

Rural Services Network
Special Interest Group
Rural Assembly Sub SIG
Agenda

Monday 13 April 2015
12.45 - 3pm

City of Westminster Archives Centre
10 St. Ann's Street
London, SW1P 2DE

To: Members of the Sparse and RSN

Copy to: Nominated Officers of Member Authorities of the Rural Assembly and RSN SIG

Notification

The meeting of the **Rural Assembly Sub SIG** will be held on **Monday 13 April 2015** at 12.45pm at City of Westminster Archives Centre, 10 St. Ann's Street, London SW1P 2DE.

Refreshments will be provided.

Order of Business

The order of business and papers are attached.

Location

A map showing the location of the meeting is printed on the back cover.

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Agenda

RURAL Assembly Sub SIG

Monday 13 April 2015

12.45 – 3.00pm

City of Westminster Archives Centre, 10 St Ann's Street, London SW1P 2DE

Please note this meeting cannot be held at the LGA due to building works. St Ann's Street is at the Westminster end of Victoria Street and close to the St James Street Underground Station). A location map is attached.

	Item	Page
1.	Apologies for absence	
2.	Minutes of the last Rural Assembly meeting – 17 November 2014 (Attachment 1)	1
3.	Minutes of the last Executive meeting – 19 January (Attachment 2)	9
4.	New Vice Chairman for the ensuing year To report that Cornwall Council have appointed Councillor Adam Paynter to be their representative in place of Councillor Alex Folkes. It is proposed that Councillor Paynter becomes the Vice Chair representing the South and South West Region.	
5.	RSN Executive It is proposed that Janice Banks the Chief Executive of Acre joins the Executive. Graham Biggs to report.	
6.	Constitution A revised Constitution reflecting the Group's change in structure was sought to be adopted at the Annual General Meeting. This revised constitution was put out to postal ballot. For adoption a revised constitution requires a two thirds majority from councils voting. The revised document received such backing (36 votes to 2). It will therefore be formally adopted by the AGM in November.	
7.	Budget 2014/15 and 2015/16 Budget report for 2014-15 and 2015/16 (Attachment 3)	15
8.	Election Manifesto To consider the Manifestos of the main Parliamentary Parties and how they reflect aspirations detailed in the RSN manifesto.	
9.	Business, Innovation and Skills Committee, Ninth Report, Competition in the postal Service sector and the Universal Service Obligation (Attachments 4 & 5) Graham Biggs to report	23

<p>10.</p>	<p>Rural Unitary Group Presentation on a current work topic.</p>	
<p>11.</p>	<p>Transformation Challenge</p> <ul style="list-style-type: none"> • Update Report on Transformation Challenge and Best Practice (<u>Report attached</u>) • Sharing Best practice and experiences <ul style="list-style-type: none"> ○ Councillor Cecilia Motley - Shropshire ○ Councillor Derrick Haley - Suffolk 	<p>81</p>
<p>12.</p>	<p>Rural Services Network Events</p> <p>a). The Rural Conference 8 and 9 September The LGA have declined to be involved this year because last year they did not make their required level of profit from the event. The Executive have agreed we will continue the event on our own.</p> <p>The conference will this year be at South Gloucestershire University on the Park Campus at Cheltenham. We will widen out the event from last year with two pre conference seminars on English Devolution and Fairer Funding on the afternoon of the 8 of September and the main conference now with a slightly cheaper fee all day on the 9 of September.</p> <p>b) The Rural Health Conference 11 June Health and Wellbeing Innovation Centre, Treliske, Truro</p> <p>The third national Rural Health Network Conference has been announced. "Challenging Times - A New Dimension?" follows on from two previous successful and very well received RHN conferences in 2012 and 2013. The event will convene at the state of the art Health and Wellbeing Innovation Centre in Truro, Cornwall on 11 June 2015. The conference speakers include national commentators and leading health professionals presenting on the current issues and challenges in relation to rural health.</p> <p>Duncan Selbie, CEO of Public Health England is the keynote speaker addressing the particular challenges of effective public health promotion to rural populations. Other presentations include Transforming End of Life Care in Rural Communities; Technology enabled Care Services - 6 months on (following the recent publication of the NHS England toolkit for Commissioners); a case study in excellent integrated Housing, Health and Social Care; and the innovative work of the Cumbria Rural Health Forum. Lord Cameron of Dillington will be talking about his rural proofing review and the implications for a new government to be elected in May. A series of interactive workshops will also be staged to show case excellent practice in various rural health related fields.</p> <p>Sarah Wollaston MP, Chair of the Health Select Committee to May 2015 has been invited to chair our conference. Sarah's immense experience both as a former GP and through her Committee's examination of the critical issues facing the NHS, will provide delegates with an unequalled insight in to the current</p>	<p>83</p>

	<p>challenges across the sector.</p> <p>Link to programme and booking details: http://www.rsnonline.org.uk/rural-health-conference-2015/rural-health-conference-2015</p> <p>Places are limited to 100 and early booking is advised. The delegate fee is £125 plus VAT to include lunch and refreshments. This fee will also provide a year's membership to the Rural Health Network which facilitates the sharing of best practice. Booking enquiries should be addressed to the Rural Services Network on 01822 813693 or email: events@sparse.gov.uk</p> <p>c) 2015-16 Rural Services Network Seminar Programme Graham Biggs to report.</p> <p>d) Rural Housing Conference Andy Dean to report.</p> <p>13. Rural Sounding Board To receive the results of the recent Principal Council and Parish Council Sounding Boards on the Accessibility of Services in relation to Older People in Rural Areas. (Report attached)</p> <p>14. Rural England Group Andy Dean to report on the progress with this group looking to reintroduce independent rural research and monitoring.</p> <p>15. Housing in Rural Areas. Martin Collett, English Rural Housing Association on behalf of the Rural Housing Alliance</p> <p>16. Report on the RSP Service Groups</p> <ul style="list-style-type: none"> (a) Housing (b) Health (c) Crime (d) Fire (e) Transport <p>17. Any Other Business</p>	
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Attachment 1**Note of decisions taken and actions required**

Title:	Rural Services Network SIG Rural Assembly AGM
Date and time:	1.00pm, 17 November 2014
Venue:	Westminster Suite, Local Government House

Attendance:

Cllr Cecilia Motley (Shropshire Council); Cllr Cameron Clark (Sevenoaks DC); Cllr Hilary Carrick (Cumbria CC); Cllr Myles Cullen (Chichester DC); Cllr Gordon Nicolson (Eden DC); Cllr Owen Bierley (West Lindsey DC); Cllr Lewis Strange (Lincolnshire CC); Revd Richard Kirlew (Church in Wales); Cllr Malcolm Leeding (Oxfordshire Association of Local Councils); Cllr Peter Stevens (St Edmundsbury BC); Cllr Lindsey Cawrey (North Kesteven); Cllr Madge Shingleton (Shropshire Council); Cllr Robert Heseltine (North Yorkshire CC); Cllr Rupert Riechhold (ENC); Cllr Roger Begy (Rutland CC); Cllr David Ireton (Craven DC) - standing in for Cllr Richard Foster; Cllr Les Kew (Bath and NE Somerset); Cllr Robert Whiting (Suffolk CC); Cllr Jeremy Savage (South Norfolk DC); Cllr John Savage (Wycombe DC); Cllr Jane March (Tunbridge Wells BC); Cllr Mrs Jane March (Tunbridge Wells BC); Cllr Ken Pollock (Worcestershire CC); Cllr Neil Butters (Bath and NE Somerset); Keri Lawrence (Tendring DC); Elizabeth Ridout (Tendring DC); Suzanne Clear (National Union of Farmers); Councillor John Clarke (Gedling); David Wakelin (Gedling); Cllr Rosemary Doyle (Canterbury)

Officers: David Inman (RSN); Graham Biggs (RSN); Dan Bates (RSN); Kerry Booth (RSN); Brian Wilson (RSN) and Andy Dean (RSN)

Apologies for absence:

Adam Norburn (Rugby Borough Council); Cllr Rupert Riechhold (ENC); John Birtwistle (UK Bus); Patrick Begg (National Trust); Cllr Eddie Tomlinson (Durham Council); William Jacobs (South Oxfordshire DC & Vale of White Horse); Cllr Jane Evison (East Riding of Yorkshire Council); Cllr Philip Sanders (West Devon BC); Cllr Chris Knowles-Fitton (Craven DC); Ian Miller (Wyre Forest DC); Alison Turner (Sedgemoor DC); Cllr Barry Rickman (New Forest District Council); Cllr Ken Potter (East Devon District Council); Richard Kemp (Suffolk Council); Cllr Jeremy Savage (South Norfolk District Council); Cllr Yvonne Bendle (South Norfolk District Council); Cllr Raymond Singleton-McGuire (Boston Borough Council); Cllr Mary Robinson (Eden District Council); Cllr Nigel Ashton (North Somerset Council).

Decisions and actions**1. Apologies for absence**

Cllr Motley welcomed all to the Rural Services Network SIG Rural Assembly meeting.

Apologies were noted and would appear in the minutes.



2. Minutes of the last full meeting – 14th July 2014

The minutes the last full meeting were agreed.

3. Minutes of the last Executive Meeting – 15th September 2014

Graham Biggs announced that the Rural Conference in September had received good feedback and made a small profit. The network would be looking to repeat it next year.

He said that the Executive had recommended that meetings concluded earlier to ensure members were given sufficient time to get trains going back.

He reported that the planned meeting between Rural Fair Shares Group MPs and Eric Pickles MP would now take place with Kris Hopkins MP as the recently appointed Parliamentary Under Secretary of State for Communities and Local Government.

The minutes of the last Executive Meeting were agreed.

4. Membership (Constitutional Requirement)

David Inman announced that the total representatives on RSN from local authorities was now up to 148 and he would like to increase this still further over the coming year.

5. Constitution

Graham Biggs highlighted paragraph 8.3 of the constitution that the provisions relating to position of the Chairman of the RSN and the Rural Assembly Sub Group be applicable from the 2014 AGM. He suggested that the date was changed to 2015 to ensure structural consistency in the run-up to the general election and this was agreed by members.

On paragraph 8.6, members highlighted that a word was missing.

On paragraph 1.2, members suggested that the phrase “shall be eligible” be changed to “shall be open” to emphasise the group’s inclusivity.

Graham thanked members and said that these comments would be picked up in the redrafted constitution to be sent out.

David pointed out the requirements in current and proposed new constitution regarding the giving of notice by authorities who might wish to leave. The group could not operate viably without these clauses which were common to many LGA groups.



6. Budget Report 2014/15 and 2015/16

On the Budget, Graham said the bottom line in both years was that it was envisaged a surplus would be carried forward. However, this was dependent on receiving those subscriptions which had not yet been paid. He commended the report to members, but said he would provide an update to the Executive once there was certainty regarding this year's subscriptions.

The Budget was agreed with authority given to the Executive to amend both the revised 2014/15 and budget 2015/16 as necessary.

7. RSN Services and Schedule of Meetings for 2015 (Constitutional Requirement)

Graham said that there had been no increase in the RSN's service charge in 5 successive years. It was therefore proposed to increase this for SPARSE-Rural members by £50 so as to fund an ongoing small fighting fund for key financial causes. He asked members to let their treasuries know.

The schedule of meetings for the forthcoming year were formally agreed. A proposal to move the time from 11.30am to 11.15am to give members from more remote areas more time to get return trains was **agreed**.

On the day of the week meetings were held, while it was agreed that Monday was not always ideal for all members, it was seen to be a more convenient day than mid-week. Members recognised that no single day of the week would be convenient for all.

Action

Future meetings to be timetabled for 11.15am.

8. Rural Manifesto

Graham Biggs introduced this item. He asked members to consider and approve the final draft of the manifesto, following the membership survey, information gathering and consultation exercises.

Cllr Motley asked members to feed in their comments section by section.

On **the planning system**, members commented that page 10 should include something on replacing housing stock through right to buy via the call for action.

On page 9, it was suggested that the point on exempting small sites with fewer than 10 homes be emphasised more strongly. Graham agreed to amend this, but said that this point had already been strongly emphasised to the minister on this issue.

On the bedroom tax, some members commented on its inflexibility. They argued for an easing of some of the terms, including the need for rooms big enough to allow twin beds where these were required for health reasons.



On **public transport**, members asked if more could be done to ease the tax burden on volunteers giving lifts to older residents.

Some members raised the issue of consistency of transport services where providers were operating across multiple authorities. It was highlighted that there were means for authorities to ensure this under existing legislation, including the ability to specify minimum standards of service and a select list of contractors.

On **Health and Older people**, Members discussed the difficulty of recruiting GPs and medical staff into rural areas.

In order to be able to plan for the longer term, Members advocated seeking a clear commitment from Government that the Better Care Fund would be in place for three to five years as oppose to the current year.

On **fuel poverty**, David Inman drew members' attention to [research](#) into fuel poverty in rural and off gas households conducted by Calor and National Energy Action.

Members suggested that key items of the manifesto be put to the People and Places lead members.

Decision

Members **approved** the manifesto subject to it taking into account the comments and points raised in the meeting.

Action

Officers to incorporate members' comments in re-draft of the Rural Manifesto .
Graham Biggs

Manifesto to be shared with People and Places colleagues. **Graham Biggs / Stephen Service**

9. Rural Sounding Board

Kerry Booth presented this item.

Graham Biggs proposed that a Sounding Board exercise be conducted at the run up to each of the three main RSN meetings and thus become a regular feature of each meeting. This was agreed by members.

On the Sounding Board mailing list, Kerry said that the intention was to now make the list "opt out" rather than "opt in" for those authorities who have not yet signed up. This was also agreed by the meeting.

Action

Sounding Board exercise be conducted at the start of each of the three main RSN meetings. **David Inman / Kerry Booth**



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All authorities in membership to be on the Principal Council panel. **David Inman.**



Presentation to be circulated to members following meeting. **Stephen Service**

10. Presentation - Rural Transport Briefing (Defra)

Andrew McWhir, from the Rural Communities Policy Unit at Defra updated members on Defra's current work on rural transport. This included Defra's working group on rural transport for young people and the rural transport reference group. Recently funded projects have included "Wheels to work", a scheme that offers transport solutions to get **people** to work, training, or college where public transport isn't available and a new initiative to help rural communities with the provision of mini buses. The groups are also looking at joint commissioning to deliver on rural transport by sharing good practice and considering existing models.

The following issues were raised in the member discussion that followed:

Members asked how RSN could work closer together with Defra. Andrew said that it was about keeping the dialogue open and committing to new ways of working together.

The high levels of risk assessment required for every person carried by a volunteer driver was considered overly bureaucratic by some members. Andrew responded that while burdens were there for a reason, Defra need to have a hard look to ensure that the burdens currently placed on drivers are appropriate.

On health delivery, members felt the NHS could do more to break with its silo mentality and work with partners. Andrew agreed, saying that there were huge opportunities for efficiency savings.

Cllr Motley thanked Andrew for attending and urged Defra to make use of the RSN's large membership to disseminate key messages.

11. Update on the APPG on Rural services

Cllr Motley welcomed Graham Stuart MP, Chair of the APPG on Rural Services to report on the latest work of this group.

Graham identified a number of key issues currently being investigated by the group, including how the phasing out the minimum income practice guarantee would affect GPs in rural areas, community payback schemes for areas affected by fracking, and the disproportionate impact of cuts on rural services.

Members asked about the current membership of the group. Graham said that there were currently fewer members than he would like but that it was continuing to press for change. He urged members to lobby their local MP and ask them to attend. Graham also said that groups of constituents could be a



Association

powerful voice if members were able to get people together around rural causes.



David Inman commented that the APPG would need to be reconstituted in the new parliament, so lobbying local MPs at this point would be particularly timely.

On devolution to cities, Graham said that rural areas need to get involved in the issue as otherwise the vacuum would be filled by those who might not have the best interests of rural communities at heart.

Members raised the issue of land-grabbing by authorities like Hull and asked if local authorities would be able to use their council tax to build on greenbelt land. Graham responded that in Hull's case a referendum was carried out independently of the council which showed 96 percent were against it. This had succeeded in preventing the proposal from being implemented. He advocated this early intervention approach in other areas where similar moves were being considered.

Members asked about Solar farms in areas of outstanding natural beauty. Graham stressed that this should be a local decision and presented a challenge in balancing potentially conflicting sets of interests.

Graham Biggs said that the RSN would send Graham Stuart the Rural Manifesto once finalised to increase awareness of its "asks" among MPs.

Action

Officers to send Graham the Rural Manifesto once finalised.

Graham Biggs / Stephen Service

12. Community Issue

Richard Kirlaw of the Church of Wales gave a presentation on the role of local rural advisers and rural officers in farming communities.

13. UK Policy and Practitioners report

Brian Wilson said that there was not much more to report on the group at this stage. It was therefore agreed that the update be postponed until the next meeting which was due in December.

14. Website update

Johann Tasker updated members, which included news that the website had received a 19 percent increase in web traffic and that RSN was looking to work more closely with regional partnerships, including Calor.

15. Report on the RSP Service Groups

David Inman asked if members had any comments on the Service Group themes.



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Members asked about the absence of planning as a theme. David said that the services included tended to be those where a definite output could be stipulated, whereas planning was seen as part of local authorities' regulatory service. However, he agreed to ask Trevor Cherret how the group might look at planning as a service group issue and whether it might be possible to have a representative from the Rural Town Planning Institute involved.

Members asked how high a priority rural crime was on the agenda in light of diminished resources. Graham Biggs said that a rural crime network had just been established, with each member giving £2K for the next 2 years. The intention is to pass any issues emerging from RSN onto this group.

Action

Officers to investigate with Trevor Cherret how planning might be more systematically incorporated as part of service group work and whether it might be possible to have a representative from the Rural Town Planning Institute involved. **David Inman**

16. Community Group

No representations from Community Groups were received.

Other business

No other business was raised.

Cllr Motley thanked all for attending and closed the meeting.

NEXT MEETING 13TH APRIL 2014

Minutes of the Meeting of the RSN Executive held on Monday 19 January 2015 at the LGA London

Present – Cecilia Motley, (Chair), Robert Heseltine, Roger Begy, Hilary Carrick, Derrick Hayley, Gordon Nicolson, Peter Stevens, Stewart Horne (BIP), John Birtwistle (Transport), Graham Biggs (RSN), David Inman (RSN), Kerry Booth (RSN), Andy Dean (RSN).

Apologies – Cllr Lewis Strange, Cllr Peter Thornton, Barbara Shaw (Community),

The Chair, Cecilia Motley, welcomed those present and formally opened the meeting. Barbara Shaw, who had a spell of ill health, had written to say she would have to step down. Her replacement would be appointed by the CAB. Members asked we write to Barbara, wishing her well and thanking her for all her input over the years.

1. Minutes of the Executive Meeting held on 15 September 2014.
Agreed as a correct record.
2. Minutes of the Main Meeting held on 17 November 2014.
Agreed as a correct record.

Arising:

- (1) The Group would assist with the challenge on the Section 106 Agreement position established by DCLG (Brandon Lewis) in respect of the local affordable housing requirements in rural areas.
- (2) Discussion would be sought with TCPI over:-
 - (a) Agricultural barn conversions' policy.
 - (b) How RSN might get involved in more planning matters generally.

3. Budget 2014/2015 – 2015/2016

Graham Biggs reflected the position to the end of December. There were a small number of subs still outstanding but there was a small surplus anticipated and the bottom line was still positive for both years.

4. Report about the Development of the Rural England Group.

David Inman detailed the position about this separate research group. Membership of the Steering Group was increasing and officers had held discussions with the Prince's Countryside Fund, CCRI and others. These had been encouraging. John Craven was also in support as were Exeter and Gloucestershire Universities.

The support of 250 firms at £500 a year would be sought through 5 tranches of approval.

Infrastructure providers would be approached first of all.

5. Rural Fair Shares Campaign.

Graham Biggs reported

Provisional Settlement.

- A** A £4m increase (to £15.5 million) in RSDG over the existing 94 Authorities was proposed. However, even with this, the gap between urban and rural in grant terms remained practically unaltered. We were asking for an increase in RSDG to £30 million over a wider field of Authorities.
- B** The DCLG/DEFRA research study had, as expected, been supportive in some areas but found lack of evidence in others. The Executive felt an increase in RSDG of £4 million was totally inadequate recognition for the findings to date. Discussions had taken place with the Minister (Kris Hopkins) and he had indicated the research would continue.
- C** Campaign this year. It was a difficult year as MPs could not be as forceful as the Election approached. We would target Manifestos and try to be as active as was possible. There was fresh work to be done as new MPs arrived in Parliament. The call would be as per the manifesto, for the amounts set out in the 2012 Consultation to be implemented through annual increases to 2020 (perhaps in the region of c30m per year), by changes to the formulae or by extending the Rural Services Delivery Grant.

6. Combining Administration of Authorities – should this impact on subscription fee scale.

There was a detailed discussion on this – clearly Authorities had to cut costs and might expect some reduction in subscriptions as they worked together in shared services arrangements. These might be closer and closer towards 2020 when there was talk of some total coming together taking place. On the other hand, if RSN was to remain to be of continued value to Authorities it needed to, at the very least, retain its current level of annual overall income (£300,000). Joint working was also being undertaken in different ways in different areas so 'setting a benchmark for this could be difficult.

It was decided that whilst there was insufficient flexibility for current subscriptions to change over the next year or two, during that time the Executive should be considering the options (including moving to a population basis for subscription levels) for achieving the same level of income from

changing administrations as legal entities also got closer and closer to changing.

7. Unitary Group Meeting Issues.

Some difficulties had been encountered by this Group reporting back to Sparse Rural. It was decided that normally reports back would be to the Rural Assembly meeting, unless the reports were from a financial base, when they would go to the Sparse Rural meeting in the morning.

8. Going Forward for the RSN – Recruitment Report.

David Inman presented this report. Members however, had some concerns about the three section RSN approach suggested and asked for a reworking of the report. If the new proposals were acceptable to members of the Executive, delegated authority was given through the Chair for the amended report to be implemented allowing a recruitment drive to proceed without delay. (n.b..Revised arrangements subsequently agreed)

9. Report from RSN Groupings:

(1) Housing

Work, in partnership, with the Rural Housing Alliance was proceeding very well. It was now intended to widen out this work to involve Local Authority Housing Officers. (Andy Dean).

(2) Transport

Exploratory discussions were taking place with a number of possible partner organisations. These possibilities looked quite promising (Andy Dean and John Birtwistle).

(3) Health

A third Rural Health Network Conference was planned for Truro in June. However staffing changes at NHS England including the loss of a post of clinical lead for Remote and Rural Services from April would create difficulty.

Graham was having a meeting about a possible CCG and Public Health Grouping. Things were getting difficult in terms of the representation of rural health with the Institute of Rural Health now closing.

(4) Crime

A strong Rural Police Commissioner Group (NRCN) had been established with the assistance of a 2 year Home Office Grant. The Group was led by the North Yorkshire Commissioner and involved 28 Commissioners in total. The Group was now ambitiously viewing significant work and the establishment of a website. (Nick Payne)

(5) Fire and Rescue Services

There was a grouping currently of 12 Fire and Rescue Services which would now seek to meet twice yearly. Its long term viability for 2 meetings a year would need to see an enlargement to some 20 members (a fee scale had been agreed). Representations would be made to the current Provisional Settlement and ongoing financial monitoring was possible. However for research work of its own to take place in relation to Fire, extra levies would be necessary.

(6) Rural Unitary Group

Strong officer working was taking place as topics dictated. There was a need for a further member meeting. (David Inman/Graham Biggs)

10. The Threat to ACRE.

The Executive discussed the funding threat to ACRE. The storm clouds gathering over the few rural organisations remaining were of great concern. Officers were asked to offer anything that might be considered of value to the organisation and the Community Council network.

(n.b. Acre subsequently awarded the funding for 15/16)

11. Launch of the Manifesto

The details of the Manifesto launch were given. The coverage in the Sunday Observer and the Yorkshire Post had been really encouraging.

12. Rural Conference 2015 and Seminar Programme for that year.

Although the 2014 conference had broken even because the LGA had not achieved the level of profit they normally sought, the LGA had decided not to be involved in 2015. If a conference was to be held it would have to be staged solely by RSN. The People and Places Board were prepared to provide speakers but did not want any joint event. It was decided to proceed with a Conference. Investigations would be made to see whether one at Cheltenham in September was a viable possibility.

It was also decided that the seminar programme would comprise 4 free seminars on mainstream issues.

(n.b Subsequently decided to try for the Conference to be held in Cheltenham on Wednesday the ninth of September)

13. Any Other Business

DEFRA/DCLG Rural Classifications.

David Inman detailed the new classification adopted by DEFRA/DCLG. They were not perhaps quite as supportive of the RSN case and had been rushed out without any consultation following a Working Group.

The Executive asked that the matter be taken up urgently with DEFRA who be requested to reconsider the position.

Kerry Booth reported that the next Sounding Board survey would be going out in the next few weeks and would be focusing on services for Older People.

Kerry has also been approached by DEFRA inviting RSN to be part of the Programme Monitoring Committee for the 2014-2020 Rural Development Programme for England. This is the programme through which extremely large amount of money flow from the EU to rural areas. The RSN has asked for more information and is likely to appoint a representative to sit on this committee.

RSN (INCOME & EXPENDITURE) REVISED BUDGET 2014/15 WITH										
ACTUAL 2013/14 AND ACTUAL TO END FEBRUARY 2015 AND ESTIMATE 2015/16.										
2014/15 AND 2015/16 NO PROVISION MADE FOR INFLATION										
						2013/14	ESTIMATE	ACTUAL	REVISED	ESTIMATE
						ACTUAL	2014/15	TO END	2014/15	2015/16
						TO END		FEBRUARY	AT DEC 2014	
						FIN YEAR				
INCOME						£	£	£	£	£
Balances at Bank B/Fwd net of o/s cheques						17592	13170		13170	16228
DEBTORS FROM 2013/14 NET OF VAT)										
Seminar Fees							340	265	265	
Housing Conference							315	315	315	
Infrastructure Group							1050	1050	1050	
Rural Health Network							225	225	225	
Housing Group							250	250	250	
Coastal Communities Alliance (Gross)								1037	1037	
Subscriptions										
SPARSE Rural						231675	227200	237075	242325	242025
SPARSE Fighting Fund Levy										6200
SPARSE Rural held by NKDC at Year End re 13/14						17549	7770	5970	5970	
SPARSE Rural held by NKDC at Month end						7770		2775		
RSP						15895	15600	17230	19012	18220
Commercial Partner First Group Buses						10000	10000	10000	10000	10000
Calor support for RuralEngland (inc Vulnerability Service)						6000	10000	11000	11000	11000
Subscriptions from Rural Health group (Inc Conf Fees)						6800	6800	3100	3100	6800
Income from Rural Housing Group						1520	2020	900	900	2500
Income from Infrastructure Group						2450	3500		3500	3500

						2013/14	ESTIMATE	ACTUAL	REVISED	ESTIMATE
						ACTUAL	2014/15	TO END	2014/15	2015/16
						TO END		FEBRUARY	AT DEC 2014	
						FIN YEAR				
						£	£	£	£	£
OTHER INCOME										
Refund of Travel/Subsistence@						402		666	787	
Refund of fees paid to "consultants"@								5842		
Contra re phones @								100	100	
B Wilson re CCRI/Rose/RSN Project						440				
Grant from Business Rates Campaign						32132		250	250	
B Rates Camp Grant held by NKDC month end						500				
Grant from BR Camp held by NKDC at year end						900	500	500	500	
Grant from B Rates Camp - Contrib to core costs						8368				
Contributions to costs of Parish Guide to Affordable Housing								11250	11250	
Coastal Communities Alliance Gross)						4149	4149	3113	4149	4149
Call for Evidence						2000				
Seminar Fees						1445	7000	1530	2118	
Rural Housing Conference Fees						2745				
Recharges ro Rural Crime Network									24923	19500
ADDITIONAL INCOME TARGETS SET RE NETWORKING ACTIVITY										
RSP ETC(DI) TARGET EXCEEDED BY £6985 31/8/14)							7000		0	0
RURAL CRIME NETWORK (NP) TARGET EXCEEDED BY £11500 31/8/14							5000		0	0
RURAL HEALTH NETWORK							4225		0	5825
RURAL HOUSING GROUP							1750	495	660	1500
CALLS FOR EVIDENCE/RURAL PANEL SURVEYS							1500		0	1500
Rural Conference Recharges@								2844	2844	
VAT										
VAT Refund						16302		12491		
VAT Received						11548		12944		
TOTAL INCOME						398182	329364	343217	359700	348947

						2013/14	ESTIMATE	ACTUAL	REVISED	ESTIMATE
						ACTUAL	2014/15	TO END	2014/15	2015/16
						TO END		FEBRUARY	AT DEC 2014	
						FIN YEAR				
						£		£	£	£
EXPENDITURE										
VAT Paid on Goods & Services						25401		22158		
CONTRACTS FOR SERVICES ACTIVITY BREAKDOWN (EST)										
Corporate Management				DI,GCB & AD4 100%. KB 40%		56781		53656	58300	63406
Finance/Performance and Data Analysis				DB, DP, DW,KS 100%, KB 20%		49150		38996	43000	45000
Communications (incl Seminars)				Rose Regen,JT, AD1 100%		12000		8833	12000	12000
Administrative and Technical Support				RI, WI,WC,BA,MB 100%		40855		37230	42875	47000
Research and Monitoring				BW, JH, 100%		19250		18833	19250	19250
Service Group Networking				KB40%		12400		11367	12400	8400
Economic Development Service										5000
Coastal Communities Contract						3525		3650	3650	3650
Rural Health Network				NP 50%		10000		9166	10000	10000
Rural Crime Network				NP 50%		10000		9167	10000	10000
Rural Communities Housing Group				AD2 100%		6500		5958	6500	6500
Rural England/Vulnerability Service				AD3 100%+ JT £6000		7500		7375	7500	7500
Chief Officer (GB)						18333				
Corporate Director (DI)						23006				
Performance Director (Contract) (DB)						19623				
Performance Director ("Call Off") (DB)						840				
D Plaice (DP)						2550				
D Worth (DW)						15054				
J Hart (JH)						3000				
N. Payne (NP)						20000				
K Staunton - LG Finance Analysis (KS)						1400				
L Payne						21				

						2013/14	ESTIMATE	ACTUAL	REVISED	ESTIMATE
						ACTUAL	2014/15	TO END	2014/15	2015/16
						TO END		FEBRUARY	AT DEC 2014	
						FIN YEAR				
						£	£	£	£	£
A Dean, £2000 Opportunities etc AD1)						2000				
A Dean £6500 Housing (AD2)						6500				
A Dean AD3 (14/15 Rural Eng)						3667				
D Large						167				
K Booth (KB)						31000				
Admin. Support (54%)						22220				
Admin Support for Community Group						18465				
J. Tasker, Communications JT)						2000				
B. Wilson, Research & Communications (BW)						14250				
OTHER EXPENDITURE										
Further Expenditure from Calor CIC Support									5000	5000
Rural Crime Network						694		8125	8725	5000
Corporation Tax						999		259	259	300
Rose Regeneration						14000				
Rose Regen re Rural Conference@								2111	2111	
RSN Online						24200	24200	21780	24200	24200
J Tasker re Coastal Communities						3525				
J Tasker re Rural Vulnerability Service						6000				
Travel and Subsistence						24395	24500	19222	22000	22000
Print, Stat,e mail, phone & Broadband						4448	4500	4693	5200	4500
Meeting Room Hire						2214	1700	627	627	1700
Website and Data Base software etc						3111	3250	2976	3144	3250

						2013/14	ESTIMATE	ACTUAL	REVISED	ESTIMATE
						ACTUAL	2014/15	TO END	2014/15	2015/16
						TO END		FEBRUARY	AT DEC 2014	
						FIN YEAR				
						£		£	£	£
Rent of Devon Office						4959	4960	4546	4960	4960
Addit Costs re Devon Office (50% in 15/16)										840
Accountancy Fees						615	625	576	625	625
Companies House Fees						13	13	13	13	13
Bank Charges						86	89	93	100	100
Membership of Rural Coalition						200	200		200	200
Seminar Costs						1004	2500	1371	1500	1500
APPG Costs						2513	2100	205	500	1000
Conference/Seminar Fees								174	174	
IT Equipment &Support						1545	4000	1975	2500	4000
Insurance						383	400	396	396	400
Rural Health Network & Conference						817	1000	236	236	1000
Rural Housing National Conference						1663				
Phd in Rural Crime Contribution						1000	1000	1000	1000	1000
Fighting Fund						27631		974	974	6200
Rural England Service						2131	2100	2266	2266	
Refunds of Overpayments@						2000		5877	35	
Set up of CIC for Rural England Panel							1000	450	450	
Rural Housing Group								787	787	800

						2013/14 ACTUAL TO END FIN YEAR	ESTIMATE 2014/15	ACTUAL TO END FEBRUARY	REVISED 2014/15 AT DEC 2014	ESTIMATE 2015/16
Costs re Parish Guide to Affordable Housing								10312	11250	
ARREARS - PREVIOUS FINANCIAL YEAR								£	£	£
Business Rates Campaign arrears						700	5173	5173	5173	
Contract for Service							485	485	485	485
Seminar Costs							92	92	92	
J Tasker Communications Arrears						500	0			
B Wilson Arrears						4750	4750	4750	4750	4750
RSN Online arrears						7260	4840	4840	4840	4840
Travel and Subsistence arrears						2465	811	812	812	800
Printing and Stationery (arrears)						519	663	663	663	650
Data base etc (arrears)						906	526	526	526	526
Rural Crime Network							304	304	304	
Housing Conference - Venue Hire							1120	1120	1120	
TOTAL EXPENDITURE						376743	324862	336198	343472	338345
BALANCE CARRIED FORWARD						21439	4502		16228	10602
Balance at Bank 31/03/14						13276				
Held by NKDC						8270				
Less Unpresented Cheque						-107				
						21439				



House of Commons

Business, Innovation and Skills
Committee

Competition in the postal services sector and the Universal Service Obligation

Ninth Report of Session 2014–15

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**Competition in the
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*Report, together with formal minutes relating
to the report*

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Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

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The current staff of the Committee are James Davies (Clerk), Jessica Montgomery (Second Clerk), Peter Stam (Committee Specialist), Josephine Willows (Committee Specialist), Sonia Draper (Senior Committee Assistant), and Pam Morris (Committee Assistant).

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Summary

The Universal Service is a postal service available to everyone living in every part of the United Kingdom, delivered at the same cost and with the same standard. It comprises of at least one delivery of letters every Monday to Saturday, at least one collection of letters every Monday to Saturday, at least one collection of other postal packages every Monday to Friday, and a service of delivering postal packets and registered items from one address to another, by affordable and geographically-uniform prices throughout the United Kingdom. It is an essential service to many people and the majority of our evidence highlighted the benefits of this service to people living in rural areas, to those less able to travel, to older people, and also to blind and partially-sighted people, who benefit from a free postal service.

Our inquiry concentrated on the concern expressed by many, including the current Universal Service Provider, Royal Mail, that the Universal Service is under direct and immediate threat. Given the fundamental importance of the Universal Service, we were surprised that Royal Mail could not provide a regional breakdown of the cost of the Universal Service, and that Royal Mail and Ofcom—the postal services regulatory—could not agree on what constitutes the cost, revenues and profits of the Universal Service. We recommend that both Ofcom and Royal Mail should agree on an accurate costing of the Universal Service, and that Royal Mail provides a geographical analysis of where the Universal Service is profitable, and where it is not. The Secretary of State should direct Ofcom to review the net cost of the Universal Service, in accordance with the Postal Services Act 2011.

We do not believe that the Universal Service is under immediate threat, but we recognise that market conditions are changing rapidly. Ofcom has the regulatory power to place conditions on other postal operators in order to protect the Universal Service. These are the General Universal Service Obligation, which takes six to nine months to implement, and the Universal Service Compensation Fund, which involves a much longer process. We recommend that Ofcom should have in place both a timeline for implementation of obligations that they can place on postal operators at short notice, and an assessment that that timescale is fast enough to avoid a failure in the Universal Service, even in the short term.

While we accept that Royal Mail has done much to improve efficiency, it still has to match the technical innovations introduced by many of its competitors—innovations that more clearly match the expectations of consumers, as well as contributing to the efficiency of competing postal operators. However, while such improvements may increase costs, Royal Mail should not increase postal and package prices simply in an attempt either to increase its own profit levels or to protect the Universal Service Obligation, without increasing the efficiency of its operations.

Royal Mail's competitors either deliver post end-to-end, without any assistance from Royal Mail, or they pay Royal Mail to deliver their post the final distance—what is known as 'the Final Mile'. Royal Mail offers two types of pricing plan for its competitors: either national average prices (when competitors never deliver end-to-end) or zonal prices (when

competitors ask Royal Mail to deliver in certain geographical zones only). We support Ofcom's consultation on the level of zonal pricing to be set by Royal Mail, and any recommendations arising from that consultation must balance the need for Royal Mail to retain the freedom to set its own prices, dependent on the cost of delivering in that area, with the benefits of retaining an open market and increasing competition. Royal Mail is free to set zonal pricing, but it should be based on actual costs of delivering to those zones, and not as a device to deter, or even stifle, competition.

It is unacceptable that the delivery of the Universal Service should require downward pressure on the terms and conditions of staff delivering that service. We are opposed to a 'race to the bottom' of postal sector employees' wages, terms and conditions, and such a race should not be an inevitable result of greater competition in the postal sector. If standards of pay in the postal sector, as in other sectors, decline, then the taxpayer is left to make up the difference. We recommend that Ofcom investigates the impact on customers, and the service provided to customers of any downward pressure on wages, terms and conditions of postal sector staff. We also recommend that Ofcom's remit should be extended to include labour conditions and standards.

We recognise that Ofcom has a difficult role in ensuring that the provision of a Universal Service is both financially sustainable and efficient. The sector is changing quickly, and Royal Mail has now moved from the public to the private sector. Ofcom's overriding obligation is to ensure the protection of the Universal Service Obligation but, if necessary, there should be changes in the regulatory framework to enable it to do so. Ofcom should provide our successor Committee with quarterly updates on the state of the Universal Service, and must be able to respond quickly if the Universal Service is under threat.

The postal sector is working within a constantly changing market, with declining volumes of letters, and a sharp increase in parcel volume arising from the rapid growth of internet shopping. There is a fine balancing act to be set between ensuring that the minimum standards of the Universal Service are maintained while encouraging a competitive market in the postal sector. While we would not want to stifle competition, we are adamant that the principle of the Universal Service should be upheld. We are not persuaded that the Universal Service is a burden for Royal Mail, but is rather an obligation that brings revenue and status to the organisation.

Glossary

Access competition: The collection, sorting and transporting of letters around the UK carried out by providers other than Royal Mail, on behalf of a company. Those providers then pass the letters onto Royal Mail, and pay them to deliver to customers' addresses. Also known as 'final mile delivery'.

Bulk mail: Business mail services, which are not subject to regulatory requirements.

Designated Universal Service Provider (DUSP): A status subject to conditions, such as satisfying the Universal Service Obligation, meeting performance targets of each of the specified services, and publishing certain information, including delivery and collection times, and performance data. The current DUSP is the Royal Mail.

Direct Delivery: When postal operators other than the DUSP (Royal Mail) collect and deliver letters themselves, without using Royal Mail's network. (Also known as "end-to-end delivery", "bypass competition" and "downstream access").

Downstream Access (DSA): Mail that has been collected and distributed by a competitor, but then handed over to Royal Mail centres, for final delivery.

End-to-end delivery competition: See 'Direct Delivery'.

Final mile delivery: See 'access competition'.

General Universal Service Condition (GUSC): Requirements that could be imposed by Ofcom on any postal operator, requiring new entrants to deliver mail more days per week, and/or over greater geographical areas. This condition would not replicate the requirements of the Universal Service.

Inward Mail Centre (IMC): An operator collects mail from the customer, sorts it, and then transports it to Royal Mail's Inward Mail Centres, from where it is delivered to addresses by Royal Mail.

Ofcom: Ofcom is the Communications Regulator. It was established by the Office of Communications Act 2002 and received its full authority from the Communications Act 2003. On 1 October 2011, Ofcom took over responsibility for regulating the postal services industry from the Postal Services Commission (Postcomm), as a result of the Postal Services Act 2011.

Outward Mail Centre (OMC): where mail is sorted for delivery, and mail destined for the specific geographical area of the mail centre is retained, and mail intended for other mail centres is dispatched.

Reported Business: The subset of the Royal Mail Group Ltd core UK business that is regulated by Ofcom. It includes Network Access, and excludes Parcelforce Worldwide and Royal Mail Property Unit. It is the part of the Royal Mail Group that uses the Universal Service Network for collection, sorting, transportation or delivery of postal packets (both letters and parcels).

Royal Mail plc: A postal service company in the United Kingdom, which is also the Designated Universal Service Provider. It was state owned, but following the Postal Services Act 2011, the majority of shares of Royal Mail were floated on the London Stock Exchange on 15 October 2013. The Government hold a 30% stake in Royal Mail through Postal Services Holding Company Limited.

The Postal Services Directive 1997: Obliges all EU Member States to ensure that a Universal Postal Service covering a minimum range of specified services is provided.

Postal Services Act 2011 (PSA 2011): Sets out Ofcom's duty to secure the provision of a Universal Service, in order to comply with the minimum legal requirements as set out in EU law. Ofcom's duty to secure the provision of the Universal Postal Service must be given priority if there is a conflict with Ofcom's principal duty set out in the 2003 Act.

Postal Services (Universal Postal Services) Order 2012: Sets out the universal services in more detail.

The third Postal Services Directive 2008: Requires all EU postal markets to be opened to competition.

Universal Postal Service: Postal products and associated minimum service standards that must be available to all addresses in the UK. Ofcom's primary duty is to secure the provision of a Universal Postal Service. Also known as the Universal Service.

Universal Service Obligation (USO): The obligation to provide the Universal Postal Service, imposed on the Universal Service Provider by Ofcom, under Section 36 of the PSA Act 2011. Royal Mail (currently, the only USO provider) delivers to all 29 million addresses in the UK, irrespective of whether another postal company is delivering there as well. This service is provided six days a week. (EU law specifies a minimum of five days a week).

Universal Service Provider (USP): Any postal operator designated by Ofcom as the provider of the Universal Service, under the PSA 2011. Currently, the USP is Royal Mail.

Whistl: A postal delivery company, formerly known as TNT Post (and a wholly owned subsidiary of the Dutch company PostNL, which is the Dutch universal service postal provider). Currently, Whistl is the only rival to Royal Mail, with regard to end-to-end competition in the UK.

Zonal access pricing: Royal Mail can charge access operators different prices for delivery to different parts of the country, according to four zones.

Zones: The geographical zones that Royal Mail divides the United Kingdom into, based on the density of delivery posts, and the proportion of business delivery points of postcode sectors: Zone A (Urban): Zone B (Suburban): Zone C (Rural): and Zone D (London).

1 Introduction

Post matters. It is important for the productivity of the economy and for social cohesion. [Richard Hooper]¹

1. The universal postal service has its genesis in the Penny Post—a stamp costing a penny, which assured the postage of a letter anywhere in the United Kingdom—which was introduced in the Postal Act of 1840. Today, the minimum requirements of the Universal Postal Service—set out in the 2011 Postal Services Act—include the following:

- At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday;
- At least one collection of letters every Monday to Saturday;
- At least one collection of other postal packets every Monday to Friday;
- And a service of delivering postal packets and registered items from one address to another by affordable and geographically-uniform prices throughout the United Kingdom.²

2. The Universal Postal Service is vital to many people living in the United Kingdom. The majority of our evidence highlighted the benefits of the Universal Service to many people, including older people, people living in rural and remote communities (where internet connections can also be sporadic or non-existent), and those less able to travel.³ The Universal Postal Service also provides a free postal service to blind and partially-sighted people.⁴ The National Federation of Occupational Pensioners (NFOP) wrote of the benefits of the Universal Service to its members.

The members of the NFOP rely on postal communications to remain in touch with relatives and friends and it provides a vital lifeline and contributes to avoiding loneliness. Although there is an increased use and accessibility to electronic communications the elderly and most vulnerable are often excluded from access either through cost or disability.⁵

1 Richard Hooper ([USO 06](#)) para 2

2 Section 31, Postal Services Act 2011

3 Written evidence highlighting the benefits of the Universal Service included: Cornwall Chamber; the Farmers' Union of Wales; the Scottish Chambers of Commerce; the Consumer Council; the National Federation of SubPostmasters; the Welsh Local Government Association; the Scottish Council for Development and Industry; the South Wales Chamber of Commerce; the National Federation of Occupational Pensioners; the Civil Service Pensioners' Alliance; the Institute of Directors Wales; the Countryside Alliance; the Rural Services Network; the Royal National Institute of Blind People; the Campaign for the Protection of Rural Wales; the Council of the Isles of Scilly.

4 The Postal Services Act 2011, Section 31

5 The National Federation of Occupational Pensioners ([USO 11](#)) para 3

3. The Citizens Advice Service also described the essential role that the Universal Service provides to wide numbers of groups:

Consumers still rely on and value the universal service as a communications tool and the USO acts as a critical safety net to avoid social exclusion and the potential lack of services due to market failure. Traditionally, rural consumers value and appear to have a greater reliance on postal services than users in other geographical locations and recent research published by Ofcom in their user needs review, also showed that other categories of users such as older, disabled or housebound users, are more likely to use post and to feel cut off from society if they could not send or receive post. Access for vulnerable and rural consumers (at affordable rates) must be maintained as this is becoming increasingly important for their effective participation in the economy.⁶

4. Royal Mail is the only postal company currently designated to provide the Universal Service. However, the postal sector as a whole covers more than the Universal Service, and Royal Mail is working within an increasingly competitive postal industry, with competition from many rival companies. We received evidence which argued that such competition is driving down standards, driving down terms and conditions of staff, and driving down the quality of service to customers.⁷ Indeed, during the course of this inquiry, the effects of this competition were clearly demonstrated, when the postal operator City Link was placed into administration on 24 December 2014. This resulted in up to 5,000 of City Link's employees, employed drivers and third party workers losing their jobs and contracts with City Link.⁸ We have held joint evidence sessions on this with the Scottish Affairs Committee.⁹

The Social Market Foundation wrote about the current state of the postal services market:

The postal services market has seen substantial change over the past decade. It has become more competitive. The regulatory regime has changed, and with it, Royal Mail has been given more flexibility to set its own prices. And, most recently, Royal Mail has been privatised. In many ways, these changes are similar to those experienced in other sectors such as telecommunications, gas and electricity, although there are important differences too. So the postal services market has started to look much more like a private sector market. But in common with many other sectors that have followed the same path, regulatory intervention has been needed to ensure that wider social objectives continue to remain at the heart of the market.¹⁰

6 The Citizens Advice Service ([USO 18](#)) para 5.1

7 For example Unite the Union ([USO 17](#)) CWU ([USO 18](#)) Royal Mail ([USO 37](#))

8 Scottish Affairs Committee oral evidence session, *Impact of Closure of City Link on Employment in Scotland*, 13 January 2015, Q67

9 Scottish Affairs Committee, [inquiry into the impact of the closure of City Link on Employment](#), accessed 5 March 2015

10 The Social Market Foundation ([USO 19](#)) page 1

5. There has been a decline in the volume of letters in the United Kingdom for several years, with volumes falling by 6.3% per year from 2008 to 2013, at the same time as a burgeoning parcels market, largely in response to the growth of e-trading, which according to Ofcom increased by 3.7% per year over the same time period.¹¹ Ofcom has been the regulator of the postal market, including the Universal Service, since 2012, and Ed Richards, the Chief Executive of Ofcom until December 2014, highlighted uncertainties in the postal sector:

It is an unusual case. In some of the other areas we work, the story has been just of growth and growth and more growth. This is an unusual and difficult case, because you have obviously a decline of our propensity to send letters, but you also, on the other hand, have the revolution of e-commerce and the delivery of parcels, so it is a complicated beast with a very subtle balancing act.¹²

6. This balancing act—ensuring that the minimum standards of the Universal Service are maintained, while encouraging a competitive market—is the main issue that will be explored in this inquiry. It should also be noted that since privatisation, Royal Mail is a private sector company.

7. On 24 September 2014, the Committee asked for written evidence on the following terms of reference:

The BIS Committee will conduct an inquiry into Competition in the UK postal sector and the Universal Service Obligation.

The inquiry will consider:

- access and end to end delivery of mail;
- Parcel delivery services and the impact of competition in these services on the Universal Service Obligation.

We received 59 written submissions, and two oral evidence sessions were held on 26 November 2014 and 10 December 2014, where we heard representatives from: Royal Mail; Whistl; UK Mail; TNT UK; Amazon; the Communication and Workers Union; Community; the Mail Users Association; Citizens Advice; and Ofcom. We would like to thank everybody who gave written and oral evidence, and who informed this inquiry.

11 Ofcom, [Royal Mail access pricing review](#), 2 December 2014, para 3.3

12 Q204

2 The Universal Service Obligation

The ability to receive the same standard of service at the same cost in rural areas is of fundamental importance to residents and, in particular, businesses in rural communities. The USO is a good example of how ‘rural proofing’ of policies can work. It protects rural areas and effectively spreads costs across all areas so that all areas experience the same service. [The Welsh Local Government Association, Rural Forum]¹³

Definition of the Universal Postal Service

8. Royal Mail has always provided a ‘Universal Postal Service’ (also known as the Universal Service). The legislation that empowered the Government to privatise Royal Mail—the Postal Services Act 2011—also named Royal Mail as the Universal Service Provider. Section 31 of the Act included the following:

- To abolish the criminal offence of conveying certain letters without a licence, which had been contained in the Postal Services Act 2000;
- Ofcom to take over regulatory responsibility for postal services, from Postcomm;
- Royal Mail’s and the Post Office’s historic pensions liabilities to be transferred to the Government;
- Royal Mail Group and the Post Office to become separate entities;
- The Government put in place plans to offer shares in the Royal Mail Group before April 2014, and to move the Post Office into a mutual structure before 2015.¹⁴

9. Section 31 of the 2011 Act describes the “minimum requirements” of the Universal Services, which include:

- at least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday;
- a service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK;
- a registered item service at affordable, geographically uniform prices throughout the UK.¹⁵

13 Welsh LGA – Rural Forum ([USO 24](#)) para 3

14 Postal Services Act 2011, Section 31

15 Postal Services Act 2011, Section 31

10. Royal Mail's own website provides more details on the Universal Service requirements, set out in the 2011 Act:

- At least one delivery of letters every Monday to Saturday to every address in the UK;
- At least one collection of letters every Monday to Saturday from every access point in the UK that is used to receive letters and postal packets for onward transmission;
- Postal services at an affordable, uniform tariff across the UK;
- A registered items service at an affordable public tariff;
- An insured items service at an affordable public tariff;
- A free-of-charge postal service to blind or partially sighted people;
- Free carriage of legislative petitions and addresses;
- Postal Packets up to 20kg.¹⁶

Who uses the Universal Postal Service (UPS)?

11. The PostalGroup—an organisation of three companies: Mail Matters Direct Ltd; Regional Mail Services Ltd; and PostalSort Ltd—highlighted the importance of customers when considering the Universal Postal Service:

We feel it's important that the focus of the inquiry should be on the customers of the postal services and specifically on how the industry should look in the future if it is to provide products and services that will complement the needs of the country. A free flowing delivery network will allow the UK to take advantage of the country's competence in e-commerce. An industry that is dogged by infighting will only stifle its potential.¹⁷

Customers are not only residential users, sending personal letters, presents, birthday cards and Christmas cards. Customers of the UPS are also businesses that send communications to their customers, including direct mailing, banking and financial mailing. The Federation of Small Businesses described its members' use of postal services:

The last survey conducted by the FSB on how members use postal services showed that they are used for: ordering goods, mail shots and publicity, delivering goods and services, information for employees, delivering supplies, sending invoices, sending parcels and paying suppliers, among others.¹⁸

16 Royal Mail [Universal Service Obligation](#), accessed 5 March 2015

17 ThePostalGroup ([USO 38](#)) page 4

18 Federation of Small Businesses ([USO 12](#)) para 5

12. TechUK—representing over 850 companies and technologies, the majority of which are small and medium-sized businesses—stressed the need for such businesses to be taken into account:

It is small and medium businesses which commercially underpin the USO and make it viable, as opposed to residential users. The Select Committee’s focus should be ensuring the requirements of such businesses are met and the Royal Mail service to them is secure.¹⁹

The Mail Users’ Association, whose members “generate more than 10% of annual postal traffic in the UK”,²⁰ wrote of business *Super Users*:

Super Users of mail regularly spend in excess of £1 million a week on mailing activities, and as such form the backbone of the UK’s postal system in terms of contribution. One MUA member has quoted a spend in 2013 with Royal Mail of £83 million, and another as delivering annualised postal volumes in excess of 640 million items into the network. Members would therefore argue that the future of the universal service is inextricably linked to the needs and wants of these mailers, and they have a vital contribution to make in informing debate on the wider issue of how best to sustain the universal service in the long term.²¹

The Universal Service and constituent parts of the United Kingdom

13. We received several submissions from interested parties in Scotland, Northern Ireland, and Wales about the importance of the Universal Service to them, due to the high percentage of rural addresses in those areas. The Scottish Chambers of Commerce (SCC), representing a network of 11,000 businesses throughout Scotland, wrote:

It is imperative that all businesses in Scotland have access to a universal service with regards to mail. While SCC supports competition, it is essential that this is not conducted in a way which could threaten the continuation of the universal service and therefore add unfair cost burdens to businesses in rural areas throughout Scotland.²²

The Northern Ireland Chamber of Commerce and Industry wrote that: “the one-price-goes-anywhere universal service has particular significance for Northern Ireland given the high percentage of rural addresses and the fact that it is the only region to be entirely served by air and sea”.²³

19 techUK ([USO 30](#)) page 3

20 Mail Users’ Association ([USO 23](#)) para 1.1

21 Mail Users’ Association ([USO 23](#)) para 3.1

22 Scottish Chambers of Commerce ([USO 32](#)) para 2

23 Northern Ireland Chamber of Commerce and Industry ([USO 36](#)) page 1

14. The Welsh Local Government Association made the point about how the USO is subsidised geographically:

The ability to receive the same standard of service at the same cost in rural areas is of fundamental importance to residents and, in particular, businesses in rural communities. The USO is a good example of how ‘rural proofing’ of policies can work. It protects rural areas and effectively spreads costs across all areas so that all areas experience the same service.²⁴

Regional differences, in respect of rural and urban populations, highlight the cross-subsiding nature of the Universal Service, to ensure the provision of the same service for all in the whole of the United Kingdom.

Cost of the Universal Service Obligation to Royal Mail

15. The USO comes at a cost. The Social Market Foundation argued that the USO was sustainable as it was cross-subsidised, both geographically and by product:

The USO is currently funded by Royal Mail. Whilst the costs of delivering across the UK vary substantially, from the cheaper, more densely populated urban areas to the more expensive, sparsely populated areas, retail prices must be the same, regardless of where mail is being sent within the UK. The USO is effectively funded through some customers paying more to subsidise others. This cross-subsidy occurs both by geography and product type. But the financing of the USO is likely to come under substantial pressure in the future.²⁵

16. However, the Social Market Foundation noted the cost of the USO to Royal Mail was difficult to quantify :

There is little transparency over the actual cost of the USO, and therefore how much cost is being imposed on different groups of consumers or businesses. This makes the sustainability of the current model hard to assess; and without fully understanding where the costs fall also makes it difficult for policy-makers to make well-informed choices about potential measures to ensure sustainability, both now and in the future.²⁶

17. Richard Hooper—the author of three reports on the future of the postal services sector in 2008 and 2010²⁷ and currently an adviser to the CEO of Royal Mail—based his assessment of the costs of the USO on the following definition:

The USO is also defined by Ofcom as that set of products which are inside the USO, for example parcels up to 20kg. It is better in my view to look at the

24 Welsh Local Government Association – Rural Forum ([USO 24](#)) para 3

25 The Social Market Foundation ([USO 19](#)) para 3

26 The Social Market Foundation ([USO 19](#)) para 8

27 *The challenges and opportunities facing UK postal services*, May 2008; *Modernise or Decline*, Cm 7529, 16 December 2008; and *Saving the Royal Mail’s universal postal service in the digital age*, Cm 7939, September 2010

USO as a total network embracing ‘first mile’ and ‘last mile’ with a strong element of fixed costs irrespective of volume. Your postman or postwoman has to deliver to your house or flat or business six days a week whether he or she has one letter for you or twenty.²⁸

This definition was used by Moya Greene, the CEO of Royal Mail, when she estimated the cost to be £7.2 billion.²⁹ However, Ed Richards, the then CEO of Ofcom, offered a different method of calculating the cost of the USO:

We have taken a different approach to it. That is the cost of the whole network, but of what goes over that network of that £7.2 billion, only 20% is USO defined—80% of what is carried over the network is not. When one then asks what costs should be associated with which area, the numbers are quite different. For example, in the Royal Mail’s own regulatory financial statements, which it has to submit to us, the allocation from the USO, or the cost of the USO, is not £7.2 billion but £2.7 billion. They are very different numbers.³⁰

18. Ed Richards went on to describe the profits that Royal Mail makes from the Universal Service Obligation:

The audited 2013–14 regulatory financial statement from Royal Mail to us—so audited externally—reports an operating profit of £484 million on universal service mail after transformation costs, which are one-off costs. If you omit transformation costs, the operating profit on the universal service was £556 million, so half a billion pounds of profit on the universal service in the audited regulatory accounts for 2013–14.³¹

Ofcom’s written evidence also highlights VAT benefits and economies of scale and scope for any Universal Service Provider:

It has economies of scale and scope in relation to its historical position as the Universal Service Provider and potentially benefits in relation to brand recognition and trust. Royal Mail also does not have to charge VAT for any of its universal service or access products and this gives it an advantage over its competitors for VAT exempt business customers (such as banks and other financial institutions and charities) and for consumers and small businesses.³²

19. We invited Royal Mail to explain the discrepancy between its figure of £7.2 billion and Ofcom’s figure of £2.7 billion. Royal Mail’s supplementary evidence stated that:

28 Richard Hooper ([USO 06](#)) para 2

29 Q22

30 Q155

31 Q156

32 Ofcom ([USO 29](#)) page 2

Both figures are taken from Royal Mail's 2013–14 Audited Regulatory Accounts.³³ Both numbers, £2.7bn and £7.2bn, are calculated in line with the Regulatory Accounting Guidelines specified by Ofcom, which Royal Mail must abide by. An explanation of what each figure represents is as follows:

£7.2bn:

This figure represents the cost of maintaining a network that is capable of delivering the Universal Service, is the appropriate cost measure to focus on when considering 'the cost of the Universal Service'. This view is also held by Ofcom, as it uses the margin earned on this £7.2bn cost when assessing the financial sustainability of the Universal Service.

Ofcom defines the costs associated with the Universal Service network as the 'Reported Business'. The 'Reported Business', as defined by Ofcom, includes:

"The costs and revenues of both regulated and unregulated products that depend on the core universal service activities for their efficient provision. This includes all universal service products, [and non-USO] retail bulk mail products and access products"

£2.7bn:

The £2.7bn figure is the proportion of the £7.2bn 'Reported Business' cost, which is allocated to Universal Service products that are delivered through Royal Mail's network.

Importantly this figure does not represent the full cost of running a network capable of delivering the Universal Service.³⁴

Cost of the Universal Service to Royal Mail, region by region

20. We also asked Royal Mail for a more detailed analysis of the cost of the Universal Service, broken down into geographical areas across the United Kingdom, region by region. Royal Mail replied with the following evidence:

Royal Mail's Universal Service network is designed and run to serve the whole of the UK with a uniform service specification as efficiently as possible and maximising economies of scale. Much of its cost is comprised of national overheads which cannot be meaningfully broken down into regional costs. For example, the overnight road and air transport costs that allow Royal Mail to deliver the First Class service cover the whole of the UK.

Royal Mail is required, by Ofcom, to maintain a zonal costing model. This model assesses the variation in cost of delivering mail in 4 zones (London, Urban, Suburban, and Rural). It does not calculate cost by geographic region.

33 Royal Mail Group Limited [Regulatory Financial Statements 2013-14](#), June 2014

34 Royal Mail ([USO 56](#)) para 1

This model only considers downstream cost which may vary by zone. It therefore does not include key elements of the £7.2bn 'Reported Business' cost base that enable the end-to-end universal service. For example, central overheads, collection, sortation and distribution of mail around the country are not covered by the model. The results from this model are therefore not well suited to assessing an accurate regional cost of the universal service.

However, taking this model as an indication of delivery costs only, it shows that rural deliveries have a significantly higher cost than suburban or urban deliveries, as may be expected. Sustaining the Universal Service network relies on revenues from some areas of the country contributing to its overall costs.

Also, as Ofcom disclosed, London is the most costly area for Royal Mail to deliver according to the zonal costing model. This is due to factors including the higher costs attributed in the model to property in London, as well as higher wages paid to staff in the capital.

21. This supplementary evidence did not help us to understand the regional variations in the cost of the Universal Service, but did corroborate the evidence we heard in a different Inquiry. In our Inquiry into the Implications of Scottish Independence on Business, Higher Education and Research, and Postal Services, in June 2013, the Director of Postal Policy and Regulation at Consumer Futures, Jonathan Millidge, answered a question about the cost of delivering mail in Scotland:

There are networks that go between Scotland and England and Wales and Northern Ireland and so on and we do not disaggregate those. We have an obligation to deliver mail at a uniform price everywhere across the UK. We do not separate out the cost for Scotland in doing that. [...] We have 10,000 post boxes in Scotland that we collect from, for example, and 6,174 delivery routes. It is true that it is more expensive to deliver in rural areas than it is to deliver in urban areas. There are massive rural areas in Wales, for example, and also in England and Northern Ireland. So I could not give you a breakdown of what it is in Scotland. We do deliver about three times as much mail in Scotland as is posted in Scotland. So Scotland is a net importer of mail and that mail obviously then is delivered throughout the 16 postcodes that make up Scotland. But I am afraid I cannot say what the profitability of Scotland is.³⁵

22. Given the fundamental importance of the USO, we were concerned to note that Royal Mail were unable to provide a regional breakdown of the cost of the Universal Service Obligation (USO). In addition, given the responsibility of Ofcom to protect the USO, we were surprised to learn that there is no consensus between Royal Mail and Ofcom over what constitutes the cost, revenues and profits of the USO. We recommend that both Royal Mail and Ofcom should, as a matter of urgency, agree a set of financial metrics

³⁵ BIS Committee, *The Implications of Scottish Independence on Business; Higher Education and Research; and Postal Services*, HC 378-1, June 2013, Q72

against which the costs should be measured. If necessary, this should be carried out by the National Audit Office (NAO) or a mutually-agreed body of experts.

23. We recommend that Royal Mail—the Designated Universal Service Provider—using these figures, provides a geographical analysis of where the Universal Service is profitable and where it is not. Such detailed analysis and financial monitoring of the Universal Service would provide the evidence to assess the long-term sustainability of the Universal Service. This breakdown of costs should be included in Royal Mail’s Audited Regulatory Accounts. If Royal Mail declines to provide these figures, we recommend that the Government should consider extending the remit of Ofcom, to enable Ofcom to enforce this requirement.

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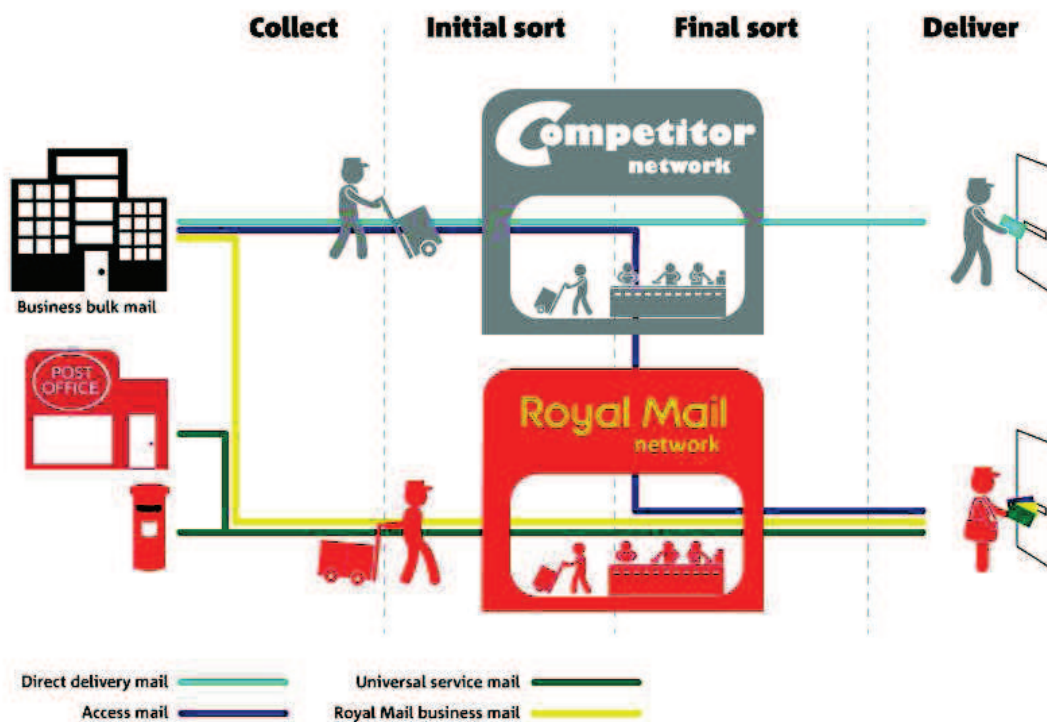
3 Access mail and Direct Delivery mail

End-to-end competition can present either a risk to the viability of the USO if managed poorly or, conversely, an opportunity if competition is managed by Ofcom in a fair and reasonable fashion. [techUK]³⁶

Introduction

24. There are two types of competition in the postal services sector, Access mail and Direct Delivery mail. Access Mail, also known as Downstream Access or Access Competition, is when mail is collected and distributed from customers by a postal company other than Royal Mail, but is then handed over to Royal Mail, for the final processing (known as Final Mile delivery). Direct Delivery, or end-to-end delivery, is when postal operators other than Royal Mail collect mail from customers and also deliver them through their own network.

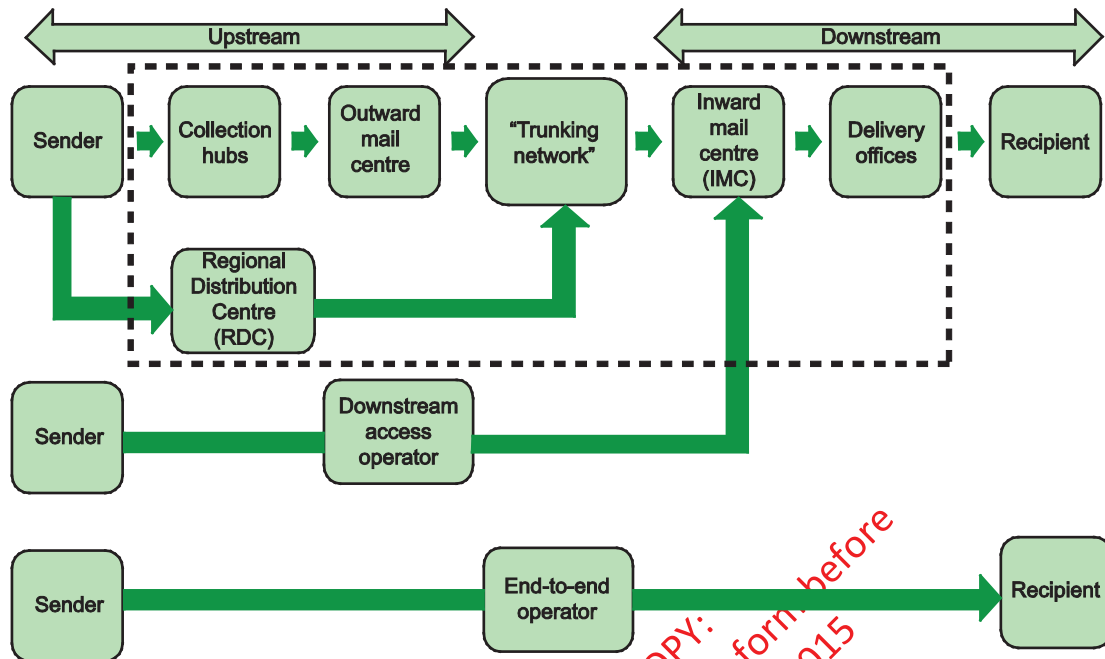
25. The following diagram sets out clearly the different routes that letters and parcels can take, from sender to receiver, by using either part or all or none of Royal Mail's infrastructure:



Ofcom: news release, 2 December 2014

36 techUK ([USO 30](#)) para 4.6

Ofcom's *Royal Mail Access Price Review* illustrates the same routes, but in more detail:



Ofcom: *Royal Mail Access Price Review*, 2 December 2014³⁷

Direct Delivery—a threat to the USO as a result of cherry picking?

26. 'Cherry picking' is a phrase frequently used to describe the effects of Direct Delivery. Richard Hooper wrote that Royal Mail uses cross-subsidisation to support the financial viability of the USO, and that cherry picking undermines that cross-subsidy:

The USO's financial viability is built on cross-subsidies from higher volume cheaper-to-deliver areas of the UK to lower volume more expensive-to-deliver areas of the UK. Cherry picking happens when an alternative carrier such as Whistl direct delivers to the higher volume, cheaper-to-deliver areas and requires Royal Mail to take the rest of their letters to the lower volume, more expensive-to-deliver areas.³⁸

Moya Greene told the Committee that conditions should be placed on competitors who offer Direct Delivery:

In other countries we have seen Governments put conditions on end-to-end players, saying things like, 'they must cover at least 80% of the land mass in all of the regions within a very finite period of time'. That helps, because it signals that you shall not be allowed to just cherry-pick the high-volume, high-density, low-cost-to-serve areas at the expense of the universal service.³⁹

37 Ofcom, *Royal Mail access pricing review*, 2 December 2014, page 20

38 Richard Hooper ([USO 06](#)) para 3

39 Q41

Royal Mail's written evidence explained in more detail the principle of cherry picking:

The UK's economic geography makes the Universal Service challenging to sustain. It also creates an attractive environment for cherry picking. In the EU, the UK has the highest concentration of large, dense urban areas. These are very attractive to a cherry-picking strategy: the densest 15% of the population live in just 1% of UK landmass. Conversely, the UK has a significant proportion of costly-to-serve rural areas: just 15% of the population live in low density areas equating to 63% of the total UK landmass. Direct Delivery is not, therefore, level playing field competition. It is cherry picking arbitrage that both exploits the Universal Service and puts its future at risk.⁴⁰

27. However, others refuted the significance of action described as 'cherry picking'. The Citizens Advice Service wrote that the current level of Direct Delivery is of such insignificance that the Universal Service could not be under threat:

The slower growth rate of end to end competition means that these operators deliver less than 1% of total addressed mail and Ofcom estimates that end to end competition is less than 0.4% (although acknowledging that the number of items carried by alternative operators represents a six-fold increase on 2011 mail volumes). Royal Mail still remains the largest player in the UK postal market and retains market power in the letters delivery market and in the delivery of lower weight parcels, although it is becoming less preponderant in relation to the market as a whole and delivery of higher weight parcels is generally more competitive.⁴¹

Royal Mail's submission to Ofcom

28. Royal Mail wrote to Ofcom in June 2014, highlighting its concerns over the future of the Universal Service. Its letter, *Direct Delivery: a threat to the Universal Postal Service*, stated that, as a result of unfair competition from companies offering Direct Delivery, the Universal Service was in danger, and that "Direct Delivery is in reality not level playing field competition that brings benefits to consumers."⁴² Royal Mail's written evidence stated that "the Universal Service is precious. But, it is also fragile and is becoming more so".⁴³

29. Royal Mail's submission highlighted what it believed to be the impact of Whistl's⁴⁴ plan to deliver letters to around 43% of UK addresses by 2017:

Direct delivery could undermine our ability to finance the USO: Direct delivery entails cherry picking urban areas, easier-to-handle mail and

40 Royal Mail ([USO 37](#)) paras 1.15 and 1.16

41 The Citizens Advice Service ([USO 20](#)) para 3.4 and 3.5

42 Royal Mail plc, *Direct Delivery: a Threat to the Universal Postal Service Regulatory Submission to Ofcom*, June 2014, extracts from executive summary

43 Royal Mail ([USO 37](#)) 1.9

44 Royal Mail's letter used the name of TNT Post, which was the former name of Whistl and the correct name at the time of Royal Mail writing to Ofcom.

offering a less frequent service. This removed from Royal Mail revenues that are currently deployed to support the costs of the USO. It puts at risk the current system of funding the USO.⁴⁵

However, Nick Wells, the CEO of Whistl, refuted the claim of cherry-picking:

We are also a by-product of the liberalisation of the postal market and we signed an access agreement in 2004. Where we started to do the collection, trunking and sorting, but we handed over all our mail to Royal Mail. In 2012 we started doing our own end-to-end deliveries. [...] It is impossible for us to cherry-pick because of an arrangement we made four years ago with Royal Mail called zonal pricing.⁴⁶

30. In its June 2014 letter, Royal Mail asked Ofcom to carry out a full review of Direct Delivery and its impact on the USO, and wrote that regulatory changes would be needed in order to protect the Universal Service.⁴⁷ In evidence to us, Moya Greene set out the reasons behind this position:

We are not asking for subsidy; we are asking for the underlying economics of the universal service to be recognised and for the rules of the game to be fair.⁴⁸

However, Citizens Advice Service did not believe that Royal Mail had made a sufficient case for action to be taken:

Although Royal Mail's recent regulatory submission to Ofcom suggested that the USO is under threat on the basis of end-to-end competition in the market, this submission does not provide compelling, robust evidence based reasons for immediate intervention to protect the sustainability of the USO.⁴⁹

Ofcom's response

31. On 2 December 2014, Ofcom published its *Review of end-to-end competition in the postal sector*, setting out the results of its review of whether the Universal Service was in danger. It stated that "at the heart of Royal Mail's submissions is its claim that that unless Ofcom takes regulatory action in relation to end-to-end competition, Royal Mail's ability to finance the Universal Service will be undermined".⁵⁰ It described the Review in the following terms:

In this review, we have considered the evidence available to us, including the most recent information from Royal Mail's 2014 Business Plan, the latest

45 Royal Mail plc, [Direct Delivery: a Threat to the Universal Postal Service Regulatory Submission to Ofcom](#), June 2014, executive summary

46 Q4

47 Royal Mail plc, [Direct Delivery: a Threat to the Universal Postal Service Regulatory Submission to Ofcom](#), June 2014, executive summary

48 Q26

49 The Citizens Advice Service ([USO 20](#)) para 6.4

50 Ofcom, [Review of end-to-end competition in the postal sector](#), 2 December 2014, executive summary

results from our ongoing monitoring programme and Whistl's rollout plans. We have also considered the argument in Royal Mail's June 2014 Submission. We have assessed whether, in light of the evidence, the impact of end-to-end competition from Whistl is likely to pose a threat to the provision by Royal Mail of a financially sustainable and efficient universal postal service. To this end, we have assessed the forecast financial position of the universal service, and the arguments which Royal Mail and other stakeholders have put to us about the likely impact of end-to-end competition on that financial position.⁵¹

32. Through its ongoing monitoring of the postal sector, Ofcom receives formal notifications from Whistl, under the Notification Condition, which requires any operator to give three months' notice of its intention to enter or expand its letter delivery service. Such operators are also required to provide Ofcom with their future volume forecasts, operational and business plans, and any future geographical areas to be entered, with a timetable for such entry or expansion, subject to minimum additional volume requirement of 2.5 million items per quarter.⁵² Ofcom's review stated that it had "informed itself of the developing position regarding end-to-end letter competition since Whistl commenced its trial".⁵³

33. While assessing the evidence, Ofcom wrote that it considered "whether the legal tests in the Postal Services Act 2011 for imposing regulatory conditions on end-to-end operators are met, and/or whether we should be undertaking any other work in light of our duty to secure the universal service".⁵⁴ The review document is littered with redacted paragraphs, due to commercial sensitivity. However, Ofcom stated that:

While the significant majority of information provided to Ofcom by Whistl is commercially confidential, it has publicly stated that its rollout plan is behind schedule. By the end of 2014, it had expected to be delivering to around 15% of the country but it is currently only delivering to around 7%. (For example, it had planned to also be delivering in Edinburgh, Glasgow, Birmingham and East London by now). As set out in our annual monitoring update, Whistl only delivered around 0.5% of the total addressed letter mail market in 2013–14.⁵⁵

34. Having considered the relevant evidence cited above, Ofcom decided that, for the time being, the Universal Service Obligation was not under threat:

For the reasons set out in this document, we do not consider it necessary at this time to exercise our regulatory powers under the Postal Services Act 2011 to impose regulatory conditions on Whistl in order to secure the ongoing provision of a universal postal service. We do not consider that the

51 Ofcom, [Review of end-to-end competition in the postal sector](#), 2 December 2014, para 1.7

52 *Ibid*, para 2.17 and footnote 11

53 *Ibid*, para 2.17

54 Ofcom, [Review of end-to-end competition in the postal sector](#), 2 December 2014, para 1.8

55 *Ibid*, para 2.18

provision of the universal postal service is under threat, and as a result we do not consider that the legal tests for imposing such regulatory conditions are met.⁵⁶

However, Ofcom included the following caveat:

Our decision not to intervene at this point does not imply that we are ruling out such a course of action at some point in the future, if circumstances change. As we set out in our March 2013 end-to-end Guidance, we consider we could implement GUSCs within six to nine months if it was necessary to secure the provision of a universal postal service. To this end, we will continue to monitor the situation closely.⁵⁷

Regulatory intervention

General Universal Service Obligation

35. Although Ofcom concluded that the viability of the USO was not under immediate threat, it was not beyond the remit of Ofcom to place conditions on other postal operators at any point in the future. Ed Richards told us of the two main conditions that could be imposed:

There are two most obvious ones. One is an obligation to deliver over a specific geographic area and the other is to deliver on a specific number of days. In other words, there are service obligations, which would have an impact upon the underlying cost structure of the new entrant. Those are the two most obvious and clear ones.⁵⁸

36. In supplementary evidence, Ofcom wrote that such a General Universal Service Condition could be imposed on any postal operator (under Section 42 of the Postal Services Act 2011) within six to nine months:

In our March 2013 guidance on end-to-end competition we said that the most likely requirements of such a GUSC would be to require new entrants to deliver mail more days per week and/or over a greater geographic than it had planned.

However, a GUSC cannot replicate the requirements of the Universal Service i.e. they may not require a person to:

- Deliver or collect letters six days per week (packets five days per week);
- Provide a service throughout the UK; or

⁵⁶ *Ibid*, para 1.9

⁵⁷ *Ibid*, para 1.12

⁵⁸ Q153

- Provide a service at an affordable price which is uniform throughout the UK.⁵⁹

Universal Service Compensation Fund

37. The other regulatory intervention available to Ofcom, in accordance with Section 44 of the Postal Services Act 2011, is the creation of a Universal Service Compensation Fund. Ofcom’s supplementary evidence described the longer process required to create such a fund:

First, prior to October 2016, the Secretary of State for Business would need to direct Ofcom to review the net cost of the universal service (after this time, we could choose to undertake a review at our discretion);

Second, Ofcom would need to review the net cost of the universal service;

Third, if that review established that complying with its universal service obligations imposes a financial burden on Royal Mail, Ofcom would have to determine whether it considered that financial burden to be unfair, and if so, to what extent it was unfair;

Fourth, if Ofcom did determine that the universal service imposed an unfair financial burden on Royal Mail, it would have to report to the Secretary of State setting out recommendations as to the action, if any, that Ofcom consider should be taken to deal with the burden;

Fifth, the Secretary of State would have to direct Ofcom to set up a fund; and

Finally, Ofcom would have to design, consult and then establish the fund.⁶⁰

38. However, Royal Mail was not convinced that Ofcom could intervene as quickly as it had suggested:

Ofcom has said that it could intervene quickly if needed. However, even to undertake a review of direct delivery could take a year or more. Any subsequent interventions could take many years to design, implement and take effect.⁶¹

In particular, Royal Mail argued that any compensation fund “could take at least 3-4 years to put in place” and would be of “doubtful value thereafter”.⁶² This point was supported by techUK, which argued that a universal service compensation fund would take too long to set up and “does not effectively mitigate the threat to the USO”.⁶³

59 Ofcom ([USO 54](#))

60 Ofcom ([USO 54](#))

61 Royal Mail ([USO 37](#)) para 1.4

62 *Ibid*

63 techUK ([USO 30](#)) para 4.15

39. *Cherry picking is a phrase often used in postal services to describe the easy, most profitable sections of mail services taken by Royal Mail's competitors. Cherry picking is available to Royal Mail competitors but, at the moment, affects only a very small percentage of Royal Mail's total business. This could change quickly, given the ambitions of some of Royal Mail's rivals in the market. Both Royal Mail and Ofcom need an evidence base upon which to gauge the potential threats to the sustainability of the USO in the event of a higher level of market penetration by other providers. We note the decision by Ofcom that, currently, the level of the threat does not justify intervention. We also note that Ofcom is mandated to monitor the situation.*

40. *Ofcom has the power to impose a General Universal Service Obligation on postal operators other than the Universal Service Designated Provider (Royal Mail), in order to protect the Universal Service. We have yet to be convinced that Ofcom could impose the General Universal Service Obligation within the predicted six to eight months. We recommend that Ofcom publish a more detailed timeline for its implementation and an assessment that the timescale is fast enough to avoid a failure in the Universal Service, even in the short term.*

41. *The alternative regulatory condition—the Universal Service Compensation Fund—involves a lengthy delay in implementation. To avoid such a delay, we recommend that the Secretary of State directs Ofcom to review the net cost of the Universal Service, in accordance with the Postal Services Act 2011.*

Views of the Universal Service should it change?

42. A number of our witnesses saw some scope in reviewing or changing the requirements of the Universal Service Obligation. Nick Wells, the CEO of Whistl, had an open-minded view:

Most countries in the modern world are currently reviewing their universal service obligations. For example, Italy and the Netherlands have reduced that to five days a week. I am not advocating this. In Moya's own country, Canada, they will stop delivering to letterboxes in the next five years and only go to community post-boxes. That is certainly not something that we would want to see, but the point here is that it will need reviewing.⁶⁴

43. Adam Scorer, Director of Consumer Futures at Citizens Advice, also saw the possibility of reducing the current six days a week service,⁶⁵ while Alan Halfacre, Chairman of the Mail Users Association, argued that the first-class postal service was not as important as some would suggest:

If you need to get something to an individual the following day, there are mechanisms. They are expensive for physical items, but are they the only way the citizen can communicate? We come down to, 'I want to send my birthday card'. Well, try to remember to do it the day before rather than the last day.

64 Q37

65 Q115 and 116

You have been getting round to it for a long time, but, no, you have to do it two days before instead of one day before. [...] It is not a social stigma to put a second class stamp on a letter.⁶⁶

44. However, despite emphasising the cost of the USO to Royal Mail, Moya Greene said that Royal Mail was “very committed to the universal service in its current form” and did not see the need to change it.⁶⁷

45. *There has already been an extensive debate about the requirements of the Universal Service Obligation. The Committee strongly believes that it would be inappropriate to change the current requirements of the Universal Service Obligation.*

Price to customers

46. In March 2012, Ofcom introduced a new regulatory framework and provided Royal Mail with greater freedom on pricing for the majority of its services. Ofcom’s *Royal Mail Access Pricing Review* described the intention and risks attached to this decision:

Our objectives were to grant Royal Mail sufficient pricing flexibility to ensure it could continue to provide the universal service on a sustainable basis and sufficient commercial freedoms to adapt to the changing market environment. We also aimed to maintain the benefits of competition in supporting the efficient provision of the universal service.

We recognised that removing price controls would come with serious risks. We considered the most significant of these to be the risk that Royal Mail would not take on the challenge of improving efficiency and would rely solely on pricing to return itself to profitability, potentially excluding vulnerable customers and precipitating a more rapid decline in the mail market.⁶⁸

47. Safeguards were therefore put in place by Ofcom, including capping the price of second class letter stamps at 55p, and capping large letters and small parcels (up to 2kg) at a 53% increase, to ensure a basic universal service is available to all.⁶⁹ In its latest annual monitoring update, Ofcom wrote that customers were generally satisfied with the cost of stamps and service, stating that “the latest ONS data shows weekly household expenditure on postal services to around 0.1% (60p) of total expenditure based on 2012 prices. This is a little less than the current price of a single First Class stamp”.⁷⁰ It also wrote that:

In terms of *customers and consumers*, our research indicates the vast majority of consumers are satisfied with their postal services and that prices remain affordable for almost all consumers. Whilst First and Second Class stamp letter and large letter prices did not increase in 2013, prices of these increased

66 Q119

67 Q37

68 Ofcom, [Royal Mail access pricing review](#), 2 December 2014, paras 3.24 and 3.25

69 Ofcom, [Royal Mail access pricing review](#), para 3.25 and [Annual monitoring update on the postal market, 2013-14](#), para 5.9

70 Ofcom, [Annual monitoring update on the postal market, 2013-14](#), para 5.30

above inflation in 2014. However the safeguard cap on Second Class stamps will continue to protect vulnerable consumers in the future. Royal Mail significantly improved its quality of service, following a number of failed targets in the last year. First and Second Class national targets were met, however the Postcode Area (PCA) target was missed, albeit narrowly. We will nonetheless continue to monitor Royal Mail's progress on quality of service performance.⁷¹

48. Ofcom's Annual Report also highlighted its monitoring of affordability in the future:

We will continue to use our quantitative consumer survey for residential consumers and businesses [...] to enable us to monitor use of postal services, and to assess the affordability of services in the universal service, value for money and satisfaction with post and postal prices.⁷²

49. We note that Royal Mail has again increased its prices this year. Royal Mail should not increase prices in an attempt either to increase its own profit levels or to protect the Universal Service Obligation, without continuing to increase the efficiency of its operations, thereby reducing its costs and enabling it to improve its standards of service.

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71 Ofcom, [Annual monitoring update on the postal market, 2013-14](#), para 1.6

72 *Ibid*, para 5.31

4 Competition and efficiency

Royal Mail is the dominant incumbent and has huge efficiencies of scale. It has a massively trusted brand. It has so much going for it. The extent to which it will maintain that level of dominance or market power will depend on how it is able to deliver products [...] that will enable it to win in what will become a very competitive market. [Adam Scorer, Citizens Advice Service]⁷³

Competition in the postal sector

50. The third Postal Services Directive 2008 requires all EU postal markets to be opened to competition, and the Postal Services Act 2011 reflects that requirement. Our written evidence highlighted the benefits of such competition. BBC TV Licensing wrote that:

Continued development of competition with the proviso the universal service is not impacted, will lead to continued improvements in quality of service, continued downward pressure on prices, greater choice and continued product innovation. As a mailer who mails across the UK on a regular basis such developments are vital to our activity and can go some way to protecting our budgeted expenditure on mail. Such a development is extremely important as our activity is funded from the public purse.⁷⁴

The Mail Users' Association wrote that competition in the postal sector had enabled sustainability in the market and that competition had benefited "an otherwise declining commercial scenario".⁷⁵ Not surprisingly, this view was supported by Royal Mail's competitors. Nick Wells, the CEO of Whistl, argued that without competition there was "no catalyst to keep prices low",⁷⁶ while UK Mail believed that competition was "a vital spur to improved choice for mail users, and to increased efficiency by all operators, including Royal Mail".⁷⁷

51. Ofcom also highlighted the benefits of competition in the postal sector:

There are a number of potential benefits from other postal operators competing with Royal Mail in the delivery of mail. Most importantly entry can strengthen the incentives on Royal Mail to improve efficiency and reduce its costs.

In addition, if end-to-end competition results in lower prices for certain types of users, it may reduce the rate at which volumes decline for the whole

73 Q135

74 BBC TV Licensing ([USO 16](#)) paras 3.1.1. and 3.1.3

75 Mail Users' Association ([USO 23](#)) para 2

76 Q27

77 UK Mail ([USO 27](#)) para 1.4

industry. Competition may also benefit customers through increased innovation and value added services.⁷⁸

Royal Mail efficiency

52. Under Section 29 of the Postal Services Act 2011, Ofcom has to have regard to: “the need for the provision of a Universal Provider Service to be efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times”.⁷⁹ In its discharge of that duty, Ofcom monitors both those services provided by the USO and Royal Mail’s so-called ‘Reported Business’, which means that it has a duty to comment on the efficiency of services that are in Royal Mail’s Reported Business, but not necessarily within the USO.

53. In evidence to us, Ofcom clarified what the term ‘Reported Business’ covered:

The ‘Reported Business’ is that part of Royal Mail Group that uses the universal service network (also known as the core network) for collection, sortation, transportation or delivery of postal packets (both letters and parcels). As such it includes both Universal Service products such as First and Second Class letters and parcels, Special Delivery Next day, etc. and non-Universal Service products such as Royal Mail retail bulk mail, access mail, unaddressed mail, etc. The Reported Business is part of Royal Mail’s UK Parcels, International and Letters (UKPIL) business unit but excludes the activities and products of ParcelForce International and Royal Mail Estates Ltd.⁸⁰

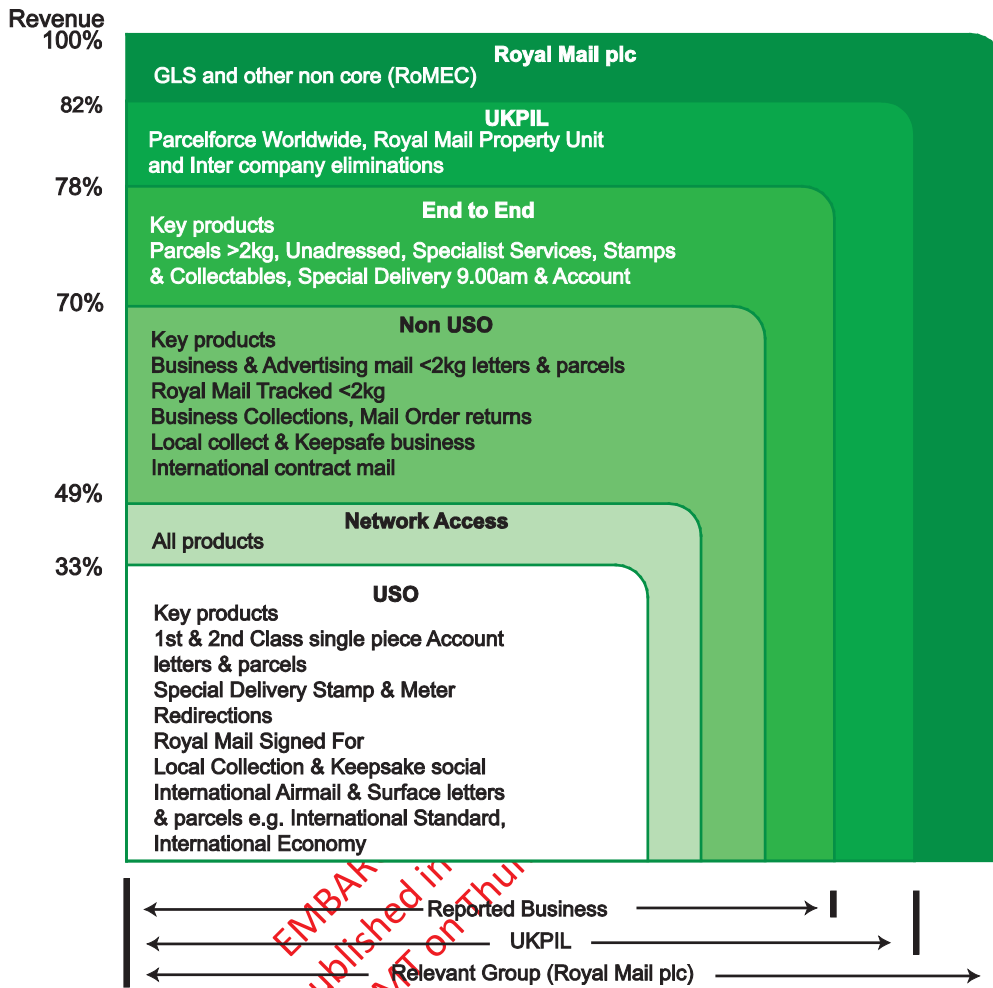
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78 Ofcom, [End-to-End competition in the postal sector: final guidance on Ofcom’s approach to assessing the impact on the universal postal service](#), 27 March 2013, paras 3.15 and 3.16

79 Section 29, 3b, the Postal Services Act 2011

80 Ofcom ([USO 57](#))

54. Royal Mail’s regulatory financial statements for 2013/14 provides a graphic of its products included in the Reported Business:



Royal Mail Group Regulatory Financial Statements 2013-14 ⁸¹

55. In its Report, *Review of end-to-end competition in the postal sector*, published in December 2014, Ofcom returned to the matter of Royal Mail’s efficiency in relation to the viability of the Universal Service:

Beyond the next few years, our assessment of the sustainability of the universal service becomes less certain. However, to a significant extent, this uncertainty is due to factors other than end-to-end competition, including Royal Mail’s ability to reduce its costs to reflect the reduced workload, and deliver efficiency savings, and the success of its parcels strategy. Relatively small changes in parcel volumes, hours worked, pay increases or pension

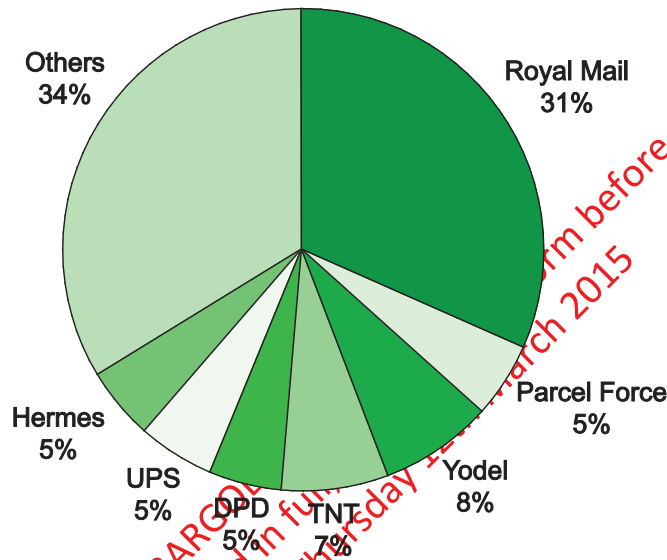
81 Royal Mail, [Regulatory financial statements](#), 2013-14

costs could significantly affect its future EBIT margins by as much as, or more than, the impact of end-to-end competition.⁸²

UK parcels market

56. Ofcom described the three priorities contained in Royal Mail’s overall strategy: being a successful parcels business; managing a decline in letters; and being customer focused.⁸³ The chart below, included in Ofcom’s written evidence, highlights the competitive nature of the UK parcel market:

UK domestic parcel revenue market share



Source: UBS / Triangle, 2014⁸⁴

57. Ofcom cited RBC Capital Market in July 2014 describing ‘parcels, not Ofcom, as its biggest concern’⁸⁵ and described Royal Mail’s own uncertainty surrounding parcel revenues:

As noted by Royal Mail, the parcels market is very competitive and competition has recently intensified, particularly from UK Mail, DPD, Hermes and Amazon’s roll-out of its own delivery service, which started in January 2014. [...] Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many operators are using digital technology to drive innovation. Royal Mail notes, in its June 2014 submission, that innovation is a key feature of the UK parcels market. For example, earlier this year, Parcelforce launched an interactive service enabling customers to arrange for a parcel to be delivered on a different day or to a different address by SMS or email. In March 2014, parcel operator

82 Ofcom, *Review of end-to-end competition in the postal sector*, 2 December 2014, paras 3.105 to 3.107

83 Ofcom (USO 29)

84 BIS Committee analysis of UBS data, Ofcom (USO 29)

85 Ofcom (USO 29)

DPD also announced enhancements to its ‘Predict’ service, which notified recipients of the time of delivery to within a 15 minute window.⁸⁶

58. But Royal Mail’s competitors have gone further, as explained by evidence from the Mail Competition Forum:

Competitors to Royal Mail have also brought innovation to mail services in vital areas such as hybrid (physical-to-electronic) mail. Hybrid mail combines electronic communication (including mobile telephony and the internet) with physical communication to allow business and social users to send items using the electronic devices common in everyday life. [...] The MCF believes these benefits from competition have had an important (if unmeasurable) impact in mitigating the decline in mail volumes, by encouraging continued or even new use of mail.⁸⁷

59. Royal Mail is free to respond to competition in the bulk-mail market and the parcel market (over 20kg) in any way it sees fit, as those areas are not included in the Universal Service Obligation. However, in November 2014, Royal Mail published its Financial Report for the half year (from April to September 2014), and highlighted the fact that parcel revenue was down by 1 per cent:

At £1,461 million, UKPIL parcel revenue was down one per cent. This was primarily due to the impact of a change in the mix of the parcels we carry and the highly competitive environment in the UK parcels market. We estimate Amazon’s own delivery network will reduce the annual rate of growth in the UK addressable market to 1–2 per cent for approximately two years. UKPIL parcel volume grew by two per cent.

Its trading update for the nine months ended 28 December 2014 showed an increase in volume of UK parcels by 3%, but revenue stayed flat.⁸⁸

60. Written evidence from the Mail Competition Forum (MCF) stated that:

The Mail Competition Forum believes and provides evidence that Royal Mail has persistently failed to achieve reasonable productivity improvement and it is that inefficiency, rather than the commercial effect of efficient competition, which represents the major threat to USO provision.⁸⁹

61. The Citizens Advice Service told us:

Competition has not benefitted all groups of social consumers equally, particularly those in rural and remote areas who have limited choice and are more reliant on the USO. We have a significant body of evidence of detriment to rural and remote consumers in a parcels market including non-

86 Ofcom, *Review of end-to-end competition in the postal sector*, 2 December 2014, paras 3.84 and 3.86

87 Mail Competition Forum ([USO 01](#)) paras 2.4 and 2.5

88 Royal Mail [trading update for the nine month ended 28 December 2014](#)

89 Mail Competition Forum ([USO 01](#)) executive summary

deliveries, delivery surcharges and lengthy journeys to collect undelivered items.⁹⁰

UK Bulk Mail

62. Ed Richards, the then CE of Ofcom, told us that bulk mail was not supervised by the regulator and that it was “a commercially-determined service”,⁹¹ which was determined by business decisions:

When they go to Whistl, for example, or others, they say, ‘We are content with a three-day-a-week service’, which is precisely why Whistl has offered a three-day service. If business users wanted a six-day service for their bulk mail, Whistl would have to offer it, so there is a big difference.⁹²

Chris Rowsell, Competition Policy Director at Ofcom, highlighted the fact that this approach worked efficiently in the Netherlands and Denmark, where the USO items are delivered on the required days, but non-USO items were delivered in larger quantities, on fewer days.⁹³ Ed Richards summarised this point:

Business users can determine their needs in the way that normal commercial arrangements are determined, and we need to make sure that developments in that area are consistent with the USO and the six-days-a-week delivery.⁹⁴

63. The evidence that we received suggest that Royal Mail still has to match the technical innovations introduced by many of its competitors. These innovations more clearly match the expectations of consumers, as well as contributing to the efficiency of competing postal operators.

Royal Mail’s price structure for national average prices and zonal prices

64. Royal Mail’s price structure varies depending on whether the postal operator asks Royal Mail to deliver the Final Mile, across the United Kingdom, or whether the postal operator asks Royal Mail to deliver to certain parts of the United Kingdom only. Written evidence from Ofcom explained the difference between the pricing:

Royal Mail offers two types of pricing plan for access: national average prices and zonal prices. To qualify for national average prices an access operator must be asking Royal Mail to deliver mail across the whole of the UK, in the same geographical pattern as Royal Mail delivers. If an access operator is asking Royal Mail to deliver in just certain areas or geographies of the UK,

90 The Citizens Advice Service ([USO 20](#)) para 4.4

91 Q178

92 Q174

93 Q183

94 QQ 186 and 187

Royal Mail can set zonal prices which reflect the costs in those geographic areas.⁹⁵

65. Zonal pricing helps to protect Royal Mail against any artificial competitive advantage from its competitors. For example, it ensures that Whistl must have a genuine source of competitive advantage over Royal Mail in the areas it chooses to enter. While this is a useful safeguard, Adam Scorer, from Citizen's Advice, cautioned that it should not be used for restrictive reasons and that "Royal Mail does not protect its incumbent position in unfair ways".⁹⁶

66. In January 2014, Royal Mail proposed several changes to its zonal charges which reduced the charges for the Urban and London Zones, while significantly increasing charges for the Suburban and Rural Zones. Moya Greene, the CEO of Royal Mail, told the Committee:

What I will say about the zonal pricing that we had attempted to put into the market is that it was meant to partially offset this threat of siphoning off the very, very high-volume urban mail, siphoning it out of the Royal Mail system, so that neither that traffic nor the revenues that go along with it would be available to underpin the economics of a Universal Service.⁹⁷

67. On 2 December 2014, Ofcom announced that it would be reviewing Royal Mail's proposed increase in zonal access pricing because it was concerned that the changes could "act to discourage and potentially prevent entry and expansion into bulk mail delivery by another operator" and therefore have a negative impact on consumers.⁹⁸ Ed Richards told us that Royal Mail's proposed zonal pricing had the potential to skew its access prices in order to inhibit competition:

What we have said on zonal pricing is that Royal Mail has the freedom to set its margin as it chooses. However, what we have said to ensure that, that is consistent with a fair approach for the market overall, is that that should be consistent from zone to zone, and that the prices should be reflective of the costs in the zones. That seems, to us, to be a reasonable and fair basis. In other words, where Royal Mail has higher costs, it is able to charge a higher price, but it is not able simply to select a price that suits its ability to inhibit, or to risk inhibiting, competition when that competition can offer something useful for consumers and the market.⁹⁹

95 Ofcom ([USO 29](#))

96 Q137

97 Q34

98 Ofcom, [Royal Mail access pricing review](#), 2 December 2014, para 1.4

99 Q162

68. *We support Ofcom’s consultation on the level of zonal pricing set by Royal Mail. Any recommendations arising from that consultation must balance the need for Royal Mail to retain the freedom to set its prices, dependent on the cost of delivering in that area, with the benefits of retaining an open market and increasing competition. Royal Mail are free to set zonal pricing, but it should be based on actual costs of delivering to those zones, and not as a device to deter, or even stifle, competition. There is a fine balancing act to be set. Ofcom must set out the timetable for this consultation, and when a decision will be made.*

Labour costs

69. The major part of the costs in the postal sector are labour costs because letters and parcels have to be delivered by a person. Adam Scorer, from Citizens Advice, was concerned that recent developments could lead to a “race to the bottom” in terms of services:

We have seen it in lots of other markets on the customer services side. [It] inevitably leads to a lower level of service, higher degrees of complaint and a lack of trust and confidence in engaging in those markets. I could see clear detriment, if that was done as a necessary kneejerk, fast response to the growth of competition.¹⁰⁰

That said, greater competition does not necessarily require cutting labour costs. As supplementary evidence from the CWU highlighted:

All the evidence is that if you pay people well and if you have a collaborative approach to solving problems, it makes for a successful company. Decent terms and conditions of employment will help to maintain a committed, motivated workforce leading to higher productivity and a better quality postal service for customers.¹⁰¹

70. Evidence from Royal Mail also highlighted these points about labour terms and conditions:

Royal Mail believes that industry standards need to be improved and that this can be best achieved through either an industry-wide quality standard and/or regulation. We believe that current basic requirements would help to ensure the parcels industry delivers a better service for consumers.¹⁰²

100 Q132

101 CWU ([USO 55](#)) para 2

102 Royal Mail ([USO 37](#)) para 4.7

Royal Mail’s written evidence then went on to highlight differences in terms and conditions between their own staff and staff from other companies:

Proposed Standard	Current Practice
- Delivery staff required to declare past criminal convictions	- Royal Mail ensures all staff are CRB checked. We do not believe this is the case for most other companies
- Requirement to provide appropriate driver training to delivery staff	- Royal Mail provides appropriate driver training for the type of vehicles staff are expected to use. Some operators use private vehicles for delivery
- All operators required to adhere to standardised alternative delivery options when the recipient isn’t available	- Royal Mail is already subject to strict regulation on where it can deliver parcels in the event the recipient is out - This requirement does not apply to other parcel operators
- Requirement to publish complaints handling schemes	- Royal Mail is required to publish its complaints handling scheme as well as the number of complaints it receives. Other parcel operators are not required to do so
- Requirement to adhere to good employment standards	- Royal Mail pays a living wage, invests in its people and ensures high quality jobs with appropriate training. Some other large parcel operators opt for a self-employment model

Royal Mail written evidence¹⁰³

71. CWU’s written evidence contrasted the terms and conditions of Royal Mail employees with those of its competitors:

In the parcels sector, several carriers including Hermes and Yodel use low-cost lifestyle couriers who are treated as self-employed and are therefore not entitled to the National Minimum Wage. They are routinely paid a rate per successfully delivered item which often makes it impossible to earn a reasonable rate of pay. In one company, rates are as little as £0.20–£1.20 per successful delivery, equating to only £3.70–£5.30 per hour.¹⁰⁴

72. However, supplementary evidence requested by the Committee from Royal Mail’s competitors would seem to question Royal Mail’s assertion. TNT UK Ltd has one employee on a zero-hours contract, out of a total of 9,000 staff.¹⁰⁵ UK Mail wrote that they

103 Royal Mail ([USO 37](#)) table 1

104 CWU ([USO 18](#)) para 24

105 TNT UK Ltd ([USO 51](#))

have no employees on zero-hours contracts.¹⁰⁶ Whistl gave detailed information on its staff's terms and conditions: at the time of writing, there were: 6.9% of staff who had contracts for under 13 hours per week (predominantly Saturday workers and students); all employees who had completed three months' service were paid above the adult national minimum wage (excluding some apprenticeships); employees' basic pay range is £6.50 to £6.57 (outside London) and £7.10 to £7.37 (London); CRB checks are made either when staff are engaged or on a random basis after employment; Nearly half of all Whistl employees (48%) are on zero hour contracts.¹⁰⁷ In reference to those on zero-hour contracts, Whistl's supplementary evidence stated that:

Whistl has recently reached agreement in principle with its recognised Trade Union, Community, that an employee will be offered an alternative, fixed hours contract after the end of an appropriate probation period. The employee may elect to remain on a flexible (zero hours) contract.¹⁰⁸

73. However, as Ed Richards, pointed out, Ofcom has no responsibility in this area::

Labour costs, and employment law and the regulation of the price of labour—the minimum wage and all those sorts of things—are clearly not part of our remit. We cannot deal with that. We are very much a creature of statute. We do what the statute tells us to do, and it is very clear that that is not part of our duties.¹⁰⁹

When he was asked whether Ofcom would study the quality of service across the entire postal industry, not just those of Royal Mail, he replied:

Quality of service is something that we look at, and we will, I am sure, have a further discussion with Royal Mail about whether there are issues to do with quality of service or mail integrity—all those kinds of things—that we need to look at on a forward-looking basis. We would be very happy to do that.¹¹⁰

74. Ofcom has rules on mail integrity, which require regulated postal operators to ensure that their mail is protected against loss, damage or theft, and is delivered to its intended destination. We asked the different postal operators who gave oral evidence about the number of prosecutions and complaints they had experienced. TNT Express UK could not answer the Committee's question about the number of formal complaints relating to staff, for the following reason:

TNT UK Ltd does not hold data to record the number of complaints specifically relating to its staff which it receives from its customers and is therefore unable to assist the Committee with this question.¹¹¹

106 UK Mail ([USO 50](#))

107 Whistl ([USO 49](#))

108 *Ibid*

109 Q200

110 Q201

111 TNT UK Ltd ([USO 51](#))

In the year to March 2014, Whistl received 1,627 complaints about their delivery services, which represents one complaint for every 49,000 letters delivered.¹¹² Royal Mail handled 14.3 billion items of mail in 2013–14, and received 735,637 consumer complaints,¹¹³ which represents one complaint for every 19,439 items of mail delivered.

75. We are opposed to a ‘race to the bottom’ of postal sector employees’ wages, terms and conditions, and such a race should not be an inevitable result of greater competition in the sector. Indeed, Royal Mail’s negotiations with the CWU have resulted in pay increases and job security. Our evidence suggests that, while Royal Mail’s criticism of its rivals’ treatment of their staff is not wholly proven, there are certainly examples of where the wages, terms and conditions offered by other companies in the sector fall short of the standards offered by Royal Mail, including what appears to have been a disproportionate use of zero-hours contracts by Whistl.

76. If standards of pay in the postal sector, as in other sectors, fall short, then the taxpayer is left to pick up the difference, because in-work state benefits will cost more. Furthermore, it is unacceptable that delivery of the Universal Service Obligation should require downward pressure on the terms and conditions of staff delivering that service. We recommend that Ofcom investigates the impact on customers and the service provided to customers of any downward pressure on terms and conditions of postal sector staff. We further recommend that the Government considers extending Ofcom’s remit to include consideration of labour costs, conditions and standards in the postal sector.

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112 Whistl ([USO 49](#))

113 Royal Mail ([USO 52](#))

5 Ofcom and the regulatory framework

The postal services market has started to look much more like a private sector market. But in common with many other sectors that have followed the same path, regulatory intervention has been needed to ensure that wider social objectives continue to remain at the heart of the market. [The Social Market Foundation]¹¹⁴

77. The Postal Services Act 2011 clearly sets out what Ofcom must have regard to:

The need for the provision of a universal postal service to be financially sustainable, and the need for the provision of a universal postal service to be efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.¹¹⁵

Ofcom's primary duty is to secure the Universal Postal Service, but this requirement sits alongside Ofcom's duty to ensure that the postal service is fully open to competition.¹¹⁶ Ofcom is therefore striking a balance between protecting the USO (ensuring it is delivered as efficiently as possible) and protecting consumers and taxpayers. Ed Richards told the Committee about the work that Ofcom undertakes, to ensure that the Universal Service is not at risk:

We monitor the whole market very carefully pretty much all the time. We look at it in different forms on a monthly, quarterly and annual basis. We looked specifically in relation to that judgment, which is important to emphasise is a judgment at a point in time, at a situation in the market today: what the facts are and what the empirical data tell us about the position today. Then we overlaid on that information that we received from Royal Mail and Whistl—and from other parties, but particularly those two parties—in terms of their expectations and projections about how the market would develop, particularly in light of different business plans and assumptions.¹¹⁷

78. In 2012, Ofcom published the new regulatory framework for postal services, and the methods by which they would protect the Universal Service, including the following:

- **Quality of Service**—Royal Mail will be required to provide the universal service to the specified standard and we will regularly monitor service quality to ensure that this is the case;
- **Efficiency**—we expect Royal Mail to improve efficiency levels and to sustain such improvement thereafter. While there are many ways to measure efficiency, our focus will be on the level of costs. It would not be in keeping with our regulatory objectives if Royal Mail were to return to a

114 The Social Market Foundation ([USO 19](#)) para 20

115 Postal Services Act 2011, Section 29, para 3

116 In accordance with Directive 2008/6/EC of the European Parliament and of the Council, 20 February 2008

117 Q144

position of sustained profitability, but had done so solely as a result of price rises, and not cost reduction. Conversely, a situation where Royal Mail is able to demonstrate a healthy level of profitability that has been driven by cost savings or business improvements would be consistent with our regulatory objectives, and would not warrant our intervention.

- **Affordability**–If prices rise to a point that they give rise to affordability issues, particularly for vulnerable consumers, then there would be a need to re-intervene.¹¹⁸

79. We asked Ofcom to provide supplementary evidence on the amount of work on postal services it had carried out in the past year. They responded with the following information:

For 2014, Ofcom’s work on regulating postal services took 16 FTE (full time equivalent/person years) or 28,365 hours. This includes the hours worked on these projects by policy, strategy, economics, finance, investigations and legal staff, but not communications, secretariat, operations and senior executives. The equivalent figure for 2013 was 12 FTE, and [that] year included the completion of two major projects, i.e. the review of users’ needs and our guidance on end-to-end competition.

Nearly three-quarters of the 16 FTEs related directly to either Royal Mail’s proposals for access pricing (i.e. the Competition Act investigation and the review of access pricing) or work carried out in response to Royal Mail’s submission on end-to-end competition (our monitoring programme and work on efficiency). If we look at the six month period from June 2014 (when Royal Mail made its submission on end-to-end competition) to November 2014 (when we completed the review, i.e. published on 2 December) we had 20 FTE/month on postal regulation. Both of these were significantly above what Ofcom had budgeted for the year.¹¹⁹

80. We also asked for supplementary evidence from Ofcom about details of the postal sector companies that are monitored (under Section 55 and Schedule 8 of the Postal Services Act 2011). Ofcom monitor Whistl, in relation to the Notification Condition and their future business plans. They also monitor 41 other postal operators: “We collect this information quarterly using our formal powers under section 55 of the Postal Services Act 2011”.¹²⁰

81. However, the remit of Ofcom did not satisfy a number of our witnesses. Moya Greene, from Royal Mail, argued that Ofcom needed to have a wider remit which not only incorporated all companies in the sector but which also could consider “how much latitude Royal Mail needs to be given”.¹²¹ The CWU went further and called for a judicial review of Ofcom, claiming that it failed to fulfil its primary statutory duty to protect the Universal Service Obligation. It went on to argue that Ofcom was ‘part of the problem not the

118 Ofcom, *Securing the Universal Postal Service: Decision on the new regulatory framework*, 27 March 2012

119 Ofcom ([USO 58](#))

120 Ofcom ([USO 57](#)), where the full list of postal sector companies that Ofcom monitors can be found

121 Q58

solution' for not undertaking a full review of the postal sector, but focusing only on Royal Mail's efficiency.¹²²

82. The Rural Services Network were also critical of the Regulator:

Ofcom have a legal duty to protect the Universal Service and the power to review the situation, but despite consistent warnings from interest groups and elected representatives, have refused to conduct a review until the last possible moment allowed under legislation, at the end of 2015.¹²³

83. By contrast, Adam Scorer, from Citizens Advice, believed that Ofcom should approach its regulation of the USO in the following way:

We would expect the regulator to respond to the issues that are alive at the moment and to have a proper, robust process that goes forward, but that does not start from answering an exam question from either an incumbent or a competitor, but takes a rounded, Copernican view, with the consumer slap bang in the middle rather than the USP deliverer or the value of competition in and of itself.¹²⁴

84. *We recognise that Ofcom has a difficult role in ensuring that the provision of a Universal Service is both financially sustainable and efficient. The sector is changing quickly, and Royal Mail has now moved from the public to the private sector. As competition increases, the statutory remit of Ofcom may need to change. Ofcom has to recognise its over-riding obligation to ensure the protection of the Universal Service Obligation and, if necessary, there should be changes in the regulatory framework to enable it to do so.*

85. *We recommend that Ofcom provides our successor Committee with quarterly updates on the state of the Universal Service, and highlights any potential middle-term effects on the Universal Service, and any action that it is proposing to take.*

122 CWU website, 2 December 2014

123 The Rural Services Network ([USO 05](#)) executive summary

124 Q138

6 Conclusion

86. The postal sector is working within a constantly changing market, with declining volumes of letters, and a burgeoning of internet shopping, with the accompanying sharp increase in parcel volume. Royal Mail claims that Whistl's end-to-end competition is putting the Universal Service at risk, while Whistl claims that Royal Mail has an unfair advantage by its VAT exemption for access services. Neither claim has been proven, but they are illustrative of the current competitive climate in which these private companies are working. As Nick Wells, the CEO of Whistl, told us, "If you want competition, this is not a stroll in the park".¹²⁵

87. While we would not want to stifle competition, we are adamant that the principle of the Universal Service should be upheld. We are not persuaded that the Universal Service is a burden for Royal Mail, but is an obligation that brings revenue and status to the organisation. Ofcom must continue to monitor and must be able to respond quickly if the Universal Service is under threat.

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Conclusions and recommendations

Cost of the Universal Service to Royal Mail, region by region

1. Given the fundamental importance of the USO, we were concerned to note that Royal Mail were unable to provide a regional breakdown of the cost of the Universal Service Obligation (USO). In addition, given the responsibility of Ofcom to protect the USO, we were surprised to learn that there is no consensus between Royal Mail and Ofcom over what constitutes the cost, revenues and profits of the USO. We recommend that both Royal Mail and Ofcom should, as a matter of urgency, agree a set of financial metrics against which the costs should be measured. If necessary, this should be carried out by the National Audit Office (NAO) or a mutually-agreed body of experts. (Paragraph 22)
2. We recommend that Royal Mail—the Designated Universal Service Provider—using these figures, provides a geographical analysis of where the Universal Service is profitable and where it is not. Such detailed analysis and financial monitoring of the Universal Service would provide the evidence to assess the long-term sustainability of the Universal Service. This breakdown of costs should be included in Royal Mail's Audited Regulatory Accounts. If Royal Mail declines to provide these figures, we recommend that the Government should consider extending the remit of Ofcom, to enable Ofcom to enforce this requirement. (Paragraph 23)

Universal Service Compensation Fund

3. Cherry picking is a phrase often used in postal services to describe the easy, most profitable sections of mail services taken by Royal Mail's competitors. Cherry picking is available to Royal Mail competitors but, at the moment, affects only a very small percentage of Royal Mail's total business. This could change quickly, given the ambitions of some of Royal Mail's rivals in the market. Both Royal Mail and Ofcom need an evidence base upon which to gauge the potential threats to the sustainability of the USO in the event of a higher level of market penetration by other providers. We note the decision by Ofcom that, currently, the level of the threat does not justify intervention. We also note that Ofcom is mandated to monitor the situation. (Paragraph 39)
4. Ofcom has the power to impose a General Universal Service Obligation on postal operators other than the Universal Service Designated Provider (Royal Mail), in order to protect the Universal Service. We have yet to be convinced that Ofcom *could* impose the General Universal Service Obligation within the predicted six to eight months. We recommend that Ofcom publish a more detailed timeline for its implementation and an assessment that the timescale is fast enough to avoid a failure in the Universal Service, even in the short term. (Paragraph 40)
5. The alternative regulatory condition—the Universal Service Compensation Fund—involves a lengthy delay in implementation. To avoid such a delay, we recommend that the Secretary of State directs Ofcom to review the net cost of the Universal Service, in accordance with the Postal Services Act 2011. (Paragraph 41)

Views of the Universal Service—should it change?

6. There has already been an extensive debate about the requirements of the Universal Service Obligation. The Committee strongly believes that it would be inappropriate to change the current requirements of the Universal Service Obligation. (Paragraph 45)

Price to customers

7. We note that Royal Mail has again increased its prices this year. Royal Mail should not increase prices in an attempt either to increase its own profit levels or to protect the Universal Service Obligation, without continuing to increase the efficiency of its operations, thereby reducing its costs and enabling it to improve its standards of service. (Paragraph 49)

UK Bulk Mail

8. The evidence that we received suggest that Royal Mail still has to match the technical innovations introduced by many of its competitors. These innovations more clearly match the expectations of consumers, as well as contributing to the efficiency of competing postal operators. (Paragraph 63)

Royal Mail's price structure for national average prices and zonal prices

9. We support Ofcom's consultation on the level of zonal pricing set by Royal Mail. Any recommendations arising from that consultation must balance the need for Royal Mail to retain the freedom to set its prices, dependent on the cost of delivering in that area, with the benefits of retaining an open market and increasing competition. Royal Mail are free to set zonal pricing, but it should be based on actual costs of delivering to those zones, and not as a device to deter, or even stifle, competition. There is a fine balancing act to be set. Ofcom must set out the timetable for this consultation, and when a decision will be made. (Paragraph 68)

Labour costs

10. We are opposed to a 'race to the bottom' of postal sector employees' wages, terms and conditions, and such a race should not be an inevitable result of greater competition in the sector. Indeed, Royal Mail's negotiations with the CWU have resulted in pay increases and job security. Our evidence suggests that, while Royal Mail's criticism of its rivals' treatment of their staff is not wholly proven, there are certainly examples of where the wages, terms and conditions offered by other companies in the sector fall short of the standards offered by Royal Mail, including what appears to have been a disproportionate use of zero-hours contracts by Whistl. (Paragraph 75)
11. If standards of pay in the postal sector, as in other sectors, fall short, then the taxpayer is left to pick up the difference, because in-work state benefits will cost more. Furthermore, it is unacceptable that delivery of the Universal Service Obligation should require downward pressure on the terms and conditions of staff delivering that service. We recommend that Ofcom investigates the impact on

customers and the service provided to customers of any downward pressure on terms and conditions of postal sector staff. We further recommend that the Government considers extending Ofcom's remit to include consideration of labour costs, conditions and standards in the postal sector. (Paragraph 76)

Ofcom and the regulatory framework

12. We recognise that Ofcom has a difficult role in ensuring that the provision of a Universal Service is both financially sustainable and efficient. The sector is changing quickly, and Royal Mail has now moved from the public to the private sector. As competition increases, the statutory remit of Ofcom may need to change. Ofcom has to recognise its over-riding obligation to ensure the protection of the Universal Service Obligation and, if necessary, there should be changes in the regulatory framework to enable it to do so. (Paragraph 84)
13. We recommend that Ofcom provides our successor Committee with quarterly updates on the state of the Universal Service, and highlights any potential middle-term effects on the Universal Service, and any action that it is proposing to take. (Paragraph 85)

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Formal Minutes

Tuesday 3 March 2015

Members present:

Mr Adrian Bailey, in the Chair

Paul Blomfield
Katy Clark
Mike Crockart

Caroline Dinéage
Ann McKechin
Robin Walker

Draft Report (*Competition in the postal services sector and the Universal Service Obligation*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 87 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 4 March at 9.00 am]

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Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/bis.

Wednesday 26 November 2014

Question number

Moya Greene, Chief Executive Officer, Royal Mail, **Nick Wells**, Chief Executive Officer, Whistl, **Guy Buswell**, Chief Executive Officer, UK Mail, and **Daniel Vines**, Director of Sales and Customer Services, TNT UK

[Q1-65](#)

Roy Peticucci, Vice President, EU Operations, Amazon

[Q66-87](#)

Billy Hayes, General Secretary, CWU, **Dave Ward**, Deputy General Secretary, Postal, CWU, **John Park**, Assistant General Secretary, Community, and **Les Baylis**, Special Project Officer, Logistics and Distribution, Community

[Q88-107](#)

Wednesday 10 December 2014

Alan Halfacre, Chairman, Mail Users Association, and **Adam Score**, Director of Consumer Futures, Citizens Advice

[Q108-142](#)

Ed Richards, Chief Executive Officer, Ofcom, and **Chris Rowsell**, Competition Policy Director, Ofcom

[Q143-205](#)

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Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/bis. INQ numbers are generated by the evidence processing system and so may not be complete.

- 1 Amazon ([USO0043](#))
- 2 BBC TV Licensing ([USO0016](#))
- 3 Campaign for the Protection of Rural Wales (CPRW) ([USO0002](#))
- 4 Care & Repair Cymru ([USO0021](#))
- 5 Citizens Advice ([USO0020](#))
- 6 Civil Service Pensioners' Alliance ([USO0010](#))
- 7 Communication Workers Union ([USO0018](#))
- 8 Community ([USO0048](#))
- 9 Consumer Council for Northern Ireland ([USO0028](#))
- 10 Cornwall Chamber of Commerce and Industry ([USO0041](#))
- 11 Council of the Isles of Scilly ([USO0042](#))
- 12 Countryside Alliance ([USO0007](#))
- 13 CWU ([USO0055](#))
- 14 ESRC Centre for Competition Policy ([USO0025](#))
- 15 Farmers' Union of Wales ([USO0033](#))
- 16 Federation of Small Businesses ([USO0013](#))
- 17 Institute of Directors, Wales ([USO0009](#))
- 18 Jerry Cox ([USO0044](#))
- 19 Joost Vantomme ([USO0045](#))
- 20 Mail Competition Forum (MCF) ([USO0001](#))
- 21 Mail Users' Association ([USO0023](#))
- 22 National Federation of Occupational Pensioners (NFOP) ([USO0011](#))
- 23 National Federation of SubPostmasters (NFSP) ([USO0026](#))
- 24 NI Chamber of Commerce and Industry ([USO0036](#))
- 25 Ofcom ([USO0029](#))
- 26 Ofcom ([USO0054](#))
- 27 Ofcom ([USO0057](#))
- 28 Ofcom ([USO0058](#))
- 29 Ofcom ([USO0059](#))
- 30 Post Office Ltd ([USO0039](#))
- 31 Richard Hooper ([USO0006](#))
- 32 Royal Mail ([USO0052](#))
- 33 Royal Mail ([USO0053](#))
- 34 Royal Mail ([USO0056](#))
- 35 Royal Mail Group ([USO0037](#))
- 36 Royal National Institute of Blind People (RNIB) ([USO0003](#))
- 37 Scottish Chambers of Commerce ([USO0032](#))
- 38 Scottish Council for Development and Industry ([USO0022](#))
- 39 Social Market Foundation ([USO0019](#))

- 40 South Wales Chamber of Commerce ([USO0014](#))
- 41 techUK ([USO0030](#))
- 42 The Postalgroup ([USO0038](#))
- 43 The Rural Services Network ([USO0005](#))
- 44 TNT ([USO0051](#))
- 45 UK Mail ([USO0050](#))
- 46 UK Mail ([USO0027](#))
- 47 UK Mail ([USO0047](#))
- 48 Unite The Union CMA ([USO0017](#))
- 49 Welsh Local Government Association (Rural Forum) ([USO0024](#))
- 50 Whistl ([USO0013](#))
- 51 Whistl ([USO0049](#))

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List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/bis.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

First Report	Royal Mail Privatisation	HC 539-I/II
Second Report/First Joint Report	Scrutiny of the Government's UK Strategic Export Controls Annual Report 2012, the Government's Quarterly Reports from October 2012 to September 2013, and the Government's policies on arms exports and international arms control issues	HC 186
Third Report	Student Loans	HC 558 (HC 777)
Fourth Report	The Implications for Scottish Independence on Business; Higher Education and Research; and Postal Services	HC 504
Fifth Report	Adult Literacy and Numeracy	HC 557 (Cm 8982)
Sixth Report	The Extractive Industries	HC 188(939)
Seventh Report	Business-University Collaboration	HC 249
Eighth Report	Government Support for Business	HC 770
Ninth Report	Competition in the postal services sector and the Universal Service Obligation	HC 769

Session 2013–14

First Report	Women in the Workplace	HC 342-I/II/III(Cm 8701)
Second Report/First Joint Report	Scrutiny of Arms Exports and Arms Control (2013): Scrutiny of the Government's UK Strategic Export Controls Annual Report 2011 published in July 2012, the Government's Quarterly Reports from October 2011 to September 2012, and the Government's policies on arms exports and international arms control issues	HC 205
Third Report	The Kay Review of UK Equity Markets and Long-term Decision Making	HC 603(HC 762)
Fourth Report	Consultation on a Statutory Code for Pub Companies	HC 314
Fifth Report	Open Access	HC 99-I/II(HC 833)
Sixth Report	Draft Consumer Rights Bill	HC 697-I/II/III
Seventh Report	Payday Loans	HC 789

Session 2012–13

First Report	The Hargreaves Review of Intellectual Property: Where Next?	HC 367-I/II(HC 579)
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Second Report/First Joint Report	Scrutiny of Arms Export Controls (2012): UK Strategic Export Controls Annual Report 2010, Quarterly Reports for 2010 and January to September 2011, the Government's review of arms exports to the Middle East and North Africa, and wider arms control issues	HC 419
Third Report	Post Office Network Transformation	HC 84(HC 678)
Fourth Report	Overseas Students and Net Migration	HC 425(Cm 8557)
Fifth Report	Apprenticeships	HC-I/II/III(HC 899)
Sixth Report	The Insolvency Service	HC 675 (HC 1115)
Seventh Report	Too Little, Too Late: Committee's observations on the Government Response to the Report on Overseas Students and Net Migration	HC 1015(Cm 8622)
Eighth Report	Pre-appointment hearing of the Government's preferred candidate for the post of Groceries Code Adjudicator	HC 1011
Ninth Report	Local Enterprise Partnerships	HC 598
Session 2010–12		
First Report	The New Local Enterprise Partnerships: An Initial Assessment	HC 434 (HC 809)
Second Report	Sheffield Forgemasters	HC 484 (HC 843)
Third Report	Government Assistance to Industry	HC 561
Fourth Report / First Joint Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010, licensing policy and review of export control legislation	HC 686
Fifth Report	Government Assistance to Industry: Government Response to the Committee's Third Report of Session 2010–11	HC 1038
Sixth Report	Is Kraft working for Cadbury?	HC 871
Seventh Report	Rebalancing the Economy: Trade and Investment	HC 735 (HC 1545)
Eighth Report	Trade and Investment: China	HC 1421 (HC 1568)
Ninth Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code	HC 1224-I
Tenth Report	Pub Companies	HC 1369-I/II (Cm 8222)
Eleventh Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code: Government Response to the Committee's Ninth Report of Session 2010-12	HC 1546
Twelfth Report	Government reform of Higher Education	HC 885-I/II/III (HC 286)
Thirteenth Report	Pre-Appointment Hearing: Appointment of Director of the Office for Fair Access	HC 1811
Fourteenth Report	Debt Management	HC 1649 (HC 301)
Fifteenth Report	Stamp Prices	HC 1841-I/II

Business, Innovation and Skills Committee

Select Committee Announcement

Wed 11 March 2015 **Embargoed until 00.01 on Thursday 12 March**

Publication of Ninth Report of Session 2014–15, HC769 – Competition in the postal services sector & the Universal Service Obligation

Ofcom may need greater powers to protect the Universal Service, says BIS Committee

The Business, Innovation and Skills (BIS) Committee in a report published today says that given the rapidly changing postal sector market, Ofcom - the postal regulator - may need additional regulatory duties to ensure the future of the Universal Service obligation. The Universal Service—a postal service available to everyone living in every part of the United Kingdom, delivered at the same cost and with the same standard—is not under immediate threat but in a rapidly changing postal market this could change.

Adrian Bailey, Chair of the Business, Innovation and Skills (BIS) Committee, said:

“The universal postal service is available to everyone living in every part of the United Kingdom. It is an essential service to many people, especially those living in rural areas, to those less able to travel, to older people, and also to blind and partially-sighted people. While our evidence indicated the universal service is not under immediate threat, we believe Ofcom needs to outline in more detail how it would respond quickly to changes in postal market conditions which may endanger the USO.”

Ofcom has a difficult role in ensuring that the provision of a Universal Service is both financially sustainable and efficient. Given the prospect of rapidly changing market conditions, including the fact that Royal Mail has now moved from the public to the private sector, the Committee wants reassurance from Ofcom that they are able to take swift action to protect the Universal Service Obligation (USO). To ensure Ofcom can protect the USO by responding quickly to changes in postal market conditions, the BIS Committee recommends the regulator sets out a timeline of how it would use its existing powers to place conditions on postal operators. Ofcom should also carry out an assessment of whether this timescale will be rapid enough to avoid a failure in the Universal Service, even in the short term.

As competition increases, the statutory remit of Ofcom may need to change. Ofcom has to recognise its over-riding obligation to ensure the protection of the Universal Service Obligation and, if necessary, there should be changes in the regulatory framework to enable it to do so. Ofcom should provide the Committee with quarterly updates on the state of the Universal Service.

The Committee was concerned that Royal Mail was unable to provide a regional breakdown of its cost. Additionally, the Committee was surprised at the lack of consensus from Royal Mail and Ofcom on what constitutes the cost, revenues and profits of the Universal Service. To help assess the long-term sustainability of the Universal Service, the Committee recommends that Ofcom and Royal Mail agree on an accurate costing of the Universal Service, and that Royal Mail provides a geographical analysis of the Universal Service, in terms of costs. The Committee also calls on the Secretary of State to direct Ofcom to review the net cost of the Universal Service, in accordance with the Postal Services Act 2011.

Royal Mail has done much to improve efficiency, but still has to match the technical innovations introduced by many of its competitors—innovations that more clearly match the expectations of consumers, as well as contributing to the efficiency of competing postal operators. While such improvements may increase costs, the Committee recommends that Royal Mail should not increase postal and package prices simply in an attempt either to increase

its own profit levels, or to protect the Universal Service Obligation, without increasing the efficiency of its operations.

The Committee also calls on Ofcom to help combat any 'race to the bottom' of postal workers' wages, terms and conditions. The Committee recommends Ofcom investigate the impact on and the service provided to customers, by any downward pressure on wages, terms and conditions of postal sector employees. To help guard against any downward pressure on the wages and conditions of postal staff, we recommend that the Government considers extending Ofcom's remit to include consideration of labour costs, conditions and standards in the postal market.

Adrian Bailey, Chair of the Business, Innovation and Skills (BIS) Committee, said:

"Ofcom has a difficult role in ensuring the provision of a Universal Service is both financially sustainable and efficient. The postal sector is changing quickly, with declining volumes of letters, and a sharp increase in parcel volume arising from the rapid growth of internet shopping.

"Ofcom is required to perform a fine balancing act between ensuring the minimum standards of the Universal Service are maintained while encouraging a competitive market in the postal sector. However, the BIS Committee is clear that while competition should not be stifled, the fundamental principle of the Universal Service must be upheld. Ofcom need to move quickly to respond to any threat to the Universal Service and the Government should look to make changes to the regulatory framework to ensure Ofcom has the tools to do the job".

"In the wake of the operating practices and subsequent collapse of City Link, we need to ensure greater competition in the postal sector does not lead to a race to the bottom in terms of the pay, terms, and conditions of postal employees. We also call on Ofcom to investigate the impact on customers, and the service provided to customers of any downward pressure on wages, terms and conditions of postal sector staff. To help guard against any downward pressure on the wages and conditions of postal staff, we recommend that Ofcom is given greater powers to comment on labour conditions and standards in the postal market."

ENDS

Notes for Editors:

1. The Business, Innovation and Skills Committee will publish its 9th Report of Session 2014–15, Competition in the postal services sector & the Universal Service Obligation, as HC 769 at 00.01 on Thursday 12 March. This report (in HTML or PDF format) is available from 0.01 on Thursday 12 March 2015 via:

(PDF) <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmbis/769/769.pdf>

(HTML) <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmbis/769/76902.htm>

The news story will go live at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/business-innovation-and-skills/news/postal-service-competition-report>

FURTHER INFORMATION:

Committee Membership is as follows:

Chair: Mr Adrian Bailey MP (Lab) (West Bromwich West)

Mr William Bain MP (Lab) (Glasgow North East)

Paul Blomfield MP (Lab) (Sheffield Central)

Mike Crockart MP (Lib Dem) (Edinburgh West)

Rebecca Harris MP (Con) (Castle Point)

Mr Robin Walker MP (Con) (Worcester)

Mr Brian Binley MP (Con) (Northampton South)

Katy Clark MP (Lab) (North Ayrshire and Arran)

Caroline Dinéage MP (Con) (Gosport)

Ann McKechnie MP (Lab) (Glasgow North)

Nadhim Zahawi MP (Con) (Stratford upon Avon)

Media Information: Gary Calder calderg@parliament.uk 020 7219 7556/07917 488622

Committee Website: www.parliament.uk/bis

Specific Committee Information: biscom@parliament.uk / 020 7219 5777

Watch committees and parliamentary debates online: www.parliamentlive.tv

Publications / Reports / Reference Material: Copies of all select committee reports are available from the Parliamentary Bookshop (12 Bridge St, Westminster, 020 7219 3890) or the Stationery Office

Transformation Challenge Award

Background:

Since the establishment of the Transformation Challenge Award, over **£110 Million** in funding has been awarded to Local Authorities. It was made available to support local authorities re-engineer their business practices and redesign service delivery over the next year.

At a time when government funding for local authorities is reducing, the salami slicing of budgets will no longer enable authorities to balance their budgets. They have to find different and innovative ways of working in different kinds of partnerships and delivering services differently.

A story in Localgov.co.uk recently led with the headline 'Councils predict 2015 will be a year of transformation'. It reported on a survey carried out by Civica which revealed that nearly three quarters of local authorities think efficiency cuts will be deeper this year, but that more than half of directors and managers also say they will transform public services this year.

"At the same time, local officials are struggling to cope with population pressures. Forty-four percent of respondents expect the growing ageing population to squeeze their finances further."

This is particularly relevant for rural communities which have a larger than average older population and also where options such as making services available online are difficult to make work in practice as there are rural areas within the local authority with no or very limited access to broadband.

Where has the money gone?

Overall when considering just the lead authorities for the bids, Predominantly Rural Councils have been awarded £22.6 Million and Urban with Significant Rural authorities have been awarded £18.5 Million.

When considering lead authorities over the three years, there were 73 Urban Authorities, 38 Predominantly Rural Authorities and 25 Urban with Significant Rural Authorities that received awards.

A number of the bids were made up on partnerships between local authorities, other public service bodies, housing associations and community or voluntary sector organisations. In total therefore, 156 unitary authorities, 89 Predominantly Rural Authorities and 49 Urban with Significant Rural Authorities received awards.

If you look at Rural Services Network authorities, solely considering the lead authorities for bids, they have been awarded over the 3 years, £31.5M in funding and £3.6M in capital receipt flexibility. This is a significant amount of expertise and different experiences across the network which we should all benefit from.

Government Perspective on future work

On 10th February 2015 in his speech about the Final Local Government Settlement, Kris Hopkins MP specifically said:

“As I announced in December, we are developing proposals for a project to identify and disseminate good practice in transforming services, especially in rural areas. This work will involve rural authorities and the Rural Services Network, and is a clear commitment to our rural areas.”

How can we build on this at the Rural Services Network?

We have written to Kris Hopkins MP to ask more about the project given the specific reference to our organisation however we have not yet had a response.

We have two Councillors from our Network that are going to talk about the projects that their authorities are undertaking at the meeting on 13th April. We would welcome authorities contributing in this way at future meetings.

Shropshire Council received £520,000 for the project ‘Our Community Hubs’ to transform existing face to face customer focused services, including libraries and Customer Service Points.

Suffolk County received £3,323,125 for their Future Councils Model. This project involves a wide range of authorities within the county and Suffolk Constabulary and the money will be used to pump prime new ways of collaborative working that support communities, reduce costs and generate benefits for residents of £19M over 10 years.

We are exploring the possibility of putting case studies or links to information about our members projects on our website so that member authorities can share information and find out more about best practice.

Rural Services Network

2nd Sounding Board Survey

“Older Peoples Services”

A recent sounding board survey asked for information on the location and accessibility of various key services; sought opinions about changes in elderly people’s accessibility to services over the last 5 years; and enquired about the availability of housing suitable for older residents.

In total there were 214 responses from Parish Councillors and 30 from other Local Authority Councillors although it should be noted that the other Local Authority responses provided information on a total of 93 parishes.

The first question related to distances to various services from the largest village within a particular parish.

The table below provides figures for the percentage of parishes having specific services in their largest village and, in brackets, the percentage of parishes where the service is more than 5 miles away from the largest village.

	Parish Councillor responses	LA Councillor responses
Pub	73% (5%)	71% (6%)
Library/ mobile library	60% (11%)	55% (20%)
Post Office	46% (8%)	49% (16%)
Grocery shop	49% (10%)	54% (8%)
Pensioner social group	50% (21%)	45% (17%)
GP	33% (19%)	29% (21%)
Bank/ cash machine	32% (24%)	32% (24%)
Sheltered housing	35% (31%)	33% (25%)
Nursing/ care home	20% (31%)	12% (45%)

Public Houses were by far the most frequently found facility with libraries/ mobile libraries a perhaps unexpected second. Around half the largest villages in the parishes surveyed had a grocery shop and only slightly fewer had a Post Office. A similar number had some form of pensioner social group meeting at least weekly. However, only around a third had a GP surgery of any kind and one in five villages were more than 5 miles from such provision.

The next question asked whether, if not available actually within the village, these services/ facilities were conveniently accessible by bus.

	Parish Councillor responses		LA Councillor responses	
	Yes	No	Yes	No
Pub	34%	66%	36%	64%
Library/ mobile library	43%	57%	47%	53%
Post Office	36%	64%	46%	54%
Grocery shop	34%	66%	55%	45%
Pensioner social group	26%	74%	47%	53%
GP	32%	68%	54%	46%
Bank/ cash machine	41%	60%	56%	44%
Sheltered housing	32%	68%	51%	49%
Nursing/ care home	31%	69%	50%	50%

These results illustrate the difficulty in accessing many key services by bus. Since the question related specifically to access by bus from the largest village in the Parish accessibility will be an even greater obstacle for those living in smaller settlements and the countryside.

It is interesting that the parish responses generally suggested that services/facilities were more difficult to access by bus than indicated by LA responses. This might be explained by the fact that two sets of responses cover different parishes (and the difference simply reflects the different characteristics of those parishes) or, perhaps more likely, that the parish respondents had a more detailed and realistic knowledge of the practicalities of using local buses.

Parish Councillors responses to a question asking about changes to specific issues experienced by elderly residents of their parish over a five year period were as follows (percentages):

Answer Options	Much better	A little better	About the same	Slightly worse	Much worse	Don't know
Accessibility of GP	4	5	57	18	14	1
Accessibility of outpatient hospital services	2	6	42	28	16	5
Social Care provided by Council	0	1	28	27	15	28
Social Care provided by the private sector	1	6	37	12	7	37
Social care provided by volunteers	1	11	36	9	3	40
Meals on wheels or similar service	0	1	27	12	14	46
Incidence of fuel poverty	0	3	21	22	13	40
Social isolation	0	5	39	27	16	14
Availability of public or community transport	2	9	36	23	28	2

Local Authority Councillors responses to a similar question but relating to their Ward gave the following results (percentages):

Answer Options	Much better	A little better	About the same	Slightly worse	Much worse	Don't know
Accessibility of GP	0	7	71	18	4	0
Accessibility of outpatient hospital services	0	15	55	19	11	0
Social Care provided by Council	0	4	42	31	15	8
Social Care provided by the private sector	0	7	61	14	7	11
Social care provided by volunteers	0	18	61	0	4	18
Meals on wheels or similar service	0	11	32	25	14	18
Incidence of fuel poverty	4	4	54	18	14	7
Social isolation	0	14	50	21	7	7
Availability of public or community transport	4	15	27	44	15	0

Other than for 'social care provided for volunteers' there was a general recognition of decline in the availability or accessibility of a range services to the elderly. Health care was identified as less accessible and social care worse than five years ago. Social isolation and fuel poverty were also identified as having generally increased. Notably over a quarter of the parish responses thought the availability of public or community transport was **much worse** now than 5 years ago-this will clearly have impacted the accessibility of other services although other factors such as service cut-backs and centralisation will also have contributed to these trends.

46% of Parish Councillors responses suggested that there was adequate housing suitable for older people within the Parish but 54% thought that there was not. The need for sheltered housing and suitably designed smaller units such as two bedroom bungalows were suggested by several respondents. Of the responses from other Local Authority Councillors just 38% thought there was adequate housing suitable for the elderly within their Ward compared to 62% who did not. Again sheltered housing and small bungalows were the unmet needs most often identified. One specifically mentioned the need for affordable housing for the elderly.

Overall these survey results paint a rather depressing picture particularly given the anticipated demographic changes of an increasing elderly rural population and expected further public sector cuts.

