

Opening the Post

Postcomm and postal services - the risks and opportunities



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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executive summary

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- 1 Postal services play a key role in modern economic and social life, providing communications between individuals, business and government. In the United Kingdom (UK), some 20 billion letters and packages are posted ever year. In recognition of the important social role of postal services, most governments seek to preserve the continued provision of **universal service** - that is, collections and deliveries to all parts of the country¹. In the UK, the Government's policy is to guarantee universal service - defined as daily collections and deliveries across the country of postal packets up to 20 kilograms (44.1 pounds) - at an affordable and geographically uniform price. A uniform price² is one that does not vary with distance, so that the price of long-distance mail within the UK is the same price as local mail.
- 2 In March 2001, the Postal Services Commission (Postcomm) became responsible, under the Postal Services Act 2000 (the Act), for the independent regulation of the postal services market in the UK³. At the same time, the Post Office changed into a public limited company wholly owned by the Government, under the new name of Consignia Holdings plc (Consignia)⁴, but with no change to its brands such as Royal Mail. The Act also created a new consumer council for postal services (Postwatch), responsible for promoting and protecting the interests of consumers of postal services in the UK⁵. Taken together, these changes represent the most significant developments in the regulation of postal services for many years.
- 3 Postcomm's main statutory duties, as set out in the Act, are to:
 - exercise their functions in a manner best calculated **to ensure the provision of a universal postal service** at an affordable and geographically uniform price. This is their primary statutory duty; and
 - exercise their functions in a manner best calculated **to further the interests of postal users**, wherever appropriate **by promoting effective competition**.
- 4 Postcomm have a wide series of further duties, including advising the Secretary of State for Trade and Industry on the nation-wide network of post offices. This advisory role is distinct from Postcomm's regulation of the postal services market, and lies outside the scope of this report.
- 5 While Postcomm's statutory duties and powers resemble in many ways those placed on other industry specific economic regulators, there are a number of significant differences in the way regulation has been introduced into the postal services market:

¹ *The Universal Postal Union, the specialised institution of the United Nations that considers postal issues, established the provision of a universal postal service as its first objective within its mission statement.*

² *This is consistent with European legislation: Collection and delivery up to 10 kilograms is required, but a limit of up to 20 kilograms and a uniform tariff are permitted.*

³ *The Postal Services Commission, appointed by the Secretary of State, comprises the Chairman, Graham Corbett CBE, the Chief Executive, Martin Stanley, and five part-time Commissioners (see Appendix 5).*

⁴ *The Post Office will be called Consignia in this report unless we are referring specifically to the regime before the Postal Service Act 2000 came into force.*

⁵ *Postwatch took over the duties of the Post Office Users' National Council.*

- There is an over-riding universal service duty placed on Postcomm;
 - There has been no privatisation to accompany the new regime;
 - Competition is being introduced without first introducing private sector disciplines as a result of privatisation;
 - Postcomm, rather than the Government, were charged with establishing the licensing regime; and
 - Postcomm do not have concurrent powers under the Competition Act 1998 to enforce competition law with the Director General of Fair Trading.
- 6 We therefore examined the legislative and market context in which Postcomm are operating, having regard to the current strengths and weaknesses in Consignia's performance (Part 1), and the particular risks facing Postcomm in achieving their objectives (Parts 2 and 3). In examining these matters, we obtained evidence from Postcomm, Postwatch and Consignia, carried out a public opinion survey jointly with Postcomm and Postwatch, surveyed Consignia's largest customers, and commissioned a paper on cost modelling from Professor Martin Cave of the University of Warwick.

The legislative and market context in which Postcomm operate

The monopoly postal area has been converted to a licensed area open to competition

- 7 Until March 2001 Consignia, through its main UK postal operations, Royal Mail and Parcelforce Worldwide, had a statutory monopoly over the collection and delivery of mail weighing less than 350 grams (12.3 ounces) or costing less than £1. The Act has empowered Postcomm from March 2001 to license Consignia and other operators to carry out this function. The area of the market formerly reserved to Consignia has thereby been converted to a licensed area. Above this weight/price limit, the market has been open to competition for some years and, including courier and express services, is served by some 4000 operators. Consignia is the largest operator in this part of the market, but it faces strong competition in some segments.

There are high levels of satisfaction with the services provided by Consignia

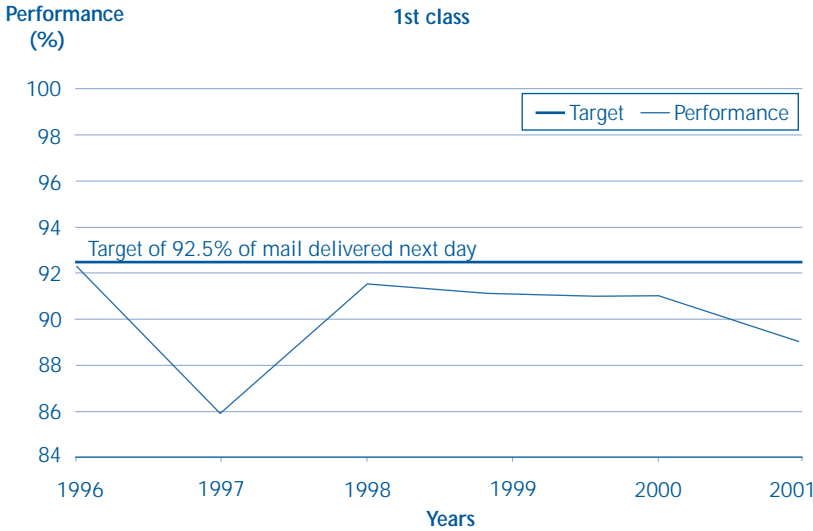
- 8 The UK benefits from Consignia's current provision of postal services in a number of ways. Consignia provides the universal service of daily collections and deliveries in almost all parts of the UK. It is committed to provide a level of service which goes beyond the minimum requirement for a daily delivery, including next-day delivery for most 1st Class mail and the delivery of most mail before 9.30 am. For basic letters, Consignia's services appear to be relatively cheap compared to postal providers elsewhere in the world. And our joint survey of domestic customers, and questionnaire to large users of postal services, show generally high levels of satisfaction with Consignia's services. Three-quarters of domestic customers replying to the survey considered that Consignia's 1st Class postal service provides good or very good value for money. Similarly, over 60 per cent of large users were either satisfied or very satisfied with Consignia's services.

Consignia is not meeting its delivery targets and many letters fail to reach addressees

- 9 But there are weaknesses in Consignia's current performance. Over the last few years, it has rarely met its own delivery targets, especially to deliver 92.5 per cent of 1st Class mail the next day (Figure 1). In 2000-01, it delivered 89 per cent of 1st Class mail the next day, with performance well below 80 per cent in some areas, notably in London. It estimates that around a quarter of the national shortfall was a result of disruption to the national railways. Postwatch have estimated that one million letters a week fail to reach the intended recipient, although Consignia disputes the accuracy of this calculation.

1 Consignia's performance against its target of delivering 92.5 per cent of 1st Class mail the next day

This figure shows that between 1998 and 2000 Consignia came close to achieving their target for delivery of 1st Class mail the next day, but that performance has since fallen back.



Source: Postcomm

10 Consignia is facing significant challenges to its service such as the rising use of electronic communication and greater consolidation in global postal markets. Furthermore, a recent report concluded that Consignia is facing "a very serious industrial relations problem", demonstrated by the number of days lost to strikes (60,000 in 2000-01)⁶. Its costs have also been rising faster than its turnover, resulting in a year-on-year decline from an operating profit from £528 million in 1998 to a loss of £3 million in 2001⁷. The operating loss increased to £100 million in the six months to 23 September 2001, while the post-tax loss after exceptional items was £281 million.

External and internal factors are affecting Consignia's profitability

11 Until March 2001 the Department of Trade and Industry (the Department) were responsible for monitoring Consignia's performance and pricing. While the Department remain responsible for Consignia as the Government's shareholder, Postcomm have become responsible for protecting customer interests through the conditions in the licence they gave Consignia on 23 March 2001, the first licence issued under Act, and through issuing licences to other operators. The Department are in the unusual position of appointing the directors of Consignia and the members of the Postal Services Commission and of monitoring the performance of both.

The Department of Trade and Industry are a major participant in the new regulatory framework

⁶ In May 2001, Consignia and the Communication Workers Union commissioned Lord Sawyer, Nicholas Underhill QC and Ian Borkett to assess the unstable industrial relations in Royal Mail and to recommend changes.

⁷ Consignia's accounting year ends on the final Sunday in March.

Postwatch have become responsible for protecting consumer interests

12 Postwatch seek to work closely with Postcomm on setting and enforcing Consignia's standards of service. As well as campaigning on issues of concern to consumers, Postwatch help consumers that have received poor service from licensed postal operators to complain and obtain compensation. Their different responsibilities have resulted in some differences of view, for instance over the issue of Consignia's licence and access to information.

Postcomm aim to be a respected regulator

13 Postcomm have some 35 staff, supplemented by consultants undertaking specific reviews. They have sought to engage a mix of staff with experience of the postal market and regulatory policy but have found it difficult to recruit as many staff as they would have liked with such experience, especially of the postal market. In discharging their functions Postcomm subscribe to the principles of good regulation, promoted by the Better Regulation Task Force, of transparency, accountability, proportionality, consistency and targeting. Postcomm have in particular sought to demonstrate transparency in their dealings through extensive consultation on proposed licences, the introduction of competition and the cost of providing the universal service.

Improving services while maintaining a universal service has risks for Postcomm

14 Postcomm's main task, reflected in their statutory duties, is to ensure that the UK continues to benefit from universal service, while at the same time seeking improvements in the value for money of postal services through the introduction of competition and the regulation of Consignia. The challenge for Postcomm is to reverse the recent decline in the standard of postal services while maintaining the benefits provided by a universal postal service (Part 1). We have identified the following risks to meeting this challenge:

Risks to the introduction of effective competition (Part 2)

- there may be insufficient competition to generate an improved service to most customers; and, alternatively,
- the introduction of competition could result in a breakdown in the delivery of a universal service at a reasonable uniform price.

Risks to the regulation of Consignia pending effective competition (Part 3)

- pending effective competition, Consignia's efficiency may not improve significantly;
- Postcomm may fail to get Consignia to meet prescribed standards of service; and
- the Department, as the principal shareholder⁸, may not apply sufficient pressure on Consignia to improve its performance and respond constructively to competition.

⁸ Consignia Holdings plc comprises 49,998 ordinary shares and 1 special rights redeemable preference share held by the Secretary of State for Trade and Industry, and 1 ordinary share held by the Treasury Solicitor (as nominee for HM Treasury).

There are risks to the introduction of effective competition

- 15** Under the Act, Postcomm must seek to further the interests of users, wherever appropriate through the introduction of competition. The experience of other markets opened up to competition, such as telecommunications, gas and electricity, is that competition delivers greater benefits than regulation in terms of the price, quality and innovation. Postcomm's analysis of the impact of greater competition in postal markets, especially in European countries such as Sweden, the Netherlands and Germany, indicates that there are potential benefits of lower real prices, greater choice and greater quality. Postcomm see competition as a powerful means of securing better postal services, both by putting pressure on Consignia to improve its performance and by the development of new types of service.
- 16** Postcomm have taken three steps in particular towards introducing competition:
- including conditions in Consignia's licence requiring it to provide access to its postal facilities to any competitor or large user who reasonably requests it, and prohibiting anti-competitive behaviour;
 - in June 2001 issuing a consultation document on competition⁹; and
 - introducing an interim licensing strategy, providing for new entrants to receive licences that operate for a minimum of one year, after which Postcomm can terminate them at any time subject to three months notice, for relevant operations below £1 or 350 grams. They have subsequently issued six of these licences: to the TPG N.V. Group for three existing services, involving internal business mail; and the collection of outbound international mail; to Hays Commercial Services for a service guaranteeing delivery before 8 am; to UK Mail for a collection service for some 5,000 businesses; and to Deya for a limited business service in the event of disruption to the universal service.

Competition should deliver benefits to customers

Postcomm have made progress in introducing competition

There is a risk that there may be insufficient competition to generate an improved service to most customers

- 17** As Postcomm place considerable emphasis on the introduction of competition as a way of leveraging improved postal services, if effective competition does not develop this could put several of their objectives at risk. This could happen for several reasons:
- licensing new entrants may not be sufficient to engender effective competition, if most customers are unwilling to change to a different supplier. Despite recent problems, our surveys show that most customers still believe they get a good service from Consignia, while the overseas experience of liberalising postal markets has been for the incumbent to retain nearly all the market;
 - Consignia may respond to competition by reducing its prices for types of service that are most attractive to new entrants or refusing new entrants access on reasonable terms to services that are difficult to duplicate, such as final delivery of mail. While the Competition Act 1998 outlaws anti-competitive practices, the tests for proving that price cutting is anti-competitive are fairly stringent, and enforcement action is the responsibility of the Office of Fair Trading. Determining whether prices are predatory or the prices which Consignia charges others for access to its network are reasonable, requires reliable information on Consignia's costs that is not yet available;

The growth of competition could be restricted by customer inertia, anti-competitive behaviour and the preferential treatment of Consignia

⁹ This builds on an earlier consultation document issued by Postcomm in September 2000.

- Consignia's VAT exemption may give it a competitive advantage over the competition; and
- new entrants to the postal market will need to make a significant investment. Their willingness to do so may depend on their confidence in Postcomm as a credible, independent and robust regulator, able to secure a level playing field and to maintain the momentum towards competition despite threats to the universal service. In this context, Postcomm's current practice of granting new entrants licences for a guaranteed period of only 15 months (see paragraph 16) when Consignia's licence runs for 15 years, with a notice of revocation period of 10 years thereafter, may be a particular disincentive to new entrants. Not only does Consignia have a duration advantage but new entrants have the uncertainty of a short time-scale, especially as there can be no presumption that Postcomm will renew licences or that more onerous conditions will not be introduced upon renewal.

There is a risk that the introduction of competition could result in a breakdown in the delivery of the universal service at a reasonable uniform price

Competition could result in higher prices and poor service for Consignia's customers

- 18** Postcomm's primary duty to maintain a universal service at a uniform tariff could oblige them to allow Consignia to increase its prices or reduce its level of service if, as a result of competition, Consignia became unable to finance all its functions presently comprising the universal service. Competition could potentially impact on Consignia's delivery of the universal service obligation in two main ways:
- the returns on some types of postal service are lower than others: some of Consignia's services may not even cover their marginal costs, but the universal tariff requirement appears to prevent re-balancing of prices to bring the level of returns more into line. If competition is most pronounced for the most profitable services, Consignia could be left with insufficient returns to cover its overhead costs, and hence to finance remaining services without across the board price increases that might further erode its competitive position; and
 - Consignia's cost structure could have a material impact on its profitability in a competitive market. Consignia estimates that 40 per cent of its costs are fixed and that it may in the short term find it difficult to reduce costs in response to losing some of its market share to competitors. If this proves to be the case, Consignia would become loss-making and hence unable to finance its services at current prices, especially as its profits have in any case disappeared in the last couple of years.

19 Postcomm have undertaken modelling of the possible extent of loss-making routes and Consignia has modelled the potential impact of competition on its ability to finance its functions. The latter exercise suggests that Consignia's finances could be quite vulnerable to competition. Forecasting the impact of competition on Consignia's revenues and costs is complex. The impact in part depends on how Consignia responds to competition by reorganising its costs and products. Forecasting relies on information provided by Consignia, about which Postcomm have considerable doubts, as well as estimates of the possible actions of Consignia's potential competitors and Consignia itself. A third factor that Postcomm will therefore need to consider is that:

- Postcomm may not obtain sufficient assurance to open up the market to competition rapidly. When licensing new entrants to the market, Postcomm are statutorily obliged to have regard to the impact of competition on the universal service and Consignia is empowered to challenge new licences, ultimately in the courts. But, as Professor Cave concludes¹⁰, it is not realistic for Postcomm to determine definitively how competition will impact on the universal service solely on the basis of economic modelling techniques. Ultimately Postcomm will have to make a judgement on the basis of the best available evidence and against the possibility of a breakdown in service, increases in prices or a successful challenge in the courts.

Predicting the impact of competition on Consignia's finances is complex

Postcomm's response to the risks to competition

20 Postcomm plan to undertake much more analysis of the various risks to the development of effective competition as well as addressing the risks to the universal service from possible competition. They aim to publish their proposals for consultation, which will demonstrably fulfil their duty to maintain universal service, early in 2002. A key element in this work is obtaining a better understanding, from a variety of perspectives, of the possible impact of competition on the universal service obligation.

21 Given the uncertainties about the market's development, there is likely to be no risk-free strategy for Postcomm in introducing competition. Their approach is to consider how any risk can be identified and appropriately managed to provide them with demonstrable assurance that the universal service obligation is not put in jeopardy; and then to put in place effective safeguards. Consignia itself could provide the first safeguard by responding efficiently and innovatively to competition. Postcomm have identified a number of potential measures to establish safeguards, including restricting the amount of competition permitted, redefining the universal service so that the requirements placed on Consignia are less onerous and creating a support fund, funded by a levy on all licensed postal operators, that would contribute to the costs of maintaining the universal service¹¹.

¹⁰ Appendix 6 to this report, paragraph 7.3.

¹¹ Detailed in Postcomm's June 2001 consultation document on promoting effective competition.

There are risks to the regulation of Consignia pending effective competition

In the short-term, the main benefits to many postal users will come from Postcomm enforcing Consignia's licence

22 Until Postcomm can rely on competitive pressures to protect the interests of users, Postcomm's main regulatory instrument for bringing benefits to users is the licence they gave to Consignia in March 2001. Its principal conditions are:

- Consignia should provide a universal service at a uniform tariff everywhere in the UK¹²;
- the prices of Consignia's principal services are subject to a price control. Until 2003, prices are frozen for services below £1 or 350 grams and may rise at no more the rate of inflation within the rest of the universal service area (up to 20 kilograms). Consignia, however, may apply for a price rise in order to maintain its ability to provide universal service. In May 2001, Consignia invoked a clause in its licence to seek a one penny increase in the price of 1st and 2nd Class postage, but subsequently suspended this application following discussions with Postcomm; and
- Consignia must meet specified standards of service. But Consignia has not in recent years achieved its own service targets. The targets in the licence have therefore been set initially at a level lower than Consignia's own targets but then rise to reach them in 2002-03. For example, in 2000-01 Consignia delivered 89 per cent of 1st Class mail the next day. The licence sets targets for the last two months of 2001-02 and 2002-03 of 92.1 per cent and 92.5 per cent respectively, although Consignia is required to report quarterly on its performance against the targets.

There is a risk that pending effective competition, Consignia's efficiency may not improve significantly

Improved efficiency within Consignia would benefit postal users

23 The extent to which all postal users benefit from falling real prices and improved quality of service depends in large part on Consignia's efficiency. The pressure of competition should give Consignia an incentive to make efficiency improvements. But in the absence of competition, Postcomm will need to address the issue directly themselves, as other economic regulators have done in the UK, primarily through the periodic review of prices. A crucial difference, however, is that there is little experience of applying this approach to a company that remains in the public sector, such as Consignia. The risks are:

- Postcomm may be unable to demonstrate the potential for cost savings, due to the limited information available on the scope for efficiencies in expenditure and insufficient experience and time available to them. In setting the price control from April 2003, Postcomm are statutorily obliged to take account of Consignia's ability to finance its functions, and hence maintain a universal service. Postcomm will need a case strong enough, should Consignia appeal against their price determination, to convince the Competition Commission that their proposals are reasonable; and
- Postcomm's options may be limited if Consignia fails to make efficiencies, bearing in mind the need to preserve the universal service. The incentive on Consignia's management to secure efficiencies is relatively weak in the absence of pressure from private sector shareholders and the stock market, and is further weakened by the knowledge that efficiency gains would give Postcomm room to introduce more competition and to set tougher price controls. And Consignia is starting from a position where costs have been rising faster than revenues.

¹² There are specific exclusions from this requirement, mostly islands off the Scottish mainland.

There is a risk that Postcomm may fail to get Consignia to meet prescribed standards of service

24 For most customers of postal services the quality of the service they receive is more important than the price. For instance our survey of large users showed that two-thirds named service factors, such as consistent collection and security of mail, as their highest priority, while our survey of the public revealed that only a minority knew the prices of 1st and 2nd Class stamps. Competition should give customers a choice of service standards, but until all customers have a choice they will be reliant on regulation to secure and improve the service that Consignia provides. For Postcomm this means addressing the risks that:

Service is more important than price for most customers, but it may be difficult to ensure that Consignia's service standards are met

- Postcomm may find it difficult to take remedial action in the event that Postwatch's monitoring of Consignia's performance against the service standards specified in its licence shows that Consignia is falling short. Substantial fines would be a difficult option as, if Consignia is to continue to be able to finance the universal service, these would have to be passed on to the customer and/or the taxpayer; and
- until Postwatch and Postcomm have information on what really matters to customers there is a risk that they may not monitor Consignia's performance in a way that matches customer aspirations, and hence Postcomm may not act appropriately on customer detriment. In particular, Consignia may propose changes to the specification of the service it provides so as to cut costs, for instance by pushing back the target for delivering all mail by 9.30 am. Unless Postcomm (and Postwatch) know which aspects of service matter to customers there is a risk that they will either allow changes that cause customers concern or 'buy' a continued higher service specification for too high a price.

There is a risk that the Department of Trade and Industry, as the principal shareholder, may not apply sufficient pressure on Consignia to improve its performance and respond constructively to competition

25 The Department of Trade and Industry are seeking to behave in a similar way to private sector shareholders, by developing an effective arm's length relationship with Consignia, in which they approve the company's strategy and set financial targets, but avoid involvement in day-to-day operations. There are, however, few precedents for Postcomm to draw on in determining how the absence of financial market pressures on a regulated company affects the way they should regulate or for the nature of the relationship they should have with the Department as shareholder, so as to address the risks that:

The absence of private shareholders may limit the pressure on Consignia to improve its efficiency

- regulatory instruments, such as RPI – X price controls, may be less effective in this case. Such controls have worked in other industries because of the pressure that private sector shareholders have applied to the management of privatised companies. If the Department, acting as Consignia's principal shareholder, do not exert the commercial disciplines that the market would expect, Consignia may not respond positively to regulation and competition; and

- the Department, like any shareholder, may be concerned to protect the dividends that Consignia pay the Government, and hence seek to challenge any actions by Postcomm which put Consignia's continuing profitability at risk. As principal owner, the Department are potentially in a stronger position to do this than private shareholders whose holdings are small and diversified. To strengthen their own position, Postcomm have begun to specify the information they will need from Consignia to discharge their regulatory responsibilities effectively, but Postcomm's reliance on information from the regulatee will require Postcomm to scrutinise and verify this information carefully.

Postcomm's response to the risks to regulation

- 26 As regards price controls, Postcomm have engaged consultants to examine the extent to which Consignia is an efficient operator. As regards service standards, Postcomm have started a process to introduce by determination¹³ a compensation scheme for users affected by Consignia's failure to meet its service standards. Postcomm also intend, in line with good regulatory practice, to consult customers widely on their postal needs and priorities.

Conclusions and recommendations

- 27 Postcomm's remit of promoting competition and protecting customer interests while securing the universal postal service is challenging, as the risks we have identified above demonstrate. Postcomm, aided by Postwatch, have made a good start, setting out clearly what they seek to achieve, undertaking extensive consultations and issuing six licences in what was previously a monopoly area. There are signs that Consignia is responding constructively to the challenge of competition that Postcomm have brought about, for example by announcing a programme of outsourcing to reduce costs and improve service. But opening the postal market to competition will not be easy, and it is still early days for Postcomm and other bodies, such as the Department and Postwatch, involved in the oversight of the postal market. In discharging their duties Postcomm will need to develop further their responses to the risks set out below (Figure 2).
- 28 Postcomm's success in handling each of these risks will depend on the credibility of their actions. The experience of other economic regulators shows that key factors in establishing credibility are:
- adherence to the principles of good regulation promoted by the Better Regulation Task Force, of transparency, accountability, proportionality, consistency and targeting;
 - being seen to act in an impartial and independent way, free from regulatory capture of vested interest groups;
 - employing staff with sufficient experience and expertise of the postal market and economic regulation; and
 - obtaining sufficient robust and reliable information on the costs and performance of Consignia, in a way that compensates for the inherent informational advantage that Consignia has over Postcomm.
- 29 Postcomm have been impressive in the transparency of their processes to date. The application of the other principles of good regulation will depend on the quality of their expertise and information, which Postcomm are committed to improving.

¹³ Postwatch and Consignia were unable to agree a scheme within the six months provided for in Consignia's licence of March 2001. The licence provided for Postcomm to determine the terms of the scheme should this arise.

2 Risks in regulating the postal services market

Risk area	Main risks	Analysis
Risks to the introduction of effective competition (Part 2)	There may be insufficient competition to generate an improved service to most customers (paragraphs 2.8 - 2.20)	Customers may value the convenience and ubiquity of a universal service provider Consignia's response to competition may restrict entry Size, brand recognition and operational privileges give Consignia a competitive advantage Postcomm's interim licensing strategy may deter new entrants
	The introduction of competition could result in a breakdown in the delivery of a universal service at a reasonable uniform price (paragraphs 2.21 - 2.39)	The returns on some types of postal service are lower than others Consignia's cost structure could have a material impact on its profitability in a competitive market Postcomm may not have sufficient assurance to open up the market to competition rapidly
Risks to the regulation of Consignia pending effective competition (Part 3)	Pending effective competition, Consignia's efficiency may not improve significantly (paragraphs 3.2 - 3.14)	Improving Consignia's efficiency is key to Postcomm's mission, in order to improve service standards and provide customers with better value, and ensure Consignia is better able to withstand competition The forthcoming price review is one of Postcomm's main tools for incentivising efficiency Postcomm need to form a view on the level of Consignia's efficiency
	Postcomm may fail to get Consignia to meet prescribed standards of service (paragraphs 3.15 - 3.26)	Postcomm need to ensure that customer needs are clearly identified Postcomm need to ensure that Consignia meet quality of service targets and that Postwatch have sufficient information to monitor their achievement
	The Department, as the principal shareholder, may not apply sufficient pressure on Consignia to improve its performance and respond constructively to competition (paragraphs 3.27 - 3.35)	The traditional RPI – X price control may not be wholly appropriate in this instance The relationship between the Department and Consignia may affect the company's commitment to improving efficiency

Source: National Audit Office