competition and "end-to-end".

Access

Most competitors have entered the market by injecting their mail into Royal Mail's delivery network. This is known as "access" competition, and it refers to the process by which an alternative operator collects, sorts and trunks its customers' mail to Royal Mail's inward mail centres, handing it over to Royal Mail for final delivery. Around a dozen of Royal Mail's large customers also have "customer direct access agreements" whereby they arrange access for their letters to Royal Mail's inward mail centres directly with Royal Mail access to its inward mail centres. Access customers and operators typically pay Royal Mail around 13p per letter for delivery.

In 2006/07, mail carried via access arrangements (both operator and customer direct access) accounted for 11.8% of total mail volumes. This is an increase from 5.6% in 2005/06.

From April to December 2007, access mail accounted for 20.2% of Royal Mail's volumes⁷. Just under half of this is carried through access agreements directly with Royal Mail's customers.

End-to-end

A second type of competition in the mail market is end-to-end competition, where a competitor provides the entire mailing service from collection to delivery. End-to-end competition is much less developed in the UK licensed mail market to date, representing only 0.2% of licensed mail volumes. In 2006/07 alternative operators licensed area end-to-end volumes declined to 34.8m items, representing a 12% fall in end-to-end items carried in the licensed area⁸.

While a few operators currently offer a limited range of end-to-end services, they tend to be local or niche high-value networks. There are a few operators with stated ambitions to establish national end-to-end networks in the UK but there are few signs of this happening in the short or medium term. Mail delivered by operators other than Royal Mail has actually declined for two years running.

One reason for this is the barrier to entry presented by the uneven VAT regime. Royal Mail is exempt from VAT, whereas other operators have to charge customers VAT at 17.5%. Postcomm continues to support a level playing field on VAT for all postal operators, with no significant price rises for customers. We therefore believe that a reduced rate of VAT (of say 5%) should be applied to all mail services. In light of the European Commission's ongoing infringement proceedings against the UK, Germany and Sweden on the interpretation of the VAT exemption for postal services, Postcomm has modelled the effect that different VAT exemption scenarios might have on the UK postal services market. The result of this modelling has shown that the imposition of the full rate of VAT on all mail services (17.5%) could result in around a 5% decline in Royal Mail volumes, while the imposition of the reduced rate should only result in a 1% decline⁹.

⁷ Revenue derived volumes.

⁸ As reported to Postcomm by licensees in their quarterly mail volume returns.

⁹ Subject to assumptions about customers' demand elasticities.

Independent review of the postal market

The Government announced an independent review of the postal market in December 2007. The review will take place during the coming year. The review will look at all aspects of the competitive postal market, its impact on Royal Mail, competing operators and customers, explore likely future trends, and consider how to maintain the universal service. It will also have to consider issues arising from the implementation of the next EU Postal Services Directive.

Consumer representation in postal services

The Consumers, Estate Agents and Redress Act (the “CEAR Act”), which was given Royal Assent in July 2007, makes new provisions for consumer representation in energy and postal services. From October 2008, a new National Consumer Council (NCC) will replace energywatch, Postwatch and the existing NCC. The provisions of the CEAR Act will have significant impact on Postcomm in the year ahead. A new workstream has been created to take into account the outputs of the CEAR Act and, in particular, the requirement for regulators to make complaint handling regulations and approve redress schemes.

The abolition of Postwatch and its regional network will have a great impact on Postcomm’s work, as Postwatch has been our main source of information on postal related issues in the regions. The presence of Postwatch has also ensured that there is representation of the views of postal users around the UK. The abolition of Postwatch will mean that Postcomm will have to review its stakeholder relations to ensure that we continue to receive input from the regions on postal matters.

Postcomm will also have to review the parts of the licence where Postwatch is mentioned and consider whether any of its existing functions should be passed on to the new National Consumer Council. For example, Postwatch currently has the responsibility for commissioning the audit of Royal Mail’s quality of service results¹⁰. New arrangements will have to be developed for this when Postwatch is

¹⁰ The audit of the universal service provider’s quality of service results is a requirement under Article 16 of the European Postal Services Directive.

abolished. There is a possibility that Postcomm could take over the responsibility for the audit which will have resource and budgetary implications.

Postcomm's Long-term Strategy

Introduction

Postal services play a vital role in modern commercial and social life, providing channels of communication between individuals, businesses, organisations and government. The industry is one of the UK's largest employers. At its heart lies an affordable universal service at a uniform price, with a collection and delivery every working day.

Postcomm's vision for the market in the discharge of its duties is:

"a range of reliable, innovative and efficient postal services, including a universal postal service, that is valued by customers and delivered through a competitive postal market."

Competition is developing, though Royal Mail continues to dominate the postal market (and to provide the universal service). Because many customers still have no alternative to Royal Mail, Postcomm also regulates many of the prices that it can charge, and its quality of service, to ensure that customers continue to get a good deal.

Ensuring a sustainable, internally-financed universal service

The universal service made a small profit for Royal Mail in 2006/07¹¹. However, the health of the mail market (in terms of mail volumes) and Royal Mail's financial performance are two key factors that are on a downward trend and we will continue to monitor developments very closely.

Under access competition, more than 70% of the total revenue from mailing is still retained by Royal Mail. It is in final delivery where Royal Mail's fixed costs are highest, and where a significant reduction in mail volumes would most challenge the business. Royal Mail's regulatory price control contains a number of mechanisms to provide assurance for the financing of the universal service (e.g. Royal Mail is allowed to increase prices more if delivered mail volumes are lower than expected when the price control was set).

We are reviewing whether the present range of products in the universal service, which includes some bulk mail products as well as products used by the public, such as stamps, should be more restricted following the end of the current price control. We are attracted to the principle of giving Royal Mail more commercial flexibility in devising products for the largest mailers. Removing the remaining bulk mail products from the universal service would remove the requirement for these services to have geographically uniform pricing and might facilitate this outcome. However, we need to consider the potential risks that such an approach might bring.

In light of European developments (i.e. the next EU Postal Services Directive) Postcomm will also be considering contingency plans for the universal service. We do not consider external financing is needed; this could potentially lead to serious distortions and perverse incentives on Royal Mail's efficiency. However, if it were required or desirable at some point in the future, we believe that it could be based on competitive bidding for the funding to ensure that all operators have an opportunity to provide services valued by customers at the most economical cost.

Protecting customers

Postcomm undertakes three principal forms of regulation. First, it acts 'ex ante' to control some of the prices and service quality offered by the dominant player, Royal Mail. This involves setting minimum standards on certain quality specifications valued by customers, thereby protecting postal users where they do not have an effective choice of operator. It should help drive efficiency improvements through incentives on Royal Mail to meet and beat its efficiency targets.

Second, Postcomm acts 'ex post' by investigating complaints and if necessary taking action to ensure that Royal Mail, in responding to competition or the threat of competition, does not abuse its market power by acting in an anti-competitive way, for example by discriminating unduly between different types of customers or between operators and other customers that use access arrangements.

¹¹ Operating profit (before exceptional items) is £27m, Royal Mail's Regulatory Financial Statement (2006/07).

Third, Postcomm imposes certain conditions on all licensed operators where minimum levels of customer protection are warranted, for example by including obligations within all operators' licences to ensure they handle the mail in a safe, reliable and trustworthy manner.

Removing regulation through the promotion of competition

In a market that should be characterised by innovation, flexibility and high levels of customer service, and that needs to respond actively to the threats and opportunities posed by new communications media, Postcomm believes that this strategic objective is best achieved through competition. As set out in the previous section, competition is developing, albeit almost exclusively through downstream access so far.

In promoting competition we have to be sure that we are removing barriers to entry and market distortions and not 'tilting the playing field' in favour of either new entrants or Royal Mail. Measures that we believe have merit include making sure that Royal Mail's costs are more transparent and that certain Royal Mail activities that competitors rely on are appropriately 'ring-fenced' from other Royal Mail functions in order to prevent possible anti-competitive behaviour. We are considering the merits of moving towards a regime of "wholesale equivalence" to ensure that operators get access to Royal Mail's network on fair and equal terms (price and non-price). Ensuring the VAT regime does not continue to favour Royal Mail unfairly is another necessary step towards achieving a genuine 'level playing field'. We also consider there should be a revised licensing framework making it easier for smaller scale and local entrepreneurs to enter the market.

We have considered carefully whether there are aspects of the current regulatory framework that are restricting Royal Mail's ability to respond to competition. Our response to its deteriorating financial situation was published recently (the "Interim Review") in which we gave Royal Mail extra flexibility to align some of its retail prices more closely with costs. We believe that the remaining controls are no more restrictive than a firm of Royal Mail's relative size would warrant and that they do not stifle Royal Mail's ability to innovate, which is vital to its long term success.

The degree to which Royal Mail is regulated will reduce over time if competition can be relied upon to protect the interests of customers. In addition, we need to be conscious of potential instances where continued regulation may actually impede or distort the development of competition. Accordingly, there are grounds to believe that Postcomm should be in a position to reduce the scope of Royal Mail's price and service quality controls when the present arrangements are due to expire in April 2010.

Postcomm's approach to regulation

Postcomm believes that effective competition rather than detailed regulation is the best way to give customers a better deal and encourage Royal Mail to improve its performance. Therefore, in setting a regulatory framework for Royal Mail, Postcomm has been keen to regulate in a proportionate manner, in line with Royal Mail's market power, and in particular to withdraw from regulation in any part of the market as soon as competition or the prospect of effective competition is sufficiently strong to protect customers' interests.

Postcomm has attempted to create an environment for new entrants, which keeps to a minimum regulatory burdens on new operators whilst maintaining customer confidence in the market.

Better Regulation

Postcomm attaches great importance to the five principles of better regulation.

These are that regulation should be:

- proportionate: regulators should only intervene when necessary, and remedies should be appropriate to the risk posed, and costs identified and minimised;
- accountable: regulators must be able to justify decisions, and be subject to public scrutiny;
- consistent: government rule and standards must be joined up and implemented fairly;
- transparent: regulators should be open, and keep regulations simple and user friendly, and

- o targeted: regulation should be focused on the problem and minimise side effects.

To Postcomm these principles mean that we will regulate only where necessary while putting in place measures that will support competition and those which are essential to protect mail users. We have a long standing commitment to better regulation since first committing to these principles in May 2002¹². We have continued to embed these principles into the way we work and through the delivery of our projects and workstreams as detailed in our 2007/08 Business Plan. Better regulation is not only about how we develop policy. It is also about ensuring that we run our operations as efficiently and effectively as possible.

Postcomm's approach to impact assessments

Postcomm has now committed to publishing impact assessments (IAs) for major policy proposals and initiatives where their production will be proportionate to the issue under consideration. While we have no statutory duty to produce or publish IAs, we recognise that as an integral component of the better regulation agenda IAs can, when produced for the right issues, make an important contribution to the policy development and decision making process.

To ensure that our processes remain transparent and in recognising the recommendations made by the House of Lords' Select Committee on UK Economic Regulators we will publish details about the approach we will take to producing and publishing IAs.

Reducing unnecessary burdens

Part IV of the Regulatory Enforcement and Sanctions Bill, if enacted in its current form, will require Postcomm to review the burdens that it imposes in respect of its regulatory functions. Where it is practicable and proportionate to do so, Postcomm would have to ensure that any unnecessary burdens are removed.

We intend to take a pragmatic and proportionate approach to the review process and will begin a rolling annual review of the manner of delivery of our regulatory functions. We will publish the review in Postcomm's Annual Report. Our initial review will set out those burdens that we have initially identified as possibly

¹² A code of practice governing the discharge of Postcomm's functions. A decision document. May 2002.

imposing unnecessary burdens. It will also set out how we intend to review these burdens and address any that prove to be unnecessary. Subsequent reviews will set out what we have done to review and address any unnecessary burdens over the previous year and what we intend to do over the next year.

Where possible Postcomm will seek to review and address unnecessary burdens through the projects and workstreams set out in our Forward Work Plan. As part of this process we would welcome the views of our stakeholders about what they perceive to be unnecessary burdens imposed by Postcomm.

Disability Equality Schemes

As a public sector organisation Postcomm has a statutory duty to promote equality under the Equality Act 2006, the Disability Discrimination Act (DDA) 2005, the Race Relations (Amendment) Act 2000 and Section 75 of the Northern Ireland Act 1998.

Postcomm equality priorities are set out in its Equality Schemes¹³ and will monitor and report progress each year in Postcomm's Annual Report. Postcomm will pay due regard to equality issues in developing its policies and strategies, providing services or employing people. Postcomm will aim to ensure that barriers which prevent individuals from being treated fairly and without prejudice are removed.

¹³ <http://www.psc.gov.uk/about-postcomm/disability-equality-schemes.html>

Proposed Projects and workstreams

Introduction

Postcomm carries out a number of projects and workstreams that are covered by four corporate goals:

- Ensuring a universal service;
- Protecting customer interests;
- Replacing regulation through the promotion of sustainable competition; and
- Advising on the Post Office network.

The achievement of these four goals is supported by (i) building effective stakeholder relations, and (ii) using and developing our resources effectively.

Postcomm will also continue to inform its decisions through international benchmarking, wherever possible. We strive to adopt a proportionate approach to regulation, moving to reduce the scope of regulation wherever we consider competition to be effective. This year we have highlighted our top priority projects that we consider to be absolutely necessary. We have also highlighted a number of contingent events that may arise and that we would then have to deal with, such as access determinations. We shall seek to make sure that, in dealing with such events, we will not jeopardise our priority projects. Other projects may, however, need to be re-evaluated during the course of the year. We are aware of our “better regulation” obligations and always aim to regulate in a proportionate manner.

In the early part of 2008/09, Postcomm will be focussing substantial effort on the independent review set up by Government, to make sure that the review panel have all the information and analysis they need to reach good forward-looking and evidence-based conclusions. We may need to reprioritise our work later in the year (and in future years) to help implement whatever decisions are taken following the Review.

Ensuring a universal service

What does this mean?

Ensuring the right framework is in place to support the provision of an affordable, reliable and efficient universal service that reflects the needs of postal users in evolving markets and that can be sustainably funded, without the need for external finance.

What are our success factors?

Our critical success factors are:

- the development of an affordable, reliable and efficient universal service that meets the changing needs of customers;
- developments in regulation, including any changes to the universal service, do not put an excessive financial strain on Royal Mail; and
- customers, particularly vulnerable customers and those in rural areas, continue to have access to a range of postal services which meet their needs.

How will we monitor this?

Postcomm will use a variety of measures to review whether or not this goal is being achieved, including:

- results from Postcomm's annual Business Customer Survey on questions in relation to value for money, service quality and reliability of postal services;
- results from Postcomm's annual "Needs of Postal Users" survey on questions in relation to value for money and satisfaction with universal services (including separate results for rural customers);
- Royal Mail's quality of service results;
- Royal Mail's annual USO exceptions reports for deliveries and collections;
- Royal Mail's annual estimates of the number of postal packets that have been lost, stolen, damaged or interfered with;

- Royal Mail's profitability, especially for the letters business which is responsible for the universal service obligation; and
- periodic reviews of Royal Mail's efficiency gains (for example as carried out during the recent "Interim Review").

What projects and workstreams will this involve?

Top priorities

Review of the universal service. Ensuring the provision of a universal service that meets the changing needs of postal users, especially vulnerable users and those in rural areas, is a key element of our strategy because it is central to our statutory duties. An output from our Strategy Review was a commitment from Postcomm to review customers' needs from a universal service and the costs of providing it. We consider that it is important to ensure that the scope and specification of universal services are flexible enough to evolve in order to reflect users' needs in a fast-changing communications market.

Postcomm is conducting a review to assess the net cost of providing the USO. The results of this project will be used by Postcomm to consider the options for the future scope and service specification of a universal service. In 2008/09, Postcomm will consider carrying out deliberative research asking for views on a number of policy options. The results of any research will be considered along with the results of our annual market research on the needs of postal users. We will then consult on firm proposals for the future scope of universal services, which will include proposals for the identification of products and services which should have quality of service targets, and the level of those targets. We expect Postcomm's decision to be implemented as part of Royal Mail's next price control. Central to this project will be effective communication with our stakeholders of our proposals and of the reasons for any proposed changes. We will ensure that our communication campaign will be targeted appropriately to ensure that our stakeholders are fully engaged during this process.

Postcomm will consult widely on how a universal service that is valued by customers can best be safeguarded in the longer term. We believe that this can be best achieved through competition and Royal Mail's successful implementation of its Transformation Plan. We consider that Royal Mail should be able to deliver

sufficient enduring cost savings to enable it to achieve a sustainable, internally-financed universal service in the UK. However, Royal Mail has expressed doubts that it is able to do so despite only losing less than 1% of its mail volumes to end-to-end competition. Therefore, Postcomm intends to explore the merits of alternative long term mechanisms to ensure the continuation of a healthy universal service which will not impede the development of competition and will encourage Royal Mail to become more efficient.

Independent review of postal market (including implementation of next Postal Directive). The government's election manifesto promised a review of the impact of liberalisation on Royal Mail. The review was announced in December 2007 and will take place during the coming year. The review will look at all aspects of the competitive postal market and Royal Mail's structure and performance. It will also have to consider issues arising from the implementation of the next EU Postal Services Directive.

The next Postal Directive was agreed and published in February 2008. The key elements of the Postal Directive are as follows:

- Full market opening from 1 January 2011;
- Possibility for 11 named Member States to postpone full market opening by 2 years until 1 January 2013;
- A choice of financing mechanisms for the universal service and a new annex setting out a common methodology;
- No change is proposed to the definition of the universal service i.e. one clearance and delivery at least five working days a week. Uniform tariff is maintained for single piece mail but price flexibility is allowed for bulk mail as long as it is cost-orientated;
- Reciprocity clause permitting Member States that have opened their own markets to refuse access to operators which retain a monopoly – but only during the transition period of 2011 to 2013.

The independent review, and implementation of the Directive in the UK, will be the responsibility of the Department for Business, Enterprise and Regulatory Reform (BERR). Postcomm will engage closely with BERR and the review team on all

these issues, to ensure that the interests of all mail users and the developments affecting the postal market are taken fully into account.

Other workstreams/projects

Delivery and collection times. In 2007 Postcomm completed its review of Royal Mail's collection and delivery times. Following consultation and market research commissioned by Postcomm to identify customers' needs, Postcomm proposed that action should be taken to restore early rural collection times to levels that are more acceptable to customers. In response, Royal Mail committed to review all collection points with a pre-midday collection time between Monday and Friday, with a view to putting back the final collection time as close to midday as possible, where reasonably practicable and economic. Postcomm is able to monitor collections performance through Royal Mail's quality of service reporting requirements. Postcomm remains concerned about the impact later delivery times, caused by the introduction of Royal Mail's "delivery best practice" measure as part of its Transformation Plan, can have on some postal users. Postcomm intends to include this issue in its ongoing research of postal users' needs, and consider the cost and efficiency arguments in the course of the review of the universal service and the discussions leading to Royal Mail's next price control in 2010.

USO exceptions. Royal Mail's licence allows for exceptions (e.g. remote addresses and islands or other locations accessible only by boat but with no ferry services), from its universal service obligation to provide daily deliveries and daily collections. Postcomm has consulted and issued policies and Directions, for both deliveries and collections, to set out the exceptional circumstances where Royal Mail can classify an address or access point (post box or Post Office) as an exception from the universal service obligation. Postcomm will need to review the collections exceptions policy before the current Direction expires in September 2009. The first review of the delivery exceptions policy was completed in April 2007. Postcomm will need to review the practical effects of the policy again before the existing Direction expires in June 2011. In deciding how best to conduct either review, we will take into account whether the current policies appear to be working. If they appear to be working well it is unlikely that any review will be resource intensive.

Promote understanding of the UK's approach to full market opening. Postcomm's decision on market opening in the UK was based on its assessment that competition is the best way to support and strengthen the universal service, to improve quality of service and encourage innovation in response to the evolving needs of customers. Postcomm considers it important to continue to support and promote the development of effective competition in postal services in Europe so as to ensure a level international playing field.

Review of access points measurement methodology. Royal Mail's licence sets out its obligations in relation to the provision of access points (post boxes and Post Offices). It includes density requirements to enable Royal Mail to fulfil its obligation to meet the reasonable needs of users in certain geographical areas. Postcomm proposes to undertake a review of the methodology used by Royal Mail to measure its compliance with the density requirements for post boxes (a review of customers' access to Post Offices has already been undertaken in 2007/08). The aim of this review is to assess whether the methodology used is robust and fit-for-purpose.

Review of Royal Mail's contingency planning. To ensure the continued provision of a universal service, Royal Mail is required, under Condition 3 of its licence, to have contingency plans in place to mitigate the impact of any emergency, such as a natural disaster or industrial action, and to review the plans every second year. The next review will take place in 2009/10 and Postcomm will consider Royal Mail's submission following its review of the plans.

Contingent workstreams/projects

In some circumstances, Royal Mail may decide to suspend daily deliveries to an address or daily collections from an access point for reasons such as health and safety or difficulty of access. Customers have a right of appeal against such Royal Mail decisions. The final stage of these appeal processes requires Postcomm to make a decision on whether Royal Mail has correctly classified the address or access point as an exception from the universal service obligation. Postcomm will be required to deal with these appeals in accordance with the policy and Direction set out in our decision documents.

Postcomm will be ready to investigate any apparent breach by Royal Mail of its licence requirement to provide the universal service. It will also apply where Royal Mail fails to meet any licence targets for deliveries and collections.

Protecting customer interests

What does this mean?

Ensuring that postal users, with no effective choice of operator, benefit from an appropriate range of services, affordable postal prices and a satisfactory standard of service.

What are our success factors?

Our critical success factors are:

- “captive” customers (i.e. those without a choice of postal operator) are satisfied with:
 - access to postal services;
 - the range of services available to them; and
 - price/quality balance for the products available to them.

How will we monitor this?

Postcomm will use a variety of measures to review whether or not this goal is being achieved, including:

- results from Postcomm’s annual Business Customer Survey to identify “captive customers”;
- results from Postcomm’s annual Business Customer Survey on questions to small businesses in relation to value for money, service quality and reliability of Royal Mail’s services;
- results from Postcomm’s annual “Needs of Postal Users” survey on questions in relation to value for money and satisfaction with universal services; and
- Royal Mail’s quality of service results.

What projects and workstreams will this involve?

Top priorities

Review of price and service quality controls. Postcomm announced the start of a review of the regulatory framework in an industry letter issued in January 2008. Postcomm's work on a revised regulatory framework, to come into force in April 2010 when the current price control is due to expire, will bring together several projects. These projects are as follows (and are detailed separately in this document):

- price control;
- wholesale equivalence;
- cost transparency; and
- access review.

Royal Mail's existing price and service quality controls were set with the intention that Postcomm would review the regulatory arrangements in sufficient time to make proposals for new arrangements to apply from April 2010. Between 2008 and 2010, one of Postcomm's top priorities will be to undertake the necessary work to ensure that this review is completed by the time the current Price Control expires. The review will consider the following key policy areas:

- the scope, form and duration of the price control;
- the structure of the control, including the impact of different business models for Royal Mail;
- the regulation of access;
- financing, including the treatment of Royal Mail's pension deficit;
- efficiency targets; and
- quality of service, including a review of the products and services with targets and the level of those targets.

Postcomm will have to ensure that, whilst undertaking this work, it takes account of the lessons learned from the Interim Review of the current price control, the outputs of our work in relation to reviewing the scope of the USO and the emerging themes from our recent Strategy Review. It was clear from responses to the

Strategy Review that some customers believe that competition and innovation are now more effective tools than regulation for securing a healthy future for the mail market and protecting customer interests in the long term. Therefore, Postcomm will consider reducing the scope of regulatory controls on Royal Mail in a carefully phased way as part of the next review of price and service quality controls.

Royal Mail has certain obligations under its licence to provide information to Postcomm to allow the effective monitoring and enforcement of the existing price control. Postcomm will continue to assess and monitor Royal Mail's finances for the remainder of the current price control.

Quality of service. At the end of 2006/07, Postcomm received a request from Royal Mail to suspend, until the end of the 2007/08 financial year, its obligation to pay compensation to bulk mail customers, and to ensure that the company is not subject to a downward adjustment to its allowed revenues (known as the 'C factor'), where quality of service targets have not been met because industrial action has taken place. The request was made in view of its desire to transform the business, in order to become more efficient, and the fact that Royal Mail believed that such transformation activities could result in widespread industrial action.

Following consultation, Postcomm agreed in principle to this request (to protect the long term interests of customers) but made it clear that the suspensions would be subject to some important safeguards for customers. Postcomm said that it would expect Royal Mail to be able to demonstrate that the industrial action (a) arose as a result of carrying out its transformation plans and not for some other reason, and (b) had a direct causal link to quality of service failures. Postcomm also said that a final decision on the amount of the adjustment will not be made until after the end of 2007/08 when Royal Mail's final quality of service figures are known.

In early 2008/09, Postcomm will assess Royal Mail's submission to support its request. Postcomm expects Royal Mail to provide appropriate evidence in its submission which will also be presented to customers at a public meeting.

Each year, Postcomm will continue to monitor and review Royal Mail's quality of service performance against the targets in its licence. This will include, where

appropriate, consideration of whether Royal Mail has used all reasonable endeavours to achieve its targets.

Other proposed projects/workstreams

Complaint handling standards and redress schemes. This workstream is new and is necessary following the enactment of the Consumers, Estate Agents and Redress Act (“the CEAR Act”) in July 2007. The CEAR Act places a statutory requirement on Postcomm to make regulations on complaint handling standards which will apply to all licensed postal operators. The CEAR Act also provides for the Secretary of State to require regulated providers of postal services to belong to a redress scheme approved by Postcomm. Postcomm is currently consulting on complaint handling standards and the criteria for approval of redress schemes. It will make a decision on both these issues in quarter 1 of 2008/09. It will then consider applications from licensees for approval of redress schemes. Postcomm aims to review the effectiveness of redress schemes and the framework used for complaint handling regulations/standards every 3 years.

The CEAR Act also provides for the abolition of Postwatch and the establishment of a new National Consumer Council (NCC). Postcomm will need to agree to relevant licence modifications with Royal Mail and other licensed operators to reflect this. Postcomm will also need to agree a Memorandum of Understanding with the new NCC and ensure that we work closely together on postal policy issues.

Other monitoring. Each year, Postcomm will monitor licensees’ compliance with the mail integrity code of practice. The CEAR Act requires us to monitor their compliance with the complaint handling regulations.

Following extensive consultation, Royal Mail is expected to implement its new retail compensation arrangements (for postal packets that are lost, damaged or delayed) in summer 2008. Postcomm will monitor the implementation of the new arrangements including how Royal Mail communicates the changes to customers.

Contingent projects/workstreams

Postcomm will maintain a readiness to investigate any apparent licence breach by Royal Mail in relation to quality of service. Postcomm may investigate any instance

where performance against a quality of service target falls below an acceptable standard.

Where required, Postcomm will consider applications from Royal Mail for adjustments to quality of service results due to *force majeure* events. Postcomm expects Royal Mail to provide appropriate evidence of all events it claims are *force majeure*.

Postwatch currently has the responsibility for commissioning the audit of Royal Mail's quality of service results¹⁴. Postcomm expects the NCC to take over this function. If Postcomm were to take over the responsibility of commissioning the audit, it would result in significant additional costs for Postcomm which have not been budgeted for and would require additional funds.

Postcomm will be required to consider any Royal Mail applications for major pricing changes and non-price product changes as and when they are proposed. Such proposals can result in significant impacts on consumers (e.g. Pricing in Proportion) and can require significant resources. Our recent retail zonal pricing decision may also be the subject of a legal challenge.

Replacing regulation through the promotion of sustainable competition

What does this mean?

Developing a market framework that offers a level playing field to all operators and encourages innovative and sustainable competition from new entrants that provides choice to customers and genuine incentives to Royal Mail to become more efficient.

What are our success factors?

Our critical success factors are:

- progress towards an equalisation of the VAT regime;
- increased perception by new operators that they have access to Royal Mail's network on fair terms and that sufficient information on

¹⁴ The independent audit of the quality of service results of the universal service providers is a requirement in Article 16 of the European Postal Services Directive

Royal Mail's costs and prices is available to ensure protection against anti-competitive behaviour;

- increased use of multiple sourcing from mail providers; and
- increased activity by licensed operators other than Royal Mail in all parts of the mail supply chain (including delivery) over the period of this plan.

How will we monitor this?

Postcomm will use a variety of measures to review whether or not this goal is being achieved, including:

- results from Postcomm's annual Business Customer Survey on questions in relation to:
 - whether business customers perceive they have a choice;
 - the use of multiple sourcing from different mail providers;
 - using mail provider loyalty for price negotiation;
 - views on whether there are any barriers to switching mail providers;
 - evidence and nature of any barriers to switching provider; and
 - views on the benefits of competition.
- market activity data collected by Postcomm from licensed operators; and
- any major regulatory or organisational problems with the current access framework, using Postcomm's access review.

What projects and workstreams will this involve?

Top priorities

Review of wholesale equivalence and ring-fencing, and cost transparency. We want to establish robust recommendations on whether greater ring-fencing or wholesale equivalence within Royal Mail's business (and associated changes to incentive structures) could provide significant benefits to the competitive market, mail users, and Royal Mail and whether it would provide a route to faster and more

secure deregulation. Such an approach would be likely to require more timely, complete, accurate, transparent and stable cost data from Royal Mail. Greater cost transparency could also help us improve the effectiveness (and efficiency) of regulatory decisions and to adopt a less prescriptive approach to other aspects of regulation.

Access review and possible access code. We shall review the success of current access arrangements with the aim of establishing whether the present arrangements are 'fit for purpose' in the future, for example the present governance arrangements under Condition 9 of Royal Mail's licence. If present arrangements have shortcomings we will need to decide what remedies might be appropriate, including the possibility of an access code.

Review of the barriers to the development of delivery competition. In addition to the review of access, Postcomm will also consult operators (and other stakeholders) on the slow development of end-to-end competition, the reasons for this and whether there is anything more Postcomm can do to reduce the barriers for operators that aim to develop delivery networks.

Anti-competitive investigations. Postcomm is also prepared for work under Condition 11 of Royal Mail's licence on anti-competitive behaviour. This workstream is mainly dependent on complaints brought against Royal Mail from customers or operators. However, Postcomm can initiate investigations where necessary.

Access determination. Postcomm has been asked to make an access determination under Condition 9 of Royal Mail's licence. Postcomm aims to make proposals in quarter 2 and a final decision in quarter 4 of 2008/09 in relation to this request.

Other proposed projects/workstreams

Licensing review and applications/enquiries. Postcomm will be continuing the significant review of its licensing regime that it began in 2007/08. So far, the regime has worked well, but we plan to consider further changes that could reduce the regulatory burden on applicants and speed up the processing of applications with the intention of removing unnecessary barriers to entry.

Market infrastructure projects (PAF, redirections and common operational procedures). Postcomm will continue to undertake projects and workstreams aimed at ensuring that a multi-operator environment continues to work well. This includes facilitating the sharing of redirections data (by Royal Mail) with other operators and attendance at the advisory board on PAF.

New products, product changes and withdrawal of existing products (Condition 7). Royal Mail is required to give the market three months' notice of all new products and of price changes. This period gives other operators the opportunity to highlight any adverse effects on competition. However, Royal Mail can request an exemption from this obligation if, for example, there is sufficient competition in the specific sector. Postcomm also expects Royal Mail to begin to withdraw some products as it attempts to introduce new products and simplify its product range. Assessing whether or not a product ought to be withdrawn (and its impact on customers and access operators) will be very important.

Contingent projects/workstreams

Further anti-competitive investigations. Postcomm has contingency plans for greater-than-expected work under Condition 11 of Royal Mail's licence on anti-competitive behaviour, should it be necessary. It is conceivable that further complaints will be brought to Postcomm and, as such work is very resource intensive, we have factored in a contingency for more cases.

Dealing with market exits. Postcomm is planning to review the processes it has in place to ensure that any unplanned market exits are managed to ensure that disruption is kept to a minimum.

Advising on the Post Office network

What does this mean?

The supply of timely, independent and evidence-based advice to government, taking into account the needs of customers.

What are our success factors?

Our critical success factors are:

- BERR and other government departments (HMT, DWP etc) have the necessary evidence to take decisions on the future of the network; and
- Postcomm's annual report on the post office network is understood and accepted by a wide range of stakeholders, including MPs.

How will we monitor this?

Postcomm will use a variety of measures to review whether or not this goal is being achieved:

- Acceptance by BERR and other stakeholders (e.g. Post Office Ltd) of Postcomm's recommendations in annex A of the Network Annual Report.

What projects and workstreams will this involve?

Top priorities

Postcomm will continue its programme of monitoring developments in the Post Office network in order to advise the government and inform others of key issues, including research on why people use Post Offices and what they will use them for in the future.

Postcomm is concerned to explore any avenues that will increase the long term sustainability of the Post Office network. In 2008/09 Postcomm will therefore look at the pros and cons of whether further separation or full demerger of Post Office Ltd from the Royal Mail Group could contribute to establishing a sustainable network for the future by giving it the commercial freedom to secure new business.

Postcomm will discuss with Royal Mail its licence obligations in relation to customers' access to postal services, taking into account the Government's decisions on the future of the Post Office Network.

Other proposed projects/workstreams

Following the Government's Network Change programme, which includes the closure of 2,500 Post Offices, Postcomm will, towards the end of the three-year period, undertake market research to review whether the needs of Post Office

users are being met and any implications for Royal Mail's licence on access to postal services.

Building effective stakeholder relations

What does this mean?

Ensuring we build strong ongoing relationships with key stakeholders, enabling us to take account of a wide range of views and ensuring we have a good understanding of market developments to inform policies and decisions, and to communicate more effectively with stakeholders.

Our stakeholders include:

- mail customers, mail industry suppliers, and mail operators;
- Postwatch and, from October 2008, the National Consumer Council;
- professional and trade bodies including small business representative groups and trade unions;
- domestic consumer groups including special interest groups and vulnerable customers; and
- government departments and Parliamentarians across the UK.

What are our success factors?

Our critical success factors are:

- All key stakeholder groups confirm that Postcomm consults them effectively;
- A wider range of stakeholders are engaged by Postcomm;
- The current frequency of contacts with key stakeholders is maintained; and
- There is increased awareness of customer benefits and choices.

How will we measure this?

Postcomm will use a variety of measures to review whether or not this goal is being achieved, including:

- results from Postcomm's annual Business Customer survey on:

- awareness of Postcomm;
 - use of Postcomm's website;
 - communication with Postcomm and the quality of that communication; and
 - awareness of the choice available in the postal market;
- figures on the number of times our website has been accessed; and
 - Postcomm's record of contacts which details all visits to stakeholders.

What projects and workstreams will this involve?

Communicating with our stakeholders is integral to helping ensure that we fulfil our statutory duties. It informs our policy making and ensures that we are accountable by making us accessible and visible to the public. Postcomm will continue to use different forms of communication to reach our stakeholders and engage them through the media (particularly radio and press - national, regional and trade) our website, public consultations, briefing sessions and interviews, our newsletter (COMMeNTary), our annual report and other general publications.

A new National Consumer Council (NCC) will take on some of the duties of Postwatch in October 2008. The removal of Postwatch and its UK wide network will mean that Postcomm will lose its main provider of local information on postal issues. Postcomm will need to review its stakeholder relations to ensure that we have appropriate contacts in place so that we can continue to have input into our work.

Our stakeholder relationship programme will also continue to be an important part of our communication activity. Each year, Postcomm will organise a series of events for, and visits to, our stakeholders to share information and seek views on developments in the mail market. Central to this will be the completion of an effective Stakeholder Relationship Management System (SRMS) in 2008/09 to help us manage our contacts. We will continuously review our stakeholder programme to ensure that it is aligned to and supports our major workstreams and projects.

Postcomm is committed to reviewing the developments in the UK mail market to ensure the continued provision of a universal service, to monitor the development

of competition and to assess the impact of Postcomm's policy decisions on the market. Postcomm will do this primarily through an annual Business Customer Survey and Competitive Market Review.

The Business Customer Survey is one of the key tools we use to gather market information and specifically, to assess the extent to which, from a customer perspective, competition has evolved in the market and the extent to which customers' interests are being furthered by competitive developments. The results of this survey will feed into Postcomm's Competitive Market Review - a document which will outline recent market developments and summarise the experiences of mail users and mail operators in the UK. The Competitive Market Review will also identify issues for future consideration for the development of effective and sustainable competition in the UK postal market.

Postcomm will also undertake a separate annual survey to identify the needs of captive (currently domestic and small business) customers and vulnerable customers and how those needs are changing as the market develops – see activities for 'Protecting Customer Interests' for more information.

Using and developing resources effectively

What does this mean?

Ensuring we are an effective and efficient organisation, with highly committed and motivated staff, that is continually improving and regarded as "best in class" in comparison with our peer group of other regulators.

What are our success factors?

Our critical success factors are:

- a friendly, supportive and open culture, so that the best ideas and solutions to problems are offered by staff at all levels;
- all staff have the best business tools, technology, training and support in their functions;
- successful delivery of projects through experience and lessons learned about our business, and sharing best practice with other regulators;

- a People Strategy that optimises our use of our staff resources and maintains high quality recruitment and people development;
- use of shared services and collaborative frameworks wherever possible to drive efficiency savings and improve value for money; and
- timely delivery of our Resources Accounts in accordance with guidance issued by HM Treasury.

How will we measure this?

- publication of our Resource Accounts prior to the Parliamentary Summer recess in July 2008, in adherence with the Treasury's 'faster closer agenda'.
- successful delivery of the projects in our Forward Work Plan, through effective risk management and project management.
- achievement of 3% efficiency savings through procurement activities;
- an increase in the use of collaborative arrangements with other Government Departments for shared services and supply contracts;
- quarterly benchmarking of procedures and costs against other economic regulators;
- our ICT systems suffer no more than 5% unavailability during working hours and that there are no reported security incidents; and
- annual Commission and staff survey.

What projects and workstreams will this involve?

Information management. Postcomm realises the importance of managing information effectively. All areas of Postcomm involve the use of information, knowledge and data - from the consultation process and the running of investigations, to project work and the management of resources. Good information management processes and procedures help us to work efficiently across teams and on projects by making it easier to share information and collaborate in its creation. We are implementing a new Information Management Strategy and IT Strategy which aims to improve our methods of securely managing our knowledge and information to increase our efficiency and effectiveness and to

ensure that the systems and technology we use continue to be fit for purpose, secure, maintainable and non-obsolete.

Effective procurement. We are making extensive use of collaborative procurement opportunities with larger Government departments and the Office of Government Commerce for the provision of typical corporate services and supplies, such as stationery and office supplies, IT, hotel bookings, conferencing and car hire.

We have outsourced finance processing and payroll functions to another regulator, Ofgem, under a shared Service Level Agreement, and this has provided us with cost-effective access to an additional shared resource.

All shared services and collaborative arrangements are reviewed annually to ensure that the arrangements continue to provide value for money for Postcomm. Efficiency savings in procurement are expected to make a significant contribution to delivering a reduction in non-staff costs.

We have adopted the Value for Money Indicator set developed by the Audit Commission, National Audit Office and other auditing bodies to assess the performance of our Corporate Services functions, to benchmark ourselves against best practice and to set ourselves further targets to improve our efficiency.

In line with all Government bodies, Postcomm will move to International Financial Reporting Standards from April 2008.

We have adhered to the Treasury's 'faster closer agenda' for Resource Accounts for the last three years, and we will again publish our Resource Accounts prior to the Parliamentary Summer recess in July 2008.

Postcomm's budget

We are proposing to deliver the above goals with a budget that will fall over the three years of the period in real terms (including a very significant fall in year 3 after the price control review). The resource split between goals is expected to be as follows (including budgets for contingent items):

Table 1: Proposed Postcomm budget 2008-11

	Budget (£m)		
	2008/09	2009/10	2010/11
Ensuring the universal service	2.0	1.9	2.0
Protecting customer interests	4.6	5.2	3.3
Replacing regulation through the promotion of sustainable competition	2.7	2.7	3.0
Advising on the Post Office network	0.7	0.5	0.5
Total resources budget	10.0	10.3	8.8

Working to this budget can only be achieved by further increases in operational efficiency.

In the first few years of Postcomm's existence, our priorities were clear (for example, the need for a price control, the need to work towards opening up the postal market, etc). However, our workload is now driven more by responding to the increasing number of industry players. Much of our work plan is now contingent on certain industry developments occurring, for example responding to requests by Royal Mail for product changes or complaint-driven investigations under Condition 11 of Royal Mail's licence. We will need, therefore, to maintain a rigorous approach to deciding on, and managing, our priorities throughout the year.

Corporate Governance and Internal Control

Risk management is an integral part of all Postcomm's work. Postcomm's strategy is based on identifying and assessing risks that might adversely impact our ability to achieve our main objectives, or to act on opportunities to advance our main goals.

Postcomm has in place an established Management of Risk Framework (MoR) that provides a structure for managing risk within the organisation. The MoR framework gives clear guidance to staff on their responsibilities and the risk process to be followed.

Postcomm's Management of Risk Framework and risk processes are consistent with the best practices defined in the OGC Management of Risk: Guidance for Practitioners and with the contents of Annex 2 of DAO (Gen) 09/03. The framework adopts the Strategic, Programmes, Projects and Operational Model that the OGC guidance contains and aligns this with Postcomm's Forward Work Plan (FWP) cycle.

The Chief Executive and the Programme Board provide leadership on risk management in Postcomm. The Programme Board reviews risk as part of ongoing business planning and it provides decision-making and risk resolution for Postcomm as a whole, as well as for key projects and programmes. The Risk Manager is responsible for the risk analysis and risk management processes across Postcomm and for monitoring risk mitigation activities.

The Audit Committee is responsible for reviewing the effectiveness of the system of internal control, which is informed by the work of the internal auditors, the Risk Manager and comments made by the external auditors in their management letter and other reports.

As part of its forward work planning process, Postcomm has identified the key risks to each of its corporate goals, along with a number of mitigating actions, and will keep these under review at all times.

Annex 1 – Detailed projects and workstreams

Introduction

The tables below set out the projects and workstreams in more detail (with likely timings of consultations, proposals, etc).

Ensuring the universal service

	Project/Workstream	Specific Activities	Delivery in year:		
			2008-09	2009-10	2010-11
Priority	(a) Implementation of next Postal Directive	(i) Liaison with BERR policy officials and lawyers on implementation of the next Postal Directive, taking account of the Strategy Review and scope of the universal service	Ongoing	Q3	-
	(b) Monitoring and review of the provision of the universal service	(i) Market Research on the needs of postal users	Q4	Q4	-
		(ii) Deliberative research on options for the future of the universal service	Q3	-	-
		(iii) Initial consultation on the review of the scope of the universal service	Q2	-	-
	(iv) Liaison with stakeholders on the future scope of the universal service (including collection and delivery)	Ongoing			

	(b) continued	(v) Further work on cost of the universal service	Ongoing		
	(c) Assess and monitor Royal Mail's finances	(i) Confirm compliance with 2006-10 Price Control	Ongoing	Ongoing	-
		(ii) Monitor impact of Royal Mail's pension deficit on its ability to finance and provide a universal service	Ongoing		
	(d) Delivery and collection times and performance	(i) include delivery and collection times in ongoing research of postal users' needs	Q3	Q3	
		(ii) monitor Royal Mail's delivery and collection performance through quality of service reporting	Ongoing		
	(e) Exceptions from the universal service obligations	(i) Review of USO delivery exceptions policy and Direction	-	-	Q4
		(ii) Review of USO collections exceptions policy and Direction	-	Q1	-
	(f) Inform and promote understanding of UK's approach to full market opening	(i) Submit UK response to European Commission studies (Ecorys) and participate in workshops relevant to postal services e.g. CEN standards	Ongoing		
		(ii) Lead project team of European national regulatory authorities to share best practice	Ongoing		
		(iii) Meetings and international benchmarking to share practical experience of market opening and learn from best practice	Ongoing		
	(g) Review of Royal Mail's	(i) Review of methodology used by Royal Mail to	Q4	Q1	-

	methodology for access points	measure density of access points			
	(h) Review of Royal Mail's contingency planning	(i) Review Royal Mail's submission following completion of its review of contingency arrangements	-	Q4	-
Contingency	(i) Exceptions from the universal service obligations	(i) Deal with final stage appeals against Royal Mail's decision to suspend daily deliveries or daily collections	As required		
	(j) Investigations in the event of an apparent breach of Conditions 2 or 3 (universal service obligations) of Royal Mail's licence	(i) This workstream is dependent on Postcomm's monitoring of the universal service	As required		

Protecting customer interests

	Project/Workstream	Specific Activities	Delivery in year:		
			2008-09	2009-10	2010-11
Priority	(a) Review of Royal Mail's price and service quality regulation	(i) Consult on initial issues	Q2	-	-
		(ii) Consult on initial proposals	Q4	-	-
		(iii) Consult on final proposals	-	Q2	-
		(iv) Publish licence modifications	-	Q3	-
		(v) monitoring of 2010+ Price Control	-	-	Ongoing
	(b) Quality of service monitoring	(i) Monitoring Royal Mail's quality of service performance against its licence targets	Ongoing		

	(ii) Assess Royal Mail's submission for suspension of C-factor and bulk compensation as a result of industrial action	Q1	-	-
	(iii) Review framework for assessing Royal Mail's submission for suspension of C-factor and bulk compensation in the event of industrial action	As required	-	-
(c) Quality of Service (price and service quality review)	(i) Initial proposals for the products/services with quality of service targets	Q4	-	-
	(ii) Consult on final proposals for products/services with quality of service targets	-	Q2	-
	(iii) Market research to inform review of products/services with licence targets and the level of targets	Q3	Q2 if required	-
(d) Work associated with provisions in Consumers, Estate Agents and Redress Act	(i) Issue decision on complaint handling regulations/standards for all licensed operators and propose licence modifications if required	Q1	-	-
	(ii) Monitor compliance with complaint handling regulations/standards	As required		
	(iii) Review framework for complaint handling regulations/standards	-	-	Q4
	(iv) Issue decision on criteria for approval of redress schemes	Q1	-	-
	(v) Consideration of application(s) of industry redress scheme(s)	Q2	As required	As required

	(vi) Review effectiveness of industry redress scheme(s)	-	-	Q4
	(vii) Develop new arrangements for the audit of Royal Mail's quality of service results	Q2	-	-
	(viii) Licence modifications following abolition of Postwatch	Q2	-	-
	(ix) Develop and agree Memorandum of Understanding with new National Consumer Council (NCC) before Postwatch is abolished	Q2		
(e) Other monitoring	(i) Consider licensees' reports on mail integrity (all licensed postal operators)	Q2	Q2	Q2
	(ii) Consider licensees' reports on performance in achieving contract targets (all licensees except Royal Mail)	Q2	Q2	Q2
	(iii) Monitoring Royal Mail's implementation of new compensation arrangements	Q2	-	-

Contingency	(f) Investigations in the event of a licence breach	(i) This workstream is dependent on Postcomm's monitoring of Royal Mail's compliance with its licence conditions	As required		
	(g) Quality of service	(i) Deal with Royal Mail applications for suspension of C-factor and bulk compensation in the event of industrial action	As required	-	-
		(ii) Deal with Royal Mail applications for adjustments to quality of service results due to <i>force majeure</i> events	As required		
		(iii) Audit of Royal Mail's quality of service results	If required		
	(h) Royal Mail applications for major pricing changes	(i) This workstream is dependent on receiving applications for major pricing changes from Royal Mail	As required		
	(i) Royal Mail applications for non-price product changes	(i) This workstream is dependent on receiving applications for non-price product changes from Royal Mail	As required		
	(j) Possible legal challenge to the zonal retail pricing decision		As required		

Replacing regulation through the promotion of sustainable competition

	Project/Workstream	Specific Activities	Delivery in year:		
			2008-09	2009-10	2010-11
Priority	Access review and possible code	Proposals	Q3		
		Decision on next steps		Q2	
	Review of the barriers to the development of delivery competition	Consultation	Q2		
		Proposals		Q1	
		Next steps		Q3	
	Wholesale equivalence and ring-fencing (including accounting separation)	Initial issues	Q2		
		Initial proposals	Q4		
		Final Proposals		Q2	
		Implementation			Ongoing
	Cost transparency	Initial Proposals	Q4		
		Final Proposals		Q2	
		Implementation			Ongoing
	Anti-competitive investigations	-	as required		

	Access determination	Proposals	Q2		
		Notice	Q4		
	PAF	Ongoing attendance of Advisory Board	ongoing		
	Redirections	Licence modifications	Q1		
		Implementation	Q2		
	C7 applications	New products	ongoing		
		Exemptions	ongoing		
		Substantially similar tests	ongoing		
		Product withdrawals	ongoing		
	Licensing Review	Proposals	Q1		
		Decision on next steps	Q3		
	Licence Application and Enquiries	Revenue Reporting	ongoing		
		Dealing with ad hoc general enquiries (phone/ email/ applications)	ongoing		
	Common operational procedures	Review cost reflectivity of prices	Q1	Q1	Q1

Contingency	Access headroom application	As required	As required
	Unplanned market exits	As required	As required
	Greater than expected anti-competitive investigations	As required	As required
	Further requests for an access determination	As required	As required

Advising on the Post Office network

	Project/Workstream	Specific Activities	Delivery in year:		
			2008-09	2009-10	2010-11
Priority	Advice on Post Office network	Monitoring and publication of Network Annual Report - statutory requirement	Q3	Q3	Q3
	POL restrictions project	Discussions with stakeholders and link to transfer pricing	Q3		
	International comparisons	Networks Abroad Report		Q3	
	Research on trends	After closure programme, research on access to postal services (post offices, post boxes)			Q3

Building effective stakeholder relations

Project/Workstream	Specific Activities	Delivery in year:		
		2008-09	2009-10	2010-11
(a) To engage and communicate better with our stakeholders and hear their views	(i) Programme of events, stakeholder visits and supporting communication campaigns (including presentation of the key findings of the BCS/CMR)	Ongoing		
	(ii) Review communications with the regions (in light of abolition of Postwatch and its UK wide network)	Ongoing		
	(iii) Participate in the transition from Postwatch to the NCC and Consumer Direct	As required	-	-
(b) To provide accessible, usable and understandable information to customers	(i) Raising customer awareness of the consumer benefits of choice available through a variety of information (e.g. website, factsheets, COMMENTary – our quarterly newsletter, consultation documents, summary pamphlets etc)	Ongoing		
(c) To be more visible and accessible to stakeholders through the media on major Postcomm announcements	(i) Press releases and briefings with key press contacts (national, regional and trade), TV, radio	Ongoing		
(d) To engage with and respond to UK parliament and National Assemblies	(i) Respond to enquiries, hold meetings and provide briefing to MPs, MSPs, AMs, MLAs, MEPs etc	Ongoing		

(e) Postcomm's Improving Consultation project	(i) Implementation of improvements to consultations, website and contacts with stakeholders	Ongoing		
(f) Work with special interest groups and vulnerable customers	(i) Ensuring special interest groups and vulnerable customers' needs are considered in Postcomm's work where appropriate	Ongoing		
(g) Maintain (and enhance where necessary) the system of market intelligence gathering and information management in support of the Market Reports which allows Postcomm and the market to stay informed and in touch with developments and trends.	(i) Produce external market reports: - annual Business Customer Survey - annual Competitive Market Review - summary document	Q2	Q2	Q2
	(ii) Implementation of Stakeholder Relationship Management System	Q2		
	(iii) Monitoring market trends	Ongoing		