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<https://stakeholders.ofcom.org.uk/consultations/securing-the-postal-service/howtorespond/form>



BBA submission on Ofcom's "Securing the Universal Postal Service: Proposals for the future framework for economic regulation"

The British Bankers' Association ("BBA") is the leading trade association for the UK banking and financial services sector. We represent over 200 banking members, which are headquartered in 50 countries and have operations in 180 countries worldwide. These member banks collectively provide the full range of banking and financial services and make up the world's largest international banking centre.

The BBA welcomes the opportunity to contribute to Ofcom's consultation "Securing the Universal Postal Service: Proposals for the future framework for economic regulation". As an industry that cannot recover all of the Value Added Tax ("VAT") incurred on inputs (goods and services purchased), any developments that effect the cost base of the sector is of significant interest to the BBA's membership.

Comments on the consultation proposals

The consultation document identifies the decline in volume of traditional mail as the major threat to the financial viability of Royal Mail's universal postal service. Ofcom's proposed response is to provide Royal Mail with more freedom in relation to pricing for a period of 7 years subject to three safeguards:

1. Performance monitoring and the potential for re-regulation if the incentives to deliver greater efficiency are demonstrably failing;
2. A safeguard cap on second class stamps;
3. Being subject to competition within the mail market.

The consultation document states that business mail represents over half of the mail currently handled by Royal Mail and acknowledges that increased prices will inevitably exacerbate the decline in mail volumes.

The BBA wishes to flag the concern of its members that if any change to pricing freedom has the effect of removing the VAT exemption currently enjoyed on services covered by the Universal Services Obligation and on Controlled Services, then business customers in the exempt financial services sector will be adversely affected. In broad terms, VAT is a sticking cost for financial companies, and where the impact of VAT increases the cost of postage for them the logical result will be a suppression of demand since it becomes more worthwhile to pursue paperless solutions.

To avoid this counterproductive suppression of demand from this significant segment of Royal Mail's customers, we would urge that HM Revenue & Customs ("HMRC's") agreement is secured, in advance of any change, that they will not regard the proposed alterations to price control as triggering any narrowing of the services which can be offered exempt from VAT.

Specifically, we contend that access services should retain exemption on the grounds that Royal Mail will remain obliged to grant access at inward mail centres and that it will remain subject to price control because of the margin squeeze test.

Yours Sincerely

A handwritten signature in black ink, reading "Sarah Wulff-Cochrane". The signature is written in a cursive style with a large initial 'S'.

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