

postwatch

Application for suspension of C-factor and Bulk Mail scheme

Postcomm Open Meeting
After the postal strikes
14 May 2008



Overview

- Industrial Action – between June – October 2007.
- Royal Mail seeking £79.2m in Bulk Mail compensation and £81m in C-factor adjustment for Q2 and Q3.
- 628,614 days lost through industrial action between 4 June and 2 December 2007 including unofficial IA.

Postwatch's Initial Position May 2007

- Analysis of financial impact of QoS failures – detailed working calculations required.
- Royal Mail must demonstrate that there is a direct causal link between the Transformation Plan, IA and QoS failures.
- Royal Mail must provide evidence that they have done their utmost to minimise the effects of IA through planned and professional management.
- That the acceptance of this application must be on the basis that Royal Mail demonstrates that in return for a short term adverse impact consumers will receive significant long term benefits.

Relief Conditions

- June 2007 – Postcomm state that for relief conditions to be met Royal Mail must demonstrate Industrial action:-
 - a) arose *only* as a result of carrying out transformation activities and
 - b) Has had a *direct* causal link to QoS failures.

Issues arising from the Full Application

- Interpretation of transformation
- Recovery period
- Official vs Unofficial IA
- Excessive Quarter 3 Claim
- Adverse effects on consumers

Interpretation of Transformation

- Royal Mail's definition of Transformation – “covers all aspects of changes to Royal Mail Letters' business from the introduction of new machinery, to changes to working hours and shift patterns, through pay and pensions”.
- Royal Mail has given a wide interpretation as to what constitutes transformation.
- Interpretation of criteria must allow for a rigorous assessment as to what constitutes transformation activity.

Recovery Period

- Postcomm must be confident that Royal Mail has done everything reasonably possible to ensure minimum recovery times.
- Royal Mail aimed to keep recovery periods to a minimum - Royal Mail had sufficient time to plan for IA - believed that IA was a real possibility by early 2007 (discussions with Postcomm).

Recovery Period cont.

- It was Postwatch's understanding that legitimate recovery periods would be assessed using some form of modelling system.
- There is no mention of such a system in the application.
- If estimates for recovery periods could not be accurately derived, are Postcomm able to make a judgement on the inclusion of these periods?

Official vs. Unofficial Industrial Action

- Official IA has a direct causal link with transformation activities, but unofficial action may not be wholly related e.g. Oxford, Watford.
- Are there inherent problems within the particular mail centre/office?
- Recovery periods in Streatham longer than the norm. Is Postcomm satisfied that claiming for this recovery is justified (direct causal link)?

Excessive Quarter 3 Claim?

- Royal Mail is claiming relief for the whole of Q3 (between 3 Sept and 2 Dec 2007 or 91 days)
- If the Xmas period is taken into account Royal Mail will not be subject to QoS standards until 1 Jan 2008.
- Official national industrial action in Q3 restricted to 4-6 and 8-10 Oct.
- Q3 period accounts for 6 days of IA and while allowing for some recovery time, case for whole of Q3 not demonstrated.

Adverse Effects on Consumers

- Business and social customers badly inconvenienced by industrial action (the London Chamber of Commerce and Industry claims the strikes cost the London economy £304m).
- The Direct Marketing Association (DMA)
 - 76% of DMA members surveyed stated that the strike had adverse effects
 - 41% believed that it would have a long term adverse impact
- The Mail Order Trade Association (MOTA)
 - members reported a mail response drop of up to 50% which was a direct consequence of strike action

Final thoughts...

- Not in a position to fully evaluate Royal Mail's application as have not yet seen Transformation Plan.
- Want to be assured that Postcomm has underwritten the calculation assumptions.
- Postwatch wish to see further scrutiny of claim for Q3.
- Implications for 2008/09 – further suspensions a significant possibility over pensions.

And most importantly

- Postwatch is concerned about the lack of evidence suggesting that the short term 'pain' of transformation will inevitably lead to long term benefits for all consumers (bulk, SME, social).
- Postwatch research on SMEs suggest that no benefits have been experienced.
- We urge Postcomm to bear this in mind when they come to decide whether relief should granted.