

Postcomm's Letter of Comfort to Royal Mail on bulk compensation and the 'C' factor – Q&A information for customers

What's bulk compensation?

Bulk compensation is money that Royal Mail has to pay to its customers who use bulk mail products if it fails to meet its bulk mail end to end quality of service licence targets by 1% or more. Customers are paid 0.1% of their annual expenditure in compensation for each 0.1% by which Royal Mail misses a target, up to a maximum of 5% of the customer's annual expenditure.

What's the 'C Factor'?

The 'C factor' is a means by which customers generally get lower prices if Royal Mail's quality of service was below target in the previous year. It is implemented by an adjustment to Royal Mail's allowable revenue under the price control.

Aren't bulk compensation and the C Factor just ways for the Treasury to get more money?

No – these are ways of getting money back to customers – either directly (bulk compensation) or by reducing prices (C Factor). Neither mechanism is a 'fine' (ie a financial penalty imposed because of a licence breach); none of the money goes to the Treasury.

What's the background to Royal Mail's request?

The agreement of Royal Mail's financing package with the Government has enabled it to begin transformation activities that are necessary in order for it to become more efficient. Royal Mail says that these transformation activities will "change the role of every person in Royal Mail Group Ltd because it impacts every part of the pipeline from collection and sorting through to delivery". Royal Mail knew that this would probably lead to industrial action.

Royal Mail told Postcomm that it faced a serious financial situation (based in particular on its view of current and future trading conditions and its pension fund deficit). The company feared that it might not be able to undertake transformation activities if this meant it would have to pay out compensation and charge customers lower prices next year because of poor quality of service following industrial action. So it asked Postcomm to suspend the bulk compensation scheme and the adjustment to the C factor in the event that industrial action had an impact on its quality of service performance.

How much money are we talking about?

Royal Mail told Postcomm that the amounts it could lose could be as much as £300m.

How did Postcomm reach its decision?

It consulted with Postwatch, with mail users represented on the Postwatch Trade Association Forum and by the Mail Users' Association, with representatives of other postal operators through the Mail Competition Forum and with the Communication Workers' Union and Amicus.

What did Postcomm decide?

Postcomm has agreed to Royal Mail's request to suspend until 31 March 2008 the payment of compensation to bulk mail customers, and to ensure that the company is not subject to the C-factor, where industrial action has caused poor quality of service performance.

The reason for this decision is that Postcomm wishes to ensure that - against a background of Royal Mail's current financial position, including its substantial pension deficit - the possibility of having to pay compensation and/or earning reduced revenue next year does not discourage the company from undertaking the transformation needed to modernise its business, which will be to the benefit of all mail users.

Does this mean I won't get any compensation from Royal Mail?

Postcomm's agreement to these suspensions is subject to some important safeguards for customers:

- a final decision on the amount of any compensation payable (or not) will not be made until after the end of this financial year (31 March 2008) when Royal Mail's final quality of service figures are known. In making its decision at that point, Postcomm will 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; and
- after the end of the financial year, Postcomm will hold an open meeting at which Royal Mail will present the main points in its application. Attendees will be able to ask questions about the application.

Aren't you just allowing Royal Mail to provide poor quality of service to its customers?

Postcomm believes that the safeguards it has put in place will ensure that Royal Mail is still incentivised to achieve the highest levels of quality of service, in the interests of postal users. In addition, Royal Mail is still obliged to comply with all its licence conditions before, during, and after any industrial action and Postcomm expects Royal Mail to take all reasonable steps to manage its business effectively and to establish contingency plans to mitigate the effects of industrial action by its employees.

I use an Access provider. Will I get compensation?

This will depend on the terms of your contract with the Access provider and you should get your own advice on the exact details. It is likely, however, that if the contract says that the Access provider will pass on compensation from Royal Mail, and Postcomm decides after the open meeting that Royal Mail does not have to pay compensation, then you will not get compensation by this route.

**Postcomm
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