



**Ofcom consultation
Review of the regulation of Royal Mail
3 August 2016**

About the NFSP

1. The NFSP is the voice of the UK's post offices. We are a professional trade association and have a membership made up of sub postmasters who manage the vast majority of the UK's 11,500 post office branches. The NFSP provides a range of services for sub postmaster, such as:
 - professional advice, guidance and training
 - a range of commercial services like financial advice, insurance and HR advice
 - influencing our partners in government and beyond on behalf of sub postmasters
 - representing sub postmasters in negotiation with Post Office Ltd over pay, terms and conditions

About our members

2. Sub postmasters are independent self-employed franchisees, contracted by Post Office Ltd to run a post office either as a stand-alone branch or, increasingly as part of a wider retail outlet, for example a convenience store. Most post office branches are run by small operators who own a single branch or small numbers of branches. Although a number are now managed by national retail chains, multiple and symbol groups such as WH Smiths, McColl's and the Cooperative.

Post office branches and Royal Mail

3. Our members are the shopfront for Royal Mail. In 2012, Royal Mail and Post Office Ltd signed a ten-year mails distribution agreement designed to underpin the working relationship between the newly-separated Royal Mail plc and the Post Office Ltd. The agreement ensures that post office branches provide retail and parcel services to customers on behalf of Royal Mail, and Royal Mail alone. The 11,500 post office branches are the drop-off points for Royal Mail items as well as customer collection points.
4. Post offices manage around £1.6bn in sales from mails products on behalf of Royal Mail each year. In 14/15 this generated £340m income for Post Office Ltd. Mail is the single largest source of revenue for the Post Office Ltd and is about 60% of the revenue for post office branches.
5. Therefore, the success or failure of the 11,500 post office branches across the UK is linked to the success or failure of Royal Mail.

2015 discussion paper: 'Review of the regulation of Royal Mail'

6. In our response to the Ofcom discussion paper 'review of the regulation of Royal Mail' in 2015, we noted that Ofcom should consider the implications of its decisions on Royal

Mail's behaviour, in particular what actions might result in increased financial pressures on the Post Office Ltd and individual branches.

7. We suggested that significant increased regulatory burden on Royal Mail might require it to undertake rapid and deep cost-cutting measures that could result in Royal Mail seeking to renegotiate its mails distribution agreement with Post Office. This could result in further shifting the cost burden of meeting universal service on to the Post Office Ltd and therefore, post office branches.

2016 consultation: 'Review of the regulation of Royal Mail'

8. In this 'review of the regulation of Royal Mail' consultation paper, Ofcom is essentially proposing to maintain the current regulatory approach, with some changes. This represents a three year extension on the current framework, which was put in place in 2012, originally for seven years. This is an improvement on Ofcom's position set out in 2015, and we support the regulatory stability that the proposed approach will bring.
9. We are also pleased to see that Ofcom has avoided the introduction of price controls which have been so damaging to post office branches in the past.
10. However, Ofcom must be constantly vigilant to ensure the future of the universal postal service provided by Royal Mail. We believe that it is vital to concentrate all of our efforts on providing a sustainable and effective universal service. For Ofcom, this means resisting the temptation to overregulate in what is already a fiercely competitive market.
11. We would also like to outline a number of other concerns relating to the impact of regulation on:
 - the provision of the universal service
 - NFSP members and staff in general
 - the relationship between Royal Mail, the Post Office Ltd and post office branches

Fit for purpose universal service

12. A strong and effective universal service is crucial in order to maintain the UK-wide network of post offices that so many people rely upon.
13. We agree that the universal service must be sustainable. However, providing a universal service has many economic and operational challenges, and other operators have tried and failed to enter this market. Driving increased competition in this area will do nothing beyond making the universal service less sustainable.
14. Ofcom should be making every attempt to ensure that the six-day-a-week, one-price-goes-anywhere universal service has a future. This is dependent on maintaining Royal Mail's core revenues in the face of ever-increasing competition from electronic communication, and a very competitive parcels market. We believe that Ofcom should therefore be firmly prioritising the sustainability of the current universal service over any further attempts to generate competition in the declining letters market. Ofcom should also be seeking to improve consumer standards in the parcels market.

15. We recognise that the universal service must adapt to the changing needs of society. Royal Mail should have the flexibility to allow the universal service to evolve, to ensure its services remain relevant to consumer's needs. Without the ability to evolve, the universal service will become increasingly financially burdensome. Therefore we would challenge Ofcom's proposal to retain their current position on standard universal service parcels. This will increasingly see the universal service out-of-step with customer's needs.
16. Ofcom should remove the negative regulations which stop the universal service from evolving to stay contemporary. For example, they should remove the restriction on allowing tracking on universal service parcels, which would be of huge benefit to postal users.

Impact on NFSP members and staff in general

17. Ofcom needs to recognise the critical role that post office branches play in providing the universal postal service. They also need to recognise the impact of any decision that they make on sub postmasters. Sub postmasters needs to be taken into account in Ofcom's decision-making.
18. For example, any drive for efficiency which results in further rates cuts for our members would not be welcomed. Our members cannot bear any additional cost of providing the universal service. Should rates for mails be squeezed further to the point where they became insufficiently viable, then Post Office Ltd will struggle to retain existing operators and find it more difficult to attract new operators willing to take on the franchise.
19. The current mails distribution agreement between Royal Mail and Post Office Ltd includes a 'fixed' payment, notionally to cover the cost of providing a post office network (our members), as well as a volume-based payment. Given the crucial role that post office branches play in delivering universal service, we believe there is a strong case for both increasing the size and share of this 'fixed' payment.
20. Further to this, earlier this month we saw reports that highlighted how some parcel companies, Hermes – for example, are exploiting those who work for them on a piece-work contract. A focus from the regulator on increased competition and cost cutting could see more and more operators to join the 'race to the bottom' and look to decrease the costs of one of their largest overheads – their staff.
21. Royal Mail's delivery service, for the most part, provide an hourly wage, sick pay and paid holiday. We would be very anxious if the drive to ensure Royal Mail efficiency came at the expense of cutting pay and terms and conditions for their staff.
22. Theresa May talked recently about 'compassionate conservatism', saying that businesses should not be only run for the few at the top, but for everyone. We would like to see that reflected in the regulatory approach.

Post offices as Royal Mail's high street presence

23. While they are two distinct brands, post office branches are Royal Mail's high street presence. We would like to see a greater cooperation between Royal Mail, Post Office

Ltd and sub postmasters about how we provide the most effective service for our customers.

24. For example, some of the services provided by Royal Mail, such as the home printing of labels and collection from customer premises is attracting revenue away from post offices, and could be said to be acting in competition to post office branches. While we understand the commercial imperative for this, we would like to encourage further conversations between our organisations about post office network as a whole. This might mean that we work even closer together, and where appropriate this could include an element of joint branding.

For more information, or to ask any questions, please contact Jenna Khalfan, the NFSP Director of Communications and Strategy on jenna.khalfan@nfsp.org.uk