



**Business Plan
2007/08**

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A. Foreword

Last year saw the first year of full postal liberalisation, the introduction of Pricing in Proportion and the first year of a new price control for Royal Mail designed to last until 2010. The price control agreed with Royal Mail allows it sufficient revenues to modernise, to start reducing the company's pension fund deficit, and to finance its universal service obligation.

Some 16 other companies have now been granted postal licences, enabling them to compete with Royal Mail. Operators competing via downstream access are seeing strong volume growth and, although Royal Mail still delivers over 99% of letters, customers are already seeing tangible benefits from liberalisation, either through more direct choice (available to large business mailers) in the services offered to them, or (for a much wider range of mail users) in the higher reliability of mail that has accompanied the introduction of competition.

For many social and small business customers, however, the benefits from competition have been offset by price rises, a reduced post office network, earlier mail collections, the removal of second deliveries and for some, later deliveries. For them at least, the jury is still out on whether we are getting that much closer to Postcomm's vision of "a range of reliable, innovative services, including a universal postal service, that is valued by customers and delivered through a competitive postal market". So this year has been a time for us to begin to reflect on whether a continuation of the strategy we confirmed in last year's price control agreement will be enough in itself to prompt the innovation and service improvements that are needed for all customers to feel the full benefits of a well-functioning, competitive mail market.

That is why we launched our Strategy Review in August 2006. The Review will help us consider how the regulatory model should evolve over the next five years – and beyond – to achieve our vision in the face of changing customer needs and challenges to the mail market from other communications media such as email. Our goals of securing an affordable universal service, protecting customer interests and promoting effective competition have not changed, but we are asking some fundamental questions of all stakeholders to help us identify how best we can achieve them.

This work will continue well into 2007/8, and will be developed in the context of other "stone-turning" exercises from other sources. The European Postal Directive is being renegotiated. The Consumers, Estate Agents and Redress Bill, which proposes to restructure consumer representation in postal services (merging our sister body, Postwatch, into a new consumer council) and to introduce a variety of new consumer protection measures, is before Parliament. Some of these significant developments are likely to have implications for the scope and detail of Postcomm's work, though they cannot be fully factored into our business plan and budget until the details have been finalised.

We will need to ensure that developments on all these fronts take full account of our assessment of the UK mail market and the needs of its customers, within a consistent framework whilst applying the principles of Better Regulation. We aim to continue to follow these principles in pursuing our statutory duties, as well as improve the reach and accessibility of our consultation processes. Indeed one of the aims of our Strategy Review is

to identify the steps we need to take, and the indicators that will enable us to know when we can take them, to lighten the burden of regulation in the postal industry.

While looking more intensively than before at the long term, it is important that Postcomm continues to keep its finger on the pulse of market developments in order to anticipate and respond to potential challenges ahead, as well as the challenges that have appeared in the last twelve months. It is likely that 2006/7 will see another fall in mail volumes, after the fall of 1.1% in 2005/06. Some stakeholders are less optimistic about future trends in mail volumes than they were a year or so ago, although the anecdotal evidence on this is not completely consistent. For Royal Mail, this is compounded by customers – alert to opportunities that better suit their business needs – changing their mailing habits and shifting to lower priced Royal Mail products (e.g. from first class to second class) and some large business customers moving from Royal Mail retail to access products. With customers increasingly unwilling or unable to accept price increases, Royal Mail's prosperity depends on its ability to transform its business by tackling its cost base (including its significant pension deficit) and developing innovative products that meet the future needs of its customers. Now that the details of the Royal Mail financing package have been agreed with the shareholder, it is vital that this transformation programme is pursued with urgency.

There are some important shorter term issues that we will need to pursue in the coming year. These are set out in Section D of this Plan. This includes our ongoing work in monitoring the health of the universal service. We will also continue our work to understand what customers, including vulnerable groups, actually need from the universal service and how its provision can continue to be financed.

We will also devote a significant proportion of our resources to issues which will have both short and long term implications, such as our consideration of Royal Mail's zonal pricing proposal for some of its bulk retail products (and other proposed changes to its pricing structure), our review of the headroom between access prices and Royal Mail's retail prices (to ensure the development of fair competition based on sound, efficient long-term business models), a review of the licensing framework (to ensure that any remaining barriers to entry are reduced as far as possible), investigations into any allegations of anti-competitive behaviour, a review of access criteria in relation to postal services, and many others.

We think we can cover this wide ground - probably a wider and more ambitious ground than we have covered in any one year before - with a lower level of overall resource than was available to us this year. We will need active engagement and support from all stakeholders if we are to achieve this, and we therefore ask all of you to participate as energetically as you have this year in our various consultations, fora, roadshows and other events at which we seek your views.

Nigel Stapleton *S Chambers*

Nigel Stapleton (Chairman) and Sarah Chambers (Chief Executive)

B. About Postcomm

Introduction

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 their customers throughout the UK, above all by ensuring that there is a universal postal service.

Our policies are decided by a board of eight Commissioners:

Simone Bos
Sarah Chambers – Chief Executive
Tony Cooper
Wanda Goldwag
Stephen Littlechild
Richard Moriarty – Deputy Chief Executive
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.

Postcomm's statutory duties

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 delivery and 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 vulnerable 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 Trade and Industry.

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.

Postcomm's other obligations

Better regulation principles

The Better Regulation Executive has set out a statement of the principles of good regulation (being given legal recognition through the Legislative and Regulatory Reform Bill). Good 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 rules and standards must be joined up and implemented fairly;
- transparent: regulators should be open, and keep regulations simple and user friendly; and
- targeted: regulation should be focused on the problem, and minimise side effects.

In formulating its policies, Postcomm aims to follow these principles, which are regarded as best practice. As the market develops Postcomm will continue to follow these principles and, through doing this, will attempt to regulate the market in a way that is proportionate whilst ensuring the provision of the universal service and furthering the interests of users through the promotion of competition and in a manner that is transparent, accountable and consistent.

In the past, Postcomm's proposals have always reflected consideration of their impact on the industry. However, Postcomm is formalising its approach to carrying out impact assessments. We are currently trialling a revised, more formal, approach as part of the project on collections and deliveries, with a view to rolling it out across other significant projects in the future.

Social and environmental issues

Postcomm must also have regard to the 'Social and Environmental Guidance to the Postal Services Commission', issued by the Secretary of State for Trade and Industry under section 43(2) of the Postal Services Act 2000. Of particular relevance to the postal sector are the objectives of reducing air pollution, ensuring air quality continues to improve over the longer term and minimising waste to improve resource productivity. Postal operators are significant vehicle users.

Postcomm will also have regard to any impact there might be from any changes to how licensed postal operators carry out their activities in respect of levels of traffic and the amount and timing of noise pollution this may cause.

Postcomm also has obligations under the Government's Sustainable Development Strategy. One requirement of this is that government departments should develop an action plan setting out what they are going to do to ensure that they have the necessary processes and systems in place to deliver, monitor and report on our commitments to sustainable development. Postcomm is currently working with the Sustainable Development Commission to ensure it meets its obligations.

C. Postcomm's Longer-Term Strategy (2007-11)

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. Historically, Royal Mail has enjoyed a monopoly over the vast majority of mail, and continues to dominate the postal market (and provide the universal service).

Postcomm's vision for the postal services market

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."

Thus far, Postcomm has required Royal Mail to continue to provide an affordable universal postal service, opened up the market to competition and licensed a number of companies to compete with Royal Mail. Because many customers still have no alternative to Royal Mail, Postcomm also regulates the prices that it can charge and its quality of service to ensure that customers continue to get a good deal.

Since it was established in 2000, Postcomm has sought to achieve its vision by adopting a regulatory strategy based around three core objectives (described below). Underlying each of these strategic objectives is Postcomm's view that to achieve its vision for the market, there need to be successful, innovative and customer focussed mail operators.

Securing an affordable universal service

This is consistent with Postcomm's statutory duties and the views of many postal users who want to ensure the preservation of a service that they value. Postcomm has pursued this objective by defining the scope and nature of the universal service with reference to Royal Mail's many products and services. The coverage was redefined by Postcomm in 2005 to ensure that it reflects changing customer needs. Postcomm ensures that Royal Mail is able to finance these services when it periodically reviews the control over many of its prices (the price control). Postcomm sets quality parameters for Royal Mail's services, and it then closely monitors its compliance with these quality standards. It also takes action where Royal Mail's performance falls short of these targets. Within the context of ensuring affordability of the universal service, Postcomm has also reviewed several initiatives by Royal Mail to bring its prices closer into line with its costs, for example, through its Pricing in Proportion application. Finally, Postcomm reviews those few individual locations where Royal Mail does not provide a daily universal service. Postcomm considers carefully the impact on the universal service of every major decision that it takes.

Furthering the interests of postal users, wherever appropriate, by promoting effective competition

In a market that seeks 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 and not by the retention of monopoly privileges.

Postcomm recognises that merely opening the market does not in itself lead to effective competition and innovation, if there are barriers to entry or other significant and sustained conditions that give Royal Mail an advantage over entrants. Postcomm's work has identified two such issues for special attention. First, Royal Mail's VAT exempt status provides it with a distinct pricing advantage compared to new entrants who have to charge their customers the full rate of VAT of 17.5%. Postcomm recognises that VAT policy is a matter for the Government, but has undertaken comprehensive analysis on its distortion to competition. Postcomm has consistently recommended to Government that a solution to the VAT issue should be found that levels the playing field but does not lead to a significant increase in prices. Second, Royal Mail's economies of scale from its national network carrying over 80 million items per day. Everybody benefits from these economies as they give Royal Mail low unit costs and allow it to offer a relatively affordable price. However, it means that entrants find it difficult to compete even if they are efficient and even if Royal Mail is not as efficient as it could be. Postcomm has sought to address this barrier through the development of downstream access, which effectively enables operators to share Royal Mail's scale benefits by paying it for the 'last mile' final delivery.

Where appropriate protecting postal users by regulating Royal Mail's behaviour

Postcomm undertakes three principal forms of regulation. First, it acts 'ex ante' to control the prices and service quality offered by the dominant player, Royal Mail. This helps drive efficiency improvements through incentives on Royal Mail to meet and beat price caps, whilst setting minimum standards on certain quality specifications valued by customers, thereby protecting postal users where they do not have an effective choice of operator. Second, it acts 'ex post' by investigating complaints and if necessary taking action to ensure that Royal Mail, in responding to 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 that use access arrangements. 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.

Where appropriate, Postcomm has sought to reduce the extent of 'ex ante' regulation. For example, Postcomm has recently removed Special Delivery for large business users from the price control, has excluded genuinely new products from Royal Mail's price control, and has streamlined Royal Mail's quality of service targets. Postcomm has made it clear that it wishes to continue to reduce the scope of regulation and to promote the development of effective competition.

These core strategic objectives are relatively uncontroversial as they are based on Postcomm's statutory duties and regulatory best practice. However, how these strategic objectives are achieved is the subject of much debate among stakeholders. There are also potential tensions and trade-offs between these objectives that must be identified and reconciled.

Recent market developments

The UK addressed mail market regulated by Postcomm (for letters weighing up to 350g and costing less than £1) was worth £4.65 billion in 2005/06. Following several years of growth, 2005/06 saw a slight fall in addressed mail volumes to 20.3 billion items, a drop of 1.1% on the previous year. Within the mail market, there are some segments that are growing and some that are declining, and it is not yet clear whether the overall fall in volumes is the beginning of a trend, or simply a short term dip. However, there are signs that market volumes will also decrease in 2006/07 and, for Royal Mail, the financial effect of this is compounded by customers choosing lower price products (e.g. moving from first class to second class products).

Home shopping has seen continued growth driven by internet sales. Fulfilment traffic is growing and is expected to drive market innovation as customers demand new services and e-tailers provide tailored delivery services. In contrast to internet sales, traditional mail order business fell by £282 million last year.

The UK government sector continues to make up about 10% of the UK mail market. It is focusing increasingly on improving efficiency and is expected to explore competitive mail offerings. Central government spent £257 million on postal services in 2004/05, and about 90% of this was concentrated among the top eight spending departments. The National Audit Office estimates that government could save £8.5 million annually by 2008/09 by switching to alternative postal suppliers.

Despite overall growth in advertising, direct mail volumes have been in gradual decline since 2004. The latest figures from Royal Mail show that direct mail volumes fell by 2.1% in 2006 to 5.3 billion items.

Financial services institutions are the largest users of direct mail (around 30% by volume) and some of the overall decline may be due to a switch by financial services towards retaining existing customers rather than acquiring new ones. Mail order direct mail volumes also fell in 2005/06.

Security of the universal service

Royal Mail retains a market share in excess of 95% of the regulated addressed letters market. Its letters business made an operating profit (before exceptional items) in 2005/06 of £291 million. This is slightly down on the previous year, and Royal Mail still faces a number of challenges, such as tackling its cost base (including its significant pension deficit) and developing innovative products that meet the future needs of its customers. Now that the

details of the Royal Mail financing package have been agreed with the shareholder, it is vital that this transformation programme is pursued with urgency.

Royal Mail carries some mail for its competitors under so-called access agreements, in which its rivals collect and pre-sort mail from their customers and transport it to Royal Mail for final delivery by Royal Mail postmen and women. Royal Mail charges a fee for this service – around 13p for a typical letter weighing less than 100 grams. Some major customers, such as large banks, have negotiated their own access arrangements with Royal Mail, known as customer direct access. Royal Mail delivered 1.2 billion items under its downstream access arrangements in 2005/06, compared to 87 million the previous year. In the eleven months to February 2007, access volumes have continued to grow, and latest figures show that access accounted for 11.5% of Royal Mail's total letters volume.

In 2005/06 Royal Mail met its licence conditions for end-to-end transit times for all products except first and second class response services. There was a substantial improvement towards meeting its postcode area delivery targets, although these were not reached in all areas.

Competition is developing

New operators have tended to enter the market through access agreements, targeting large regular mailers in order to build volume and customer relationships. As of March 2007, Postcomm had issued 16 licences to postal operators in addition to Royal Mail, and two of these, SMS and DX, merged last year.

Thus far, most competition has developed through the downstream access arrangements Royal Mail has agreed with a number of operators and customers. Having targeted many of the key high volume transactional mailers, operators using downstream access are beginning to explore the unsorted mail market by offering mail consolidation and sortation. A few access operators are investing in sorting equipment to expand their customer base to include smaller business customers and those that cannot or do not want to sort their own mail.

Competition in downstream access may encourage operators to win volumes of downstream access traffic that they can eventually carry through their own end-to-end network. Up to now, end-to-end competition has been slow to develop, due mainly to the difficulty of competing with Royal Mail's economies of scale. However, TNT has recently announced its plans to begin delivering mail.

Businesses generate about 87% of mail in the UK market, with domestic mail accounting for only 13%. Mail sent from businesses to customers is the largest segment, making up around 60% of mail volumes. The largest 500 companies account for about 50% of mail volumes, making the UK postal market highly concentrated.

Domestic customers influence the market by the extent to which they respond to business initiatives. At the moment banks and utilities are encouraging customers to accept statements and bills on-line to reduce costs. Business to business mail has been subject to slightly higher levels of electronic substitution as businesses move towards electronic banking, billing and invoicing and the email of marketing information to other businesses.

Businesses in the financial services sector are estimated to produce 4.3 billion items of transactional mail each year. Up to 70% of this is regular scheduled mailings, making this sector an attractive market for new operators wanting to build consistent volume in their network.

A potential barrier to entry in financial services for competitive mail carriers is that financial institutions are exempt from VAT. This means they are unable to reclaim VAT charged by Royal Mail's competitors, while Royal Mail itself is exempt from charging VAT. This puts other operators at a disadvantage, compared to Royal Mail, when competing for such customers.

The distortion created by Royal Mail's VAT exemption has meant that a number of financial service institutions have used direct customer access agreements, rather than using alternative operators, to avoid paying VAT.

The European Commission recently published a draft of the next EC Directive on postal services. Postcomm welcomes the inclusion of an end date for full liberalisation of the industry in Europe and will be engaging actively in the consultation process. The nature of the final version of the new directive, and the manner in which it is transposed into UK law, will clearly have a major impact on the ability of Postcomm to achieve its statutory duties.

Protecting the consumer

One of Postcomm's most important jobs is to make sure that mail is safe and secure. In August 2006, Postcomm imposed a financial penalty of nearly £10 million on Royal Mail for breaching its licence by failing to properly protect the mail in its care. The penalty followed a review of Royal Mail's "mail integrity procedures", during which Postcomm found that some important features of Royal Mail's procedures were not being applied across the business.

Postcomm also launched a consultation on Royal Mail's collection and delivery times to establish whether customers' needs remain sufficiently protected at a time when Royal Mail's practices are changing. Most post is collected and delivered by Royal Mail, whose universal service obligation means it must make at least one collection from every post box and at least one delivery to every home or business premises every working day. However, Royal Mail is not obliged to specify the times by which these collections and deliveries should be made. Postcomm is reacting to concerns over Royal Mail bringing forward final collection times from some post boxes, particularly in rural areas. In some cases, final collections in rural areas are now made as early as 9am. Postcomm wants to establish whether these changes have caused problems, and, if so, whether customers would be willing to pay more for better collection and/or delivery times.

Postcomm also launched a consultation on Royal Mail's current compensation schemes for loss, damage and delay which many customers are finding difficult to understand and use. While the overall volume of lost, damaged and delayed post is very small in the context of the total amount of mail carried by Royal Mail, every item is valued by customers. This is an important issue which requires thorough consideration on whether the existing arrangements provide sufficient protection to those customers who have to seek compensation.

On 16 November of this year the DTI introduced a Bill entitled "The Consumers, Estate Agents and Redress Bill". The DTI proposes a three tier consumer representation model. It includes abolishing Postwatch and transferring many of its functions to a new consumer body, the National Consumer Council, that will deal with research, advocacy and consumer education. A second element of the model, Consumer Direct, would be established to provide advice and deal with basic complaints. The third element proposed is a new redress scheme for consumers which would give the power to those responsible for the scheme to resolve every complaint, and Postcomm will have a role in this scheme. The timing and impact of these changes is uncertain, but they are likely to have implications for the scope and detail of Postcomm's work. However, they cannot be fully factored into our business plan and budget until the details have been finalised.

D. Projects, Workstreams and Key Performance Indicators for 2007/08

Postcomm's corporate goals

Postcomm is currently carrying out a strategic review of the mail industry. In addition to the strategy work, Postcomm carries out a number of projects and workstreams that fall into four corporate goals:

- Ensuring the universal service;
- Protecting customer interests;
- Promoting 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 resources effectively, both of which are detailed in this document.

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 an effective substitute. 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.

Strategy review

The importance of this goal

Postal liberalisation has already started to provide benefits for postal users in the shape of innovative services from new operators and through Royal Mail raising its performance to record levels in terms of its quality of service. Building on this, we are now seeking views to help us shape the future of postal regulation in the lead up to 2010 and beyond.

As part of the strategy review, we will consider how the regulatory model should evolve over the next five years – and beyond - to achieve our vision in the face of changing customer needs and challenges to the mail market from other communications media. Our goals of securing an affordable universal service, protecting customer interests and promoting effective competition have not changed, but we are asking some fundamental questions of all our stakeholders to help us identify how best we can achieve them.

Key performance indicators:

- a universal service that meets the needs of customers, without putting an excessive financial strain on Royal Mail; and
- a regulatory framework that encourages both access and end-to-end competition.

Top priorities

The Strategy Review is being carried out to ensure that Postcomm has a regulatory framework that is best suited to delivery of its vision for the UK postal market consistent with its statutory duties. Therefore the priority of this project is to ensure the provision of a universal service and to further the interest of postal customers, where appropriate through the promotion of effective competition.

The first step to ensuring the provision of the universal service is to ensure that the definition of the universal service meets the evolving needs of users. Having established what customers need from the universal service Postcomm must then establish whether the current arrangements for providing the universal service (through Royal Mail) are satisfactory or whether any changes or additional safeguards are likely to be needed over the next five years.

The Strategy Review is also considering how Postcomm can develop its regulatory framework to ensure the promotion of increased efficiency and effective competition that will benefit postal users. One of the key areas of this work will be to consider whether increased business ring-fencing or separation of Royal Mail could improve prospects for competition and/or greater efficiency.

Proposed projects/workstreams

The Strategy Review has three broad workstreams. First we will be considering the universal service, deciding how best to ensure that we have the right universal service focussed on users' needs and provided at a fair price, and also how to ensure that it is secure and will continue to be provided.

Second, we are considering our long-term regulatory framework, ensuring that it promotes effective competition (whether that is access-based competition or end-to-end competition) and innovation. As part of this workstream we are considering the most appropriate structure for Royal Mail in a competitive postal market (including possible organisational change as well as accounting separation and the necessary understanding of Royal Mail's costs that would be required).

Finally, we will be considering where we can be more deregulatory, aiming to reduce the burden on customers and operators as far as possible.

Total resource allocation in 2007/08: £1.5m

1. Strategy review

	Project/Workstream	Specific Activities	Delivery in 2007/08:			
			Q1	Q2	Q3	Q4
Priority	(a) Definition of the universal service (in the context of the next European Postal Services Directive)	(i) 'Emerging views' paper	•			
		(ii) Final proposals				•
	(b) Identification of safeguards for the universal service (in the context of the next European Postal Services Directive)	(i) 'Emerging views' paper	•			
		(ii) Final proposals				•
	(c) Considering the need for greater separation/ringfencing of Royal Mail (including accounting separation)	(i) 'Emerging views' paper	•			
		(ii) Final proposals				•
	(d) Identifying opportunities for greater deregulation	(i) 'Emerging views' paper	•			
		(ii) Final proposals				•

Ensuring the universal service

The importance of this goal

Postcomm is under a statutory duty to act in a manner best calculated to ensure the continued provision of a universal service. The universal service underpins the UK postal service. Postcomm has achieved this so far by requiring Royal Mail, through its licence, to provide that universal service, since Royal Mail is the only operator currently capable of providing a universal service.

Postcomm is constantly monitoring the universal service through, for example, regular examination of financial and service quality information from Royal Mail. Postcomm will continue to monitor market developments closely and will be alert to feedback from customers and operators. Postcomm always considers the impact of policies on Royal Mail's ability to continue to meet its universal service obligation.

What ensuring the universal service means

- Continual review and protection of the universal service taking into account the changing needs of users and the types of services offered by the market;
- Monitoring the financial health of Royal Mail, in particular its ability to provide the universal service;
- Taking account of the impact of Postcomm's major policies on Royal Mail's financial health;
- Monitoring relevant developments in other liberalised and partially liberalised countries;
- Undertaking thorough contingency planning for risks to the universal service; and
- Being prepared to respond to events that may threaten the continued provision of the universal service.

Key performance indicators:

- Royal Mail continues to provide a universal service that meets the needs of customers, in accordance with the terms of its licence;
- Changes are made as needed to ensure the universal service is aligned to customer needs; and
- Customers, particularly vulnerable customers and those in rural areas, continue to have access to a range of postal services.

Top priorities

In the long term, Postcomm believes that the best way to ensure the continued provision of the universal service is through a competitive market. In the short term, however, and for as long as certain groups of customers lack choice, we will need to continue to regulate to ensure that all customers receive an affordable postal service.

In October 2006, the European Commission published proposals on opening up European postal markets to competition. Postcomm considers it important to support the development of effective competition in postal services in Europe as experience of market opening in the

UK indicates that it is the best way to support and strengthen the universal service, to improve quality of service and encourage innovation in response to customer needs. Postcomm will support DTI in its work with the European Commission.

In order to ensure that Royal Mail continues to be capable of providing the universal service, Postcomm will monitor Royal Mail's financial performance and its mail volumes on an ongoing basis. In addition, Postcomm will try to identify and consider any threats posed to the universal service by assessing market developments, market trends etc.

Postcomm has initiated a review to establish the needs of postal users in relation to the USO and in particular, to Royal Mail's collection and delivery times. Postcomm will publish the results of the consultation and survey undertaken as part of this review and any proposals linked to it. Postcomm will continue to monitor the needs of those customers who do not yet have a choice of alternative operators by undertaking comprehensive annual surveys to enable analysis of trends over a period of time. The information will also be used to help inform Postcomm's decisions in the lead up to the next price and service quality review, and ensure that decisions taken are evidence-based.

Royal Mail's quality of service targets now include standards for the number of collection routes and delivery rounds completed every day and the percentage of items delivered correctly. Postcomm will monitor Royal Mail's performance against these targets and will also monitor collection and delivery performance at a Postcode Area level. Postcomm can investigate other issues concerning the provision of the universal service including considering appeals about whether an address or access point has been correctly classified as an exception from the universal service obligation.

Postcomm has already started and will continue to review customers' access to postal services in relation to access points (currently post offices) capable of receiving the largest relevant postal packets (parcels) and offering special delivery. This review is taking into account the Government's proposals on the future of the Post Office network. The outcome of the review will be used by Postcomm to ensure the reasonable needs of postal users are clear and will be met now and in the future. This will take on board the re-structuring of the Post Office network that is due to commence in the summer of 2007. The research will also look at customer access to post office boxes.

Other proposed projects/workstreams

Postcomm considers that Royal Mail's collections from business premises are included in the universal service. Postcomm will issue a consultation on the specific geographical conditions or other circumstances where Royal Mail can be exempted from its obligation to collect mail from business premises.

To ensure the continued provision of the 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 natural disaster or industrial action, and to review the plans every second year. Postcomm will consider Royal Mail's submission following its review of contingency plans in accordance with the licence.

Postcomm is always analysing developments abroad and will continue to undertake international benchmarking to help achieve this corporate goal.

Contingent projects/workstreams

Postcomm will be ready to investigate any apparent breach by Royal Mail of its licence requirement to provide the universal service. This is not restricted to Conditions 2 and 3 of Royal Mail's licence (which refer specifically to the universal service), but also Condition 4 which includes licence targets for collection and delivery standards.

It is anticipated that Postcomm will issue its decision on Royal Mail's collection and delivery times in the third quarter of 2007/08. Consistent with the principles of better regulation, Postcomm will try to seek agreement with Royal Mail on any changes it considers necessary. If agreement cannot be reached, Postcomm will consider imposing a licence obligation on Royal Mail.

Total resource allocation in 2007/08: £1.7m

2. Ensuring the universal service

	Project/Workstream	Specific Activities	Delivery in 2007/08:			
			Q1	Q2	Q3	Q4
Priority	(a) To promote understanding of the UK's approach to full market opening (and the importance of competition)	(i) Support DTI in informing agreement of terms of next European Postal Services Directive	Ongoing			
		(ii) Inform UK government's implementation of the next European Directive	Ongoing			
	(b) Monitoring of universal service provision by Royal Mail	(i) Proposals following a review of Royal Mail's collection and delivery times	•			
		(ii) Decision published			•	
	(c) Monitoring of universal service provision by Royal Mail	(i) Conduct survey to understand what customers need and are getting from the universal service		•		
		(ii) Monitor and review Royal Mail's collection and delivery performance (including quality of service, business collections, and exceptions)	Ongoing			
	(d) Continual monitoring and forecasting of the health of the universal service	(i) Assessment of Royal Mail's quarterly volume and revenue figures	Ongoing			
		(ii) Monitoring of Royal Mail's pension deficit	Ongoing			
		(iii) Monitor market developments and trends, feedback from customers and operators, and forward look at new operator plans	Ongoing			

Priority	(e) Monitoring and consideration of Royal Mail's licence obligation in respect of customers' access to postal services	(i) Monitoring of Royal Mail's licence obligation on access to postal services	Ongoing			
		(ii) Research on access to postal services in the light of the Government announcement on the restructuring of the Post Office network		•		
	(f) Exceptions from the universal service obligations	(i) Consultation on business collections exceptions	•			
	(g) Review of Royal Mail's contingency planning	(i) Review Royal Mail's submission following completion of its review of contingency arrangements				•
	(h) To promote understanding of the UK's approach to full market opening	(i) Submit UK response to European Commission consultations and participate in workshops relevant to postal services	Ongoing			
		(ii) Lead CERP ¹ project team on national regulatory authorities	Ongoing			
	(i) To support Member States committed to promoting full and effective market opening	(i) Meetings to share practical experience of market opening and learn from best practice in other countries	Ongoing			
	(j) International Benchmarking	(i) Participate in and influence the future of CEN ² standards in postal services	Ongoing			

¹ European Committee for Postal Regulation

² European Committee for Standardization

Contingency	(k) Investigations in the event of an apparent breach of Conditions 1 or 2 of Royal Mail's licence	(i) This workstream is dependent on Postcomm's monitoring of the universal service	As required
	(l) Competition Commission reference on review of collection and delivery times	(i) Terms of reference to be determined	As required

Protecting customer interests

The importance of this goal

Where (and for as long as) customers have little effective choice, Postcomm will regulate mail products in a proportionate and targeted manner. Postcomm will do so in a way that minimises any distortions to the market but continues to ensure customers benefit from adequate protection in terms of prices and service quality.

For those customers that do have a choice, Postcomm will ensure that their confidence in the market is maintained and that they have enough information to make an informed choice between the options available.

What protecting customer interests means

- Proportionate regulation of Royal Mail, where necessary (i.e. only in those markets where it remains dominant), protecting the needs of its “captive” customers, especially vulnerable groups;
- Appropriate quality of service measures with effective incentive and enforcement arrangements;
- An appropriate licensing regime for a fully liberalised postal market;
- Price controls on Royal Mail, for relevant products, which reflect customers’ lack of choice and provide incentives to promote efficiency and investment; and
- Processes in place for dealing with Royal Mail’s moves towards more cost reflective pricing and greater efficiency, and for evaluating and controlling any impact on customer groups.

Key performance indicators:

- “Captive” customers (i.e. those without a choice of postal operator) appear satisfied with:
 - price/quality balance of products available to them;
 - access to postal services;
 - range of services available to them;
- Quality and reliability for relevant services is maintained (including a higher proportion of customer complaints resolved at first stage); and
- Customers that have a choice are well informed and have confidence in the framework put in place by Postcomm to ensure integrity of mail.

Top priorities

Postcomm will continue to monitor progress against the existing price control, which covers the period to 1 April 2010. Royal Mail has obligations in Conditions 19 and 21 of its licence to provide information to Postcomm to enable effective monitoring of the current price control. In addition, Postcomm will be gearing up for the next price and service quality review and will publish its first consultation on the approach to be taken during winter 2007.

Postcomm will monitor Royal Mail's quality of service performance against the targets and performance bands set in the licence. This will include monthly, quarterly and annual reviews of Royal Mail's quality of service results and, where appropriate, consideration of whether it has used or is likely to use all reasonable endeavours to achieve its targets. Postcomm will consider applications from Royal Mail for adjustments to quality of service results as a result of Force Majeure events. This will also include consideration of quarterly reports from Royal Mail in relation to Force Majeure events that have had an impact on collection and delivery performance. Postcomm expects Royal Mail to provide appropriate evidence of all events it claims are Force Majeure.

Postcomm will be finalising the review of Royal Mail's compensation schemes for delay and for loss and damage. Postcomm will monitor the implementation of any new arrangements.

The Postal Services Act requires Postcomm to publish a statement of policy in relation to the imposition of penalties and the determination of their amount. Postcomm is seeking to improve the operation of its statement of policy in light of its experiences. Postcomm will consult on the review of its policy in 2007/08. Postcomm is also reviewing its enforcement policy to ensure that it is consistent with best practice and will consult on this review.

The Government is expected to finalise its work associated with the reform of consumer protection. This includes the restructuring of consumer representation in postal services including the abolition of Postwatch. Postcomm will prepare for any changes by:

- considering how it will manage any new powers given to it as a result of the restructuring of consumer representation in postal services, such as approving redress schemes for postal operators;
- considering how to replace the intelligence gathering function offered by Postwatch, and
- working with government and any transitional bodies to ensure the smooth transition of Postwatch's functions.

Other proposed projects/workstreams

All licensed postal operators have to adhere to a Code of Practice for the protection of the integrity of mail. The purpose of the Code is to minimise the risk of loss, theft, damage and/or interference to mail. It sets out high level requirements for recruitment, training, disciplinary procedures and mail security. The Code also applies to all the licensee's agents or sub-contractors. Postcomm will monitor and enforce all licensees' compliance with the Code. Separately, Postcomm is proposing to review the methodology used by Royal Mail to estimate the amount of mail that is lost, stolen, damaged or interfered with. The reporting of these estimates is a requirement in the Code and Postcomm is seeking assurance that the measurement methodology used by Royal Mail is robust and provides accurate results.

All licensees are able to investigate and prosecute alleged offences of interference with mail under sections 83 and 84 of the Postal Services Act 2000. However, only Royal Mail currently carries out these types of investigations. In an increasingly competitive market, Postcomm considers that it is a commercial decision for licensees whether or not to carry out

this type of work. Postcomm will therefore only investigate and prosecute in the most serious cases.

In March 2007, Royal Mail made a revised application to Postcomm, under Condition 21 of its licence, proposing to introduce zonal pricing for certain bulk retail products (used by the largest mailers, such as banks, utilities, advertisers, charities and government). Royal Mail is proposing to charge large mailers different rates depending on where in the UK their mail is delivered. At present Royal Mail charges these large mailers the same "one price goes anywhere" rate. In September 2006, Postcomm published a document seeking views on the issues that it should take into account when it assesses Royal Mail's proposals, including lessons learned from Pricing in Proportion. The consultation on the specific plans of Royal Mail will only proceed once Postcomm has received sufficient information of good quality in support of Royal Mail's application.

In concluding the 2006-10 price control, Postcomm committed to consider the principle of access being zonally priced. We propose to do this work as part of the consideration of Royal Mail's retail zonal application.

The Government has introduced the Legislation and Regulatory Reform Act 2006 which sets out the main principles for regulation in the future. In line with this, Postcomm will have regard to the principles of Better Regulation. Postcomm is working towards the establishment of a framework which will help to ensure that Postcomm regulates in accordance with these principles.

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 also investigate any instance where performance for a scheduled service or standardised measure falls below acceptable standards. Postcomm may also investigate if performance for a product within a bulk mail grouping or performance in a postcode area is unsatisfactory.

Postcomm expects to issue its decision in relation to Royal Mail's compensation schemes in the third quarter of 2007. Postcomm will be ready to refer the matter to the Competition Commission in the event that Royal Mail does not agree with Postcomm's decision.

Postcomm will be required to consider any Royal Mail applications for major pricing changes and non-price product changes as and when required. Such proposals can result in significant impact on consumers (e.g. Pricing in Proportion) and can require significant resources.

Total resource allocation in 2007/08: £3.0m

3. Protecting customer interests

	Project/Workstream	Specific Activities	Delivery in 2007/08:			
			Q1	Q2	Q3	Q4
Priority	(a) Quality of service (monitoring and enforcement)	(i) Monitoring Royal Mail's quality of service performance against its 2007/08 licence targets	Ongoing			
		(ii) Dealing with requests for Force Majeure adjustments to quality of service results	Ongoing			
		(iii) Proposals on Royal Mail's compensation schemes for lost, damaged and delayed mail	•			
		(iv) Finalise review of Royal Mail compensation schemes and monitor their implementation			•	
	(b) Review of Postcomm's Financial Penalty Policy	(i) Consult on review of policy		•		
	(c) Consideration of zonal pricing by Royal Mail	(i) Assess whether or not to accept Royal Mail's submission for zonal pricing of non-USO bulk retail products (and trigger the nine-month timetable for decision)	•			
		(ii) Consideration of the principle of zonal access prices			•	
	(d) Work associated with the restructuring of consumer representation in postal services	(i) Preparatory work in anticipation of the government's final decision on the future of consumer representation in postal services	Ongoing			
		(ii) Approving redress schemes for postal operators	As required			

(e) Mail Integrity Code of Practice (monitoring and enforcement)	(i) Review of Royal Mail's methodology for calculation of mail that is lost, damaged and/or interfered with		•		
	(ii) Monitor all licensees' compliance with code	Ongoing			
(f) Investigation and prosecution of incidences of mail dumping and theft	(i) Investigations into serious incidents of mail dumping and theft	As required			
(g) Review of Postcomm's Enforcement Policy	(i) Consult on Enforcement Policy proposals		•		
	(ii) Publish an Enforcement Policy				•
(h) Ongoing monitoring of 2006-2010 price control	(i) Consider the provision and accuracy of the information submitted by Royal Mail in accordance with the reporting requirements in Conditions 19 and 21	Ongoing			
	(ii) Ongoing monitoring of Royal Mail's pension deficit	Ongoing			
(i) Preparation for 2010 price and service quality review	(i) Initial preparation for new control	Ongoing			
	(ii) Publish initial consultation on approach for next review			•	
(j) Information provided by Royal Mail	(i) Review of information published by Royal Mail and its accessibility for customers				•
(k) Work associated with Regulatory Reform Bill	(i) Establishment of Postcomm's Compliance Framework		•		
	(ii) Take forward any compliance issues highlighted in the establishment of the Compliance Framework	Ongoing			

Contingency	(l) 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
	(m) Referral to Competition Commission of decision on Compensation Schemes	(i) Terms of reference to be determined	As required
	(n) Royal Mail applications for major pricing changes	(i) This workstream is dependent on receiving applications for major pricing changes from Royal Mail	As required
	(o) 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

Promoting sustainable competition

The importance of this goal

We aim to ensure that customers are provided with greater choice through effective and sustainable competition between postal operators, recognising how competition may develop at different speeds in different segments of the market.

What sustainable competition means

- A range of credible choices for customers with a high level of awareness;
- As far as possible a level playing field for competitors with all key barriers to entry addressed;
- No abuse of market power by Royal Mail;
- Real (not just threatened) competition which drives efficiency, cost-reflective pricing, and innovation in products and processes;
- Competition based on credible long-term business propositions which can deliver acceptable financial returns to operators; and
- Reducing the scope of regulation where appropriate.

Key performance indicators:

- A greater proportion of customers have a choice of a range of services from competing operators;
- High level of compliance with licence requirements and industry codes;
- Effective curtailment of any anti-competitive activity;
- Continued targeted action and influencing to overcome barriers to entry;
- Customer awareness and confidence in the liberalised market continues to improve, building on progress made in 2005/06;
- Faster decision making by Postcomm, compatible with proper analysis of the issues and effective consultation; and
- Reducing the regulatory burden on postal operators.

Top priorities

Postcomm is keen to ensure that any competition that develops is based on sound, efficient, long-term business models that bring genuine benefits to customers and do not simply exploit arbitrary profit opportunities that result from prices that do not reflect cost. Therefore, we will be undertaking a review of the headroom between access prices and Royal Mail's retail prices. In the recent price control, Postcomm committed to doing this review after two years of the current control, if we receive a request to do so (from any party, including Royal Mail and customers/operators using access). Postcomm has now received three such applications, from UK Mail, TNT Post and Royal Mail.

In 2007/08, Postcomm will be reviewing the allocation of costs between the "tariff baskets". The price control separates the regulated products into two "tariff baskets". The "captive" basket contains all the public stamped products and single item tariffs (PPI and metered mail) whereas the "non captive" basket contains most of the bulk mail products.

Postcomm is also planning for work under Condition 11 of Royal Mail's licence on anti-competitive behaviour. This workstream is dependent on complaints brought against Royal Mail from customers or operators.

The appeal by Royal Mail against Postcomm's decision to fine it £1 million for breaching Condition 10 of its licence will be heard in May 2007.

Postcomm will also be undertaking a significant review of its licensing regime. So far, the regime has worked well, but we plan to consider changes that would reduce the regulatory burden on applicants and speed up the processing of applications with the intention of removing unnecessary barriers to entry.

Other proposed projects/workstreams

Postcomm will continue to undertake projects and workstreams aimed at ensuring that a multi-operator environment continues to work well, and so will:

- continue to enforce the common operational procedures;
- facilitate the sharing of redirections data with other operators; and
- ensure that Royal Mail's management of the postcode address file (PAF) works well (which will in effect consist of monitoring the arrangements put in place following the review of PAF).

We will also continue to assess Royal Mail's cost allocation (done on an annual basis) and agree the format of Royal Mail's regulatory accounts.

Royal Mail is required to give the market three months' notice of all new products. This period gives other operators the opportunity to highlight any adverse effects on competition. This is a very important workstream. Postcomm is keen to encourage innovation, but is aware that the manner in which Royal Mail introduces new products can create market uncertainty. The impact of this on our resources is very difficult to assess but it is likely to be significant (based on the past year).

In order to identify the barriers and enablers to a successful competitive market, Postcomm is committed to understanding how customers' interests are being furthered by market developments and needs to understand the views of these customers, mail industry suppliers and mail operators in the early stages of the development of competition,. Postcomm also wishes to capture information from residential users to assess their experience of changes to the postal regime. Postcomm will continue to undertake rigorous market research of stakeholders' awareness, attitudes and requirements using a variety of methods including surveys, industry fora, workshops, regional 'roadshows' and bilateral discussions. It is our intention, where possible, to publish the results of such research on a regular basis in order to promote better industry and market information to all stakeholders.

Postcomm will continue to process and deal with new applicants for licences and, through the industry fora, workshops, regional 'roadshows' etc, will take steps to encourage new entrants to the market, with an appropriate licensing regime that does not discourage market entry.

Contingent projects/workstreams

Downstream access is a key building block in Postcomm's strategy to promote effective competition. It is open to parties to negotiate with Royal Mail for access arrangements. Where parties fail to reach agreement, they can apply to Postcomm for a determination on the issue. Royal Mail has a licence requirement to negotiate in good faith. These terms are available to any operator or customer on the same basis. Postcomm believes it is prudent to plan on the basis of at least one determination request in 2007/08. Such a request could relate to Royal Mail's downstream activities or other facilities, such as Post Offices.

Postcomm also has contingency plans for further 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 are making a contingency for more cases.

Total resource allocation in 2007/08: £3.4m

4. Promoting sustainable competition

	Project/Workstream	Specific Activities	Delivery in 2007/08:			
			Q1	Q2	Q3	Q4
Priority	(a) Review of headroom between access prices and retail prices	(i) Publish proposals	•			
		(ii) Issue decision			•	
	(b) Review of tariff baskets (content of baskets and allocation of costs)	(i) Publish proposals	•			
		(ii) Issue decision			•	
	(c) Anti-competitive activity by Royal Mail	(i) Possible investigations into allegations of anti-competitive behaviour	Ongoing			
	(d) Licensing review stage 1: Review of current licences and application process (to consider to what extent current framework acts as a barrier to entry/competition) and implementation of any necessary amendments	(i) Consultation on impact of proposed amendments (including fees, guarantees, Codes of Practice) involving liaison with stakeholders, including: - existing licence holders - potential licence holders - other stakeholders (particularly customers)	•			
		(ii) Decision			•	
	(e) Licensing review stage 2: Fundamental review of licensing framework (including consideration of authorisations)	(i) Initial consultation				•
(f) Responding to the legal challenge by Royal Mail to the £1 million fine following a breach of Condition 10 of its licence	(i) Preparation of court papers	•				

(g) Agreeing the format of 2008/9 regulatory accounts with Royal Mail	(i) Consider the appropriate format of Royal Mail's regulatory accounts and agree with Royal Mail			•	
(h) Assessment of Royal Mail's cost allocation	(i) Annual review of Royal Mail's cost accounting/attribution				•
(i) Further work on potential solutions to the VAT barrier to entry	(i) Contribute research and analysis to the European debate on VAT in postal services	Ongoing			
(j) Consideration of product changes/amendments	(i) Assessment of new products	Ongoing			
	(ii) Assessment of product changes	Ongoing			
(k) Ensuring a good working set of common operational procedures	(i) Ongoing monitoring of the current arrangements and ensuring all licensees join	Ongoing			
(l) Ensuring the PAF meets users' needs	(i) Ongoing monitoring to ensure RM implements Postcomm's decision	Ongoing			
	(ii) Observer status on the Advisory Board	Ongoing			
(m) Facilitating the sharing of redirections data with other operators	(i) Revised proposals	•			
	(ii) Final decision			•	
(n) Managing the licence application process	(i) Ensuring that all potential licensees are appropriately supported through the application process, and ensuring that applicants are aware of licence obligations	Ongoing			
	(ii) Investigation and (where necessary) licensing or prosecution of companies alleged to be operating without a licence	Ongoing			

	(o) Ongoing monitoring of licensees (other than Royal Mail)	(i) Ensuring that licensees are aware of their obligations	Ongoing
		(ii) Monitoring of licence compliance	Ongoing
	(p) Encouraging entry by new, innovative operators (and increasing awareness of opportunities)	(i) Creation and implementation of programme to inform potential new market entrants	Ongoing
Contingency	(q) Respond to a request for an access determination (including to the Post Office network)	(i) This workstream is clearly dependent on a determination request	As required
	(r) Greater than anticipated anti-competitive activity by Royal Mail	(i) Assumes greater activity than originally foreseen	As required
	(s) Response to request for new exemption(s) from licence requirement	(i) This workstream is dependent on a request from a stakeholder	As required

Advising on the Post Office Network

The importance of this goal

We aim to ensure that Government decisions on the future of the Post Office network take full account of Postcomm's information, research and advice.

What advising on the Post Office network means

Postcomm looks at what services are needed by customers and at what is provided by Post Office Ltd (POL). It looks at the role of Post Office branches in areas where there are few retail or banking outlets and limited service provision, at how people cope when access to post office services is difficult, and at regional differences in customer behaviour and service provision. Postcomm is particularly concerned with (i) the impact on rural and urban deprived areas where post offices often play a vital role, particularly for the more vulnerable groups in society, (ii) identifying new opportunities for post offices from the development of competition, and (iii) customers reasonable demands on Royal Mail to provide access points for postal services capable of receiving the largest postal packets and offering special delivery.

In December 2006, the DTI launched a consultation on its plans for the future of the Post Office network, which includes access criteria to Post Offices, a cap on the number of compensated closures and a growth in the use of outreach services. The restructuring programme is expected to commence in the summer of 2007.

Key performance indicators:

- Research on access criteria in relation to postal services (see *Ensuring the universal service*);
- Informative and accurate account of the Post Office network and related issues is provided in this years Post Office Network Annual report; and
- Review of trading relationship between Royal Mail Group and POL.

Top priorities

This year, Postcomm will continue its programme of monitoring changes in the Post Office network in order to advise the government and inform others of key issues. In addition, Postcomm has started and will continue to review Royal Mail's 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

Postcomm believes that the opening of the UK postal market to competition from operators other than Royal Mail, and providing a collection service for mail order and internet goods could provide a business opportunity for POL and an opportunity for subpostmasters to increase their income. At present, subpostmasters have a contract with POL, a subsidiary of Royal Mail Holdings, which allows them only to provide services for Royal Mail and Parcelforce. POL also has an exclusive trading arrangement with Royal Mail that only allows

Royal Mail to enter into negotiations with other operators or companies who may want to use the Post Office Network as a collection or delivery point. If POL fails to respond, the danger is that the initiative will be lost. (See *Promoting Sustainable Competition* for Postcomm's role if an operator is unable to reach a commercial agreement with Royal Mail Group).

Last year, as part of the price control project, Postcomm undertook an initial review of the trading arrangements between Royal Mail Group and POL. In particular, the review looked at prices charged by POL for services it carries out for Royal Mail Group (e.g. selling stamps and processing special delivery items). This year, in the light of the changing funding arrangements for POL, Postcomm plans to perform a similar but more detailed piece of work.

Total resource allocation in 2007/08: £0.4m

5. Advising on the Post Office network

	Project/Workstream	Specific Activities	Delivery in 2007/08:			
			Q1	Q2	Q3	Q4
Priority	(a) Advice on the Post Office network	(i) Inform Government decisions on long term future of network	Ongoing			
		(ii) Publish 2007 Network Annual Report			•	
	(b) International benchmarking	(i) Inform Government decisions with experience of post office networks abroad	Ongoing			
	(c) Transfer pricing review	(i) Review of transfer pricing between POL and Royal Mail				•

Building effective stakeholder relations

The importance of this goal

To make a success of full market opening and the development of competition, we need to build strong ongoing relationships with key stakeholders. This will need effective and proactive communication, good relationship management and information sharing. Our stakeholder groups include:

- commercial (mail customers, mail industry suppliers, Royal Mail and other mail operators);
- Postwatch;
- professional and trade bodies including small business representative groups and trades unions;
- domestic consumer groups including vulnerable customer groups; and
- government departments and Parliamentary groups.

Openness and access to information for stakeholders will improve understanding and strengthen confidence in a competitive UK postal market.

Key performance indicators:

- All key stakeholder groups understand what Postcomm is doing, and why;
- All key stakeholder groups confirm that Postcomm consults them effectively;
- All key stakeholder groups understand and have confidence in Postcomm's processes and principles;
- Deeper range of stakeholders engaged by Postcomm;
- Frequency of contacts with key stakeholders is maintained; and
- Raised awareness of customer choices.

Proposed projects/workstreams

In order to identify the barriers and enablers to a successful competitive market, Postcomm is committed to understanding how customers' interests are being furthered by market developments and to learning the views of customers, mail industry suppliers and mail operators in the early stages of the development of competition. Postcomm also wishes to capture information from residential users to assess their experience of changes to the postal regime.

We will continue our stakeholder relationship programme utilising the events programme, visit programme and the wider communications strategy (highlighting, for example, the idea of switching mailer). Integral to this will be the development of an effective Stakeholder Relationship Management system (SRM) (that will also support Process Management, Corporate Risk and Reporting – See "Using and Developing Resources Effectively").

This year Postcomm will also review its approach to communicating with stakeholders to make us more accessible and visible. Communication with our stakeholders is a vital part of the way that Postcomm fulfils its statutory duties. It helps to inform our policy making and to

ensure that we are accountable. Postcomm's "Improving communications" project will review our approach to consultation and the whole range of communication activity that Postcomm uses to reach its stakeholders and engage their views including the media (TV, radio and press - national, regional and trade) our website, briefing sessions and interviews, our newsletter and annual report and general publications.

The budget for 'Building Effective Stakeholder Relations' has been incorporated in the five 'goals'

6. Building effective stakeholder relations

Project/Workstream	Specific Activities	Delivery in 2007/08:			
		Q1	Q2	Q3	Q4
(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			
(b) Postcomm's Improving Consultation project	(i) Review	•			
	(ii) Implementation		•	•	
(c) To provide accessible, usable and understandable information to customers	(i) Raising customer awareness of choices available through a variety of information e.g. website, factsheets, Quarterly newsletter, consultation documents, summary pamphlets etc	Ongoing			
(d) To be more visible and accessible to stakeholders through the media	(i) Press releases and briefings with key press contacts (national, regional and trade), TV, radio	Ongoing			
(e) 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: - 2007 Business Customer Survey - 2007 Competitive Market Review - summary document			•	
	(ii) Implementation of stakeholder Relationship Management System			•	
	(iii) Finalisation of Market Intelligence Database	•			
	(iv) Review of market intelligence sources	Ongoing			

(f) To provide accessible, usable and understandable information	(i) Respond to enquiries from MPs, members of the public, etc	Ongoing
(g) Work with vulnerable groups	(i) Ensuring vulnerable groups' needs are considered in the Strategy Review and the review of Postcomm's Consultation procedures	Ongoing

Using and developing resources effectively

The importance of this goal

We aim to be 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. As a small organisation we can be highly focussed in achieving our goals. However, we can and do also make cost savings by using support services provided by other, larger government departments, and by continually seeking to raise the efficiency of our use of resources to the levels achieved by the best performing regulators and departments. We believe in sharing knowledge throughout the organisation especially as we usually work in cross-functional policy teams.

What using and developing resources means

- Remaining a small organisation compared to other regulators but ensuring that we have excellent people who work well together and are supported in both their work and their personal development;
- Maintaining a friendly, supportive and open culture, so that we get the best ideas and solutions to problems offered by staff at all levels;
- Ensuring that all our staff have the best business tools, technology, training and support in their functions;
- Learning constantly from our experience about our business, our market and our stakeholders, and sharing best practice with other regulators, so that we can react swiftly to protect customer needs and to formulate and execute the right policies to create a dynamic postal market in the UK. Reviewing and learning from a completed project is just as important to us as developing new ones;
- Using resources of larger organisations (such as COI, Ofgem and external consultancies) where this is cost effective; and
- Benchmarking our use of resources and the performance of our corporate services team against other comparable regulators and government departments.

Key performance indicators:

- Efficient use of all resources, including bought-in consultancy services and shared services with other government departments and regulators;
- Effective programme and risk management;
- Effective project planning and control;
- High quality recruitment and training; and
- Effective relationships on regulatory issues with Postwatch, Royal Mail and other stakeholders.

Proposed projects/workstreams

We have outsourced our 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. The service has been delivered to a high standard

over the period of the agreement and we plan to continue to monitor this and review performance and Value for Money in April 2007 before making a decision on the further renewal of the agreement.

We have adhered to the Treasury's 'faster close agenda' for resource accounts in 2005 and 2006, and we will again publish our Resource Accounts prior to the Parliamentary summer recess in July 2007.

We have rolled out Professional Skills for Government (PSG) to all staff in 2006 and will have a PSG development programme in place for each member of staff for 2007-08. Over the course of 2007-08 we will monitor and review our PSG programme to ensure it continues to meet our organisational skills needs and the professional development needs of our staff.

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

We have initiated an Information Management Strategy that aims to improve our methods of managing our knowledge and information to increase our efficiency and effectiveness.

We are keen to adopt 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. We have already begun this process using an early draft indicator set and will adopt the final set when it is published in 2007.

The budget for 'Using and Developing Resources Effectively' has been incorporated in the five 'goals'

E. Resources and Organisation for 2007/08

We plan to deliver the above goals with a budget of £10.0m (compared to £10.2m this current year) and this has been agreed by Treasury. Working to this budget can only be achieved by further increases in operational efficiency.

We believe that if we take on additional functions as a result of the changes to Postwatch we are likely to require additional budget.

In the first few years of Postcomm's existence, our priorities were reasonably 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.

The resource split between goals (and the strategy review) is expected to be as follows:

Corporate goal:	Resource allocation
Strategy review	£1.5m
Ensuring the universal service	£1.7m
Protecting customer interests	£3.0m
Promoting sustainable competition	£3.4m
Advising on the Post Office network	£0.4m
Total resources	£10.0m

F. 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, which are to ensure a universal service, protect customers, and wherever possible introduce effective competition.

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 review risk as part of ongoing business planning and they provide 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.