

3rd April 2024

CWU Response to Ofcom on the future of the universal postal service

Call for Input

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing over 170,000 members in the postal, telecoms, technology, financial services and related industries. We are the recognised trade union for approximately 110,000 non-managerial staff in Royal Mail. The following submission sets out the CWU's response to Ofcom's call for input on the future of the universal postal service.¹
2. Millions of postal users rely on the universal postal service and on Royal Mail, where many important communications are still sent by post, including mail from the NHS, banks and local authorities. A universal postal service that is truly universal in nature is central to social cohesion and a thriving local and national economy. There was no better demonstration of the importance of a comprehensive postal service than the COVID-19 pandemic, where postal workers became a lifeline for millions across the country.
3. However, since privatisation, the leadership of Royal Mail has not prioritised ensuring quality of service, fixing resourcing issues, maintaining decent pay, terms and conditions for postal workers or implementing a sustainable business plan. Instead, they pursued excessive returns at all costs, awarding shareholders an astonishing £567m of the £758m made in profit in 2021/22, substantially limiting their potential to invest in the service or the workforce. Since then, despite the acceleration of e-commerce and parcel volumes and the continuing reliance on letters for many important communications, Royal Mail has been loss-making, has failed to deliver quality of service for several years and has instead focused on measures that reduce costs, harming the workforce and the service to the customer.

¹ Call for input: The future of the universal postal service, 24th January 2024, accessed at: <https://www.ofcom.org.uk/consultations-and-statements/category-1/the-future-of-the-universal-postal-service>

4. The CWU has long urged Royal Mail to adopt a growth and investment centred business plan to help sustain the universal service, rather than relying solely on reducing services and staff numbers, which will bring around the terminal decline of the company. We have also urged them to capitalise on the unique competitive advantage provided by the USO, in order to offset some of the costs of maintaining the network. Regretfully, despite the recent agreement with the CWU, the company is still failing to adopt this approach.
5. We have also consistently criticised Ofcom's damaging regulatory regime, which has contributed to the race-to-the-bottom for labour standards in the sector and Ofcom's inability to ensure that performance targets are met. Ofcom's unbalanced focus on competition, over maintaining the USO and properly regulating the wider sector, has also allowed Royal Mail's unregulated competitors, including multinational corporations like Amazon, to hibe profit off the USO network without making any significant contribution to its maintenance. Rather than reflecting the ever present need for a sustainable and truly universal postal service, Ofcom's report presents cost-cutting and a major reduction in services as the inescapable conclusion of any reform within the postal sector.
6. The CWU does recognise the decline in letter volumes and has long called for a legitimate debate on how to ensure the USO is sustainable in a continually modernising world. We have never shied away from change, where it presents an opportunity for growth, retains a commitment to a comprehensive service for postal users and returns decent pay and conditions for hard-working postal workers. Reform within the postal service is needed but the primary purpose of this reform should not be used as a lever to alleviate Royal Mail's financial problems.
7. While we recognise the need to consider changes to the Universal Service Obligation (USO), we strongly oppose severely reducing the scope of the USO and any options for reform which do not provide a platform for growth or do not maintain Royal Mail's expansive infrastructure. We believe the specific options outlined by Ofcom in this report are designed in the interests of delivering short-term financial gain for Royal Mail and would drive down services, threaten thousands of jobs and reduce Royal Mail's presence in communities across the country. We also strongly disagree with the approach to the development of this report, which looks at reductions and reform to the USO in isolation.
8. In order to maintain a sustainable and comprehensive USO fit for the future, the wider challenges facing Royal Mail, including the crisis in resourcing and failures on quality of service, must be addressed in step with genuine reform. Royal Mail must resolve the

quality of service crisis that has resulted in the company's poor performance in recent years and Ofcom must implement a proper regulatory regime for both Royal Mail and the wider postal sector. There is no use in introducing any reform that is driven solely by cost-cutting measures, as this will simply place more pressure on postal workers and reduce services to the customer. Any reforms stemming from the discussion around the future of the postal service must deliver a new and improved settlement for customers, the workforce and the company.

9. Put simply, the challenges facing Royal Mail and the postal service are not just a result of letter decline but of a crisis that has been manufactured in part by the financial mismanagement of Royal Mail and the inability of Ofcom to properly regulate both Royal Mail and the sector at large. It is within this context that the options put forward in this report, which outline wide-reaching cuts and a significant reduction in services, must be considered.

10. The CWU reiterates in the strongest terms that financial sustainability must be achieved primarily through growth, diversification and implementing concrete measures to improve quality-of-service rather than severely reducing Royal Mail's obligations. There are a range of social and commercial initiatives that can be taken forward to leverage the postal network and create a viable business to secure the future of the USO and these should be progressed alongside an urgent shake-up of an unfair regulatory regime.

Summary of key points made in our response

Aims, principles and features of the USO

- **Ofcom has failed to secure the principles and features of the USO** by prioritising cost cutting over growth and innovation, and by failing to hold Royal Mail to its obligations. In addition, the role of competition within Ofcom's regulation has given Royal Mail a disadvantage when it comes to financing the USO network, while conglomerate competitors hive off profits without adequate contribution.
- **Royal Mail's deprioritisation of letters has led to USO failures** that are clearly evidenced and widely reported. These failures are continuing to bring serious harm to postal users.
- **Ofcom should be fixing quality of service under the USO** as a priority, including by supporting growth, rather than by focusing on large scale cost-cutting in a valued public service.
- Despite multiple representations from the CWU, **Ofcom failed to consult postal workers in the development of any of these options**, a shocking decision given the knowledge and experience that frontline postal workers possess, particularly in regards to post-pandemic failings and the deliberate deprioritisation of letters, as evidenced in Parliament in 2023.
- The **imposition by Royal Mail of inferior terms and conditions** for new starters has proven to be a false economy, with attrition rates at an unprecedented high and ongoing staff shortages completely undermining the aims, objectives and principles of the USO.

Assessment of postal users' needs

- **Ofcom's assessment of user needs is not sufficiently comprehensive to justify major change to the USO** and far more research is needed to fully assess the needs of postal users.

- **Ofcom should present a positive vision for change by asking users how they would like to see postal services grow and diversify**, as part of their duty to assess postal users' needs.
- **The CWU disagrees with Ofcom's overall assessment of postal needs and we believe Ofcom's evidence is not robust enough to justify significantly reducing the USO.** For example, referencing an '*overall sense*' from group discussions that '*receiving letters every 2-3 days would be acceptable for the majority*' is not sufficient evidence to justify a sweeping change in the service.
- **Some of Ofcom's evidence contradicts its case for 2-3 day letter delivery, showing that this would not be acceptable for the majority.** This includes the quantitative research finding that 63% of postal users said it is important to have letters delivered to their home 6 days a week, and 58% said it is important that letters are delivered on Saturdays.
- **Ofcom fails to acknowledge that vulnerable groups reluctant to accept 2-3 days delivery frequency are substantial in size and set to grow in future.** This includes people of older age (12.6 million) and with mobility problems (7.5 million).
- **Ofcom's report does not adequately consider those without internet access.** The report does not properly acknowledge that there are substantial numbers who rely on postal services because they do not have access to the internet at home (3.9 million) or because they lack the digital skills to receive important information electronically (8.5 million).

Assessment of the bulk mail market

- **We agree with Ofcom that letters will remain important for large users**, providing there is no major reduction in access services.
- **An open letter from NHS leaders to Royal Mail published in February warned of the grave consequences of delaying bulk mail, potentially putting lives at risk**, emphasising the importance of existing access service provision.
- **Ofcom must not undermine the USO by force, through scaling back access service requirements**, which would accelerate e-substitution. The UK is nowhere near

large-scale digitisation like that of some comparable European countries and attempting to drive this forward through reducing USO provision is both unacceptable and irresponsible.

Ofcom's approach to estimating the financial burden of the USO

- **Ofcom's approach to the financial estimates in this report does not present sufficient evidence to justify a reduction to the universal postal service as it is not a full statutory assessment** as required by the Postal Services Act and Ofcom has made a number of assumptions requiring a significant degree of judgement.
- **The enormously wide estimate of the net cost to Royal Mail – anything from £150m to £675m for a two or three day delivery – suggests a great deal of uncertainty** within the plan and predicted cost savings.
- **The level of uncertainty in Ofcom's calculations is not acceptable when the proposed changes and subsequent cost savings are so damaging** in terms of their impact on postal workers and customers.
- **Using Ofcom's own financial modelling, the CWU calculates that moving to a two or three day letter delivery service could result in between 13,700 and 17,800 job losses**, based on Ofcom's estimates of cost savings of £750m to £975m under the net cost calculation.
- Depending on the operational design of any new delivery model, **the CWU is concerned that frontline job losses could be considerably higher than this.**
- **Ofcom's estimations of revenue losses up to £525m for three day delivery and £550m for two day delivery represent millions of lost mail volumes** and this would be enormously detrimental to postal users.

The unfairness of the financial burden

- **The net cost of the USO being framed as an absolute 'financial burden' is completely wrong**, given that Royal Mail's business plan has shirked opportunities for growth unique to a universal service provider, large competitors are allowed to syphon profits from the network and that there are ways to modernise the USO that have been

rejected by Ofcom, such as enabling tracking within the USO. Ofcom should mitigate the net costs of the USO to a degree by allowing Royal Mail more scope to develop and modernise the USO to meet user needs.

- **The universal postal service also forms a key part of the UK's national infrastructure, national security network and has an important public service role.** It is not purely a commercial operation.
- **In many comparable European countries the net costs of a USO are compensated by the state,** but most European postal incumbent operators are state-owned at least in part. This makes these comparisons less meaningful. Additionally, now that Royal Mail is fully privatised, state funding for the net cost of the USO is less realistic.
- **The CWU favours the introduction of an industry fund,** supported by competitors such as Amazon and DHL who rely on the universal network to deliver items that would be unprofitable to carry themselves.

The impact of the financial burden of the USO

- **We strongly reject Ofcom's assertion that "*Royal Mail has struggled to meet its obligation to deliver its USO services efficiently*" and that "*this has had a negative impact on financial sustainability*".** Royal Mail has and continues to achieve substantial efficiency gains as evidenced by Ofcom's own analysis.
- **However, unrealistic efficiency expectations and measures set by Ofcom** encourage low wages and poor terms and conditions and create an incentive to 'do more with less'. This has spurred on the resourcing problems and the quality of service failures we are currently witnessing. In order to be truly efficient, Royal Mail needs to urgently put in place a new resourcing strategy. This is fundamental to both the very future of Royal Mail and to ensuring measures of real efficiency, not just cost-cutting.

Analysis of the different options available to change the USO

- **Option 1 – Delivery Frequency. The case for 2.5 or 3 day letter delivery frequency is not made** - Ofcom's conclusion that '*a reduction to a 2.5 or 3 day delivery model may meet users' reasonable needs*' is not definitive enough to justify the proposal and not fully supported by the evidence. The CWU knows that moving to a three day letter

delivery service will result in thousands of job losses and a severe, unacceptable reduction in the service, a move that has been widely opposed across the political spectrum and by many advocacy and consumer rights organisations. It will also deepen the post-pandemic crisis in our key public institutions who use letters, which have years of backlog to get through. Any option for a two, three or four day USO should be rejected as it will quickly bring about the terminal decline of the USO and Royal Mail.

The CWU would be willing to consider a five-day USO for letters (Monday to Friday), if it were part of a seven day parcel service, with provision for a premium letter service across six days that could deliver NHS letters at a discounted rate, greeting cards, magazines and items for the vulnerable, such as articles for the blind. This would have to sit alongside Royal Mail agreeing a proper platform for growth and an improved bargaining agenda for postal workers.

- **Option 2 – Delivery Speeds.** The CWU opposes the specific options laid out in Ofcom’s report regarding changing delivery speed. The CWU would view these methods of changing delivery speed as a way of introducing a three-day delivery service by stealth, by encouraging a significantly slower delivery framework and artificially lowering the demand for a premium service by pricing customers out. There would be significant job losses for frontline postal workers for both of these specific options and many customers and businesses would be negatively affected by these changes, including industries that rely on a premium service, such as the greeting card industry.

Though we reject the specific proposals put forward by Ofcom, the CWU is open to changing the speed of delivery of some products, if the USO continued to ensure that First Class products were still delivered across six days. The union would only consider accepting these changes if they were accompanied by a genuine plan for growth and investment in Royal Mail and a permanent resolution to the resourcing and quality of service crisis. Any reforms that involve speed of delivery changes must be subject to an extensive trial, with postal workers being involved at every level of this process.

- **Option 3 - Reducing Royal Mail’s quality of service targets.** We agree with Ofcom’s conclusion that lowering quality of service (QoS) targets may not be attractive because postal users value reliability and a quality of service. However, it must be considered that Royal Mail is now moving away from the air network and primarily using road transport. These QoS targets were set when more mail was being moved around the

country using planes and subsequently, the journey time for USO products was quicker. The transition away from this method of transport will inevitably slow parts of the service down, result in later delivery times and therefore, makes these targets more difficult. This should be considered when assessing the current USO. That being said, QoS targets should not be significantly lowered and it is not the only solution in resolving the ongoing problems with service delivery.

- **Option 4 – Subsidising the current USO.** A public subsidy is highly unlikely to be a realistic option under a fully privatised Royal Mail. As mentioned above, the CWU is in favour of an industry fund, which has the most potential in maintaining the current USO specification. Ofcom should also introduce regulations for parcel couriers to help prevent the undercutting of Royal Mail on cost and price through exploitative labour standards. One approach could be to extend mail integrity conditions to parcel operators, given the connection between employment conditions and service quality. This will support a level playing field for competition, in turn helping to sustain the revenues needed to finance the USO.

Other views on how the USO should evolve

- As the CWU has argued for some time, our members are not opposed to change and innovation. However, the financial sustainability of the USO must be supported through growth, innovation, and revenue diversification, rather than cost-cutting.
- The CWU believes the USO should evolve based on an expanded parcel network with an emphasis on investment in the service, expanding role of postal workers and exploring new social and commercial products and services.

CWU's response to Ofcom's questions

Question 1: Do you agree that we have identified the correct aims, supporting principles and features of the USO? Do you consider that these should continue to be respected as far as possible when assessing potential changes to the USO?

Ofcom has identified the principles and features of the USO and these should be respected.

11. Yes, the CWU agrees that Ofcom has identified the correct aims and principles of the USO. These are clearly set out in domestic and European legislation, through the Postal Services Act 2011 and the European Postal Services Directive. We agree with Ofcom's assessment that:

“The objective of a universal postal service is to guarantee the provision of a good quality postal service at affordable prices, which is accessible to everyone in the UK.”

12. We also agree that the legal and regulatory intervention surrounding the postal USO aims to ensure the service delivers on the main purposes of promoting social cohesion and economic growth, and facilitating interactions between citizens and state.

However, Ofcom and Royal Mail have failed to ensure the postal service is universal, accessible, or reliable.

13. As we set out below, Royal Mail is seriously failing in its duty to deliver the USO. We believe this is due in part to Ofcom's failure to promote the financial sustainability of the universal service by incentivising innovation and growth opportunities in the USO network, its relentless pursuit of cost efficiencies while competitors benefit from unfair advantages, and its failure to hold Royal Mail to its obligations. The scale of the problems associated with delivery delays over a long period of time has left the service no longer universal, accessible, reliable, timely or secure. Regrettably, Royal Mail's delivery and quality of service failures clearly show that the universal postal service no longer lives up to the fundamental principles or core features at its heart.

14. As Citizens Advice recently said, “*By failing to hit delivery targets for five consecutive quarters, Royal Mail has failed to deliver for consumers. Letter delays leave millions of people missing important post like medical appointment letters, legal documents and benefit decisions.*”²
15. Last year, the BEIS Select Committee found that Royal Mail had “*systemically failed to deliver against parts of its Universal Service Obligation*”, and called on Ofcom to undertake an enforcement investigation into Royal Mail’s delivery of the USO.³ Ofcom subsequently imposed a penalty of £5.6m on Royal Mail after finding the company had missed its quality of service targets by a “*significant and unexplained margin*” and that “*this will have caused considerable harm to customers*”.⁴
16. In December last year, an undercover investigation by the Times reported that journalists working as postal workers in sorting offices were told by managers and postal workers that parcels were routinely being prioritised over less profitable letters.⁵ Earlier this year, BBC Panorama also ran an investigation which found serious and widespread delivery failures across the nation, including important NHS letters arriving late or not at all and putting lives at risk. The programme also found that a Royal Mail area manager instructed postal staff to leave letters behind in consultation with his managers.⁶

Ofcom should be doing more to fix quality of service under the USO

17. The CWU believes Ofcom should be doing far more to investigate the causes of Royal Mail’s delivery failures and identifying effective measures to resolve this problem as a matter of priority. The £5.6m fine recently issued to Royal Mail is a tokenistic penalty that effectively gives the company a green light to continue ignoring its service obligations. Cutting delivery frequency or speed will not automatically improve USO performance. As a starting point, we believe Ofcom can begin to fix quality of service by pursuing the following measures, all of which will help to fund the delivery of the USO:

² Citizens Advice responds to Ofcom imposing fine on Royal Mail for failing to meet delivery targets, Citizens Advice, 13th November 2023, accessed at:

<https://www.citizensadvice.org.uk/about-us/about-us1/media/press-releases/citizens-advice-responds-to-ofcom-imposing-a-fine-on-royal-mail-for-failing-to-meet-delivery-targets/>

³ Royal Mail, Seventh report of session 2022-23, BEIS Committee, 17th March 2023, accessed at:

<https://committees.parliament.uk/publications/34403/documents/189470/default/>

⁴ Decision finding Royal Mail contravened its quality of service performance targets in 2022/23 and imposing a financial penalty, Ofcom, published 9th January 2024, accessed at:

https://www.ofcom.org.uk/data/assets/pdf_file/0029/274817/Non-confidential-decision-Royal-Mail-Quality-of-Service-2022-23-.pdf

⁵ Undercover at Royal Mail: Never mind the letters, just take the parcels, Sunday Times, 17th December 2023

⁶ Royal Mail: What’s gone wrong at the company? BBC News, 26th February 2023, accessed at:

<https://www.bbc.co.uk/news/business-68382286>

- Promote financial sustainability of the USO through revenue growth and diversification as a priority over cost efficiency.
- Allow an expansion of the USO to maintain its relevance, such as tracking for USO products.
- Level the regulatory playing field on mail integrity and complaints handling in the parcels sector so Royal Mail can compete fairly with other operators.

18. The CWU is also astonished that Ofcom found no suggestion that Royal Mail's senior management had directed the prioritisation of parcels over letters in the face of so much overwhelming evidence to the contrary.⁷ We believe this demonstrates a lack of rigour in Ofcom's investigation. As Ofcom must know, Royal Mail has a tightly controlled, centralised and hierarchical approach to operations management, with delivery office managers taking orders from area managers, who in turn take instructions from more senior managers all the way up the chain to the senior leadership team. It is inconceivable that senior managers are not directing their reports to prioritise non-USO commercial parcels over letters.

19. As Ofcom stated in response to a Freedom of Information request, it did not request evidence from the postal delivery workforce regarding the prioritisation of parcels over letters.⁸ This is a surprising omission, given that the Department for Business, Energy and Industrial Strategy Select Committee had earlier reported that some of the statements made by the Chief Executive Officer during oral evidence provoked a huge response from postal workers, who contacted the Committee directly, claiming that the Committee had been misled. Ofcom would have been aware that postal workers have an important perspective on this issue, and any comprehensive investigation should have taken this into account.

⁷ Royal Mail fined £5.6m for missing delivery targets, 13th November 2023, accessed at: <https://www.ofcom.org.uk/news-centre/2023/royal-mail-fined-for-missing-delivery-targets>

⁸ Freedom of information request: Right to know request, Ofcom, 19th December 2023, accessed at: https://www.ofcom.org.uk/_data/assets/pdf_file/0030/273837/Royal-Mail.pdf

Question 2: Do you agree with our assessment of the direction of change in postal needs of residential (including vulnerable) users and SMEs? Are there other factors relevant to their future demand which we have not considered?

20. We have an overriding concern that Ofcom's latest assessment of user needs is not sufficiently comprehensive to justify major change to the USO. It is considerably less extensive than Ofcom's review of user needs carried out in 2019/20.⁹ We believe far more research is needed to fully assess whether the minimum requirements of the USO reflect the reasonable needs of postal users, or whether they could be altered, as specified under the Act.¹⁰

21. We are also concerned that Ofcom's assessment does not include any vision for positive change or growth to support the evolving needs of postal users. It is largely framed around the potential for scaling back services and cutting costs. This is a missed opportunity which also constitutes a major gap in Ofcom's evaluation of postal users' needs.

AREAS WHERE THE CWU AGREES WITH OFCOM'S ASSESSMENT

22. We agree that people are sending and receiving fewer letters and that parcels are becoming more important. This is clearly reflected in letter volume declines and parcel growth in recent years. We also agree that there are some vulnerable users whose needs are not being met through current availability of postal services – in particular those without safe access to a fixed address.

23. We note that some users in Ofcom's research suggested additional product features and greater service levels for parcels, such as collections and deliveries at weekends and improvements in flexibility of receiving parcels. This supports the CWU's case, put forward to Ofcom previously, that the USO should incorporate additional features, in order to be a modern universal service.

⁹ Review of postal users' needs, Ofcom report, November 2020, accessed at: <https://www.ofcom.org.uk/research-and-data/post-research/review-of-user-needs>

¹⁰ Postal Services Act 2011, Section 34, accessed at: https://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga_20110005_en.pdf

AREAS WHERE WE DISAGREE OR WHERE WE BELIEVE THERE ARE GAPS IN OFCOM'S ASSESSMENT

24. Ofcom's conclusion that "*most users only rely on letters for receiving important documents when there is no other way to receive them*" is in our view misleading and not properly evidenced, nor does it fully acknowledge the heavily paper based nature of UK public services and institutions. Our NHS, justice system, banking institutions and many local authorities still overwhelmingly communicate by letter. In a post-pandemic world, where waiting lists are at an all-time high, high-street bank provision is dwindling and online fraud is rife, bulk mail has actually become more important than ever.
25. Ofcom should ensure that the regulatory framework fully reflects the continued reliance by many people on paper documents, and the ongoing use of post as the default method of communication for key institutions. As Citizens Advice found recently, people rely on post more than they realise, including utility bills, council tax letters and NHS appointment letters. Their data shows that 7 in 10 people have received a letter in the last month.¹¹

Ofcom's evidence is not sufficiently robust to justify swingeing USO cuts

26. We are not convinced by Ofcom's 'finding' that '*receiving letters every 2-3 days would be acceptable for the majority, including most 'vulnerable groups'*'.¹² This finding is based on Jigsaw's conclusions from its group discussions and interviews with users, where it found an "*overall sense that receiving letters every 2-3 days would be acceptable for the majority including most vulnerable groups.*"¹³
27. We do not consider an "*overall sense*" from group discussions to be robust enough evidence to justify introducing such a significant reduction in the frequency of delivery. We note the 2020 quantitative research from Jigsaw showing that 84.5% of users would be comfortable with delivery three days a week, but this does not provide a breakdown

¹¹ Consumer advocacy and advice at Citizens Advice, Annual Report 2022/23, Citizens Advice, accessed at: [https://www.citizensadvice.org.uk/Global/CitizensAdvice/Citizens%20Advice%20consumer%20advice%20and%20advocacy%20annual%20report%202022_23%20\(2\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/Citizens%20Advice%20consumer%20advice%20and%20advocacy%20annual%20report%202022_23%20(2).pdf)

¹² Future of the universal postal service, call for inputs, Ofcom, January 2024, para 5.33, p.37, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0027/275823/The-future-of-the-universal-postal-service.pdf

¹³ Understanding the needs of postal service users, Jigsaw, October 2023, p.49, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0023/275801/Understanding-the-needs-of-postal-service-users.pdf

between typical users and vulnerable groups.¹⁴ As Jigsaw’s 2023 research is qualitative, it does not cover an update of this quantitative data.

28. In addition, Jigsaw’s finding on 84.5% satisfaction with three day delivery looks questionable when compared with the finding in the same report that ‘40% of residential research participants agreed they would feel cut off from society if unable to send or receive letters almost every day of the week’.¹⁵ Jigsaw’s 2020 data on residential users is, however, in line with Yonder’s 2023 report, which found that ‘4 in 10 would feel cut off from society if they were not able to send or receive letters and parcels almost every day’.¹⁶

The ‘small minority’ who want financial statements by post is substantial in number

29. Further, Ofcom’s conclusion that “a small minority still prefer to have paper copies of financial statements (e.g. bills and bank statements) rather than digital alternatives” suggests that the number of people falling into this category is small. However, it is important to recognise that 7% of people in the UK aged 16 and over will struggle to access digital alternatives because they are without internet access at home. This is a substantial number of people, amounting to 3.9 million individuals.¹⁷

Ofcom fails to acknowledge that vulnerable groups are substantial in size and set to grow in future

30. Ofcom’s report sought to understand the postal needs of different vulnerable groups, including people with a disability, older people, those without access to the internet, those in a rural or remote location, and people on a low income. The Jigsaw 2023 research says that vulnerable groups “most likely to rely on the post for medical correspondence – such as older age participants and those with chronic mobility problems could be most reluctant to accept receiving letters every 2-3 days”.

¹⁴ UK postal users research: quantitative research report, Jigsaw Research, September 2020, p.62 accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0018/208215/2020-review-of-postal-user-needs-quantitative-report.pdf

¹⁵ UK postal users research: quantitative research report, Jigsaw Research, September 2020, p.1

¹⁶ Consumer survey research on post, Yonder Consulting, 26th October 2023 to 2nd November 2023, Slide 2, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0022/275800/Consumer-survey-research-on-post.pdf

¹⁷ Based on total population of 68.3m in 2023, 16+ population of approximately 55.3m, equivalent to approximately 3.9m people. See: principal projection – UK population in age groups, ONS, 30th January 2024 accessed at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea21principalprojectionukpopulationinagegroups>

31. Ofcom's report fails to note that the number of postal users falling within the older age and chronic mobility problem categories is substantial, with 12.6 million¹⁸ people across Britain in receipt of the State Pension¹⁹, 16 million people across the UK with a disability²⁰, 6.6 million people over the age of 60 with a disability, and mobility impairment making up the most common category of disability, with 47% of disabled people citing a mobility problem. This equates to 7.5 million people across the UK with a mobility problem in 2022, up from 7.0 million in 2020.

32. Furthermore, these numbers are set to grow in future, with the overall UK population projected to rise by 6.6 million (9.9%) people from 67.0 million in 2021 to 73.7 million in mid-2036. There will be an increasing number of older people; over the next 15 years the size of the UK population aged 85 years and over is projected to increase from 1.6 million (2.5% of the total population) to 2.6 million (3.5%).²¹

33. Ofcom's report suggests there were other categories of vulnerable postal users participating in Jigsaw's research who are reluctant to accept letter delivery every 2-3 days.²² Therefore, it is worth noting that the other vulnerable group categories identified by Ofcom's research (apart from older age groups and those with a disability) are also significant in terms of population size. This includes:

- 7% of UK individuals aged 16+ are without access to the internet at home (3.9 million individuals). A quarter of these cite affordability as a reason.²³
- 18% of people aged 65+ do not have access to the internet at home.
- Around 2.4 million adults are unable to complete a single basic task to get online.²⁴
- Around 8.5 million adults cannot complete all eight basic tasks needed to go online identified by Lloyds Bank Consumer Digital Index.²⁵

¹⁸ Applies to England, Scotland and Wales

¹⁹ DWP benefits statistics August 2023, accessed at:

<https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2023/dwp-benefits-statistics-august-2023>

²⁰ Family resources survey, disability data tables, Government Department for Work and Pensions, updated 21st July 2023, accessed at:

<https://www.gov.uk/government/statistics/family-resources-survey-financial-year-2021-to-2022#full-publication-update-history>

²¹ National population projections: 2021 based interim, ONS, 30th January 2024, accessed at:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2021basedinterim>

²² The Jigsaw research statement – *'Those most likely to rely on the post for medical correspondence – such as older age participants...'* etc. suggests there were other vulnerable groups who were reluctant to accept 2-3 day delivery.

²³ Online National 2023 Report, Ofcom, 28th November 2023, accessed at:

https://www.ofcom.org.uk/data/assets/pdf_file/0029/272288/online-nation-2023-report.pdf

²⁴ Digital Exclusion, House of Lords Communications and Digital Committee, 29th June 2023, accessed at:

<https://committees.parliament.uk/publications/40662/documents/198365/default/>

²⁵ 2023 Consumer Digital Index, Lloyds Bank, accessed at:

<https://www.lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index.html>

- Around 4.2 million people live in a rural village and dispersed/sparse setting, over 25% of whom are aged over 65.²⁶
- Postal users in Scotland, Wales and Northern Ireland are especially reliant on postal services because they are more likely to live in a rural area, or suffer from poor broadband connectivity. For example, 32.8% of people in Wales and 36% of people in Northern Ireland live in rural areas, compared with 20.9% of people in England.²⁷ In Scotland, 17% of people live in rural areas, but due to the remote location of many premises, people in Scotland are less likely to have access to a decent broadband connection than in England or Wales.²⁸
- 22% of people in the UK live in a household on a low income.²⁹

Some of Ofcom's user research involves potentially leading questions

34. We are concerned about the potentially leading nature of some of Ofcom's survey questions. For example, Jigsaw found that *"Most felt that the USO was meeting current needs and should be protected to ensure decent minimum standards for users. Once the context is fully explored and participants understood the need for the USO to adapt to fit changing needs – they were typically quite willing to explore amendments – even in the form of reductions to the service."*³⁰

35. The report also states *"In the interests of keeping prices down and only paying for what was required - most were open to reducing some services and standard levels - particularly for letters."*³¹

36. This suggests that questions were framed around people's needs in the context of cost pressures on the USO, rather than purely on postal users' needs. The positioning of questions in this way appears designed to elicit responses that support a preconceived idea that the universal postal service must be scaled back to secure its future

²⁶ B. Population Age Profile, Gov.uk, See Table B-1, data relates to 'Rural village and dispersed' and 'Rural village and dispersed in a sparse setting' categories, 14th March 2023, accessed at:

<https://www.gov.uk/government/statistics/population-statistics-for-rural-england/b-population-age-profile>

²⁷ Fact file: Rural economy, House of Lords Library, 27th January 2020, accessed at:

<https://lordslibrary.parliament.uk/fact-file-rural-economy/>

²⁸ Connected Nations UK Report 2023, see Figure 2.5 (Scotland figure is highest as a proportion of population), 19th December 2023, Ofcom, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0022/273721/connected-nations-2023-uk.pdf

²⁹ People in low income households, gov.uk, 6th November 2023, accessed at:

<https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/pay-and-income/people-in-low-income-households/latest/#main-facts-and-figures>

³⁰ Understanding the needs of postal service users, October 2023, Jigsaw, p.47, accessed at:

https://www.ofcom.org.uk/data/assets/pdf_file/0023/275801/Understanding-the-needs-of-postal-service-users.pdf

³¹ Understanding the needs of postal service users, October 2023, Jigsaw, p.5

sustainability and to keep prices affordable. This may have influenced responses from participants, potentially blurring their view of what they would ideally like to see from the postal service.

Ofcom should ask users how they want to see the postal service grow and improve

37. The CWU has long called for innovation and growth in the universal network to secure the financial sustainability of the USO, rather than cutting services back. We believe Ofcom should be exploring these ideas and asking users how they would like to see postal services diversify, as part of their duty to assess whether services are meeting users needs and their duty to further the interests of citizens and consumers. As such, it would have been helpful if Ofcom's research had sought responses from postal users about potential growth areas through the postal service such as the delivery of medical prescriptions, checking on elderly and vulnerable citizens and collection of recycling materials at the doorstep. It would also have been useful to see responses regarding postal needs based on prices and services remaining broadly similar, rather than on what users would be willing to accept in the interests of keeping prices down and only paying for what was required.

Some of Ofcom's research findings are contradictory

38. It is also a concern that some of the findings between Ofcom's qualitative and quantitative research appear to be contradictory. For example, the qualitative research finds that '*users were also generally happy not to receive post at the weekends as they are unlikely to engage with post during that time*'.³² The quantitative research on the other hand found that 63% of postal users said it is important to have letters delivered to their home 6 days a week, and 58% said it was important that letters are delivered to their home on Saturdays.³³ It is difficult to reconcile these findings.

³² The future of the universal postal service, 24th January 2024, Ofcom, para 5.33, and Understanding the needs of postal service users, October 2023, Jigsaw, p.49.

³³ Consumer survey research on post, Yonder Consulting, 26th October 2023 to 2nd November 2023, Slide 10, accessed at: https://www.ofcom.org.uk/_data/assets/pdf_file/0022/275800/Consumer-survey-research-on-post.pdf

Question 3: Do you agree with our assessment of the bulk mail market? Are there other factors relevant to its future evolution which we have not considered?

We agree that letters will remain important for large users, providing there is no major reduction in access services

39. We broadly agree with Ofcom's assessment of the bulk mail market. In particular, bulk mail is delivered through the USO network and it is important that a national network is in place to convey these letters. Bulk mail is often highly valued and time critical, including hospital appointment letters, fines and court documents. Access mail represents the majority of all bulk mail, and with access operator payments of £1.5bn, it accounts for roughly 40% of Royal Mail's USO and access revenue combined (£3.7bn) and approximately 22% of their Reported Business³⁴ revenue. Access mail therefore helps to support the sustainability of the USO.

40. We note that Royal Mail introduced a slower D+5 economy access product in January 2021, and as of Q4 2022-23, broadly a third of access letter volumes were D+5. Whilst this may indicate that some bulk mail items are not time critical, it also suggests that the majority are, given that large mail users have had three years to switch to a cheaper product. We also note that bulk mailing companies report that their customers use the economy product to avoid paying more for a faster service they are not receiving due to service delivery problems. They say this does not mean the demand for a faster service is not there, rather that the service is not being provided.³⁵

41. We agree that e-substitution is already driving letter volume decline. However, there are a number of reasons why this process will continue to be gradual, and we think Ofcom should emphasise this more clearly. In particular, as we said under Question 2, millions of postal users do not have access to the internet and millions more lack the digital skills necessary to receive important information electronically. Furthermore, bulk mailing companies have reported that their financial services customers are reaching the end of the process of digitalisation, saying there are certain things they will always need to do in print and customers they will always need to service in print.³⁶

³⁴ The Reported Business is the part of Royal Mail responsible for delivering the universal service. It excludes the activities and products of Parcelforce International and Royal Mail Estates Ltd. The services within the Reported Business include all universal service products (based on the universal service obligation, USO) and other 'non-USO' products which use the universal service network (for example, retail bulk mail and access)

³⁵ Jon Wilkins, Director Access Mail, UK Mail, comment at Ofcom London event on the postal universal service, 15th March 2024

³⁶ Jon Wilkins, Director Access Mail, UK Mail, comment at Ofcom London event on the postal universal service, 15th March 2024

42. In addition, as previously stated, the pandemic has created long waiting lists and delays in both the NHS and the court system, meaning that communication is now more important than ever in tackling the strain on services. Any attempt to severely cut the USO will have a detrimental effect on institutions that use bulk mail services and will see an increase in the unacceptable events that have been featured in recent media exposes regarding the failure to deliver important letters, such as notifications of NHS appointments and surgeries.

43. Therefore, providing there is no major reduction in the scope of Royal Mail's access services, we agree with Ofcom's assessment that letters will remain important for large users, especially public services, for the foreseeable future.

Question 4: Are there specific events/changes that could trigger a significant change in demand for large mail users, including public services?

A reduction in access services could accelerate e-substitution, putting the USO at risk

44. The level of digital exclusion across the UK and the slow pace of digitalisation in UK public services means that as things stand, there is unlikely to be a significant change in demand amongst large mail users within a short timeframe. However, regulatory changes designed to scale back the USO network could force large mail users to seek alternative communication methods at an earlier stage than would otherwise be the case, potentially accelerating e-substitution and putting the future of the universal service at greater risk. This is because the slowing down of bulk mail will mean that the postal service will no longer meet the requirements of large users, such as the NHS and banks, for time critical mail delivery.

An open letter from NHS leaders shows how delaying bulk mail will put lives at risk

45. A recent open letter from national organisations representing patients and NHS leaders illustrates this point.³⁷ The letter expresses concerns about plans to delay bulk mail of NHS appointment letters from two days to three days. It conveys the damaging impact of missed NHS appointments, saying that when communications from the NHS are delayed, patient safety is put at risk. The letter calls for the plans to be scrapped and for priority to be given to ensuring that patients' letters already delayed arrive on time. This follows findings from BBC Panorama that patients with serious health conditions are missing crucial medical appointments because letters have either been late or have not arrived at all.³⁸

46. This is an alarming state of affairs that spotlights the disastrous impact of Royal Mail's service failures and the failure of Ofcom to rectify the situation. Ofcom should urgently do everything in its power to ensure that Royal Mail immediately resolves the problem of delays in the delivery of NHS letters.

47. Ofcom must also be careful to ensure that it does not further undermine the stability of the USO by diluting the USO requirements such that this accelerates the process of

³⁷ Open letter to Royal Mail about the delivery of NHS letters, 27th February 2024, healthwatch, accessed at: <https://www.healthwatch.co.uk/response/2024-02-27/open-letter-royal-mail-about-delivery-nhs-letters>

³⁸ Royal Mail: What's gone wrong at the company? BBC News, 26th February 2024, accessed at: <https://www.bbc.co.uk/news/business-68382286>

e-substitution. This will lead to a vicious cycle of decline in postal revenues, service provision and demand, substantially raising the risk to the future sustainability of the USO. It will place undue pressure on institutions that use bulk mail as a significant method of communication to change the way they communicate with the public, crucially, not according to the needs of the public but according to the ability of Royal Mail to provide the service or of Ofcom to regulate the sector properly. These are completely unacceptable conditions for either a USP or a regulator to impose on these institutions, especially in a time when public services are under such strain and where institutions like banks are rapidly moving away from in-person services, leaving many groups unable to access these services.

Question 5: Do you agree with our proposed approach to estimating the financial burden of the USO?

48. No, the CWU does not agree with the proposed approach to estimating the financial burden of the USO. This is largely because, as Ofcom has acknowledged, it has a number of weaknesses.

The approach is insufficient to justify a reduction to the universal postal service

49. In particular, it is not a full statutory assessment as required by the Postal Services Act 2011 which Ofcom must follow to decide whether any financial burden exists and whether it may be unfair for Royal Mail to bear that burden. Further, Ofcom has had to make a number of assumptions about Royal Mail's commercial and operational decisions requiring a significant degree of judgement. Finally, Ofcom has not taken into account intangible benefits such as brand value.

The level of uncertainty is unacceptable given the huge impact on workers and customers

50. We are also concerned that the enormously wide estimate of the net cost to Royal Mail – anything from £150 million to £675 million for two or three day delivery obligation – suggests a great deal of uncertainty within the plan and estimated cost savings. This kind of uncertainty is not acceptable when the proposed changes and subsequent cost savings are so hugely damaging in terms of their impact on postal workers and customers. In short, the changes represent the loss of thousands of postal jobs and hundreds of millions in lost mail revenues.

51. People costs make up a substantial proportion of the cost of Royal Mail's delivery operation, at approximately 69% of total operating costs.³⁹ Ofcom's report has therefore considered people costs in detail within its delivery cost modelling calculations. Although these are not quantified, they include a detailed analysis of the time required for operations and associated wage costs.⁴⁰

³⁹ This is based on adjusted operating costs for Royal Mail totalling £7,830m in March 2023, of which people costs were £5,409m (69%), see IDS Annual Report 2023, p.63, accessed at:

https://www.internationaldistributionsservices.com/media/12054/ids_annual-report-2022-23.pdf

⁴⁰ A7 Our approach to the net cost calculation, the future of the universal postal service, Ofcom, 24th January 2024, Para A7.142, accessed at: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/275822/A7-Our-approach-to-the-net-cost-calculation.pdf

52. Using Ofcom's cost saving estimates, we can calculate that moving to a two or three day letter delivery service could result in between 13,700 and 17,800 job losses. This is based on the potential cost savings identified for three day delivery of up to £750m, and savings for two day letter delivery of up to £975m.⁴¹
53. However, we are concerned that frontline job losses could be considerably higher than this, depending on the operational design of the new delivery model. The revenue losses of up to £525m for three day delivery and £550m for two day delivery represent millions of lost mail volumes as customers switch away from Royal Mail or choose not to send items by post. A £550m revenue loss is equivalent to 440m first class letters, 733m second class letters, and 1.6bn bulk mail letters.⁴² This would be enormously detrimental to postal users, especially those who rely most heavily on the postal service.
54. It would be irresponsible and unacceptable to take forward such a far reaching change without a much clearer understanding of the actual impact on postal workers and postal users. As such, it would not be appropriate to use the estimates in this informal, simulated approach to inform or justify a decision to reduce the universal postal service. A formal statutory assessment, as required under Sections 44 and 45 of the Act, is essential to take forward any change to the USO given the significance of the universal postal service and the extensive impact of Ofcom's options.

The Net Avoidable Costs methodology has weaknesses, despite being commonly used

55. The Net Avoidable Costs approach is one of several methodologies commonly used to measure the net cost of the USO.⁴³ It also appears to be consistent with guidance on calculating the net cost of the USO which is set out under Annex 1 of the European Postal Directive (Annex 1PSD [2008]).⁴⁴
56. However, there are a number of criticisms of the NAC approach, including that it presumes that costs can be isolated/ clearly allocated to each product. The outcome of estimating the net cost of the USO under the NAC approach will be influenced by the

⁴¹ Approximate calculations based on Royal Mail total people costs of £5,409m; FTE numbers employed of 143,553, equivalent to a cost per individual employee of £37,679; and 69% of £750m and £975m estimated cost savings (£518m and £673m respectively).

⁴² Bulk mail calculation based on 0.34p per letter, as advertised by the Direct Mail Company, accessed at: <https://www.thedirectmailcompany.co.uk/bulk-postage-rates/>

⁴³ Exploration of challenges to overcome when implementing a net cost calculation methodology based on a reference scenario – Benchmark of experiences, ERGP, 2014

⁴⁴ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997, amended 20 February 2008, accessed at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:01997L0067-20080227>

level at which cost data is disaggregated.⁴⁵ It is not clear from Ofcom's reports, including '*A7 Our approach to the net cost calculation*', at what level cost data was disaggregated. This potentially presents a weakness with Ofcom's NAC methodology, making the calculations less reliable.

⁴⁵ Study on the principles used to calculate the net costs of the postal USO, Frontier Economics Ltd, London, December 2012, accessed at: <https://op.europa.eu/en/publication-detail/-/publication/13f857cc-74d4-430f-ab13-df744da42bea>

Question 6: Do you agree with our considerations regarding the unfairness of the financial burden of the USO?

57. No, we do not agree with Ofcom's considerations regarding the unfairness of the financial burden of the USO. This is largely because of the weaknesses with Ofcom's approach to estimating the net cost of the USO, as described above under question 5 and the deliberate undermining of the opportunities presented by the USO by the leadership of Royal Mail. Limitations associated with Ofcom's assessment of user needs - described under question 2 - also undermine its conclusions on the unfairness of the financial burden.
58. We accept that there is likely to be a net cost to delivering the USO, under the current regulatory regime and Royal Mail's business plan. We also acknowledge that the financial burden of doing so is absorbed by Royal Mail, while unregulated competitors select parts of the universal network to utilise for deliveries in areas that are not profitable, without properly contributing to the costs of maintaining this network. Without the universal network, they would be forced to bear the costs of delivering to those addresses or pass these on to consumers. This limits Royal Mail's commercial freedom in that they are bearing the costs of the large USO network infrastructure, while competitors hive off profits from that same network.
59. Even within the limits of the regulatory system, Royal Mail has chosen to view the USO network and its significant scope and infrastructure as simply a cost-burden, rather than to capitalise on the obvious commercial opportunities it presents. While the company maintains the expansive network and bears the associated costs, delivering to over 32 million addresses on a daily basis presents a clearly advantageous position for introducing new products and services. In fact, this has been part of Ofcom's justification for the lack of parcel regulation in the wider sector, stating that Royal Mail has a clear commercial advantage as a USP and the primary provider of post and parcels to all households in the UK.⁴⁶
60. Yet, a contradiction now emerges in this report, with Ofcom claiming that the USO must be considered a disadvantage, but not addressing this through any regulation of the wider sector. The CWU believes an important solution to this is the introduction of an industry fund, as we explain further under question 8. This would mean that competitors

⁴⁶ See for example, 2022 Review of Postal Regulation, Ofcom, 18th July 2022, Para 6.39, accessed at: https://www.ofcom.org.uk/_data/assets/pdf_file/0023/240971/Statement-2022-Review-of-Postal-Regulation-Statement.pdf

who rely on the universal network make a contribution towards it, helping to alleviate the financial burden on Royal Mail and to secure the financial sustainability of the USO.

61. Such a fund to subsidise the net cost of the USO would reflect the reality that the universal postal service is far more than a commercial operation, and Ofcom has a duty to regulate it accordingly. The postal service is a public service that ensures a fundamental means of communication and economic participation across the country, as well as forming a key part of our national infrastructure. Our most important institutions, including the NHS and the court system, rely heavily on the postal service as the primary means of communication with most of the public. A sizable part of the population, especially those living in remote or rural regions still rely on universal postal services to stay connected and are likely to continue doing so for years into the future. In addition, the Covid-19 pandemic illustrated the importance that the universal postal service plays in maintaining social cohesion and economic activity during a global crisis.⁴⁷

Legislation is designed to provide funding for the net cost of the USO rather than cutting services

62. The European Commission recently stated that the provision of universal services entails a net cost and that this can be substantial. It also said that if the universal service provider had to bear such costs on its own, it would put that provider in a disadvantaged position vis-à-vis its competitors.⁴⁸ That is why, under the Postal Services Directive, universal service providers may be compensated for the net cost of the USO through state aid and/or a Compensation Fund supported by other postal operators. This is reflected in Section 46 of the Postal Services Act 2011.⁴⁹ Traditional postal operators have consistently called for governments to observe the principle of full compensation of the net cost with national funding, arguing that the USO should be sufficiently funded given its social benefits.⁵⁰ In most European countries the net costs, which represent an unfair financial burden, are compensated by the state budget.⁵¹ However, unlike Royal Mail, most European postal incumbent operators are state-owned at least in part.

⁴⁷ Report from the Commission to the European Parliament and the Council on the application of the Postal Services Directive (Directive 97/67/EC), European Commission, Brussels, 8th November 2021, accessed at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0674>

⁴⁸ Report from the Commission to the European Parliament and the Council on the application of the Postal Services Directive (Directive 97/67/EC), European Commission, Brussels, 8th November 2021, accessed at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0674>

⁴⁹ Postal Services Act 2011, Parliament, Section 46, p.30, accessed at: https://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga_20110005_en.pdf

⁵⁰ Position on the evaluation report of the PSD, PostEUrop, March 2022

⁵¹ Calculating the net cost of universal postal service – pragmatic approach, 2015, accessed at: <https://epluse.ceec.bg/wp-content/uploads/2018/09/20150708-06.pdf>

Privatisation, liberalisation and price competition are not compatible with a strong USO

63. Now that Royal Mail is fully privatised, state funding for the net cost of the USO is less realistic due to the problems of bankrolling shareholder profits with taxpayers money. The CWU has consistently warned the Government and Ofcom that privatisation and price competition would undermine the financial sustainability of the universal postal service, putting its future at risk.⁵² The Government and Ofcom have ignored those warnings and pressed on with their liberalisation and competition agenda. Unfortunately, the evidence is now glaring that the public service objectives of the universal postal service are incompatible with the privatisation of Royal Mail, combined with two decades of market liberalisation and price competition.

The net cost of the USO could be supported by allowing growth and innovation in the USO

64. Even given the lack of compatibility with Royal Mail's role as a key contributor to the UK economy and an important part of our national infrastructure with privatisation, the CWU knows that Royal Mail can remain a financially sustainable and comprehensive business in the modern world. However, this is completely reliant on the company adopting a business plan which focuses on investment in the service, the workforce and on constantly innovating and evolving to grow Royal Mail.

65. Instead, successive leadership teams have focused solely on cultivating as much profit as possible, at the expense of their services and the workforce, so they can issue excessive and destructive returns to shareholders, as they did in 2022. Ofcom has correctly asserted that their remit as a regulator does not extend to Royal Mail's management of the company but the CWU cannot accept both Royal Mail and Ofcom claiming that the current USO is undeliverable, when years of financial and operational mismanagement have created the circumstances that have led to the assessment that it is undeliverable.

⁵² See for example Save our Royal Mail Campaign evidence here: https://committees.parliament.uk/writtenevidence/45065/html/#_ftn2 ; and multiple CWU submissions to Ofcom over many years including: CWU Response to Ofcom review of regulation of Royal Mail, non-confidential version, 3rd August 2016, available at: https://www.ofcom.org.uk/_data/assets/pdf_file/0030/90777/CWU.pdf ; and Return to sender: Royal Mail boss Simon Thompson is just another fall guy for privatisation, Canary, 9th May 2023 accessed at: <https://www.thecanary.co/editorial/2023/05/09/return-to-sender-royal-mail-boss-simon-thompson-is-just-another-fall-guy-for-privatisation/>

66. Simply put, if Royal Mail have failed time and time again to innovate using their unique position as the USP, where there are clear opportunities for revenue creation, and have instead sought to run down the service through deprioritisation and cutting costs, they should not be rewarded for doing so through a weaker USO, nor should the customer be punished for this mismanagement.
67. As we outline further under question 8, Ofcom could mitigate the net costs of the USO to a degree by allowing Royal Mail more scope to develop and modernise the USO to meet user needs, for example, the inclusion of tracking in USO products. However, Ofcom has declined to do so in the interests of promoting parcels competition over securing the sustainability of the USO through revenue growth. In its 2022 Statement on postal regulation, Ofcom concluded that extending the scope of the USO by including tracked First and Second Class USO parcel services would potentially harm developing competition. As the CWU said in 2022, we believe the opposite is the case, with parcels competition already highly developed after nearly two decades of postal liberalisation. The exclusion of tracking under the USO benefits Royal Mail's competitors at the expense of the USO and postal users. Tracking should now be permitted within the scope of the USO to deliver better outcomes for customers, to ensure the USO evolves with user expectations and to help to secure the financial sustainability of the universal service.⁵³

⁵³ For further detail on the rationale for tracking in the USO, see CWU Response to Ofcom Review of Postal Regulation, March 2022, paras 39 to 48: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/235367/CWU.pdf

Question 7: Do you agree with our considerations regarding the impact of the financial burden of the USO?

68. No, we fundamentally disagree with Ofcom's considerations on the impact of the financial burden of the USO.

Royal Mail has and continues to achieve substantial efficiency gains

69. The CWU strongly rejects Ofcom's assertion that "*Royal Mail has struggled to meet its obligation to deliver its USO services efficiently as it has regularly failed to meet its efficiency targets over the years since privatisation.*" We also reject the claim that "*Royal Mail's costs are higher than they otherwise could be, which has in turn had a negative effect on its financial sustainability.*"

70. To be clear, we view Ofcom's assessment of efficiency within Royal Mail as completely unfit for purpose and incentivising downward pressure on pay, terms and conditions for staff. We refer specifically to the method of using the Office for Budget Responsibility average earnings index as a benchmark for efficiency under Ofcom's PVEO measure, which we understand therefore categorises pay increases above this as 'inefficient'.⁵⁴ This follows Ofcom's previous use of CPI (prior to changes in 2022) as the benchmark for pay rises, which Ofcom stated would class any pay settlement above CPI as inefficient.⁵⁵ This is particularly concerning given the cost-of-living crisis is placing serious pressure on postal workers and clearly contributes to a race to the bottom on employment standards and the business practices of unscrupulous competitors, such as Evri who have been reported as paying their workers as little as 60p per parcel delivery.⁵⁶ Royal Mail have also criticised Ofcom's assessment of efficiency gains and have agreed some measures with CWU, which better reflect the areas in which productivity and efficiency can be measured.⁵⁷

71. Despite a flawed assessment model, Royal Mail has in fact delivered and continues to deliver substantial efficiency gains with the cooperation of its workforce and the CWU as

⁵⁴ Statement on changes to Royal Mail's regulatory reporting requirements, 2022 review of postal regulation, Ofcom, 28th February 2023, para 4.77, accessed at:

https://www.ofcom.org.uk/_data/assets/pdf_file/0022/254524/statement-royal-mail-regulatory-reporting-requirements.pdf

⁵⁵ Annual monitoring report on the postal market 2013-14, Ofcom, 2nd December 2014, para 4.23, accessed at:

https://www.ofcom.org.uk/_data/assets/pdf_file/0024/71178/annual-monitoring-update-postal-2013-14.pdf

⁵⁶ [Evri delivery drivers say the job is 'awful' and claim they get paid '60p a parcel' - Mirror Online](#)

⁵⁷ Royal Mail statement on the five year cumulative expectation for PVEO and Weighted items per Gross Hours (WIPGH) measures [five-year-cumulative-expectation-for-pveo-and-productivity-2023-06-30.pdf \(internationaldistributionservices.com\)](#)

we have pointed out to Ofcom multiple times over recent years.⁵⁸ Moreover, Royal Mail's increased costs are related to their higher standards for pay, terms and conditions, while competitors put couriers and drivers on bogus self-employment contracts and poverty pay. Needless to say, the CWU does not view paying workers the lowest possible wages and keeping them on insecure contracts as a marker of efficiency.

72. Ofcom's own analysis contradicts their assertion, with the annual Post monitoring report published in December 2023 showing that Royal Mail (in 2022-23):

- Reduced its real costs by 11.3%
- Achieved PVEO efficiencies of £411m (5.6%)
- Reduced total frontline gross hours across delivery and processing by 7.6%.

73. Ofcom's own monitoring report even acknowledged Royal Mail's 'progress' in achieving efficiency savings in 2022-23 by cutting operational numbers, a reduction in capital expenditure, introducing lower pay, terms and conditions for new starters and rolling out dedicated parcel hubs.

74. The CWU asserts that these 'efficiencies' are nothing of the sort. Royal Mail's high attrition rate of long-serving staff members, spurred on by the pernicious behaviour of management during the 2022 industrial dispute, has led to the crisis in quality of service the company is experiencing. In addition to the lack of trained staff, the new, lower pay and conditions for new starters has led to an extremely low retention rate of these staff members. This has forced the company to introduce two new bonus schemes for new starters - totalling £3000 over 12 months if they stay with the business - essentially rendering the lower pay and conditions useless.

75. Despite this completely inefficient approach to resourcing, as previously mentioned, by Ofcom's own declaration, Royal Mail is achieving efficiency savings and a 2020 report found that universal service providers from Germany, Great Britain, Netherlands and Slovenia achieved the highest efficiency scores and at the same time increased productivity.⁵⁹ The CWU therefore disagrees with Ofcom's assertion regarding Royal Mail's efficiency, though we also disagree with Royal Mail's approach to resourcing.

⁵⁸ See in particular: CWU response to Ofcom's review of postal regulation – call for inputs, 20th May 2021, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0023/221648/cwu.pdf and CWU response to Ofcom's review of postal regulation, 2nd March 2022, accessed at: https://www.ofcom.org.uk/data/assets/pdf_file/0026/235367/CWU.pdf

⁵⁹ *Efficiency and productivity analysis of universal service obligation: A case of 29 designated operators in the European countries*, Ralevic et al, published in *Technological and Economic Development of Economy*, Volume 26, Issue 4, 2020.

Unrealistic efficiency expectations creates resourcing problems and quality of service failures

76. As previously mentioned, the CWU believes that Ofcom has pushed for ever greater cost efficiencies that target the higher standard of pay and conditions for Royal Mail workers, and this ultimately makes delivering the USO extremely difficult.
77. There is a limit to how hard staff can be expected to work in physically demanding jobs and how far Royal Mail can push efficiency improvements before quality of service is affected. This has become increasingly evident with the introduction of Royal Mail's new resourcing model in 2023. The low level of pay combined with the pressures of the role have brought soaring attrition rates and recruitment difficulties leading to under resourcing in delivery offices and mail centres right across the UK. This has led to the aforementioned bonus scheme, which has undermined Royal Mail's original efficiency plan. The crisis in resourcing is central to the ongoing quality of service failures being experienced by customers, and will almost certainly cost Royal Mail more in recruiting, training and retaining staff over the longer term.
78. The CWU also strongly condemns the behaviour of the senior leadership team of Royal Mail and the behaviour of managers during the industrial dispute. A clear tactic during the dispute was to target CWU members and representatives, particularly those with a long service at Royal Mail, with bullying and harassment, in an effort to try and quell strike participation. Though this is not strictly a matter for the regulator, the discussion around the crisis in the postal service in the last few years cannot be separated from the fact that the attacks on postal workers with years of experience, who are often more likely to be an active part of their union, led thousands of them to leave the business-taking with them the knowledge and experience which is essential to quality of service being maintained.
79. During the most recent industrial dispute, Royal Mail oversaw a massive number of experienced and committed postal workers being forced out of the business and attempted to replace them with less experienced, lower-paid workers on insecure contracts and elicit the same results when it came to quality of service. The subsequent issues that arose from these decisions cannot be used as a driver to change the USO when these issues are being driven by the management of the company.

80. In addition, given the current circumstances facing Royal Mail and the wider sector, Ofcom's expectation for "*Royal Mail to resource its service to a level necessary to meet its obligation*" is simply not realistic when combined with the regulator's relentless drive for cost efficiencies and price competition. This is clearly demonstrated by Royal Mail's ongoing resourcing challenges and quality of service failures.

Consumers should not have to pay higher prices due to over provision of USO services

81. As we have said under question 2, there are weaknesses with Ofcom's assessment of user needs under the USO. We are therefore not convinced that the USO goes beyond a level needed by users, or that this would lead to consumers paying higher prices than necessary for USO products. There are multiple other ways Ofcom should ease pricing pressures before cutting the USO, in particular through addressing unfair competition and regulating for growth and innovation in USO services.

Rising USO prices will accelerate e-substitution, creating a spiral of decline

82. It is important that Ofcom seeks ways to ease pricing pressures, because stamp prices are already increasing rapidly, with four rises in two years taking a first class stamp to £1.35 from April 2024. This will price more postal users out of letters, accelerating the fall in mail volumes and pushing prices up further in a spiral of decline.

Excessive USO prices are being caused by unfair competition and unchecked shareholder returns

83. We assert that Ofcom's continued failure to level the playing field for parcel delivery services, or to introduce tracking for USO products, are pushing up prices for USO services. Equally, paying out extortionate shareholder dividends, such as the £567m paid in 2022, puts pressure on Royal Mail's finances and increases the need to raise prices. These cost pressures, rather than USO services exceeding user needs, also limit Royal Mail's capacity to invest, innovate and remain competitive.

Question 8: *Do you agree with our analysis of the different options available to change the USO and the impact of those changes on residential (including vulnerable) users, SMEs and bulk mail users? If not, please explain why and set out any option(s) which we have not considered.*

84. No, we disagree with Ofcom's analysis of the options and their likely impact on users.

The CWU recognises there may be a case for some change in the USO given letter volume decline. However, Ofcom's proposed USO reductions are focused on creating a short-term financial gain for Royal Mail, rather than a sustainable, comprehensive option for the long-term that aligns the interests of customers, workers and the company. We are calling on Royal Mail to do this by leveraging the universal network through a strategy of investment and growth, including expanding the role of postal workers and introducing new products and services, in order to secure the financial sustainability of the USO and Royal Mail itself. We are calling on Ofcom to urgently introduce regulatory incentives to support these objectives and to create a level playing field so that Royal Mail can compete more fairly and effectively against other parcel operators whilst delivering the USO.

Option 1 – Changes to frequency of letter delivery

85. The CWU would be willing to consider a five-day USO for letters (Monday to Friday), if it were part of a seven day parcel service, with provision for a premium letter service across six days that could deliver NHS letters at a discounted rate, greeting cards, magazines and items for the vulnerable, such as articles for the blind. This would have to sit alongside Royal Mail agreeing a proper platform for growth and an improved bargaining agenda for postal workers.

86. However, the CWU cannot accept a reduction to a three or four day USO. As we have said under question 5, a three-day USO will result in thousands of job losses and it will have a detrimental impact on the service and on postal users. Based on Ofcom's estimations of cost savings of £550m-£700m for three day delivery under this scenario, which are slightly lower than the cost savings estimates under the net cost calculations⁶⁰, we estimate that this change could result in frontline postal job losses of 10,000 to 12,800.⁶¹

⁶⁰ The net cost savings represent the cost savings that could be achieved if Royal Mail was no longer subject to the USO, whilst the savings under the Option 1 scenario assume that Royal Mail is still subject to a USO.

⁶¹ Approximate calculations based on Royal Mail total people costs of £5,409m; FTE numbers employed of 143,553, equivalent to a cost per individual employee of £37,679; and 69% of £550m and £700m estimated cost savings (£379.5m and £483m respectively).

87. We are therefore extremely concerned about Ofcom’s suggestion that letter delivery frequency could be reduced to 2.5 or 3 days a week, and we do not believe there is a case for such a change. In addition, Ofcom’s conclusion that “*a reduction to a 2.5 or 3 day delivery model may meet users’ reasonable needs*” is not definitive enough to justify the proposal, and it is not fully supported by the evidence.

88. As we have said under Question 2, the evidence in relation to user needs is not robust enough to warrant significant cuts to the USO. For example, an ‘*overall sense*’ from group discussions that ‘*receiving letters every 2-3 days would be acceptable for the majority, including most ‘vulnerable groups*’, is simply not strong enough grounds to introduce these changes. As we have also noted, the vulnerable groups (including the elderly and disabled) who are reluctant to accept 2-3 days delivery frequency are substantial in size and set to grow in future.

89. Further, Yonder’s quantitative research found that 4 in 10 users rely heavily on daily letter delivery to stay connected. This is a considerable number, equivalent to millions of postal users. Yonder’s research says: ‘*significant minorities (around 4 in 10) would feel cut off from society if they were not able to send or receive letters and parcels almost every day*’.⁶² Ofcom’s user needs evidence is also contradictory on important issues such as Saturday letter delivery, where Jigsaw’s qualitative research says most users are unlikely to engage with post at the weekend, whilst Yonder’s quantitative research finds that 58% of users want letters delivered on Saturdays.

The proposals have a detrimental impact on large mail users and vulnerable users

90. The CWU is very concerned about the impact of the proposed changes on recipients of letters from large mail users. As we have said under question 4, NHS leaders have already sounded the alarm in an open letter about plans to delay bulk mail of NHS appointment letters from two days to three days. They argue that this will result in more missed NHS appointments, putting patient safety at greater risk.

91. Ofcom has also acknowledged the potential difficulties of the changes for vulnerable users, saying the changes could accelerate the move towards digital alternatives. Ofcom

⁶² Consumer survey research on post, Yonder Consulting, 26th October 2023 to 2nd November 2023, Slide 2, accessed at: https://www.ofcom.org.uk/_data/assets/pdf_file/0022/275800/Consumer-survey-research-on-post.pdf

recognises that this could have implications for customers if they did not want to or could not use digital channels.⁶³

Ofcom can address the environmental impact of postal services without cutting the USO

92. The CWU supports the objective of reducing carbon emissions in the postal sector, but we do not think cutting an important public service is a necessary route to achieving this goal. Tackling climate change is an urgent imperative, and the universal postal service is central to social cohesion and economic activity. These valuable objectives are not mutually exclusive and it is possible to pursue them both by maintaining delivery frequency standards whilst reducing USO related carbon emissions through low impact modes of transport.

93. Royal Mail already has strong green credentials, with most deliveries done on foot and with thousands of vans now electric. For several years now, Royal Mail has been taking a lead amongst postal operators in investing significantly in decarbonising its fleet and investing in electric vehicles. Ofcom can support this initiative and incentivise further cuts in emissions by ensuring that Royal Mail's electric vehicle costs are not treated as cost inefficient.

94. As we have said in previous submissions to Ofcom, unregulated parcel operators such as Amazon are the worst offenders on environmental impact as they rely on underpaid sub-contractors driving their own, mostly non-electric vehicles. We call again on Ofcom to urgently address this issue and to explore ways of encouraging investment in low carbon initiatives across the postal sector as a whole. We believe that highly polluting unregulated parcel operators should be Ofcom's priority in responding to the challenge of climate change, rather than using the environment as a reason to scale back the universal postal service.

Option 2 – Changes to delivery speeds for letters

95. We are deeply concerned by the specific options from Ofcom on changing speed of delivery specifications and potentially changing Royal Mail's product offering in the process. The option of reducing costs by moving "*the overwhelming majority of letters*

⁶³ The future of the universal postal service, Ofcom, 24th January 2024, p.73, para 9.30

*that are currently sent using First Class (D+1) to Second Class (D+3)*⁶⁴ not only moves millions of items over to a much slower delivery turnaround but also essentially dissolves a First Class service, which is Royal Mail's highest revenue generating letter delivery product after access mail. Ofcom asserts that Royal Mail could create this change by increasing First Class prices significantly so they are close to the price of the Special Delivery product, forcing customers and businesses to move over to the Second Class service.

96. Ofcom put forward another option which would slow delivery speeds for both First and Second Class products, giving the example of moving from offering a D+1 and D+3 service to offering a D+2 and a D+5 service. Not only does this represent bad value for money for customers and business, it incentivises a much slower delivery framework and sets the USO up for further degradation in the future. It also incentivises later starts and without Royal Mail aiming to capture parcel growth later in the day, it will reduce Royal Mail's ability to profit from the USO network.
97. Simultaneously, Ofcom acknowledges the clear demand from customers for a premium D+1 service and for Royal Mail to price this at an 'affordable' level, which in this report is deemed at anything less than the current price for the Special Delivery service. Given the relevant option for moving the majority of mail over to a Second Class service put forward by Ofcom is to literally price consumers out of First Class service, this seems like a meaningless caveat.
98. The CWU would view these specific methods of changing delivery speed as a way of introducing a three-day delivery service by stealth, by encouraging a significantly slower delivery framework and artificially lowering the demand for a premium service by pricing customers out. There would be significant job losses for frontline postal workers for both of these options and many customers and businesses would be negatively affected by these changes, including industries that rely on a premium service, such as the greeting card industry.
99. We are also concerned regarding Ofcom's assertion that the delivery speed of bulk mail would need to be aligned with any changes made for other items and the requirement to change access conditions on Royal Mail. This includes Ofcom's proposal that, provided a change to speed of delivery occurred, they may consider simply leaving it up to Royal Mail to provide access to the network on 'fair and reasonable' terms, rather than having a

⁶⁴ Future of the universal postal service, call for inputs, Ofcom, January 2024, para 9.41

regulated service for access mail. This would be an astonishing step back from the regulator and provide Royal Mail with an opportunity to completely side-step accountability when it comes to the timely delivery of some of the most important mail in the entire system.

100. As previously referenced, NHS leaders have sent an open letter to the leadership of Royal Mail warning against delaying the delivery of NHS letters from two days to three, which could constitute a significant risk to patient safety. In addition, Ofcom's own research notes that two thirds of access letter volumes are not sent by the slower, economy product, showing a clear and definite need for the quick delivery of many access mail items. Given the fact that quality of service is already in crisis and that key institutions that use bulk mail services, such as the NHS and the court system, are severely backlogged following the COVID-19 pandemic, we believe it would be deeply irresponsible to adjust bulk mail delivery speeds. The CWU would also support Royal Mail prioritising NHS letters for fast and secure delivery and would call on the Government supporting both the NHS and Royal Mail in ensuring this can be delivered, without compromising any of Royal Mail's other responsibilities.

101. We also note that Ofcom claims that significantly changing speed of delivery targets in 'comparable' European countries has not caused a 'significant' drop in letter volumes. As previously referenced in this submission, many of these comparator countries are not at all comparable with the British system, given the vastly different circumstances regarding the digitalisation of public services and the status of the UK's key infrastructure. Denmark is frequently used as an example of a country that has completely phased out their postal USO by both Royal Mail and Ofcom. However, Denmark has been undergoing a programme of the coordinated digitalisation of their public services since 2001, while introducing some digital post services between 2011 and 2014.⁶⁵

102. Once again, Ofcom's financial modelling in regards to changing speed of delivery provides an extraordinarily large window of net cost savings between £150-650m. Additionally, the First Class service is one of Royal Mail's highest revenue generating letter products and we subsequently expect there to be a significant difference in revenue under the option of moving most mail to Second Class, versus retaining a First and Second class service but with slower delivery targets. It is not specified in Ofcom's

⁶⁵ Agency for Digital Government, Denmark. [The Danish Digital Journey \(digst.dk\)](https://www.digst.dk)

financial modelling where there may be a significant fluctuation under different methods of delivering changes to speed of delivery.

103. As with the option for reducing the frequency of delivery days, the CWU is deeply concerned that these financial modellings create scope for significant job losses. Based on Ofcom's estimations of cost savings of £300m-£700m for a D+3 service under this scenario, we calculate that changing speed of delivery requirements, in regards to the options presented by Ofcom, could result in frontline postal job losses of 5,500 to 12,800.⁶⁶
104. On the environmental impact of delivery speed changes, we note Ofcom's assertion that Royal Mail would be able to reduce its use of air freight substantially, by 18 flight routes, if flexibility in delivery windows is achieved. However, this is completely misleading as Royal Mail is already planning to remove 18 flight sectors by June 2024 , regardless of any upcoming changes to the USO and have introduced later start times for frontline postal workers to account for the slower deliveries.
105. Though we reject the specific proposals put forward by Ofcom, the CWU is open to changing the speed of delivery of some products, if the USO continued to ensure that First Class products were still delivered across six days. The union would only consider accepting these changes if they were accompanied by a genuine plan for growth and investment in Royal Mail and a permanent resolution to the resourcing and quality of service crisis.
106. However, in regards to ensuring any reform is sustainable, practical and workable, any reforms that involve speed of delivery changes must be subject to an extensive trial, with postal workers being involved at every level of this process. The CWU are willing to engage in talks with Royal Mail on proposals to trial new ways of delivering the USO across the country, provided they properly commit to a business plan that is centred around growth and an improved bargaining agenda for postal workers.
107. In summary, though we acknowledge there may be ways of improving the ways in which Royal Mail delivers a spectrum of products at different speeds across the network, the CWU strongly feels that the specific options presented by Ofcom do not represent any positive changes for the service, the company, the customers or the workforce.

⁶⁶ Approximate calculations based on Royal Mail total people costs of £5,409m; FTE numbers employed of 143,553, equivalent to a cost per individual employee of £37,679; and 69% of £300m and £700m estimated cost savings (£207m and £483m respectively).

Option 3 – Reducing Royal Mail’s quality of service targets

108. We agree with Ofcom’s conclusion that lowering quality of service targets may not be attractive because postal users value reliability and a quality of service. However, it must be considered that Royal Mail is now moving away from the air network and primarily using road transport. These QoS targets were set when more mail was being moved around the country using planes and subsequently, the journey time for USO products was quicker. The transition away from this method of transport will inevitably slow parts of the service down resulting in later delivery times, therefore making these targets more difficult. This should be considered when assessing the current USO. That being said, QoS targets should not be significantly lowered and it is not the only solution in resolving the ongoing problems with service delivery.

109. Ofcom should also focus on ways of ensuring that Royal Mail improves its performance in the delivery of USO items and management of workloads. The practice of prioritising non-USO commercial items over letters, which has continued for some time and caused serious harm to postal users, must be properly addressed. We believe this was part of a deliberate plan by the previous CEO and leadership team to run down the USO and to prioritise parcels and high-profit items. As we have previously mentioned, the crisis in resourcing at Royal Mail is also contributing significantly to the issues with quality of service. High staff attrition, an overreliance on agency workers and lower pay and conditions for new entrants means that staffing at Royal Mail has been thrown into chaos and is creating obstacles to achieving these targets.

110. These issues are at the core of the crisis in service quality and should be the focus of reform, rather than just lowering targets. However, the CWU acknowledges the need to assess targets in relation to the move away from the air network going forward.

Option 4 – Subsidising the current USO

111. As we have said under question 6, the postal service is a public service and a key part of the UK’s national infrastructure. Postal incumbents in other countries have argued that the USO should be funded given its social benefits, and in most European countries the net costs are compensated by the state. However, unlike Royal Mail, most European operators are state-owned at least in part. Ideally, Royal Mail would be in public hands

and the net costs would be subsidised by the government, but this is difficult under privatisation.

112. An industry fund is a more realistic option, whereby operators that meet a defined set of criteria (such as a particular turnover threshold) are subject to an industry levy. As Ofcom notes, the Act explicitly identifies the option of an industry fund to contribute towards the cost to the USP in providing the USO if it is deemed to be an unfair burden.⁶⁷ Although changes may be needed to the current regulatory framework to make this work, we believe this option has the most potential in maintaining the current USO specification.

113. An industry fund is a reasonable and logical solution to the need for a USO subsidy because operators such as Amazon and DHL rely on the universal network to deliver items to hard to reach areas, so it is in their interests to support the USO financially. Amazon uses Royal Mail for an undisclosed number of deliveries per year, and Royal Mail says that Amazon remains a significant customer for them.⁶⁸

114. At the same time as being reliant on the universal network without supporting it financially, companies like Amazon undermine the USO by undercutting Royal Mail on cost and price through exploitative labour standards. This contributes to the reduction in revenues needed to make the USO financially sustainable, with Royal Mail's share of the parcel market falling from 34% in 2020 to 25% in 2022, while Amazon's share has grown from 15% to 17% in the same period.⁶⁹

115. Whilst Amazon's poor employment practices have allowed it to keep operating costs low and boost its market share, the company now faces a legal challenge in the UK from solicitors Leigh Day on behalf of over 1,000 self-employed Amazon drivers. They argue the drivers are actually employees rather than contractors as they have none of the freedoms of self-employment, and they could be owed up to £10,000 each in back pay, holiday entitlements and other benefits.

116. As the CWU has said many times in our previous representations to Ofcom, the use of bogus self-employment by Royal Mail's competitors is not acceptable and Ofcom should be exploring ways to address this problem which presents a clear threat to the

⁶⁷ Section 46 of the PSA 2011

⁶⁸ 'The threat from Amazon is very serious': embattled Royal Mail's nightmare becomes a reality, The Telegraph, 10th December 2023

⁶⁹ Pitney Bowes

sustainability of the universal postal service. We note that in Germany, the same piece of draft legislation currently being considered in slowing letter delivery speeds also includes a proposal to ban the use of subcontractors in parcel delivery. In February, the majority of the Bundesrat voted in favour of the ban. We call on Ofcom to advocate for a similar proposal in the interests of securing the universal postal service.

117. As we have argued in previous submissions, Ofcom could help to raise employment standards across the postal sector by extending Essential Condition 1 on mail integrity to other parcel operators. The requirement to reduce the risk of parcels loss or damage would force operators to ensure their workers are sufficiently well trained, supported and rewarded to deliver a high quality of service. Ofcom may not regulate employment models in the postal sector, but it does regulate service quality and there is a clear connection between the two.⁷⁰

118. By failing to introduce any kind of regulation that would level the playing field for competition, such as requiring parcel competitors like Amazon to contribute to the costs of the USO, or finding ways to raise employment standards across the sector, Ofcom is failing in its duty to secure the future of the USO.

119. As we have explained under question 2, we disagree with Ofcom's assessment that the current letters USO specification goes beyond what is required to meet reasonable users' needs. We also disagree that adapting the USO specification is preferable to using subsidies to maintain existing levels of service.

⁷⁰ For example, Citizens Advice has found evidence of a link between driver pressure and poor consumer outcomes. See: Sorry we missed you, how pressure on delivery drivers impacts consumer outcomes for parcel delivery, Citizens Advice, July 2021, accessed at: <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Post%20and%20Telecoms/How%20pressure%20on%20delivery%20drivers%20impacts%20consumer%20outcomes%20for%20parcel%20delivery.pdf>

Question 9: *Which option(s) do you consider would be most appropriate to address the challenges we have identified, while also ensuring that users' needs are adequately met?*

120. For the reasons we have set out above, we do not consider that any of the specific options laid out in the report will fully address the challenges facing Royal Mail nor will it ensure that users' needs are adequately met.

121. Once again, the CWU acknowledges the decline in letter volumes and the need for some reform in regards to the USO. However, none of the options presented provide a foundation for a truly universal, sustainable and comprehensive service and have been proposed in the wider context of a destructive business plan from the leadership of Royal Mail and a competition-obsessed regulatory regime. We do not accept that any of them will address the challenges facing the service nor meet postal users' needs.

Question 10: Do you have any other views about how the USO should evolve to meet users' needs?

122. As the CWU has argued for some time, the financial sustainability of the USO can be supported through growth, innovation, and revenue diversification, as well as through improved regulation. The CWU believes the USO should evolve based on an expanded parcel network with an emphasis on investment in the service, expanding role of postal workers and exploring new social and commercial products and services.

123. Royal Mail has already agreed to an agenda for transformation of the company and a strategy based on growth, as part of the resolution to the most recent industrial dispute. The *Business Recovery, Transformation and Growth [agreement](#)*, signed by the union and Royal Mail in April 2023, outlines clearly the resolution to the financial challenges faced by Royal Mail.

“The agreement is designed to grow parcel volumes and our share in the market by operating a 24/7 network, including Sundays, alongside acceptance times and dedicated parcel routes that will enable customer deliveries across the day and into the evening. This means Royal Mail will be able to compete on guaranteed next day services and develop a more innovative, customer focused and low carbon product range. RMG will also vigorously pursue growth opportunities through the launch of a joint project with the CWU to expand the role of postal workers in exploring new commercial markets, local to local services and how we better support the communities we serve. This will focus on how we can utilise Royal Mail’s competitive advantage in its unique reach in delivering daily to 32 million addresses and the special relationship that employees have with customers on the doorstep.”⁷¹

124. This agreement clearly demonstrates Royal Mail’s previous commitment to growth and their acknowledgment of the USO as a unique competitive advantage. Months later, Royal Mail and Ofcom have claimed that the USO is a financial and competitive burden and are seeking to make cuts based on short-term financial gain. The CWU cannot accept reform that is driven by the need to rectify the consequences of mismanagement of the company and a poor regulatory regime, when opportunities for growth are being ignored.

⁷¹ RMG/CWU Business Recovery, Transformation and Growth Agreement
[RMG-and-CWU-Business-Recovery-Transformation-and-Growth-Agreement-NEGOTIATORS-AGREEMENT-IN-PRINCIPLE-FORMATTED-FINAL-21.04.23-005.pdf](#)

125. For example, despite Ofcom's supposed focus on efficiency, Royal Mail has taken no steps to optimise its existing fleet and capacity to undertake new shift patterns to deliver parcels later in the day. In addition to the company agreeing this with the union, the CWU has offered to hold talks regarding introducing a later shift to deliver parcels or to find ways of utilising Royal Mail vehicles which remain mostly static after 3pm. Royal Mail has refused to progress these talks further and has instead focused on cutting services and the USO in order to save money, rather than generate revenue.
126. The CWU has also been urging the company to engage properly in talks regarding the expansion of the role of postal workers, in both commercial and social ventures. Despite agreement from the company and endorsement from the Labour Party and many Metro Mayors across the country, Royal Mail has failed to engage with the union on this issue. This represents another failure to capitalise on opportunities for growth. We understand Ofcom's remit does not extend to the management of the company, however, management and the deliberate reneging on pursuing any opportunities for growth must be considered as a key factor when assessing the need for USO reform, if Royal Mail's financial position is a driving factor behind the changes.
127. As previously stated, the CWU does acknowledge declining letter volumes and the need to make some reform when it comes to our postal system. However, instead of focusing on how the USO can be cut to increase Royal Mail's financial gain in the short-term, this reform must be focused on capturing growth and creating a system that fairly regulates non-USP competitors in the parcels sector. Regulation of parcel couriers outside of Royal Mail is an essential step in not only creating a fairer sector and relieving pressure on Royal Mail but also in improving the quality of services provided by parcel couriers, who often fall short of customer expectations.
128. The CWU supports the modernisation of the USO, including introducing tracked parcels into the service. Tracking is no longer a premium feature and is a standard across the wider parcels sector. Though Ofcom have claimed previously that modernising the USO would harm competition, excluding tracking from the USO while parcel couriers have remained largely unregulated and have been able to hive off profits from the USO network, Royal Mail is at a clear disadvantage. It is illegitimate to claim that the USO is a financial burden while simultaneously ruling out any opportunity for Royal Mail to use the network to capture some of the growth opportunities made possible by the network.

129. In summary, changes to modernise the USO and introduce greater parcel regulation to support the USO are clearly necessary. However, this must be accompanied by a change in the culture of both Royal Mail and Ofcom, which has led to Ofcom's report being produced in service of financial gain and without consulting a single frontline worker. Ofcom has claimed that its report assesses the current USO against user needs, financial viability and the core principles of the service. Instead, the options for reform laid out in the report aim only to provide a short-term financial gain for Royal Mail and to reduce the scope of postal services under the USO to a rudimentary service.
130. In regards to Royal Mail, the continued mismanagement of the company, the strategy of achieving financial gain via cost-cutting measures only and the refusal to invest in opportunities for growth must be considered as contributing factors to Royal Mail's current circumstances. Most crucially, as evidenced in the Business, Energy and Industrial Strategy Select Committee Hearings in 2023, Royal Mail has systematically and deliberately undermined the USO through the deprioritisation of letters and the chaotic approach to resourcing, which has created the crisis in quality of service.
131. There is plentiful evidence that Royal Mail managers across the country had issued instructions not to deliver letters according to the Universal Service Obligation. The CWU strongly asserts that this was clearly not a result of a few rogue managers but an instruction from the senior leadership, who have been trying to introduce cuts to the USO for years. These circumstances must be a crucial factor in assessing the viability of the current and any future obligation. We are deeply disappointed that Ofcom has turned a blind eye to the effect of deprioritisation and to the mismanagement of Royal Mail in their assessment.
132. The CWU criticises, in the strongest terms, Ofcom's approach to regulating Royal Mail and the wider parcels sector, as well as its approach to this report. As laid out in this submission, everything from the 'efficiency' measures driving postal workers' pay into the ground to the refusal to regulate global conglomerate parcel couriers has contributed significantly to the difficulties Royal Mail now faces. A fairer system of regulation must be introduced, if a comprehensive postal service is to remain in any form and Ofcom must be able to carry out its duties effectively. This means properly investigating quality of service issues and introducing real consequences for violations, not just issuing token fines which do not constitute any real penalty for service failures or incentive to improve. Fairer regulation means an end to a system which essentially penalises companies that pay their staff a fair wage, as has been the case with Royal Mail.

133. Again, we criticise Ofcom's decision to not consult a single postal worker in the development of this report, given postal workers have given evidence to some of the most important committees in our Parliament and to national media institutions who have recognised the shameful actions of Royal Mail. We are pleased that the Labour Party has agreed to a comprehensive regulatory review of the sector, as part of their National Policy Forum process, in order to improve the dismal regulatory regime.

134. It is clear that the USO must evolve as new technology develops and new commercial patterns emerge. The CWU asserts that this evolution should focus on modernising the USO rather than cutting services, and implementing a regulatory regime that puts fairness at the heart of the sector. We urge Ofcom to halt any recommendations on reform until the union and Royal Mail have had sufficient time to reach agreement on reform that will truly ensure a comprehensive service that aligns the needs of the customers, the workforce and the company.

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