

▶▶ Postcomm Forward Work Plan 2010-2012
The way ahead for the regulation
of postal services

Foreword by Tim Brown, Chief Executive



Since the postponement of the Postal Services Bill last summer, we have been talking with a wide range of customers, trade bodies, operators (including Royal Mail) and other interested parties about the future direction regulation now needs to take.

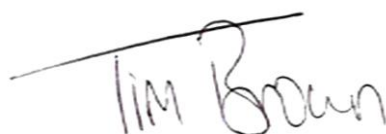
It is clear that market conditions are not the same now as they were when the current price control was set, and that change in the way we regulate is necessary if we are to play our part in helping the postal services market to be successful and vibrant once again.

There is a clear desire to move regulation forward and this plan seeks to do that as quickly as is appropriate. We therefore wish to press ahead with regulatory reform principally for April 2012, but with the aim of implementing some elements earlier if possible.

Our primary goal, as it always has been, is to protect the universal service and the interests of customers. We want to encourage all operators to innovate and become more efficient in meeting customers' changing needs.

Our plan is ambitious but we have the expertise and resources we need to carry it out. To be successful we will need you to play your part too.

We look forward to working closely with you and to playing as big a part as we possibly can in helping create a successful postal services market for 2012 and beyond.



Summary

1. Much has changed since the current regulatory environment for the postal market was set back in 2005. In particular, the postal market, customer needs, the extent of competition and the economic climate are substantially different. Traditional mail volumes are in decline, electronic alternatives are growing but delivery of goods to our homes has increased significantly. There are now 40 licensed postal operators, with competitors using Royal Mail's delivery network taking a greater share of the bulk market, but Royal Mail still delivers over 99% of all mail.
2. A combination of the Hooper Review¹ of the postal market and the postponement of the Postal Services Bill has meant no material changes to the regulatory environment for nearly two years. Any further delay will be damaging to the ability of Royal Mail to provide a universal service, as well as to the interests of residential and business customers and other operators.
3. This paper outlines Postcomm's proposed work plan for the next two years looking at how we regulate the postal industry within the scope of our powers and duties. Our overall aim is to provide a stable regulatory environment that:
 - Ensures the future of the universal postal service and protects the interests of customers
 - Allows freedom for Royal Mail and its competitors to innovate and become more efficient in meeting customers' changing needs
 - Has flexibility and resilience so that it can be applied within any future statutory framework

¹ The Government announced a review of the postal services sector on 19 December 2007. The review team were Chaired by Richard Hooper CBE and reported on 16 December 2008. Following the report and general support the Government put forward a new Postal Services Bill that was postponed in June 2009 and since lapsed.

4. Subject to consultation, and agreement with Royal Mail to the necessary licence changes we intend to introduce a new regulatory framework in April 2012. It will be designed to last for a number of years to provide consistency and, as much as we can, stability. However, some elements of these changes could be in place much sooner. For April 2011 our work will concentrate on creating the right conditions - and ensuring there are the right safeguards – for the longer term, and deregulating where there is sufficient evidence and safeguards in place

5. Our work will cover three areas:
 - **Protecting the universal service:** Assessing customers' needs from a universal service, covering issues such as the range of services provided, quality of service and whether the universal service is affordable for customers;
 - **Analysis of markets:** Investigating further the economic markets in which Royal Mail operates, assessing market power and identifying where the markets fails to protect the interests of customers; and
 - **Regulatory safeguards:** Developing the necessary protections for customers and other operators. This will include a review of the way Royal Mail provides cost and revenue information; considering the nature of the controls on Royal Mail's pricing and what they should look like in future; and reviewing the access environment to give Royal Mail more freedom where appropriate in the upstream bulk mail postal market while safeguarding competition to give customers choice.

Any changes to the regime need to be evidence based and we will be relying on you, as senders or recipients of mail or as operators in the mail market and related markets, to contribute to these various projects. We will also be drawing on other evidence-gathering and analysis. In that way we can be more confident that what we propose is effective, targeted and proportionate.

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1. Our statutory duties

- 1.1. Postcomm – the Postal Services Commission – is the independent regulator for postal services. We were set up by the Postal Services Act 2000 to ensure that postal operators, including Royal Mail, meet the needs of users throughout the UK, above all by ensuring that there is a universal postal service.
- 1.2. We are required, by the Postal Services Act 2000, to carry out our work in the way we consider is 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 the same throughout the UK.
- 1.3. Subject to this we must also further the interests of users of postal services wherever appropriate by promoting effective competition between postal operators. In doing this, we must have regard to the interests of special interest groups such as those who are disabled or chronically sick, are of pensionable age, are on low incomes, or live in rural areas.
- 1.4. Subject to both the duties above, we must also carry out our work in a way we consider is best calculated to promote efficiency and economy on the part of postal operators.
- 1.5. In performing all of our duties, we must have regard to the need to ensure that licence holders are able to finance the activities authorised or required by their licences. We also have to have regard to guidance on social and environmental matters given by the Secretary of State and we must act consistently with European Union law.
- 1.6. Postcomm's role in relation to Post Office Limited is to give the Secretary of State for Business, Innovation and Skills advice and information on the number and location of public post offices, and their accessibility to users of postal services. We do this in the form of an

annual post office network report and we will publish an annual report in 2010. We are not involved in making decisions on the future of either the network or individual post offices.

Commissioners and Directors

1.7. Our policies are decided by a board of eight Commissioners:

Nigel Stapleton – Chair

Tim Brown – Chief Executive

Tony Cooper

Ulf Dahlsten

Wanda Goldwag

Stephen Littlechild

Simon Prior-Palmer²

Lucy Scott-Moncrieff

1.8. Between them, Postcomm's Commissioners have a broad experience of postal services, finance, law, direct marketing, competition, business, economics, consumer issues, regional matters, trade unions and regulation.

1.9. Our policies are implemented by an executive staff led by our Chief Executive and six Directors:

Tim Brown – Chief Executive

Jenny Block – Director, Legal

Rebecca Churchill – Director, Strategy & Market Development

Stephen Gibson – Director, Economic Policy

Gavin Knott – Director, Regulatory Finance

Sean O'Hara – Director, Customer Interest

Colin Sharples – Director, Resources

² Simon Prior-Palmer's term of appointment as a Commissioner ends on 31 March 2010. A recruitment process for a new Commissioner is underway.

2. Background

- 2.1. This document lays out our priorities and work programme for the coming two years for our review of how we regulate the postal industry.
- 2.2. Our approach will be firmly evidence-based. As such consultation — formal and informal — together with other evidence-gathering and analysis will support all of our decisions. Our proposals will need to be able to cope with changes to the market in the future.
- 2.3. We want and need to move as quickly as possible, whilst following a proper process for change. We can only do so if the necessary regulatory safeguards are in place and with the involvement of the market.

Postcomm priorities

- 2.4. There is clearly a lot to cover in the next couple of years. So below we've set out our criteria (based on good regulatory practice) for deciding where we focus our resources. In deciding what work to do we will take into account:
 - Impact: the likely beneficial impact (direct or indirect) of doing a specific piece of work;
 - Strategic significance: how well the work fits with our strategic objectives and meeting our statutory duties, isn't already covered in other current/ planned work, and would not be better dealt-with through another channel;
 - Its value: the likelihood of the work reaching a useful result; and
 - Resources: the resource implications of doing the work and how these relate to the benefits.

Of course we can never be certain about what additional work may

arise over the course of the next two years. Unforeseen developments may require us to refocus resources and reprioritise some of the work in our plan.

Business as usual

- 2.5. We will, of course, continue to do what we're calling "business as usual" which includes work such as investigations resulting from complaints, delivery exception appeals, quality of service monitoring, licence enforcement and so on.
- 2.6. Chapter 10 of this document covers this in more detail.

Overall approach

- 2.7. If we are to meet our 2012 goal, the timeline for creating a more appropriate regulatory environment is tight. Consulting with you remains critical to our plans and in the context of such a tight timescale and the changing postal market; we need to ensure our consultation procedures are flexible enough to respond efficiently and effectively.
- 2.8. So we propose a greater emphasis on ongoing qualitative and informal consultation throughout our programme of activities. However, we will continue to consult formally. We also intend to speak clearly— using plain English—so you can understand us more easily.

3. The context for change

- 3.1. Any future regulation needs to take account of the wider issues influencing the postal services market now and in the future and trying to anticipate and understand future scenarios is an important component of our thinking . This is important if we want to set a regulatory framework that can last.

The market

- 3.2. We know there has been an explosion in the use of digital media over the past few years. Some businesses have moved a substantial part of their transactional correspondence (e.g. bank statements or utility bills) from traditional mail services to e-communications. Socially there has been a lot of uptake of digital communications such as mobile telephones and e-mails. These factors have clearly had an impact on postal services.
- 3.3. On the other hand some sectors remain committed to postal services, but the recession has caused a drop in volume in these sectors too.
- 3.4. Small and medium-sized businesses remain reliant on Royal Mail to send their products as well as for invoicing and receiving payments.
- 3.5. Though letter volumes have decreased, the number of parcel deliveries has grown as ‘fulfillment’ of customer orders on line for goods has come into its own in the digital age.
- 3.6. Our planned market study exercise will give us a better idea of what has been happening as well as what the future markets for postal services are likely to look like.

The customer experience

- 3.7. In 2008/09 Royal Mail achieved eight out of its twelve quality of service targets. The extreme weather in February 2009 had an impact on collection and delivery performance for that year. Customers

unfortunately suffered disruption to their mail services as a result of a series of localised postal strikes in summer 2009 and national strikes in October/November 2009³. The strikes in 2009 will have an adverse impact on full year quality of service results for 2009/10. Royal Mail's quality of service results up to quarter 2 of 2009/10 (which covers the period from April to September 2009) shows that it is only achieving five out of its twelve targets. Full-year quality of service results will be published in June 2010.

- 3.8. Nevertheless, recent research commissioned by Postcomm into the needs of postal users, which will be published in due course⁴, indicates that customers' satisfaction levels with their postal services remain generally high. The research also indicates that the majority of customers consider first and second class services to be very good value for money.

Other developments over the last two years

- 3.9. In August 2007 we published the outcome of our Strategy Review. It looked at the need to reshape our regulatory policies to continue to further the interests of postal customers (both those who send and receive mail) from 2010 and beyond in order to better fit the rapidly evolving postal market. This was soon overtaken by the Government sponsored review of the postal service market led by Richard Hooper CBE (the "Hooper Review").

- 3.10. The Hooper Review concluded in December 2008 with the stark message that Royal Mail must 'modernise or decline'. It recommended the following package of measures:

- The Government should introduce a strategic partnership between Royal Mail and one or more private sector companies;

³ The industrial action was taken by members of the Communication Workers' Union as a reaction to Royal Mail's transformation plan.

⁴ The Customer Survey report will be published on Postcomm's website in February.

- The Government should tackle the historic pensions deficit; and
 - Postal regulation should move to Ofcom to be integrated into the regulation of communications.
- 3.11. Following general support from the industry for the Hooper Review recommendations, the Government introduced the Postal Services Bill. The Bill, designed to implement Hooper's recommendations—including moving the regulatory function from Postcomm to Ofcom—, was postponed in June, fell at the end of the parliamentary session and has not been included in the Government's plans for this final session of parliament.
- 3.12. In July 2009 Lord Mandelson announced that Postcomm would continue as the regulator for postal services. In a letter to us, he said the Government believed that competition can bring important benefits for customers but should not be pursued at the expense of the universal service.
- 3.13. In September 2009 we proposed two changes to Royal Mail's license as we were concerned that changes in market conditions had had an adverse impact on Royal Mail's ability to provide the universal service. The changes, to take effect from April 2010, were to limit the impact of negative RPI on Royal Mail (as the formula used in Royal Mail's price control is based on RPI) and to make the formula for limiting individual product price rises (sub-caps) more effective. We have a statutory duty to protect the universal service. These measures will help Royal Mail generate more revenue to fund the universal service during this period.
- 3.14. The new European Postal Services Directive must be implemented by December 2010. Postcomm is liaising with the Department for Business, Innovation and Skills on the changes that might be required.

Regulatory

- 3.15. Today's price control environment was agreed back in 2005 and was simply not designed to cope with current market conditions—let alone beyond 2010. There have also been two-years without significant changes to the regulatory environment since the Hooper Review was announced.
- 3.16. The submissions we made to Hooper were prompted by the belief there needed to be a step change in the pace and breadth of Royal Mail's transformation programme to meet the challenges faced.
- 3.17. The areas of focus for our submission were as follows:
- The nature and scope of regulation was no longer appropriate: at the time we were working towards proposing a considerable reduction in the scope of price and service quality controls subject to ensuring other safeguards were in place;
 - Sustainable competition is the best way of ensuring an affordable universal service, giving customers value and choice, improving efficiency and innovation at Royal Mail to exploit growth areas in the market;
 - An adequate and transparent cost model was needed that spelt out the cost of financing the universal service and one that could also ensure access⁵ customers were paying a reasonable price for use of the Royal Mail network; and
 - Equal treatment on cost and quality was needed between third parties buying into the Royal Mail network and customers using the

⁵ In the UK postal market, there are generally two forms of competition to Royal Mail. These are (1) competition that collects and sorts mail, but pays to use Royal Mail's final sorting and delivery facilities to offer products to customers; and (2) competition that uses its own network to collect, sort and deliver mail. With the first type, Royal Mail is still delivering the mail, but the competitor is undertaking all the collection and initiation sorting on behalf of its customers. It is here that it competes with Royal Mail on cost and, subsequently, the price offered. This type of competition is usually referred to as "Access competition". In this instance they are access customers of Royal Mail. The second type is usually referred to as "end-to-end competition". Royal Mail continues to deliver 99% of mail in the regulated area.

whole of the network.

- 3.18. The Hooper Review accepted many of the regulatory recommendations that we had made especially on the need for an improved understanding of Royal Mail's costs. The Postal Services Bill also included provisions for greater cost transparency.

Financial

- 3.19. As Royal Mail provides the universal service, the financial health of Royal Mail is important. Therefore, we monitor Royal Mail's finances. The changes in the market put a number of pressures on Royal Mail's finances. Volumes have fallen faster than ever before. Customers are increasingly switching away from more expensive postal products to cheaper alternatives. In this context Royal Mail's targets to reduce cost per letter (efficiency targets), which were set on the assumption of a small growth in volumes, have become increasingly difficult to achieve. This is one reason why the gap between assumed efficiency and actual efficiency achieved has grown over time, and Royal Mail have reported worse financial performance than we expected.
- 3.20. When we look at whether Royal Mail is earning enough money to finance the universal services we first look at cash flow – the gap between cash received from customers and cash spent in running the business. Since Royal Mail has been losing sales and missing our targets to reduce costs, there is a substantial gap between the cash flow Royal Mail was expected to earn and its actual performance.
- 3.21. Whilst Royal Mail Letters has recently reported a profit for the year 2008-09 and the first six months of 2009-10, the level of profit is small – less than 2% of revenues, and not enough to meet the cash costs of its transformation programme. Royal Mail's expected cash outflow in 2009-10 is £500 million due to the need to fund its pension contributions and investment in transforming the business. This cash outflow is likely to continue in 2010-11.

- 3.22. When the current price control was set Royal Mail's defined benefit pension scheme had a deficit of about £3.5billion. Royal Mail is, because of this, technically insolvent – meaning that its liabilities including the deficit are higher than its assets. A new actuarial valuation is underway and it will make this situation worse - it has been estimated that the deficit could be at least £10 billion.
- 3.23. Whilst Postcomm has a duty to “promote efficiency and economy” it is clear that this cannot be done through regulation alone. Pressure will also come from the market's need for lower prices and a shareholders demand for return on its investment.

Summary

- 3.24. Regulation cannot guarantee a successful postal services industry. It cannot halt the developments of the digital world, stop changing social behaviours, nor change the economic climate. There are also a number of important issues that are outside our control and remit. These include questions about the ownership of Royal Mail and the pension deficit. Our proposals and decisions will need to take these issues into account as far as possible and be flexible enough, so that no radical overhaul is needed if these circumstances change.
- 3.25. Having said that, Postcomm considers that it is now imperative to address the regulatory issues raised and, broadly supported by interested parties, take account of the changing market conditions and put in place a more appropriate, more sustainable and stable regulatory framework.
- 3.26. We are able to take into account the important issues raised over the last two years by the Hooper Review and by the submissions to that review. We are also able to reflect on the intentions of the draft Postal Services Bill in relation to regulation, although of course our statutory powers remain as set out in the Postal Services Act 2000.

- 3.27. As a result, we hope to be able to move quickly in proposing changes. However, the speed at which we can propose or implement changes is highly dependent on the availability of evidence and we rely on the support of the industry in providing the necessary information. Ultimately the speed at which we can implement necessary changes is also dependent on the co-operation and consent of our licensees, particularly Royal Mail.
- 3.28. Any proposals will be consistent with our statutory duties with respect to the universal service, to customers and to all operators, including Royal Mail. We will consult formally on any proposals.
- 3.29. In summary therefore, our aim is to put forward proposals which if agreed, would form a stable basis for the future for the market and the universal service.

4. Our agenda

- 4.1. We intend to develop a new regulatory framework for 2012 and beyond that is a better fit for the marketplace: for the universal service, customers, Royal Mail and other operators. Where possible we will look to remove regulation at the earliest opportunity, but as part of that we need to ensure that appropriate safeguards are in place.
- 4.2. We will continue to intervene where the marketplace cannot ensure the continued provision of the universal service, or does not sufficiently protect customers or allow fair competition.
- 4.3. A cornerstone of the Government's better regulation strategy, and key to the Better Regulation Executive's work, are the five principles of better regulation. The principles state that any regulation should be transparent, accountable, proportionate, consistent and targeted only at cases where action is needed. This is discussed in more detail in Annex 1. Our regulatory approach will take these into account.

Objectives

- 4.4. This work programme has been shaped and determined by the following objectives:
 - **Universal Service:** seeking to ensure the provision of a sustainable, affordable universal service that meets customers' needs;
 - **Targeted proportionate regulation:** identifying clearly those postal markets where there isn't effective competition, so focusing regulation on addressing market failure and safeguarding the interests of customers;
 - **Competition:** ensuring access customers are paying an appropriate price for the use of Royal Mail to deliver the final mile - to the door. And that all competition, including those who deliver as well as collect and sort, is soundly-based, and sustainable.

- **Understanding Royal Mail costs:** ensuring we have a much better understanding of Royal Mail's costs, including where it makes profits and where it loses money, to allow us to regulate its prices effectively and speedily;
- **Efficiency incentives:** giving Royal Mail incentives to improve its efficiency where competition is not sufficiently established that these incentives come from the market; and
- **Address unfair competitive behaviour:** conducting investigations into anti-competitive complaints quickly and effectively.

Work programme

4.5. To deliver these objectives we have structured our work programme into the following strands:

- **Protecting the universal service:** assessing customers' needs from a universal service, covering issues such as the range of services provided, quality of service and whether the universal service is affordable for customers;
- **Analysis of markets:** investigating further the economic markets in which Royal Mail operates, assessing market power and identifying where the market fails in protecting the interests of customers; and
- **Regulatory safeguards:** developing the necessary protections for customers and other operators. This will include a review of the way Royal Mail provides cost and revenue information; considering the nature of controls on Royal Mail's pricing and what they should look like in future; and reviewing the access environment to give Royal Mail more freedom where appropriate in the upstream bulk mail postal market while safeguarding competition to give customers choice.

4.6. The project themes are described in more detail below.

5. Protecting the universal service

- 5.1. Our primary duty concerns the provision of a universal service. To protect the universal service we need to identify what customers need from the universal service now and in the future, and what services it should include and how these ought to be provided. These projects will also assess whether customers find the universal service affordable. The interests of vulnerable groups will be fully taken into account.
- 5.2. The specific projects are as follows:
- a research project, in partnership with Consumer Focus (the national customer body), to look into customers' needs from a universal postal service; and
 - a consideration of how to assess the affordability of the service to customers and how best to take this into consideration when setting controls on Royal Mail's prices.

Assessing customers' needs

- 5.3. Postcomm's duty in relation to the universal service is central to its work. However, as acknowledged in the Hooper review, the universal service is under threat, and postal companies need to respond quickly to the changing needs of consumers and the use of alternatives such as e-mail and text.
- 5.4. Postcomm reviewed the universal service in 2004-05 and decided on the elements it should contain. At that time Postcomm recognised that it should regularly review and monitor the universal service to take account of the changing needs of customers and the types of service offered by the market.
- 5.5. Since then Postcomm has done work on certain aspects of the universal service, for example annual customer surveys to understand attitudes and behaviour towards postal services and a study of the net

costs of some elements of the universal service. Building on this, we will consider proposals on how the universal service should evolve in response to the technical, economic and social environment and to the needs of customers, something that is necessary under the European Postal Services Directive.

5.6. This project aims to achieve the following:

- Ensure the provision of a universal postal service in the UK that meets the needs of those who use it and takes into account Royal Mail's ability to fund it;
- Identify what consumers of postal services need from a universal service, with the results informing proposals for the universal service from 2012 onwards; and
- Understand how possible changes to various universal service requirements may impact on Royal Mail's costs and financial position.

Can customers afford postal services?

5.7. We have a duty in relation to the affordability of universal service products. In 2009, Postcomm carried out a small qualitative study into whether postal products were affordable. Though it concluded they were, it also predicted they would become unaffordable if prices were to increase substantially in real terms. A regulatory environment will need to take account of the affordability of prices now and in the future. This project aims to achieve the following:

- Determine whether there is an appropriate and reasonable approach to assessing the affordability of universal postal services;
- Based on that assessment, whether it is appropriate to use a measure relating to affordability as one of the parameters in the price control for 2012; and
- Consider alternative measures, apart from a price control, that could be used to ensure universal service products are affordable, and

remain affordable in the future.

6. Analysis of markets

- 6.1. In the fast-changing postal world, we need to understand better the markets within which mail and packet services operate; what is happening in those markets now and likely to happen in the future and where normal market rules do not work. This will allow us to focus regulation on where market failure adversely impacts customers and competition. Postcomm is undertaking a market study which aims to identify the different economic markets that exist in the postal sector.
- 6.2. This is not an end in itself, but a key step when thinking about whether particular products or services face effective competition, and whether Royal Mail has market power when providing a given product or service.
- 6.3. If Royal Mail doesn't face enough competition (perhaps because consumers can't readily use other postal operators or digital alternatives), then it is likely to have 'market power'.
- 6.4. Market power is not an absolute but a matter of degree. Market power can arise as a result of market failure or reflect market failure, and it can result in higher prices, less choice and lower innovation than would otherwise be the case if the market was competitive. In addition, if an operator has market power, it may be able to make it more difficult for competitors to enter the market or for those already in it to continue. So overall, if one player has significant market power and there is no regulatory protection, the market may not work well for customers.
- 6.5. If markets are not working well, people may end up paying too much or having too few choices for their goods and services.

- 6.6. Projects under this theme will analyse the following:
- Relevant wholesale and retail markets, and markets for packets and parcels. An assessment will be made of whether Royal Mail has market power within these markets; and
 - The market study will allow us to consider in more detail the impact on postal services of significant changes that have been taking place in the wider markets in which postal services are used e.g. communications, home shopping, publishing, advertising etc.
- 6.7. If we find Royal Mail has market power in a defined postal market, if appropriate we can address the risk of abuse of that power by regulating the prices that it can charge and impose further controls on its quality of service. If we find Royal Mail has behaved (or is behaving) in a way that is contrary to its licence obligations on the promotion of effective competition, we can require it to stop and we can impose a financial penalty.
- 6.8. As well as pointing out where we need to regulate, the market study may also identify markets which do not need to be regulated, or need to be regulated to a lesser extent if the necessary safeguards, such as greater cost transparency, are in place

7. Regulatory safeguards

7.1. Projects under this heading are principally aimed at a better understanding of Royal Mail's costs. This understanding will help us ensure we have put in place the right mechanisms to protect customers and other operators where necessary. It also feeds directly into wider, critical projects. We want to understand in more detail where profit is earned and lost. Where appropriate, Royal Mail should publish this information in a consistent format. This will help give us and other stakeholders the necessary confidence to see a relaxation of regulation. Specific projects are as follows:

- **Cost transparency:** This project will give us better information about how much it costs Royal Mail to deliver its services. It will allow us to better understand the cost of providing the universal service, help us to reduce regulation where appropriate in other areas and be able us to act more quickly to deal with complaints of licence infringement which would benefit all parties involved;
- **Price controls for 2011 and 2012:** We consider that it should still be possible to make some modifications to the current price control environment (originally intended to last up to 2010) for April 2011 to make it more relevant to the current market. In any event, we intend to make further changes to implement a new regulatory framework in 2012. This new regulatory framework will use the results of our work on costs to set new price caps, and to set those price caps where the market study indicates they are needed; and
- **Review of the access environment:** We intend to review the current access environment to safeguard the interests of access operators and customers more effectively whilst giving Royal Mail as much commercial freedom as possible.

Cost transparency

- 7.2. Cost transparency involves Royal Mail giving Postcomm more information about its costs for handling and delivering mail, and information that is consistent from year to year. We may seek to include some requirements on Royal Mail to publish more information in a consistent format.
- 7.3. The main aims of this work, and of cost transparency are:
- To clarify what the costs of providing Royal Mail's products are and to ensure consistency in the information provided. This includes the unit costs of each of the business activities Royal Mail undertakes to deliver the universal service, such as delivery. It also includes an assessment of whether Royal Mail's revenues cover its costs;
 - To understand better the costs in different parts of Royal Mail's business and to compare the revenues earned by Royal Mail's upstream and downstream business with their costs. We aim to do this through a requirement for Royal Mail to prepare separate accounts;
 - This type of information is important as one of the tools to enable us to ensure the right measures are in place both to protect customers and to promote efficient competition. It will also allow us to understand better if Royal Mail may need to increase prices for some products to be able to fund the universal service; and
 - To ensure the information given to customers and other operators is clear and helps the development of the mail market.

Why do we need cost transparency?

- 7.4. We consider that the right kind of cost transparency is an important safeguard which will help us to make the regulation that we apply to Royal Mail fit for purpose in changing market circumstances and ensure it remains consistent with our statutory duties, including our responsibility concerning the universal service.

- 7.5. Royal Mail has told us and the Hooper Review what it believes it needs to sustain the universal service. This includes removing some regulation and making changes to the regulation of access of competitors to the Royal Mail infrastructure.
- 7.6. Without improved cost transparency we will find it very difficult indeed to relax regulation or make material changes to access regulation. Other regulators such as Ofcom are able to do this because they have better information on the costs involved in the business they are regulating.

What questions are we addressing?

- **What rules should Royal Mail follow when preparing its regulatory accounts?** More clarity and consistency year on year in the preparation of regulatory accounts will help us ensure regulation is more proportionate and our regulation of prices more informed. It would also help us to do our job more quickly.
- **How are Royal Mail's revenues related to its costs for different parts of its business?** The answers to this question will allow us to decide whether Royal Mail's pricing structures are fair, including the price of access but also whether it is charging appropriate prices to, for example, packet customers, international customers, business customers and social customers. A better understanding of these costs is an important issue in this respect.
- **What form should Royal Mail's published reports take?** We haven't assessed the form of the regulatory accounts for some time and the market has changed a lot since. We think now is the right time to ask Royal Mail to produce new accounts which reflect the changes to the market.
- **What are the incremental costs of Royal Mail's businesses?** A better understanding of these costs is an important issue particularly where it is needed for us to regulate in a way that is consistent with general competition law principles.

The price control

- 7.7. The price control in Royal Mail's licence restricts its ability to charge what it likes for its postal services.
- 7.8. Simply, the price control is designed to make sure prices are affordable for customers who have no or only a limited choice of alternative operators. The price control also needs to be set at a level that allows Royal Mail to cover its costs and which encourages it to become more efficient.
- 7.9. Royal Mail's licence limits the maximum it can increase prices by each year. It is allowed increases that are linked to quality of service and, normally, inflation. There is a further factor which is designed to incentivise Royal Mail to become more efficient each year, but account is also taken of changes in volumes.
- 7.10. We don't control all of Royal Mail's prices. We also give Royal Mail some flexibility on how it changes its controlled prices in comparison to each other. This can help it to keep prices more in line with costs.
- 7.11. In the last few years this flexibility has enabled Royal Mail to increase the prices of services paid for by stamps by more than some other products.
- 7.12. We have not yet decided which products should be controlled and will talk to customers and operators before proposing any changes.

Should we still control Royal Mail's prices?

- 7.13. At the moment, we control about 90 per cent of Royal Mail's prices. When we set this control, most customers had no choice but to use Royal Mail but the position now is rather different, particularly for large business customers who send most of the letters that Royal Mail eventually delivers.

7.14. We may therefore be in a position to reduce the number of Royal Mail's prices that are subject to a price control. We may do this in two stages as results from our work emerge and the necessary regulatory safeguards can be implemented. At this stage we see opportunities to make changes for April 2011 and more radical changes for the following year.

Should Royal Mail be allowed to increase prices?

7.15. We will review whether Royal Mail should be allowed to increase its prices, and if so, how and by how much. Currently Royal Mail is losing cash. It can improve its position by reducing costs or increasing revenue through growth or increasing prices. We need to decide how much we should allow to be done by increasing prices to customers.

7.16. This workstream will be split into two:

- A review of Royal Mail's finances and the prices it would like to increase to be able to continue to be profitable and raise the cash it needs for investment. We will assess whether any price increases to reflect higher costs on some products are fairly balanced with reductions to reflect lower costs elsewhere, where there is scope to do so; and
- A review of the price of access (wholesale products). We currently don't control the price of access directly, although competitors mainly compete on the basis of access to Royal Mail's delivery network. We will consider whether directly controlling the price of access is more appropriate and if so at what level the price should be set. We will also review the link between access competition and end to end competition.

7.17. We will also look at the system that allows Royal Mail to change individual prices of different products and assess whether it is still appropriate.

The access environment

- 7.18. Royal Mail is required by its licence to ensure that access to its infrastructure is offered to other operators. This form of competition is provided for in the European Postal Services Directive.
- 7.19. As long as the price is fair, the growth in competition that results from access should not harm Royal Mail's ability to provide the universal service. If competitors can offer mail at cheaper prices than Royal Mail then this could encourage the use of mail in a declining market, meaning more letters are sent, giving Royal Mail more letters to deliver and therefore more revenue to support the universal service.
- 7.20. About one in every three letters we receive are now collected and sorted by postal companies other than Royal Mail. Examples are UK Mail and TNT. These letters will usually arrive at our homes with a company logo that isn't Royal Mail's but they are still, in nearly all cases, delivered by Royal Mail. Other than some small local operations, no other postal company currently delivers letters to the home. This is known as operating in the 'final mile'.
- 7.21. Other companies that want to offer postal services in this way pay Royal Mail a fee for delivering their mail over this 'final mile'. This fee makes up more than 80% of the price these other companies charge to their customers. Royal Mail is therefore providing "access" to its network.
- 7.22. The operation within Royal Mail that delivers all the letters, both those from Royal Mail and its competitors represents over half of Royal Mail's total costs. It is therefore important that access payment is on terms that are equitable for all players.

So why review the access environment?

- 7.23. Access mail has grown very fast. In five years other operators have gone from handling no mail at all to handling one in three letters.

7.24. We need to check that this growth reflects efficient competition and has not arisen because the terms are at an inappropriate level. But we also need to ensure that Royal Mail cannot impose unfair terms on competitors—who provide an important service to their customers.

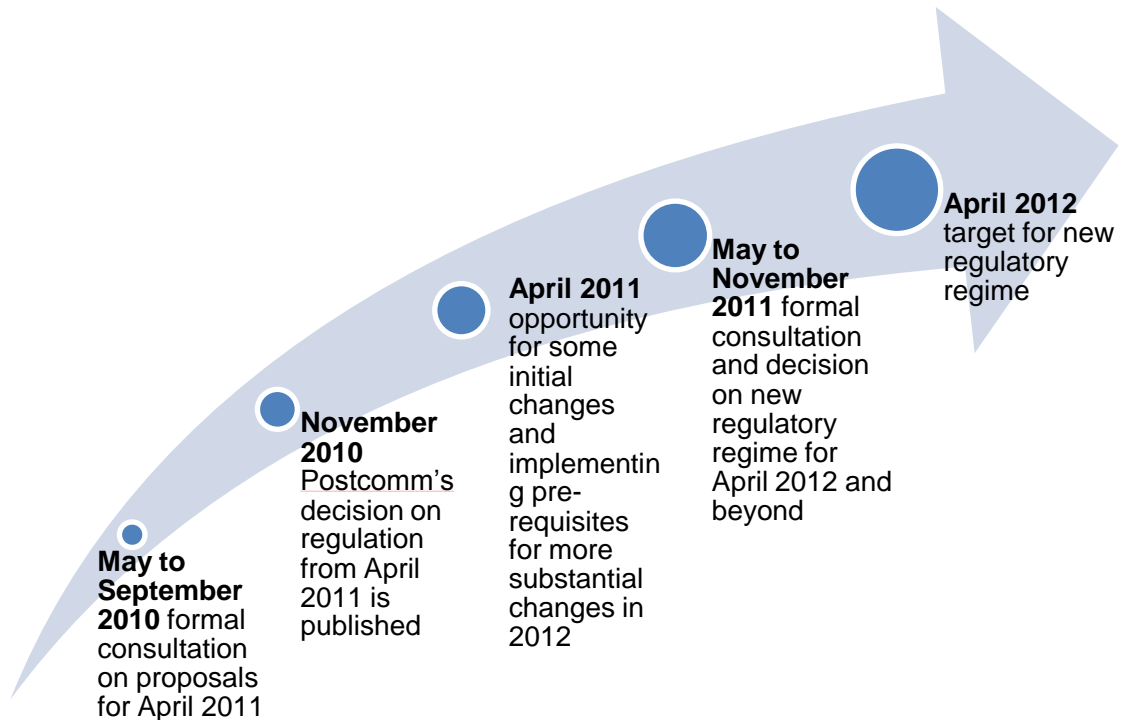
What questions are we asking?

- **Is the price fair to all parties?** Royal Mail and some others have claimed that the access price is too low, and are subsidising other operators. We reviewed this in 2007 (our decision document was published in January 2008⁶), but will review again whether there is now any substance to these claims, and whether we need to change regulation to allow the price of access to rise.
- **Does anyone have an unfair advantage?** As almost all mail has to go to Royal Mail for delivery, there are licence conditions regulating how it behaves in relation to its own retail products and services. Otherwise it could put competitors out of business. We need to check if these rules need to be revised.
- **How can we make the rules simple and fair for all parties?** At the moment we have complaints from Royal Mail saying the rules on how it grants access are too strict. At the same time we have complaints from other operators that Royal Mail doesn't offer them fair terms or offer the same products. We want to make sure the rules around offering access are simple, reasonable and straightforward for all.

⁶ <http://www.psc.gov.uk/news-and-events/news-releases/2008/postcomm-publishes-decision-document-on-its-interim-review-of-2006-10-price-control.html>

8. The timeline for change

- 8.1. The current price control was due to run from 2006 until April 2010. As a result of the time taken by the Hooper Review and the Postal Services Bill there has been a two year period of no significant change to regulation.
- 8.2. Because of the position with the Postal Services Bill, Postcomm has extended the 2006-2010 Price control with a few key changes that were possible within the timeframe (our Tariff 2010 decision).
- 8.3. A new regulatory environment, including a new price control, that is fit for the future will require a significant amount of work, not just from us, but from others such as Royal Mail, other postal operators and customers. The proposals we make will be informed by evidence from the market place including our more extended informal and formal consultations with those who use the postal system and those who operate within it. This means that April 2012 represents the first realistic opportunity for Postcomm to introduce a completely new regulatory environment and associated price control. Even then, this will only be possible if we are able to reach agreement with Royal Mail on the licence modifications necessary to give effect to it. If we cannot reach agreement the only recourse would be a referral to the Competition Commission.



8.4. Although 2012 sounds like a long way off, to stay on course and to consult widely, our timescales are very tight. However, we believe that there is an opportunity to make some important changes (particularly in terms of regulatory safeguards), preparing the way, in time for April 2011. These will depend on getting more information on the market place and beginning to implement cost transparency, and it will depend on wider support to enable us to move forward constructively and quickly.

Changes to the Price Control in 2011

8.5. Our first significant policy proposals will be set out in a consultation which we will publish in spring 2010.

8.6. It will detail our proposals for a one-year price control introducing changes to ensure the arrangement will last until April 2012 and set the foundations for later changes. We will focus on the following three areas—including where we have evidence and safeguards in place, proposed measures to remove some regulation earlier:

- Changes to the scope and nature of the price control;
 - Changes to the current form of access regulation; and
 - Developing the principles of cost transparency.
- 8.7. This document will also update the stakeholders about the timetable leading to a new regulatory environment in 2012.
- 8.8. Anyone interested will have up to three months to comment on our proposals and, taking account of the comments received, we intend to publish our decision in late 2010. When we publish the decision, it will be accompanied by formal proposals for any licence changes—with another 28-day formal consultation period on these detailed amendments. The decision document will again update interested parties about progress with our projects. Changes will come into effect in April 2011.
- 8.9. Though we cannot guarantee it, we intend to work towards and hope to achieve the removal of certain products and price limits from regulation from April 2011. However, as already mentioned, we will only do so with the secure knowledge that there are appropriate safeguards in place that will protect the customer, the interests of other operators and the postal services market. We need cooperation from Royal Mail and their agreement to the required licence modifications necessary to meet these timescales.

Changes to the Price Control in 2012

- 8.10. In January 2011, we expect to produce a draft work plan for the period 2011 to 2014. In this we plan to detail progress towards the new regulatory environment for 2012.
- 8.11. In the spring of 2011 we intend to publish our consultation about the 2012 new regulatory environment and price control.
- 8.12. This consultation will review all aspects of the regulation of Royal Mail,

based on our work on the universal service and the market study. It will consider where, with the appropriate regulatory safeguards, regulation can be removed. Where we consider regulation is still required, it will discuss options for a sustainable regulatory framework that will help to ensure a universal service beyond 2012.

- 8.13. It will set out, where relevant, firm proposals for changes and give interested parties up to three months to provide their views.
- 8.14. Before the end of 2011 we hope to publish our final decision together with the formal proposed changes to Royal Mail's licence (and others', if relevant).

9. Stakeholder engagement

- 9.1. We have a work plan for 2011 and 12 designed to deliver our statutory duties and a regulatory regime fit for 2012 and beyond. To succeed, we will need to involve stakeholders from the very start ensuring they are a critical player all the way through the process of our projects, helping to guide and support us, shape our work and the outcome.
- 9.2. As such the communications team is working closely with project teams from the start of individual work streams. This should ensure a strategic, integrated and carefully planned stakeholder engagement model and plan that goes hand in hand with the project activity.
- 9.3. We hope that this approach will make it easier for our stakeholders to both get involved and help to shape our work.
- 9.4. To help us with this approach, we have been reviewing our style of working. This includes the following:
 - Presentation/communications training for all project leaders;
 - All staff session on writing/speaking in plain English;
 - Better written communication: new Commentary/Quarterly Intelligence reports, shorter external documents;
 - Refreshed website: clearer, simpler design; communicating simply in 'plain English' in future documents; and
 - We are planning a packed events calendar made up of key milestones for engagement activity including a series of briefings to road test our work plan and proposals.

10. Our other activities

10.1. Not all our work is directly related to seeking to put in place a new regulatory framework for April 2012 and beyond. In fulfilling our statutory duties we will continue to carry out a range of other activities, some proactively and some on a reactive basis.

Business Customer Survey and Competitive Market Review

10.2. We will continue to review developments in the UK mail market to ensure the continued provision of a universal service, to monitor the development of competition and to assess the impact of our policy decisions on the market through our annual Business Customer Survey and Competitive Market Review.

10.3. The Business Customer Survey is one of the key tools we use to gather market information and specifically, to assess the extent to which, from a customer perspective, competition has evolved in the market and the extent to which customers' interests are being furthered by developments in competition. The results of this survey along with other information will feed into our Competitive Market Review which will outline recent market developments and summarise the experiences of mail users and mail operators in the UK. The Competitive Market Review will also identify issues for future consideration for the development of effective and sustainable competition in the UK postal market.

Anti-competitive investigations

10.4. We will continue to undertake investigations under Royal Mail's licence obligations to promote effective competition. This workstream is mainly dependent on complaints brought against Royal Mail from customers or operators.

Condition 7 Exemption Applications

- 10.5. We will continue to examine and consult on any Condition 7 exemption applications from Royal Mail on a case by case basis.

Post Office Network

- 10.6. Our role in relation to Post Office Limited is to give the Secretary of State for Business, Innovation and Skills advice and information on the number and location of public post offices, and their accessibility to users of postal services. We will publish an annual post office network report in 2010. We are not involved in making decisions on the future of either the network or any individual post office.

International Affairs

- 10.7. We will continue our representational role at EU level and our international benchmarking.

Royal Mail Quality of Service

- 10.8. We will continue to monitor, review and commission audits of Royal Mail's quality of service performance against the targets in its licence. This will include, where appropriate, consideration of whether Royal Mail has used all reasonable endeavours to achieve its targets. We will be ready to investigate any apparent licence breach by Royal Mail in relation to quality of service and may investigate any instance where performance against a quality of service target falls below an acceptable standard. Where required, we will consider applications with appropriate evidence from Royal Mail for adjustments to quality of service results where force majeure events have impacted on quality of service.

11. Postal Service Market Status Indicators and Postcomm's Performance Indicators

Postal Services Market Status Indicators

11.1 These are key indicators of the experience of postal consumers and the status of the postal market and how that market is changing. We will consider these indicators when determining our regulatory strategy, preparing our policy proposals for consultation and in planning our programme to fulfil our statutory duties. Most of these indicators are directional and need to be considered in comparison with data from previous years or in comparison to a specified target where appropriate (e.g. Royal Mail's Quality of Service targets). Some are indicative of a move towards the outcomes that we wish to see achieved through changes to the regulatory framework. Some are proxy indicators of consumers' experience as for example a decline in Royal Mail's performance in meeting its Quality of Service targets would clearly indicate a poorer experience for consumers. Others are direct indicators based on consumer's accounts of their experience as shown in their responses in our annual 'Business Customer Survey' and the 'Needs of Postal Users' survey.

The Universal Service and Consumer Experience

Status Indicator 1	% of First Class stamped and metered mail delivered by Royal Mail in each postcode area the next working day after collection
Status Indicator 2	Number of exceptions to Royal Mail's universal service obligation to provide a delivery service to each address in the UK, every working day
Status Indicator 3	% of collection points served by Royal Mail each day
Status Indicator 4	% of delivery points routes completed by Royal Mail each day
Status Indicator 5	Royal Mail's annual estimates of the total number of licensed items that have been lost, stolen or damaged or interfered with, and the total as a percentage of the total number of licensed items conveyed by Royal Mail
Status Indicator 6	Percentage of respondents in Postcomm's annual 'Needs of Postal Users' Survey expressing satisfaction with the postal service
Status Indicator 7	Percentage of respondents in Postcomm's annual 'Needs of Postal Users' Survey who believe they have access to an affordable postal service
Status Indicator 8	Percentage of respondents in Postcomm's annual 'Business Customer Survey' who perceive a barrier to moving any or more of their organisation's mail to another provider
Status Indicator 9	Percentage of respondents in Postcomm's annual 'Business Customer Survey' who use multiple mail providers
Status Indicator 10	Percentage of respondents in Postcomm's annual 'Business Customer Survey' who agree that the choice of mail services available to them has improved

Furthering Consumers Interest through Effective Competition

Status Indicator 11	Change in the size of the total mail market (in £value & %)
Status Indicator 12	Royal Mail Group's profitability & cashflow
Status Indicator 13	Royal Mail's percentage share of the addressed letters market
Status Indicator 14	Number of and changes in licensed mail operators
Status Indicator 15	Number of items carried 'end-to-end' by licensed operators other than Royal Mail
Status Indicator 16	Access mail as a percentage of Royal Mail's total operational volume

Postcomm's Performance indicators

11.2 These are indicators of our efficiency, effectiveness and speed in carrying out activities which we can control and which we believe will contribute to outcomes leading to success or failure in shaping the postal environment. This also includes an indicator of stakeholders' perception of our effectiveness. All of these indicators have an explicit target which may be a specified percentage or simply an improvement on the previous year's performance.

Outputs

Performance Indicator 1	A Universal Postal Service is provided to UK postal consumers
Target	Where complaints about failures in the provision of the USO are accepted for investigation, that investigation will be completed within twelve months from acceptance.
Performance Indicator 2	New Regulatory Framework for the postal market in place
Target	In place by 1st April 2012
Performance Indicator 3	Projects delivered or completed as scheduled in the annual Postcomm Forward Work Plan
Target	95%

Stakeholder Perception

Performance Indicator 4	Scores given by respondents to Postcomm's annual 'Business Customer Survey' rating Postcomm's performance over the last 5 years in promoting, effective competition, protecting the interests of customers and maintaining the universal service
Target	Year on year improvement in the scores

Processes

Performance Indicator 5	Mail operator licence applications granted (or rejected with explanation) within 40 working days of receipt of a valid application
Target	100%
Performance Indicator 6	Time taken to publish a policy decision from close of final consultation
Target	90 calendar days

Performance Indicator 7	Preliminary investigation of anti-competitive complaints completed within 6 weeks of first report
Target	No more than one preliminary investigation in each year will take longer than 6 weeks to complete
Performance Indicator 8	Full anti-competitive investigations completed within 18 months of the start of the investigation
Target	100%
Performance Indicator 9	Freedom of Information requests responded to within the statutory 20 working days
Target	100%

People

Performance Indicator 10	Average Postcomm Staff Satisfaction Score in Annual Staff Survey
Target	Year on year improvement in the score

Finances

Performance Indicator 11	Variance between Total Corporate Budget & Actual Spend
Target	<3%
Performance Indicator 12	Valid supplier invoices paid with 10 days of receipt
Target	99%

12. Postcomm's people strategy, budget & efficiency

Postcomm's People Strategy

- 12.1. Following the postponement of the Postal Services Bill we undertook a thorough review of our People Strategy to ensure we were able to attract, engage, develop, reward and retain employees to deliver Postcomm's objectives.
- 12.2. We reviewed existing staffing requirements and structure to identify the resource required to deliver Postcomm's revised short term and long term objectives and work plan. We will be using a mix of permanent, fixed term and interim appointments and secondees from other organisations to resource our projects.
- 12.3. We have also changed our internal organisational structure to better enable us to deliver our programme of work. Our staff are now organised in a simpler and more flexible matrix structure which better supports the cross-functional programme and project based nature of our work.

2010-11 Budget & Efficiency

- 12.4. We will deliver our programme of work with a budget for 2010-11 of £10 million⁷. We will have reduced our budget by 12% over the 3 year period from 2008-09 to 2010-11. In common with all other government departments we have not yet proposed or agreed a budget for 2011-12 with Treasury.
- 12.5. We can only deliver our programme of work with this budget by continually seeking further efficiencies and savings and we have already implemented a number of measures as set out below.

Office Space

- 12.6. By reconfiguring our office layout, and making more efficient use of floor space on 1st April 2009 we vacated 279 sq m of floor space,

⁷ £10,037 million

returning this to our landlord at no additional cost to us. This saves £110,000 on rent, rates and service charge each year over the life of the lease which runs to 2013, delivering total savings of £440,000.

Remote working redesign project and roll out of Citrix XenApp

- 12.7. Postcomm previously provided ADSL connections, and computer equipment to enable staff to work flexibly and for contingency purposes. Rolling out Citrix XenApp to give staff secure access to our network from any internet browser has allowed us to stop providing ADSL connections saving £32,000 net over two years. We also no longer provide any additional Postcomm computer equipment to staff to use out of the office and this will save a further £10,000 over two years.

Printing Consolidation

- 12.8. We have removed 16 networked printers each costing approx £1150 per year to run and maintain and moved all staff to printing on existing photocopiers which have the capacity to act as networked printers. This will save £36,800 over two years.
- 12.9. 10 of these networked printers would have been due for replacement this year and not having to do so has saved £14,000. We also expect to see a reduction in the amount of printing which will lead to some further small savings on toner and paper costs.

Mobile Phone Rationalisation

- 12.10. Postcomm has cut the number of business mobile phone contracts by 50%, saving £5,000 within 12 months.
- 12.11. We will continue to look for further savings and efficiencies in how we carry out our work. We also reduce our costs through our shared services agreement with Ofgem, the energy markets regulator, for the provision of some of our finance and payroll services. We are exploring opportunities for new shared services arrangements with other regulators in areas such as procurement.

Annex 1 - Corporate Governance, Internal Control and Better Regulation

Risk management is an integral part of all our work and our 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.

We have 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 our staff on their responsibilities and the risk process to be followed.

Our 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 our business planning cycle.

The Chief Executive and the Programme Board provide leadership on risk management in Postcomm. The Programme Board reviews risk as part of ongoing business planning and it provides decision-making and risk resolution for Postcomm as a whole, as well as for key projects and programmes. The Director of Resources as 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, we have identified the key risks to each of our corporate goals, along with a number of mitigating actions, and will keep these under review at all times.

Better Regulation

We attach great importance to the five principles of better regulation. These are that 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 rule 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.

For us these principles mean that we will regulate only where necessary while putting in place measures that are essential to protect mail users and which benefit mail users by supporting competition. We have a long standing commitment to better regulation since first committing to these principles in May 2002. We will continue to embed these principles into the way we work and through the delivery of our projects detailed in this plan.

Reducing unnecessary burdens

The Regulatory Enforcement and Sanctions (RES) Act 2008 which received Royal Assent on 21 July 2008 places a duty on us along with other independent regulators not to impose or maintain unnecessary burdens. Postcomm is required to publish a statement each year which sets out what we intend to do and what we have done to remove any existing unnecessary burdens and this will form part of our annual report.

During the process of developing and implementing a new regulatory framework Postcomm will seek to identify any burdens that have become unnecessary and which can be removed. Postcomm believes that the development of a new regulatory framework presents the most appropriate and comprehensive framework within which a review of all those burdens imposed by Postcomm can take place and discharge our duty not to maintain unnecessary burdens.

Annex 2 – Detailed projects and workstreams

Introduction

The tables below set out the projects and workstreams in more detail (with likely timings of research, proposals and decisions).

Protecting the universal service

Project/Workstream	Specific Activities		Delivery in year:	
			2010-11	2011-12
Assessing customers' needs from a universal service in 2012 and beyond.	i. Assessing customers' needs. Research in partnership with Consumer Focus.	Research and analysis	Q1 - Q2	
		Proposals	Q3	
	ii. Understanding how changes to the universal service may impact on Royal Mail's costs and financial position.	Decision	Q3 - Q4	
Considering how to assess the affordability of universal postal prices and alternative methods that Postcomm could adopt to ensure that prices are affordable.	Research and analysis		Q3	
	Proposals		Q3 – Q4	
	Decision		Q4	

Analysis of markets

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Market study on relevant economic markets and the extent to which Royal Mail has market power.	Wholesale markets research and analysis	Q1	
	Wholesale markets proposals	Q1	
	Wholesale markets decision	Q3	
	Retail markets research and analysis	Q1-Q2	
	Retail markets proposals	Q3	
	Retail markets decision		Q1
	Fulfilment (packets and parcels) research and analysis	Q1	
	Fulfilment (packets and parcels) market proposals	Q1	
	Fulfilment (packets and parcels) market decision	Q3	
	Advertising market research and analysis	Q1-Q2	
	Advertising market proposals	Q3	
	Advertising market decision		Q1

Regulatory safeguards – Price control 2011 and 2012

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
The price control 2011 project will seek to ensure the continued functioning of the existing Royal Mail price control for the period April 2011 to March 2012 with interim steps towards a new regulatory framework.	Research and analysis	Q1	
	Proposals	Q1	
	Postcomm's decision	Q3	
The price control 2012 project will build on the price control 2011 project.	Research and analysis	Q1-Q4	
	Proposals		Q1
	Postcomm's decision		Q3

Regulatory Safeguards - Access 2011 and 2012

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
The access 2011 project will review the current price of access and propose necessary changes to the current access rules.	Research and analysis	Q1	
	Proposals	Q1	
	Decision	Q3	
The access 2012 project will build on the access 2011 project.	Research and analysis	Q1-Q4	
	Proposals		Q1
	Decision		Q3

Regulatory Safeguards – Cost transparency

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Costing methodology	Research and analysis	Q1	
	Proposals	Q1	
	Decision	Q3	
Quarterly reporting and detailed accounting rules disclosure	Research and analysis	Q1	
	Proposals	Q1	
	Decision	Q3	
LRIC methodology and reporting	Research and analysis	Q1-Q4	
	Proposals		Q1
	Decision		Q3
Accounting separation	Research and analysis	Q1	
	Proposals	Q1	
	Decision	Q3	

Efficiency

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
The efficiency project will provide an estimation of Royal Mail's operating costs.	The project will inform the setting of Royal Mail's Price Controls for 2011 and 2012 by reviewing and analysing Royal Mail's business plans and forecasts.	Ongoing	

Monitoring Royal Mail's finances

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Ongoing monitoring of Royal Mail's actual and projected financial performance.	The project will inform the setting of Royal Mail's Price Controls for 2011 and 2012 by reviewing and analysing Royal Mail's accounts and trading updates.	Ongoing	

Licensing review

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Review and identification of changes necessary to the universal service licence consistent with 2011 regulatory framework proposals and where otherwise appropriate.	Research and analysis	Q1	
	Proposals	Q1	
	Decision	Q3-Q4	
Review and identification of any remaining changes to the universal service and non universal service licences consistent with 2012 regulatory framework proposals.	Research and analysis		Q1
	Proposals		Q3
	Decision		Q4

Future Scenarios

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
The project will ensure that Postcomm's thinking is informed by a comprehensive understanding of the future developments and scenarios likely to affect UK postal services.	Understand the likely developments in the UK postal market and wider communications market.	Ongoing	
	Identify likely future scenarios for UK postal services emerging from likely developments.	Ongoing	
	Undertake specific pieces of research as required.	Ongoing	

Business Customer Survey (BCS) 2010

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Survey of business customers to establish mail use and trends.	Research and analysis	Q3	
	Publication	Q4	

Implementation of European Postal Services Directive

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Implementation of third Postal Services Directive	Ongoing liaison with BIS on implementation of the Directive. The Directive has to be implemented by December 2010.	Q3	

Quality of Service Monitoring

Project/Workstream	Specific Activities	Delivery in year:	
		2010-11	2011-12
Continual monitoring of Royal Mail's Quality of Service targets	Monitor RM's Quality of Service targets	Ongoing	

The projects and workstreams set out above do not capture the entire range of Postcomm's ongoing work or work that is contingent such as, the ongoing monitoring and assessment of licence compliance, exceptions or investigations into possible licence contraventions.

We acknowledge that unforeseen developments may require us to refocus resources and reprioritise some of the work in our plan.