

MUA'S FORMAL RESPONSE TO OFCOM'S FUTURE OF THE UNIVERSAL POSTAL SERVICE - CALL FOR INPUT

1. Introduction

- 1.1 Following discussions with representatives of Ofcom at MUA's meeting on 7th March 2024, and a subsequent closed session discussion, MUA members would wish to make the following points in respect of the future of the Universal Postal Service (UPS).

2. Key Points

- 2.1 MUA is reassured Ofcom recognises the USO should not be taken in isolation, given that both USO and Non-USO mail passes through the same pipeline (in particular, the delivery network). So, any changes to the USO will consequently mean changes to non-USO services (in particular, the c75% of mail that goes through Access).
- 2.2 Ofcom has put forward four key options in its Call for Input (CFI) document. However, the Regulator appears to have all but ruled out two of these options (that of subsidising the current USO¹, and reducing quality of service targets). The Government (and other political parties) have also effectively ruled out a further option (that of reducing the number of delivery days per week required by the USO from six).
- 2.3 This essentially leaves only one of the options Ofcom's CFI suggests – that of changing the delivery speeds for mail. That would mean removing the current requirement for a next-day (1st Class) service and is also likely to mean revising the current requirement for a three-day (2nd Class) service mail. Implementing this option would not require legislative change through Parliament and could be done by Ofcom changing the Universal Service Order.
- 2.4 Making such a change to the USO would also require changes to Ofcom's Regulatory Conditions for Access, to revise the requirement for Royal Mail to offer a D+2 service through Access. Changes would also need to be made to the Royal Mail Access Letters Contract, and to Royal Mail's retail contracts for bulk mail.
- 2.5 MUA members' firm opinion is that if Royal Mail is permitted to degrade Access services through a regulatory change made by Ofcom from Access being a D+2 service, it must only be allowed to extend the delivery time for Access mail to be D+3 (not D+4 or any longer). That means the obligation in the Access Letters Contract for Royal Mail to deliver Access items the day after handover by the

¹ On the matter of subsidising the current USO, MUA members firmly believe there should be no public subsidy. This is based on the fact that if Royal Mail were to meet its efficiency targets, providing the USO would not be a financial burden. Particularly, in circumstances where it otherwise chooses to pay substantial dividends to its shareholders.

upstream operator, can only change to be an obligation to deliver the day after or second day after handover to Royal Mail. This is to ensure that after allowing for the time items spend in the upstream operators' network, Access mail is still delivered an acceptable time after posting, to meet the needs of posting customers and recipients (the existing Economy Access service already provides an option for customers for delivery by Royal Mail, no more than four days after handover).

2.6 Similarly, MUA members also believe Ofcom should use its requirement for Access terms to be fair and reasonable, to prevent Royal Mail from making any changes to the Access Letters Contract other than changes expressly required to alter the period after handover, in which Royal Mail must deliver Access mail.

2.7 It is also MUA members' firm opinion that if the USO (and hence non-USO) delivery speed is to be reduced in this way, Ofcom must also ensure there is some compensatory benefit to customers through other changes to the current regulatory regime.

2.8 MUA members believe this should be through:

- some regulatory constraint on Royal Mail's current freedom to increase all prices other than 2nd Class stamped mail, by as much as it decides, whenever it decides. For large volume mail users, it is highly important for them to be able to budget for their use of mail with some confidence. The industry therefore needs some assurances around price changes, and the timescales in which they will occur. 12 months was generally the expected validity period for a number of years until 2022, when this was changed to 11 months with a November price change, and then reduced further in 2023 with only 10-months between price changes (Nov22-Oct 23). Currently, no non-USO service has any constraint on pricing, but it is the use of these services which provides the great bulk of the funding for the USO services, and further severe impact on non-USO mail use in response to excessive price increases, is likely to be a continuing threat to the sustainability of USO provision.
- ensuring the degraded services are provided at a higher level of quality than is required now (and most certainly, at a higher level of quality than Royal Mail has been providing throughout the time since the Covid pandemic four years ago, despite its contract obligations); this should include changes to the regulatory regime, such that Ofcom can (and will) take action against quality of service failure more speedily than now. In this respect, MUA members welcome assurances from Ofcom that as part of any change to USO and non-USO services, it will include a review of how Ofcom enforces quality outcomes in the future.
- improved provision of information to customers on when their mail is due to be delivered (through use of Royal Mail's Mailmark barcoding technology). Slower bulk mail services are a significant problem for Direct Mailers, and unless this can be linked to the supply of better information as to when mail is to be delivered, this will represent a serious threat to this use of mail.

Royal Mail now collects a substantial amount of information through its barcoded Mailmark services (which are now over 90% of bulk mail). If Royal Mail is allowed to degrade the service, then it should only be done with the compromise that Royal Mail provides increased and better information to customers, so they are able to adapt their own working practices (such as coordinating direct mail with marketing through other media, staffing call centres to handle responses from recipients, and managing prompt order fulfilment). An example of the improved provision of information to customers concerns the data Royal Mail has from the Mailmark barcode shown on the great majority of items it processes, and the customer-specific reports that are made available using that data. These reports should be improved to be more accurate and be updated on a daily basis to indicate when Royal Mail expects to deliver that customer's mail (ideally on a postcode area basis). This would give mail users better knowledge of the 'fall to earth' of their specific mailings and allow them to plan linkage with other media use, call centre capacity and order fulfilment processing.

- 2.9 MUA members believe that even if not required by Ofcom regulation to offer a next-day service, Royal Mail will still make the commercial decision to continue to offer one and (assuming no reduction in the number of days a week on which Royal Mail is required by legislation to have a network to deliver mail), that service would continue to offer delivery on Saturdays. It is clear, that for some customers, there is a strong and continuing need for a next-day service which includes delivery on Saturdays. However, MUA members are greatly concerned that there is currently no constraint on Royal Mail's pricing for a next-day, 1st Class service. This would allow Royal to continue to offer such a service while drastically increasing the price of it such that customers were effectively deterred from using it for all but the most urgent mail where there may be no option to choose another service. Currently Royal Mail offers Special Delivery Guaranteed Next Day (SDG) - including Saturday delivery. MUA members would suggest Royal Mail could offer a pared back next day delivery service, priced below SDG, but only offering compensation for late delivery, and not insurance.
- 2.10 Therefore, Members believe there needs to be some form of control over what price Royal Mail is allowed to charge for any next-day service it chooses to offer, and Ofcom needs to support and encourage Royal Mail to enter into discussions with large volume mailers, to establish specific next-day (including Saturday) services, for instance for electoral mail, urgent medical mail and magazine subscriptions.
- 2.11 In MUA's view, whilst much of the narrative around these discussions is based on the challenges Royal Mail faces with the USO and mail volume decline, in reality it is clear to many stakeholders, the real reason for the national carrier's problems are its ongoing challenges around its industrial relations, and its inability to achieve reasonable efficiency improvement. At present, the pressure to become more efficient has now largely been removed from Royal Mail, and despite the national carrier blaming mail volume decline (which has largely been predictable over a 15-year period), the only way to drive Royal Mail forward is to

establish a regulatory lever to encourage it to become more efficient². MUA members would also wish to emphasise the fact that Royal Mail has also contributed to the volume decline in the market by increasing letter prices in all channels by multiples of inflations, since 2019.

- 2.12 MUA members would also note assertions made by Royal Mail that customers are increasingly interested in using slower services for delivery of their mail, which it argues is demonstrated by the migration of other mail streams to Royal Mail's Economy Access Service (which is said to now be more than 50% of all Access mail). MUA members do not accept this premise and would argue the contrary view, that the real reason for this down-trading is the fact that quality of service is now so chronically poor, customers are opting to use a cheaper product because the service quality for the higher priced service is not being delivered, so as a result, in practice there is little or no difference in the service quality they receive.
- 2.13 As mentioned above, MUA is reassured Ofcom recognises only a small proportion of mail (perhaps 10-15%) is posted on USO services and that Access alone is now c75% of mail. As major users of Access, MUA members believe Ofcom should take a greater role in ensuring Access services meet the needs of major users, for example by including Access Quality of Service in its regulatory oversight, and in any future price constraint.
- 2.14 MUA would also highlight the vast range of savings Royal Mail stand to make as a result of moving to a 3-day+ delivery model (ranging from £150m to £600m). Members would wish to seek assurances Ofcom puts in place provisions that ensures any savings made in this respect should be re-invested in the letters business, rather than being channelled into increased shareholder dividends, as took place during the period of Covid, when in January 2022 the business paid out £400m (£200m in Special Dividends and £200m in share buyback).

3. Summary:

- 3.1 In the view of MUA members, any change to degrade the USO (and hence non-USO services) must come with:
- measures to require improved quality of service, and greater confidence that quality standards will actually be delivered;
 - assurances that Royal Mail will not have the free hand that it has now, to increase bulk mail prices at rates substantially above that of inflation; and,
 - an obligation on Royal Mail to provide better information on when mail will be delivered.

² MUA is aware that in other regulated utilities, the regulator has linked ability for the provider to increase prices with achievement of service quality and efficiency improvement; MUA would strongly encourage Ofcom actively to consider such an approach for mail.