

Review of the Regulation of the Royal Mail

Introduction

1. The Post Office operates the largest retail network in the UK with 11,600 branches. Around 93% of the population live within a mile, and 99.7% within 3 miles, of a Post Office. The vast majority of our branches are run on an agency basis by independent businesses who combine their retail offer with the Post Office.

2. The Post Office and Royal Mail separated in 2012. However, Post Offices are the principal retail channel for Royal Mail's products on the high street, providing customers with a convenient and trusted point of access to Royal Mail products (including USO products), alongside the broader range of financial and government services provided by the Post Office.

Common Challenges

3. Unsurprisingly, given their shared heritage and objectives, the two companies face a number of common challenges and priorities:

i. Public Purpose/Universal Service

4. In common with Royal Mail, Post Office is required to meet certain public policy objectives, notably in respect of accessibility for the whole of the UK population, which may be seen as analogous to those placed upon Royal Mail.

5. Moreover, Royal Mail and the Post Office operate a long term set of commercial arrangements through which, inter alia, services are provided to Royal Mail by the Post Office which directly facilitate Royal Mail's fulfilment of certain of its own USO obligations.

6. Specifically, Post Office supports Royal Mail's delivery against the USO by ensuring that customers can access universal service mails products across the entirety of our UK-wide branch network, delivering those services to high standards and specifications, and supporting the regulatory regime in accordance with geographical access criteria.

7. In meeting the obligations placed upon it by Government, and in facilitating part of those required of Royal Mail, Post Office provides essential access to postal services for individual customers and businesses right across the UK.

ii. Competitive, Changing, Markets

8. Both companies operate on a commercial footing in competitive markets and must do so successfully to generate the resources required to fulfil their respective public policy or universal service obligations.

9. In Post Office's case, since 2012, a significant business transformation has been taking place to improve its financial position for future sustainability. Our objective is to become a commercially sustainable business so that the necessary resources are available to enable us to invest in and sustain the network over the long term, with reduced requirements for public subsidy of the uncommercial elements of our network.

10. With the support of Government, we have invested in modernising branches - combining Post Offices with successful retail businesses enabling them to move to a more commercially sustainable footing, open when customers want. Over 6,300 branches have been transformed, providing more modern facilities and adding an additional 200,000 opening hours per week. More than 3,500 branches are now open on Sundays. These changes provide increased convenience for customers in addition to existing high levels of geographical access.

iii. Delivering Efficiencies

11. Against a backdrop of hard-won, but stable, revenues in 2015/16, we achieved a cost reduction across the business of £28 million over this period. As consumer habits shift further and traditional sources of income decline, we have to continue to evolve. So we are now in the process of making further changes that will have implications for how we are structured and the way we work.

12. While these structural changes are difficult to make, particularly for colleagues directly affected, these steps are necessary to secure Post Office services in communities across the UK while meeting the needs of all our customers and commercial partners. In common with Royal Mail, and as we continue to face structural challenges in our core markets as consumer trends continue to evolve, we have to be agile and adaptable in order to strengthen the performance which, in turn, enables the attainment of our public service goals.

A Delicate Eco-System: Public Purpose/Universal Services in a Competitive Context

13. Achieving public service obligations in the context of a changing, dynamic and competitive market is a perennial challenge. This can only be achieved with very fine judgments about the appropriate mix of competitive exposure/incentive and the costs of meeting public service obligations.

14. As noted above, while not directly tasked with fulfilling Royal Mail's Universal Service Obligations, Post Office does nonetheless contribute substantially to their realisation as part of a set of complex inter-dependencies. As such, the regulatory framework for Royal Mail generally, and its ability to sustain the USO in particular, has a direct impact on Post Office and its customers. Post Office provides universal geographical accessibility to Royal Mail's network and the provision of defined products. It also enables the necessary mails integrity standards to be maintained.

15. While supporting the close attention paid by Ofcom in ensuring that the market and its regulation are working optimally in the interests of all relevant parties, including competitors at one end of the spectrum and the beneficiaries of the USO at the other, Post Office considers that it is also critical that operators benefit from periods of stability in the regulatory framework to enable them to continue successfully to make efficiencies and adapt to prevailing market conditions.

16. We therefore support Ofcom's proposals that the current approach to regulatory balance should be extended, and welcome the period of stability and predictability that we believe this affords Post Office.

General and Specific Comments

17. General Comments:

- **Efficiency:** As outlined above, and as evidenced in our Report and Accounts for 2015/16, the Post Office has made significant progress in reducing its cost base whilst maintaining necessary accessibility and standards. We recognise that Royal Mail has made progress too. However, we would highlight the need to be mindful of the effect of regulatory pressure on Royal Mail to achieve further efficiencies because of the risk of potential unintended consequences should such actions have a knock-on effect on the commercial viability of the Post Office, or of individual Post Offices, thereby having an adverse effect on the USO infrastructure.
- **Certainty:** The Post Office, and individual Post Offices, benefit from certainty around the regulatory framework for the Postal Services market. Therefore we welcome the proposal to extend current arrangements.
- **Market Development:** The Post Office has a proximity to the customers that use its branches on a daily basis and seeks to respond to the needs and aspiration of those customers. Within the Postal market, this means working closely with Royal Mail (and Royal Mail having sufficient flexibility and capability within the regulatory framework) to respond to market changes. We therefore welcome a regulatory approach that allows Royal Mail to respond to market developments with pace (consistent with its USO obligations and the importance of it providing sufficient long term certainty to its partners in the USO eco-system as outlined above).

18. Specific comments on Ofcom's proposals:

- **Maintaining the current regulatory approach for a further five years:** We welcome the proposal to extend the current regulatory approach for five years as this provides some certainty at a critical time in the Post Office transformation to commercial sustainability
- **Mails Integrity Rules:** Mails integrity is taken very seriously at Post Office and we have an agreement with Royal Mail to comply with the Mails integrity Code of Practice through training and annual compliance testing. The code of practice works well, and we see no need for change, particularly as change could be a risk where decisions about where Mails Integrity should apply become grey, or open to discretion.

Conclusion

19. Ofcom's proposals in its Review of Regulation of Royal Mail seem proportionate and realistic on the basis that they are implemented in a manner which promotes stability and ongoing sustainability for organisations, such as the Post Office, who work closely with Royal Mail as integral parts of the ecosystem that maintains the USO and enables a vibrant, customer focused postal services market.