

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 Dinenage MP (Con) (Gosport)

Ann McKeichin MP (Lab) (Glasgow North)

Nadhim Zahawi MP (Con) (Stratford upon Avon)

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