

HMRC SUBMISSION IN RESPONSE TO

POSTCOMM REVIEW OF ROYAL MAIL'S PRICING FLEXIBILITY AND THE LEVEL OF ACCESS HEADROOM (THE 'INTERIM REVIEW' OF THE PRICE CONTROL)

HMRC Background

Her Majesty's Revenue and Customs (HMRC) is a new Government Department that was created in April 2005 and which brought together the functions of HM Customs and Excise and the Inland Revenue. HMRC employs approximately 100,000 people, about a fifth of the entire Civil Service. Our responsibilities include:

- Income, Corporation, Capital Gains, Inheritance, Insurance Premium, Stamp, Land and Petroleum Revenue Taxes
- VAT, Excise Duties, Customs Duties and frontier protection
- Environmental taxes: climate change and aggregates levy and landfill tax
- National Insurance
- Tax Credits
- Child Benefit and the Child Trust Fund
- Enforcement of the National Minimum Wage
- Recovery of Student Loan Repayments

Additional general information about HMRC can be found on our website www.hmrc.gov.uk

HMRC Mail Profile

- HMRC annually spends £77m with Royal Mail, (total postal expenditure £81m) and dispatches 320 million items of mail.
- HMRC are currently Royal Mail's biggest retail customer.
- Approximately 50% of HMRC's mail output is processed by our output supplier Fujitsu from four main sites. The remaining mail is despatched from 200 post rooms serving 600 network offices.
- From the total mail output, approximately 50% receives a mailsort discount.

PostComm Proposals

The Chairman's foreword generated three main issues:

- Royal Mail's financial position is challenging but the company has to take responsibility for its success.
- Royal Mail to be given greater flexibility to align some of its retail prices with costs.
- The case has not been made for PostComm to take any action on access margins.

HMRC Submission

As a major user of mail services in the UK market we believe that it is important for our voice to be heard on any issues of importance in respect of, or proposed future changes to, the UK postal market.

In making our submission we have endeavoured to balance the legislative roles and responsibilities that PostComm has with HMRC's realistic requirements of the future of the UK postal market.

Royal Mail's financial position is challenging but the company has to take responsibility for its success.

HMRC are wholly supportive of this. We believe an emphasis on the customer lives at the heart of delivering this.

To deliver this Royal Mail needs to deliver competitive services that meet the needs of its customers – not merely its own corporate needs. Typical examples of where this has not been evident is in the introduction of Pricing in Proportion (PiP) and the proposed Zonal Pricing.

Whilst we appreciate the licensing restrictions that all mail providers operate under it should be noted we have experienced only limited operational transformation from Royal Mail. However, it should be mentioned that Royal Mail's endeavours to assist HMRC in achieving "business as usual" during the current Royal Mail/CWU industrial action have been particularly worthy of merit.

Royal Mail is to be given flexibility to align some of its retail prices with costs

Nigel Stapleton, PostComm chairman stated "Royal Mail will be allowed to increase prices on certain loss making products in April 2008 and April 2009 by more than was originally agreed when its four year price control was set. If it wishes Royal Mail will be able to raise the price of a second class stamp to 29p by 2010, subject to inflation (the original price cap was 26p)".

In the event Royal Mail raises prices as allowed (and subject to where prices are reduced) the exposure to HMRC against current volumes is marginally short of £½m. Against the backdrop of public sector spending cuts this is an unfortunate challenge.

Central Government organisations are committed to public service levels and outputs governed by legislation and often complicated contractual arrangements. The combination causes such organisations to have limited "corporate agility" to respond to rapid market changes so it is important Royal Mail takes heed of this in setting out their timescale for change arising from the PostComm proposals.

The case has not been made for PostComm to take any action on access margins.

HMRC supports the PostComm position in that it is desirable for the market players to agree suitable commercial arrangements which are fair but maintain competition.

The Department are surprised the absence of recent and accurate data is the cause for this decision since the maintenance of accurate management information must form the core of all regulatory consideration. HMRC suggest there may be a case for regulatory intervention if the data issues persist.

David Thomas
Commercial Director
HM Revenue & Customs
0161 827 0261
11 October 2007