

**HMRC SUBMISSION IN RESPONSE TO  
POSTCOMM STRATEGY REVIEW  
The Postal Market 2010 and Beyond**

### **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](http://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's Strategy Review**

PostComm's strategy review looked at whether there is a need to alter the regulatory policies so they can continue to protect mail users in the future (2010 and beyond) and still allow mail operators the flexibility to adapt to changes in the market.

HMRC's basic requirements are threefold:

- The retention of stability in the postal market as it deregulates;
- Consultation on all proposed major changes to the postal market; and
- Acceptable lead times to any introduction of new products or initiatives.

The strategy review poses three long term strategic questions (Annex 3).

***How might the postal market develop over the next 5 to 10 years?***

From an HMRC perspective it is likely our national footfall in terms of mail delivered and received, will remain largely unchanged. We forecast a gradual but steady decline of mail numbers to/from HMRC largely due to the uptake of electronic communication especially b2b but increasingly b2c and c2b.

In respect of HMRC this is likely to be consumer driven, but potentially politically driven as public expenditure tightens.

A key part of HMRC's postal services business strategy for the next decade is to drive out cost and improve efficiency. Consideration is being given to centralisation of post inputs/outputs and possible outsourcing of certain services.

A key issue behind our thinking is the "green agenda" and the impact of post to this.

HMRC would watch with great interest any developments with regard to an alternative end2end supplier, and will continue to actively monitor the performance of Down Stream Access in the market.

***What will postal users need from the universal service, given its costs, and how will it be provided?***

Essentially stability and where there is change it has to be communicated clearly and managed over sensible timescales. The impact of taking bulk mailing out of the Universal Service Obligation (USO) will have an impact on HMRC. Potentially there are significant postal savings for HMRC. However we would also need to see the fine detail of any proposals as any additional obligations surrounding bulk mailing requirements may create difficulties for our organisation. This is particularly so since our strategic direction is based on a long term view in terms of equipment, resources and expenditure, which in turn is constrained from full flexibility by our limited organisational agility.

HMRC would only be content to see bulk mailings removed from the USO when established competition guarantees competitive pricing.

***What is the best long term framework for promoting effective competition and deregulation?***

Once again stability and managed change appropriately are the vital ingredients for ensuring the best long term framework for HMRC. Broadly speaking HMRC welcomes access, but can see some merit in the DX/SMS' view that this is not an effective form of competition. The market is not fully liberalised and access has protected Royal Mail's market position, although we recognise a move to a completely liberalised market is not viable in the short term.

In respect of the benefits of ring fencing areas of Royal Mails activity we would want to see some firm evidence of the benefit of this to consumers.

Royal Mail may feel that current regulation is "stifling its ability to innovate and meet customers' needs" and whilst we have some sympathy with this, our view is regulation provides a stable framework for the postal market.

HMRC would disagree with Royal Mails view about delaying the launch of new products as these are often not optional, or beneficial to some customers (e.g. MOV, PIP & ZP).

HMRC believes there is a degree of volatility in the market which creates both opportunities and threats for HMRC. In that, future de-regulation proposals may help HMRC as a bulk user but with the operational characteristics of a large public sector body are concerned we may lose out if proposed changes are not sufficiently researched, scrutinised and signalled with a realistic implementation period. Demonstrating the impact of proposed change is not a Royal Mail strength (and should be a regulatory concern) and goes a long way to explain our nervousness about releasing Royal Mail from its regulatory obligations prematurely.

David Thomas  
Commercial Director  
HM Revenue & Customs  
15 November 2007  
0161 827 0261  
david.thomas3@hmrc.gsi.gov.uk