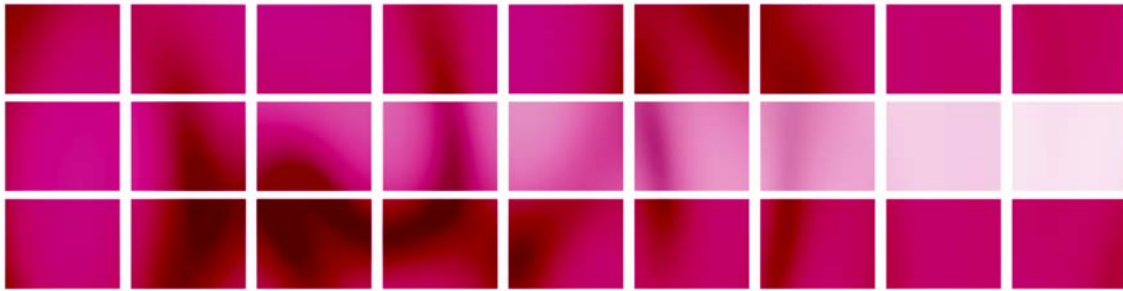


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**PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON
QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)**

Liberalisation, privatisation and regulation in the UK postal services sector

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Country report on liberalisation and privatisation processes and forms of
regulation

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INTRODUCTION

A state postal service was established in Britain as early as 1635 but it was in the 19th century that rapid expansion and development, both in terms of letter delivery and new services that the organisation took the form that continued into the 20th century. The introduction of the pre-paid stamp and single-price universal service in 1840 led to a massive increase in letter post. In 1861 the Post Office Savings Bank was set up and in towards the end of the century it also developed a parcel delivery service (1883) and a network of local post offices. In the meantime the Post Office was given a monopoly over telegraph services (1870). This was the basis of its later control of the telephone service, which remained a Post Office monopoly until 1981.

These then were the main elements – letter post, parcels, post offices, banking services and telecommunications – that made up the Post Office during most of the 20th century and for most of this period, until 1969, it operated as a government department. The Postmaster General was a ministerial position, a post that was only abolished in 1969 when the Post Office became a nationalised industry and responsibility for it was transferred to the Department of Industry (later Department of Trade and Industry).

In 1981 the telecommunications division was split off from the Post Office to create British Telecommunications, which was privatised in 1984. The 1980s saw further restructuring with the Post Office reorganised into five divisions in 1986 – Royal Mail, Parcelforce, Post Office Counters, Girobank (formerly the Post Office Savings Bank) and Subscription Services, which was mainly the Post Office's responsibility for collecting television licences. Girobank was privatised in 1990 and was taken over by the Alliance and Leicester banking group in 1994.

The main organisational changes since the 1990s have involved a brief and unpopular name change to Consignia, the setting up of the organisation as government owned public limited company in 2001 and the name change in 2002 to Royal Mail Group plc. The 2000 Postal Services Act is the key piece of legislation, which set out the process of market liberalisation and, along with the Postal Services Regulations of 1999, ensured that the UK complied with European law on postal services.

1. MARKET STRUCTURE

1.1. Market structure before liberalisation

The three main divisions of the government-owned postal services are letters (Royal Mail), parcels (now called Parcelforce Worldwide) and local post offices (Post Office Counters). These are now divisions of Royal Mail plc, which is wholly owned by the government but which was previously a nationalised industry (1969-2001) and before that a government department. This meant that until 1969 postal workers were civil

servants and the organisation run as part of the civil service. The move to nationalised industry status was an acknowledgement by the Labour government of the day that Royal Mail had to be managed more as a commercial concern than part of government (Corby, 1979).

Royal Mail had a monopoly over letter and parcel delivery until 1981 when the monopoly was restricted to letters costing less than £1.00 to deliver. Until then Royal Mail was, with a few exceptions, the only organisation that could collect, transport, sort and deliver any form of letter or parcel. One exception was Britdoc, (now a licensed operator DX Network Services) a system of document exchange used by businesses mainly by legal, accountancy and other professional firms. But this and other examples accounted for a tiny percentage of the postal business carried out in the UK.

The network of post offices around the country, the vast majority of which were and remain, sub-post offices and franchised not directly run, had a number of monopoly rights over certain services. Until 1981 they were the only retail outlet that sold stamps and they remain the only outlets where you can access Royal Mail's postal services, getting letters and parcels weighed and using related services such as special and recorded delivery. They also had a monopoly over the sale of a number of official licences – motor vehicle, fishing and television – and administration of a range of transfer payments such as social security benefits, child benefits and pensions.

1.2. *Steps and processes of liberalisation*

The first initiative to liberalise postal services was taken in 1981 at the same time that the telecommunications division was hived off into a separate nationalised industry – British Telecommunications. This legislation, the *British Telecommunications Act 1981*, reduced the monopoly on letter and parcel distribution just to letters costing less than £1.00.

This led to the entry of a very large number of competing firms in to the parcel and express delivery market and a rapid erosion of Royal Mail's market share in this part of the business. The parcels business had been loss making for most of the post-war period, being effectively subsidised by the profits made by Royal Mail's letters division.

Proposals for privatisation and liberalisation moved up the political agenda in both the UK and Europe in the early 1990s. In the UK, a whole series of privatisations of national industries had taken place since the first government led by Margaret Thatcher had come to power in 1979. However, privatisation of Royal Mail did not feature in government policy under Margaret Thatcher and it wasn't until a review of postal services undertaken between 1992 and 1994 by the then Conservative prime minister John Major that plans for privatisation and liberalisation of postal services began to emerge. In fact, in January of 1992 the government was still indicating that it had no plans to privatise the postal service (Financial Times 16 January 1992). However, it was only six months later the government made a statement of its intention to privatise

Parcelforce, as the parcels business had been named in 1990, in July 1992 just before it announced the postal services review (*Financial Times* 30 July 1992).

A key element of the liberalisation debate was the extent to which some form of monopoly protection was required in order for Royal Mail to be able to meet the cost of its universal service obligation of daily deliveries to anywhere in the UK at a single, standard affordable price. The assumption was that costs were involved in guaranteeing daily collection from all Royal Mail access points (post boxes, post offices) and daily delivery to all 28 million postal addresses.

The review led to the publication in June 1994 of a green paper, *Future of Postal Services*, which included a proposal to sell off both Royal Mail and Parcelforce with the government retaining a 49% stake. Post Office Counters, the network of directly managed and franchised post offices around the country, would remain in the public sector but along with the other two divisions would be given greater commercial freedom. Most of the green paper proposals were never adopted as the Conservative government had to select its legislative programme very carefully in view of its small and declining majority in parliament and with priorities increasingly determined by the proximity of the general election, which finally took place in May 1997. The only element of the green paper that was adopted was the decision to allow Post Office Counters to increase the range of services it provided to include bureaux de change, travel insurance, the National Lottery and payment of gas bills.

In the early 1990s the European Commission began debating how to introduce a single market into postal services across Europe in line with its other initiatives on creating a single market for goods and services. This led to a green paper in 1992 and a draft directive at the end of 1995 that was finally agreed in December 1997, followed by a further directive in 2002. The main aims of European legislation were to try to establish a standard reserved area for letters and access conditions for licensed operators, to introduce independent regulators in each Member State, to set quality standards and to establish clear principles on pricing. The reserved area was initially set at letters weighing less than 100g or costing less than three times the standard service – this was 80p in the case of the UK. These thresholds applied from 1 January 2003 and were then reduced from 1 January 2006 to letters weighing less than 50g or costing more than 2.5 times the standard service (65p in the case of the UK). Another review should lead to further liberalisation with the prospect of a fully open market by 2009.

Following another review of postal services begun by the Labour government, a White Paper was published in July 1999, *Post Office Reform: a world class service for the 21st century*, which resulted in legislation in 2000 – *Postal Services Act*. The White Paper set out five main aims in the reform of postal services:

- improvement of postal services through greater choice, better quality and falling real prices;
- maintenance of a universal delivery service throughout the UK at a uniform price;
- establishing clear relationships between the government, the Post Office, the regulator and the Post Office Users' National Council;

- prepare the Post Office to cope with the challenges of the changing domestic and international postal markets; and
- support a network of post offices to ensure nationwide access.

The legislation led to the Post Office becoming a publicly owned corporation under the *Companies Act* with the government as the sole shareholder. This gave the organisation a certain degree of independence with the government agreeing a five-year plan with the Post Office and setting certain social and environmental objectives. The Act also gave the Post Office more commercial freedom, allowing it to borrow to invest or expand through takeovers, joint ventures, alliances or partnerships. A limit of £75 million per year was imposed on this activity with any proposals taking the Post Office above this threshold requiring ministerial approval.

The Post Services Commission (Postcomm) was the regulatory body established by the Act with responsibility for regulating prices and ensuring that the Post Office continued to meet its universal obligation to provide a standard service at a single price across the UK. It was up to Postcomm to recommend to the government the rate at which the letters market should be opened up to further competition. The letters monopoly was first changed in 1981 when it was limited to the delivery of letters priced below £1.00.

Postcomm's initial proposals were announced in May 2002 when it planned a three-stage opening up of the postal services market. This was to begin with bulk mail of 4,000 items or more from 1 January 2003. Then a lower threshold of bulk mail for competition would apply from 1 April 2005 followed by a complete opening of the market from 1 April 2007. However, over the following two years Postcomm reassessed developments and in September 2005 decided that it would dispense with the second stage of the process and then go for full liberalisation of the market from 1 January 2006. This decision was confirmed in February 2005 after a period of consultation.

1.3. Current market structure

The opening up of the letters market has yet to have a major impact and the Royal Mail is still far and away the dominant operator in this market. With a turnover of £6.9 billion and 174,000 employees, Royal Mail dwarfs its nearest rivals. The latest figures from Postcomm show that Royal Mail is responsible for 96% of regulated letter and packet delivery sector, which accounts for 72% of the total postal services market in the UK. Licensed operators can gain access to Royal Mail's network and they mainly do this by dealing with collection, sorting and transportation to delivery centres leaving Royal Mail responsibility for final delivery to individual addresses. So far there has only been a very small development in the extent of licensed operators dealing with the complete end-to-end service accounting for 0.2% of total end-to-end business in the licensed sector.

The picture is very different in the parcels and express delivery sector where competition has been possible across most of the market since 1981. The regulator, Postcomm, estimates that there are as many as 4,000 companies that compete in some

way with Parcelforce in the delivery of parcels. Many of these are small, local firms but there are also major companies like TNT and DHL who are now much larger companies than Parcelforce. Parcelforce only became a separate operating division of Royal Mail in 1990 when it had around 13,000 employees. The company has been a long-term loss maker and continues to struggle to match the competition retaining only a very small market share in the overnight delivery market while managing roughly a 30% share of the two-day and over delivery market. At the end of 2006 Parcelforce had only 4,092 employees. It managed a modest profit of £5 million in 2006 on turnover of £314 million. This is an improvement on the £6 million loss in 2005. In contrast, the Royal Mail's overseas based express and parcel delivery companies in its GLS division employ over 11,000 and made £100 million profit on turnover of £1,037 million in 2006.

The main competitors to the Post Office in both the licensed market and unregulated sector are the big European and US postal companies such as UPS of the US, DHL (owned by Deutsche Post) and Netherlands-based TNT. The French La Poste group is another major player through its Lynx Express subsidiary. The licensed UK operators are mainly private companies with the biggest, ANC, established in 1981 when the letter monopoly was reduced to £1.00.

Royal Mail Holdings' other operating division is Post Office Counters Limited which is made up of the network of 600 directly owned and 16,900 franchised local post offices. Post Office Counters deals with a range of letter and parcel related mail services (stamps, parcels, redirection, track and trace, special delivery). It also had a major role in the administration of a number of government transfer payments such as Child Benefit, pensions and social security payments as well as dealing with vehicle licensing and the National Savings scheme. All these services were originally part of Post Office Counters' monopoly but it has lost much of this business mainly because they are being provided direct (payments of benefits straight into individuals' bank accounts) or are increasingly dealt with online (vehicle licensing). Post Office Counters made a loss of £111 million on turnover of £838 million in 2006.

Table 1: Licensed mail operators

Companies licensed as mail operators	Ownership
ANC Express	UK private
Challenger Security Services	UK private
Citipost AMP	UK private
CMS Complete Management Services	UK private
DHL Global Mail and Speedmail	Deutsche Post World Network
DX Network Services	Mail Acquisitions Ltd (UK private)
Intercity Communications	UK private
Lynx Mail	UPS (USA)
Mail Plus	La Poste (France)
Racer	UK private
Royal Mail Holdings	Publicly owned
Securicor Omega Express	UK private
Secure Mail Services	Mail Acquisitions Ltd (UK private)
Secured Mail	UK private
Target Express Parcels	UK private
TNT Post UK	TNT (Netherlands)
UK Mail	Business Post Group (majority family owned)

The market structure in which Post Office Counters operates is very different from the clear and direct competition between letter and parcel delivery companies. In some respects Post Office Counters compete with other retailers for some of their services and are also reliant on government agencies for much of their turnover. This latter activity has been substantially affected by the decision of the Benefits Agency to move to direct payment of unemployment and other benefits rather than cash payment via post offices. This is one of a number of ways in which Post Office Counters' monopoly control over certain services has been eroded – other developments include the removal of the monopoly to sell stamps which are now available from many other retailers. Savings accounts are another part of Post Office Counters activities and more recently it has moved into insurance services and so it in certain respects it is competing in the financial services sector in the same way that the big supermarkets have moved into this market. However, it is also very important to note the social role that local post offices play, particularly in rural areas, and this is certainly an issue that the CWU trade union and other campaigning organisations make in their representations to the government over subsidies to Post Office Counters.

2. REGULATION

2.1. Before liberalisation

Until 1969 the Post Office was a government department and as such was effectively subject to the scrutiny of parliament and financial control by the Treasury in the same way as other government departments. This was certainly the case up until 1961 when the organisation was run as if a government department and so spending, and particularly, capital spending was under the direct control of the Treasury. For much of the 1950s this meant that government priorities were focussed on capital spending on the telecommunications side of the business leaving the Post Office with a backlog of investment plans.

The *1961 Post Office Act* set up a Post Office fund that meant that the organisation had more financial independence from the Treasury and this was taken a stage further by the *1969 Post Office Act*, which converted it into a nationalised industry, and so government control became less direct. In fact, from 1961 the Post Office began operating almost like a nationalised industry with the government setting its targets for the rate of return assets (8% from 1963-64 for example), it should achieve over a five-year period.

When the Post Office became a public corporation, the government appointed its board of directors and its chair and established a framework of controls similar to those applied to the other nationalised industries. The Post Office also came under UK competition law and so could be subject to investigations by the then Monopolies and Mergers Commission (now the Competition Commission). There have been several investigations of postal services by the Commission since the early 1980s beginning with the Inner London Letter Post in March 1980. This questioned the Post Office's failure to tackle industrial relations problems and to invest adequately in mechanisation. It also proposed that London business users be able to send bulk mail direct to local sorting offices by means other than the Post Office in order to avoid bottlenecks and delays (Competition Commission, 1980). In 1984 an investigation of the Post Office Letter Post Service in London, Glasgow, Cardiff and Belfast made a number of recommendations about pricing, marketing, management and performance. It said that the Post Office (Competition Commission, 1984) should switch to long-run marginal cost pricing, should link marketing more closely to productivity, impose tighter budgetary controls over local management and make public more information on performance and performance targets through the POUNC consumer watchdog.

The main controls over Post Office activity were the three key targets set by the government covering profits, cost reductions and borrowing. Each of the Post Office's divisions were set specific targets for their rate of return on capital and for real unit cost reductions while an overall borrowing limit, the External Finance Limit, was set in the Budget each year. In fact, during much of the 1980s and 1990s this was a negative

figure as the Post Office was able to fund most of its investment needs from internal cash flow and therefore was required to buy government bonds, which helped reduce the government's borrowing requirement. It was generally a complaint of the heads of nationalised industries that the government intervened too much in key areas like pricing and set targets for borrowing which were more related to varying political pressures rather than to the needs of the individual nationalised industries and their various stakeholders (Daunton, 1985).

2.2. *Following liberalisation*

An independent postal regulator was set up by the *2000 Postal Services Act*. This set out its main duties as to promote competition, establish quality of service standards, regulate prices and ensure that the Post Office can provide a universal service at a uniform price. The regulator would also work with the Post Office Users' National Council (POUNC) to monitor the Post Office's performance against a set of targets and impose penalties for failure to meet those targets.

The Post Services Commission (Postcomm) began work in July 2000 with three initial tasks – agreeing a licence setting out the conditions under which the Post Office would operate from April 2001; advising the government on the scope of the letter monopoly; and establishing a price control system.

Although there was already plenty of UK experience in the regulation from the telecom, gas, electricity, water industries, Postcomm was the first organisation set up to regulate what was still a wholly publicly owned industry. It has a board of seven commissioners appointed by the government. Six are part-time, including the chair, and the seventh is the full-time chief executive of Postcomm. They are appointed on the basis that they have a combined range of experience across matters relating to competition, business, consumer issues, regional matters, trade unions, government and regulation.

Postcomm sets out its strategy on the basis of the following six main themes:

- universal service – ensuring the continued provision of an affordable, universal postal service;
- protecting customers' interests – ensuring that customers are protected in terms of pricing and quality of service where they have little effective choice;
- promoting sustainable competition between postal operators;
- advising on the Post Office network – the national network of directly owned and franchised post offices and sub-post offices;
- building effective stakeholder relations with major customers and operators, the government, trade unions, the Postwatch customer watchdog and parliament.

Postcomm is responsible for defining the universal service and in its most recent review in 2004 it set out five areas where the Post Office would be required to provide a universal service at an affordable flat rate. These cover: priority and non-priority letters and packets, a non-priority service for parcels weighing up to 20 kilos; a registered and

insured service; a range of support services to ensure the safety and integrity of the mail (such as redirection and Poste Restante); and an international outbound service. Postcomm also decided to include two bulk mail services in the universal service.

Postcomm is also there to ensure that other licensed postal service operators or large mail users can get access to the Royal Mail delivery network which has been a requirement since liberalisation in 2001. The Royal Mail has to negotiate access agreements with users or operators if they wish to use the system. These are negotiated as confidential commercial agreements and Postcomm will only intervene if the user or operator believes that Royal Mail is not giving them a fair deal. The first access agreement was signed in 2004 with the operator UK Mail.

An important part of Postcomm's work is the issuing of licences to postal operators, including Royal Mail itself. Postal operators that wish to compete with Royal Mail in the regulated letter delivery market must get a licence from Postcomm. Licences are issued for a rolling 10-year period and licensees must publish information about their performance in order to enable customers to choose between different operators and levels of service. Licensed operators must also set up systems to deal with customer complaints and provide financial guarantees to protect customers if an operator goes out of business. The licence also involves a commitment to comply with two codes on mail integrity and common operational procedures. The mail integrity code sets out what licensed operators must do to keep mail safe and secure and covers issues such as recruitment and training policy, disciplinary procedures, security of mail when in their premises and vehicles, and how they would deal with any problems over mail integrity. They must also follow certain procedures when dealing with franchisees, agents or sub-contractors.

The common procedures code covers what licensed operators should do to deal with reposted, misposted or miscollected mail. They also need to ensure that mail meant for their network has a mail identification number so that it can be correctly routed. Companies who carry mail without a licence can be prosecuted and Deltec International was the first to be taken to court and subsequently fined £17,000 plus £60,000 costs in November 2004. The company had been repeatedly warned about the need to obtain a licence for its activities but failed to take any action.

Royal Mail also has to get a licence and has already been subject to fines as the result of what Postcomm found to be anti-competitive practices and failure to meet quality of service targets. Service performance targets are not set in the licences for other operators but Postcomm does monitor them in terms of fulfilling the requirements of the mail integrity code. The first fine imposed by Postcomm was £7.5 million in September 2003 when Royal Mail failed to improve its service to business customers in two areas. Postcomm issued an enforcement order covering the three-month period up to 31 March 2003 indicating the levels of service that Royal Mail had to reach. It failed in both cases and although it appealed, Postcomm rejected the appeal and imposed the fine in December 2003. In the meantime, the regulator had drafted a customer compensation scheme, which meant that in future Royal Mail would have to pay the customer for its failure to meet targets rather than be subject to a fine. Three more fines were proposed

in February 2006. The first to be confirmed after appeal was a fine for £271,000 for Royal Mail's failure to meet performance targets in three South London postcode areas. The second fine of £11.37 million was reduced on appeal to £9.62 million and was for failure by the company to comply with the mail integrity requirements in its licence. The third fine was also reduced on appeal from £2.16 million to £1 million and was in response to anti-competitive practices by Royal Mail. Three postal operators (Express Mail, TNT Mail and Mail UK) had agreements with Royal Mail to pay for Royal Mail postmen and women to deliver letters and packets for them. They complained that information gained by Royal Mail in negotiating these deals was giving it an unfair advantage in other areas of its operations.

Postcomm has a say over Royal Mail's prices and the new pricing structure, introduced on the 21 August 2006, had to be reviewed and accepted by Postcomm before it was implemented. The new prices are the first substantial change to the pricing of letter post since the system of pre-paid stamps was introduced in 1840. Letter and packet delivery is no longer just based on weight but also on size – that is length, width and depth. According to Royal Mail this will make no difference to 70% of the mail it deals with. It also says that it should not bring in any extra revenue but will more closely link prices to the costs of delivery as the larger letters and packets cost more to process.

There are now three categories of items that can be sent by "letter" post. These are letters that weigh less than 100g and whose dimensions are no more than 240mm in length, 165mm in width and 5mm in thickness. Higher charges apply to large letters, which must weigh no more than 750g and with dimensions no greater than 353mm (length), 250mm (width) and 25mm (thickness). Packets are anything larger in size and weight. There is a maximum weight of 1kg if second-class post is used but there is no weight limit for first class delivery.

However, beyond agreeing this pricing system, Postcomm also sets limits on pricing over a specific period. This takes account of the investment needs of Royal Mail and any other important issues affecting its financial position. Postcomm has established a number of controls that apply to the period 2006-2010 and these have been influenced by the scale of Royal Mail's pension fund liabilities and by recognition of the need to make substantial investments in new equipment. The main limit on prices is that average domestic prices should be no more than 37p for a first class stamp by 2010. A first class stamp for items up to 100g and the normal letter size currently costs 32p.

Over this period Postcomm has agreed that Royal Mail can use £1.2 billion from its mail revenues to invest in modernisation of the network while a further £320 million a year will go towards tackling the Post Office Pension Fund's £5.6 billion deficit. As part of this agreement Royal Mail is required to improve efficiency by 3% a year. (Postcomm and Department of Trade and Industry press releases 14 March 2006).

Postcomm also advises the government on what to do about the network of directly owned and franchised post offices and sub-post offices around the country. This is not an area of Royal Mail's activities that is regulated. The main issue is the extent to which Royal Mail and the government should subsidise the network in order to maintain loss-

making post offices, particularly in rural areas. The network lost £111 million in 2005 even after a £150 million to compensate for the 6,500 loss-making rural post offices. Government bodies like the Driver and Vehicle Licensing Authority and Department of Work and Pensions continue to transfer more services online, taking business away from the network. This accounted for a loss of £168 million in turnover in 2005. Postcomm argues that the government should carry out a full national and local consultation over the future of the post office network and the importance of the social role it plays (Postcomm press release 12 October 2006).

Table 2: Regulatory actors

Before liberalisation	After liberalisation
Government originally as director operator of Post Office as government department and then through Department of Trade and Industry with its responsibility for nationalised industries	Government through Department of Trade and Industry
Parliament through Trade and Industry and Select Committee	Parliament through Trade and Industry and Select Committee
Monopolies and Merger Commission (now called the Competition Commission)	Competition Commission Postcomm regulatory authority

3. *ROLE OF GOVERNMENT AND OTHER STAKEHOLDERS*

3.1. *Role of government and parliament*

3.1.1. *Before liberalisation*

For most of its existence the Post Office was a government department and it was only in 1969 that it was transformed into a nationalised industry and so operated at arms-length from the government. During this period, 1969 to liberalisation in 2001, the Post Office was set a number of targets in terms of return on capital, unit cost reduction and borrowing limits, in line with the way other nationalised industries were run. It was monitored in parliament through the House of Commons Select Committee on Nationalised Industries and later the Select Committee for Trade and Industry and was subject over the years of a number of specific investigations.

3.1.2. *After liberalisation*

The government's main role now is to oversee Royal Mail activities in terms of its universal service obligation and the framework for a uniform tariff although this can only be done within the confines of the rules set by the European directives on postal

services. More detailed and day-to-day regulation and monitoring of Royal Mail has been handed over to the regulator, Postcomm, and the consumer body, Postwatch. However, it is the government that establishes the powers and remits of these bodies. The government also continues to provide support where necessary to maintain a viable nationwide network of post offices. The issue here is mainly the extent to which post offices in rural areas need financial support to remain in operation, particularly since the level of use of many local post offices has fallen off significantly since the government switched payment of most state benefits to direct payments into individual bank accounts. The government has subsidised the rural post office network to the tune of £2 billion since 1997 and in February 2006 gained European Commission approval to pay a further £300 million in subsidies in the two years to 31 March 2008. Financial support during this period is seen as essential as the rural post office network adjusts to changes in the competitive environment for postal services.

The government has a separate role as sole shareholder in Royal Mail Holdings plc. It appoints the chair of the company and is responsible for approving the appointment of other board members, bearing in mind the need to ensure access to the widest possible experience, internally and externally. The government determines the board members' remuneration on the basis of advice from the remuneration committee of the Board. The government attends quarterly meetings with Royal Mail and consults on its strategic plan, which includes key financial projections, an overview of strategy and an analysis of major risks. Finally the government approves borrowing for major acquisitions and also sets the guidelines on borrowing.

In its latest changes to Royal Mail's financial regime the government allowed for: the release of £850 million of the Royal Mail Reserve for the company to transfer into a special account that may be drawn on by the pension trustees in the unlikely event that the company should fail; extension of existing debt facilities allowing the company to borrow up to £900m on commercial terms; and, expenditure for Post Office Limited, including Social Network Payments for the next two years and any funding after 2008, to be met by the government rather than from Royal Mail Reserves. The level of any support after 2008 will depend on decisions on the future of the Post Office network.

3.1.3. Other stakeholders

3.2. Employees and trade unions

The main trade union for postal workers is the Communication Workers Union (CWU). The Communication Managers' Association, now part of the Amicus trade union, represents managerial staffs. Both unions are affiliated to the Labour Party and were therefore party to the "Warwick agreement" in the lead up to the 2005 general election that included certain general guarantees about the future of postal services, among them a statement that there were no plans to privatise Royal Mail.

The CWU has lobbied hard against privatisation and the increased commercialisation of postal services. Its view is that both the Postcomm regulator and Postwatch consumer

watchdog are placing too much emphasis on competition to the detriment of Royal Mail and its ability to meet its universal service obligation. The union also argues that the company has been driven by short-term pressures to cut costs in order to increase profits and that service delivery has suffered as a result. In the last five years Royal Mail has implemented some of the biggest changes to its operations, moving, for example, from two daily deliveries to a single delivery. The CWU argues that this combined with other changes to mail centres and the distribution network put considerable pressure on staff and was often poorly implemented with inadequate consultation (Communication Workers Union, 2004).

The union has also had to deal with considerable staff cutbacks over the past five years which have been implemented mainly through voluntary redundancy, natural turnover and outsourcing.

3.3. Consumers

3.3.1. Before liberalisation

The 1969 Act that turned the Post Office into a nationalised industry also established the Post Office Users National Council (POUNC) as a government appointed body to represent the interests of large and small users. The Council was empowered to consider any part of the Post Office's operations and the 1969 Act also required the Post Office to consult the POUNC if it were planning any major changes to its services.

The Mail Users' Association (MUA) was set up in 1975 by business organisations to lobby the government in response to two sets of substantial price increases implemented by Royal Mail during the year. The MUA felt that POUNC was not properly equipped to challenge Royal Mail on some of the detailed issues and that it failed to reflect adequately the needs and demands of business users (Corby, 1979).

3.3.2. After liberalisation

The *Postal Services Act 2000* transformed the Post Office Users National Council (POUNC) into the Consumers Council for Postal Services (CCPS), now normally known simply as Postwatch. The new body has a wider role and more powers than its predecessor and its relationship with Postcomm is set out in a memorandum of understanding. Like its predecessor, Postwatch has a regional structure with committees based in Scotland, Wales, Northern Ireland and six regions in England.

Postwatch has five key objectives, which were agreed with the Department of Trade and Industry (DTI), and which fall within its general purpose of serving "efficiently and effectively consumer interests in a rapidly changing postal market". The five objectives are:

- contributing to the development of an effective postal service market by representing the interests of consumers and effectively, comprehensively and promptly commenting on proposals and issues affecting them;

- pursuing complaints made against postal operators, efficiently and effectively measured by number, quality of response and time;
- informing consumers about the state of and developments in the postal services market including undertaking research and publicising the outcome;
- protecting the interests of all consumers including individuals on low incomes, elderly people, disabled people and the chronically sick and those in urban deprived and rural areas; and
- managing Postwatch effectively.

Postwatch is the first industry watchdog to challenge both the company it is monitoring and the industry regulator. In 2005 Postwatch sought a judicial review over the way Royal Mail paid compensation to business customers. The court ruled in Postwatch's favour that Royal Mail could only refuse to pay compensation if the company in question was currently in infringement of Royal Mail's credit terms. Both Royal Mail and Postcomm had argued that it was legitimate for Royal Mail to hold back compensation in the light of a company's payment of Royal Mail bills throughout the year.

4. ACTORS AND OWNERSHIP

The three public postal services operators are Royal Mail (letters and small parcels), Parcelforce (larger parcels) and Post Office Counters (post offices) which are subsidiaries of Royal Mail Holdings, a government-owned holding company. Parcelforce is the only one of the three that governments have contemplated privatising but the Conservative government plans of the early 1990s were aborted because of the persistent losses recorded by Parcelforce which proved unable for many years to return to profit in the face of growing competition from the big international operators such as DHL, UPS and TNT. However, there have been more recent discussions about alternative ownership possibilities with the current management of Royal Mail Holdings keen to move towards some element of employee share ownership. This has so far been rejected by the main trade union, the CWU, which believes that any move in this direction would be a first step towards complete privatisation.

The main competitors to Royal Mail and Parcelforce, initially in parcel delivery, but more recently in letter delivery are the big international operators - in particular DHL the US company now owned by Deutsche Post and TNT the Dutch-owned company. With 18,000 employees each in the UK these companies are by far the largest operators in the UK with the other licensed mail companies recording between 1,000 and 5,000 employees. This does not include the thousands of small parcel-only operators that do not need a licence to operate.

As noted earlier Post Office Counters operates in a range of different markets and in some respects competes with banks, insurance companies and supermarkets and

therefore it is much more difficult to identify specific competitors and to list the main actors in these areas.

The latest employment figures for Royal Mail Holdings are set out below. Tracing the development of staff numbers is complicated by the changing divisions within Royal Mail and the extent to which there has been an increase in part-time work. In terms of employment strategy Royal Mail did indicate several years ago that its planned re-organisation and introduction of new measures such as single deliveries would lead to a reduction of 30,000 jobs. However, the CWU has questioned the extent to which these cuts are reflected in the overall numbers provided in Royal Mail accounts. The clearest impact of opening up markets to competition on jobs has been in the parcels sector where the Parcelforce business has seen employee numbers fall from 13,000 in the early 1990s to just over 4,000 today.

Table 3: Royal Mail staff numbers

	Average employees	
	2006	2005
Royal Mail	176,415	174,431
Parcelforce Worldwide	4,183	4,715
Post Office Ltd	11,774	12,510
Other businesses	3,588	4,296
UK wholly owned subsidiaries	195,960	195,952
Partially owned subsidiaries	4,854	4,963
Overseas, including GLS	10,671	10,408
Group total	211,485	211,323

CONCLUSIONS

Full market liberalisation was only implemented in January 2006 and so there has only been a very small level of penetration into the regulated part of the postal market by private operators – less than 5% overall mainly accounted for by companies using part of the Royal Mail network rather than providing a complete end-to-end service. It remains to be seen to what extent the new licensed operators will capture more of Royal Mail’s market and whether the loss of business will be on such a scale that it will undermine Royal Mail’s capacity to guarantee a universal service. In the meantime the Parcelforce and Post Office Counters divisions of the company continue to contract. The one area of significant expansion has been Royal Mail’s acquisition of European express delivery companies to create GLS, which may well benefit from the opening up of postal service markets in other European countries.

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Websites

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- www.cwu.org – the trade union representing postal workers
- www.gls-holdings.com – Royal Mail's GLS European network

www.parcelforce.com – the Royal Mail's Parcelforce Worldwide subsidiary

www.postoffice.co.uk – the Royal Mail's Post Office Counters subsidiary

www.postwatch.co.uk – representing consumers

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