

Title:

Mr

Forename:

Keith

Surname:

Allsop

Representing:

Organisation

Organisation (if applicable):

Nationwide Building Society

What do you want Ofcom to keep confidential?:

Keep nothing confidential

If you want part of your response kept confidential, which parts?:**Ofcom may publish a response summary:**

Yes

I confirm that I have read the declaration:

Yes

Ofcom should only publish this response after the consultation has ended:

You may publish my response on receipt

Additional comments:

Nationwide are concerned about the increasing costs of post and the impact of likely price rises on the long term viability of the postal industry.

The price of post increased significantly in May 2011 with some of the services we use increasing by 20%. This prompted the acceleration of projects designed to communicate with customers through different channels. Whilst there was no immediate impact on volumes (and there will only be a limited impact in 2012) the projects will lead to a long term decline in volumes of mail being dispatched. Further price rises will make more technical change

cost effective.

Nationwide are also concerned about the likelihood of VAT being applied to postal services. Some Royal Mail services have been removed from the USO and this will lead to VAT being applied to most Royal Mail retail services. The current Ofcom proposal to give Royal Mail commercial freedom may also affect Access services, although this will be an HMRC decision.

Nationwide provide financial services and there is no VAT payable on financial services. This means that, unlike most businesses we are unable to claim back the VAT we pay. This situation also applies to charities who send significant amounts of post as part of their fundraising activities.

The combined effect of a significant price rise and imposition of VAT could cost us £10m pa

Question 5.1: Do you agree with the assumptions set out in paragraph 5.86 above? If not, please set out your reasons.:

The key element of the assumptions concerns the ability of Royal Mail to deliver efficiency improvements. From the public statements of Royal Mail employees they appear to believe that they have been through a period of unprecedented change and they are now efficient. They don't appear to have the appetite for further change or further efficiency improvements. It is also doubtful that Royal Mail will deliver the savings they are predicting from the current modernization programme.

For example Royal Mail are currently insisting on an accurate DPS on CBC mailings so that their very expensive new sorting machines can sort mail into the correct order for the postman's walk. Unfortunately when the mail comes off the sort machine it will still have to be put into the postal frame so that non CBC mail, packets and magazines can be added to the walk. They haven't made a significant difference to the efficiency of that operation (although they may have made some by centralizing the sortation)

Question 6.1: Do you agree with our proposal to impose a regulatory condition on Royal Mail to require it to provide the universal service as set out above? If not, what alternative approach would you suggest?:

Yes

Question 6.2: Do you agree that a price control is not an appropriate option at present for regulating Royal Mail's prices? If not, please explain why and how a price control could be implemented effectively.:

Clearly the previous price control mechanism did not work. The fear of postal users is that, if price control is taken away Royal Mail's incentive to improve efficiencies will also disappear. The problem is that if the efficiencies don't materialize how does the regulator deal with that? If there is a financial penalty, provision of the USO is again under threat.

The only mechanism that will control prices and force RM into making efficiencies is effective competition

Question 6.3: Do you agree with Ofcom's proposals to put in place regulatory safeguards as described above? If not, please provide reasons.:

Yes.

Question 6.4: Do you agree with Ofcom's proposals to put in place a monitoring regime? If not, please provide reasons.:

Financial performance should be monitored to prevent Royal Mail making excessive profits. Unfortunately prices will have to rise substantially in the short term before we get to a point that will trigger intervention from the regulator so this will be ineffective in the next few years

Operational Performance measures should include efficiency targets and quality of service targets but also other areas where we want to drive particular behaviours.

For example the biggest issue facing Royal Mail customers at the moment is that of 'reversions'. Royal Mail are rigidly enforcing the rules around specifications of mail being presented and are reverting mail to a higher cost service for the flimsiest of reasons. The suspicion of Access customers is that Access customers are being treated unfairly. Ofcom should monitor reversions by operator, by volume and by additional revenue raised.

This issue is also indicative the Royal Mail approach to customer service. Royal Mail is the only supplier that regularly fines its own customers and has led to a deep distrust of Royal Mail by its customers. Ofcom should also commission an independent customer satisfaction survey for all postal providers and monitor the results. Failure to improve should result in financial penalties and ideally affect remuneration packages of Royal Mail executives

Question 6.5: Do you agree with Ofcom's proposals for an index-linked safeguard cap on standard letters from 45p to 55p? If not, please provide reasons.:

The lower level of cap proposed is 25% above the current price. The upper level is 53%. If this proposal is designed to ensure that 2nd class stamps do not incur the same sort of price rises as other services this gives grave cause for concern.

The cap seems unreasonably high, even at 45p

Question 6.6: Do you agree with Ofcom's proposal that the approach outlined above remains in place for seven years? If not, please provide reasons.:

No. Within a few years Royal Mail will probably have a completely different ownership structure, the impact of price rises will be known and there is likely to be limited end to end competition. The proposal is for current conditions but these will be completely different in four years time

Question 7.1: Do you agree with our approach to assessing end-to-end competition? If not, please give your reasons.:

Yes. However the organizations most likely to offer an end to end service are the current DSA providers. The initial implementation is likely to involve 'cherry picking', delivering to the most populace areas. Whilst this is almost inevitable it should be allowed, providing that the cherry picking is part of a plan to extend coverage of the end to end service

Question 7.2: Do you agree with Ofcom's proposals to impose an obligation on Royal Mail to provide access at the Inward Mail Centre? If not, please give reasons.:

Yes. Access has delivered significant cost benefits to users. Royal Mail are antagonistic towards the access suppliers and the obligation is required.

The consultation document mentions a dispute procedure. It is important that this is implemented as soon as possible as Royal Mail are not a customer focused organization.

Question 7.3: Do you agree with Ofcom's proposals in respect of regulating margin squeeze? If not, please give reasons.:

The Access providers are in a better position to respond to this question

Question 7.4: Do you agree with our approach concerning the Terms and Conditions for access, including the role of equivalence and the regulation of zonal pricing? If not, please give your reasons.:

Ofcom need to ensure that Royal Mail treat Access providers fairly and need to monitor Royal Mail performance. One example of unfair treatment has been given in 6.4 but there are many minor ways in which Royal Mail make it difficult for the access providers.

Question 8.1: Do you agree with the objectives for regulatory financial reporting that we have set out above? Please provide details to support your response. :

No response

Question 8.2: Do you agree that our regulatory financial reporting proposals, set out in this section and the supporting Annex, are appropriate and proportionate? Please provide reasons and evidence to support your views.:

No response

Question 8.3: Do you agree with our proposals on the rules and requirements contained in the draft Regulatory Accounting Guidelines and do you consider that they are likely to provide an appropriate and proportionate level of cost transparency and accounting separation?:

No response

Question 8.4: Do you agree with our proposals set out above in relation to accounting separation? Are there any further risks that you think Ofcom needs also to consider in making decisions in this area? To the extent that you consider there to be risks associated with our proposals, how do you consider they might best be addressed?:

No response