

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?

Response:

The identified aims, principles, and features seem comprehensive and reflect the essential aspects of a Universal Postal Service.

Maintaining these principles when assessing potential changes to the USO appears reasonable, as they ensure the service's continued relevance, accessibility, and effectiveness in meeting societal needs.

In light of the ever-increasing needs of customers and the dynamic changes in the market landscape, it is imperative that the Universal Postal Service (USO) evolves to remain fit for the future. Continuous reviews and adaptations are essential to ensure that the service aligns with the overarching goals of promoting social cohesion, economic growth, and facilitating key interactions between citizens and the state.

One significant element that merits consideration in the evolution of the USO is the inclusion of tracked parcels as part of the service. In the 21st century, customers increasingly seek certainty regarding the delivery of their mail. Incorporating tracked parcels into the USO not only addresses this growing demand for transparency but also enhances the overall reliability and timeliness of the postal service. Conversely not incorporating tracked parcels as part of the USO will serve to further marginalise it. The introduction of tracked parcels aligns with the principles of universality, affordability, and uniform pricing, as it caters to the evolving expectations of users without compromising access or fairness. By adapting to this technological advancement, the USO can better meet the diverse and sophisticated needs of consumers, ensuring the postal service remains an integral and indispensable part of our modern communication landscape.

As stakeholders in the postal service consider potential changes, it is crucial to strike a balance between tradition and innovation, safeguarding the core principles of the USO while embracing advancements that enhance the customer experience. This proactive approach ensures that the Universal Postal Service not

only keeps pace with the present but also stays relevant and resilient in the face of future challenges.

Whilst the USO principles of universality, affordability and uniform based pricing seem sensible, we would suggest that 'sustainability' should be included in the same list. The reason is simple, a universal, one price goes anywhere service can only survive if the cost of delivering to rural locations can be offset against the cost of delivering to urban locations with higher drop densities hence lower cost per unit delivered. To do otherwise would put the USO provider at a substantial disadvantage to competitors, who would either cherry-pick to only deliver to urban areas or else charge more for rural deliveries. We already see that Royal Mail is subject to this competitive disadvantage.

In addition to incorporating tracked parcels, the review of the Universal Postal Service (USO) should extend to the parameters of delivery speed and the number of days required for delivery. As customer expectations for quicker and more efficient services continue to rise, it is essential to strike a delicate balance between meeting these demands and considering the potential consequences, such as job losses. Any proposed changes should be thoroughly evaluated against the risk of inaction and in conjunction with potential viable alternatives. A comprehensive assessment is crucial to ensure that adjustments to the USO align with the evolving needs of customers, enhance service efficiency, and maintain the socio-economic benefits, while minimising negative impacts on employment and the overall stability of the postal service.

It may be possible to achieve these aims within the umbrella of a 6-day USO. A potential proposal could include an annual index-linked government subsidy of £600 million to support the implementation of changes while addressing concerns related to job losses and maintaining the financial sustainability of the service. This subsidy could serve as a proactive measure to safeguard the quality of the Universal Postal Service, ensuring it remains adaptable to contemporary customer expectations while balancing the broader socio-economic implications. Other options could include a transitional transformation fund backed by UK Government that enables transformation of the UK postal

service whilst exploring ways to incorporate new products to bolster the USO such as health checks. The fund in this instance would decrease over time as new revenue in the form of Government procurement for new services help support a new deal in how a modern postal USO is funded.

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?

Response:

To shed light on the shifting dynamics in the postal services sector, particularly concerning the evolving preferences of businesses in the UK. As highlighted in the chapter, there's a noticeable decline in traditional letter usage and a rising dependence on parcel services. Notably, a significant trend among UK businesses is the increasing need for tracked parcels as a standard practice.

Tracked parcels have become a crucial requirement for many businesses, offering several benefits tied to reliability and service quality assessment. Businesses now place a greater emphasis on real-time tracking for transparent and accountable processes, crucial in the modern business landscape where reliability is paramount.

This demand for tracked parcels isn't solely focused on speedy delivery; it's rooted in effective communication between SMEs and their customers. Tracked parcels facilitates transparent communication, allowing businesses to update customers about the delivery process. This, coupled with the assurance of tracking and confirmed receipt of delivery, takes precedence over traditional speed expectations.

In essence, the changing landscape of postal services, marked by declining letter usage and a surge in parcel reliance, has set a new standard for business expectations – the integration of tracked parcels as an essential element. As we navigate these changes, it's crucial for postal services to adapt, ensuring a reliable, transparent, and customer-centric experience. Tracked Parcels also helps to protect the service against fraud as the data

can be cross-referenced against photographic and GPS location data.

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?

Response:

The assessment of the bulk mail market is comprehensive, but it could benefit from a deeper exploration of technological advancements and regulatory shifts influencing communication preferences.

Additionally, the volumetric decline in letters necessitates a revaluation of downstream access prices and conditions. We would pose a serious question as to whether there should be different quality of service targets for mail that is able to be automated versus mail required to go through multiple manual sortation processes, this in our opinion be considered to align with the changing dynamics of the postal market. The adoption of such a step would encourage a change in behaviour for users who favour speed to adapt to posting format aligned to automation. In contrast those posting mail requiring more labour-intensive processing would recognise that unless paying a premium would ultimately mean that they sacrifice delivery speed.

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

Response:

The decline in letter volumes requires a rethinking of downstream access prices and conditions.

Consideration should be given to the stresses placed upon the postal service by other operators posting to the extremes of the network, where losses occur. Strategies should be devised to encourage operators to keep cash-generating items within the Royal Mail postal network to avoid the risk of cherry-picking which undermines the sustainability of the USO.

For important items such as NHS appointments, there's an opportunity to enhance visual identification. Introducing a distinct mail mark for automation, combined with a bright blue envelope (blue light), can aid easy extraction and prevent mix-ups with other mail items. Implementing a condition that restricts other mail items from sharing these specifications could further improve the efficiency of the postal service.

Encouraging good partner behaviours, particularly for items that can pass through automation, is essential for a 21st-century postal service. This approach acknowledges the additional cost associated with manual sorting and aligns with the need for increased efficiency in processing mail.

Access, in the context of posting format verses quality targets, is crucial for ensuring the Universal Service Obligation (USO) is fit for the future. Rather than downsizing, expanding the criteria for the USO to include considerations of quality of service targets, based upon format and automation is imperative for meeting the evolving needs of postal services.

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

Response:

Upon careful consideration of the proposed approach, it appears to be a reasonable method for estimating the financial burden of the USO on Royal Mail. The use of hypothetical scenarios allows for a comparative analysis that considers the impact of the USO obligations on Royal Mail's profitability. The specified range provides a degree of flexibility, acknowledging the inherent uncertainties in predicting the exact financial burden.

To assess the accuracy and reliability of the assumptions made in the proposed approach, a point of scrutiny is the realism of the hypothetical scenarios. We must ensure that these scenarios adequately capture the costs and benefits of the USO is crucial for the validity of the estimation. Additionally, transparency in the estimation process and the methodology used should be evaluated to build confidence in the reliability of the estimated net cost.

In summary, while the proposed approach provides a structured methodology for estimating the financial burden, it based on a

point in time and the validity of assumptions which may worsen over time as letter volumes decline, we add that the comprehensiveness of factors considered, and the transparency of the analysis provided in the document denotes that swift action must be taken. The approach's strength lies in its ability to offer a comparative perspective that considers Royal Mail's profitability with and without USO obligations, aiding in the assessment of the financial impact. It must be therefore considered therefore that Royal Mail must retain the USO provision. We believe that it is not inevitable for the USO to decrease over time and instead can be bolstered through the inclusion of tracked parcels, plus new innovative ideas such as health checks.

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

Response:

In light of this, careful assessment of whether the identified factors influencing fairness are comprehensive and reasonable. We draw the conclusion that over time and with the additional pressures of providing the USO built on letter volumes that they are not fair. Additionally, we cannot justify the financial burden of the USO being considered fair. The USO was set up against a backdrop of letter revenue supporting the aims of a universal postal service. Letter volumes have dropped from 20 billion per year at their peak to around 7 billion items today and are forecast to drop even further, it is therefore fundamental that speed is of the essence before we lose a British institution which the Royal Mail has become. OFCOM must therefore use its delegated powers as its own evidence demonstrates that a reliance on parliamentary measures that ultimately take more time and may not be quick enough to support the current pressures upon Royal Mail. It is evident that the majority of the cost base within Royal Mail are people based whether from wages, national insurance, pension or agency costs. A substantial proportion of that cost is within the final mile and the time taken to walk up every street in the UK 6 days per week. There is no short cut or more efficient way of doing this under the existing USO model and this impact needs to properly understood in within the modelling.

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

Response:

Yes we agree that the USO seems financially burdensome. In addition to the perspective provided, stakeholders should consider the urgent support required from OFCOM to facilitate Royal Mail's transformation from a letter delivery company to one that efficiently handles the increasing volume of parcels. The Covid-19 pandemic brought about a seismic shift in mail operations within the UK, accentuating the need for a fundamental shift from a primarily letter-based model to a more parcel-centric approach. The growth in home shopping and the reliance on parcel delivery necessitate a swift evolution of the USO to align with the ever-changing landscape.

The USO can adapt to incorporate the needs of vulnerable groups, providing essential services, and responding to the escalating demand for end-to-end tracking through intricate mail networks. For the USO to be sustainable in the 21st century, it must encompass tracked parcels within its framework. Unite CMA expresses the view that customers would be willing to sacrifice Delivery Speed for the certainty of knowing when their item will arrive a consideration essential for both the sender and the receiver.

Quality of Service measures, historically based on the predominantly letter-based model, need to undergo adjustments in line with the D+3 model, accommodating achievable high standards in an operational setup primarily focused on parcel delivery while gradually reducing letter delivery. The service requires robust reform, particularly concerning access.

Downstream Access conditions, initially established in a different era, may not be suitable for the current landscape. Some carriers have become adept at retaining lower-cost, cash-generating items within their networks and then utilising the universal service to post items that cost more to deliver than the revenue they generate onto Royal Mail.

To restore balance, OFCOM must consider the role of products which are automated verses those requiring more hours to process. This entails ensuring that items within the UK Postal

network receive better quality of service under machinable specifications, while those requiring manual sortation and multiple sortation passes end-to-end are priced appropriately and have a slower delivery speed. This approach aims to create a fair and sustainable postal network that meets the diverse needs of users in the 21st century.

Additionally, any reduction in the USO must positively impact the managerial population and membership. This involves a commitment to zero job losses as it works within our existing agreements on smaller manager to front line ratios, accompanied by actions to reinvest in jobs as per existing agreements, ultimately achieving smaller, more efficient teams of 35 or fewer individuals. Furthermore, there is a need for demonstrable investment in the right to switch off, promoting a real work-life balance by introducing healthier work patterns, exploring options for 5 or 4-day work weeks, and even considering a shorter working week for managers. While the business pursues financial goals, it is equally vital to prioritise the well-being of Royal Mail's workforce, as they are the cornerstone of delivering the future success of the company. A UK Government backed transitional fund would ensure that success will rely on Royal Mail taking the workforce with them as the USO evolves.

The Royal Mail employs 130,000 people and the cost of the USO greatly exceeds the revenue the company generates from it, suffice to say the company could very quickly run out of money under the current model. It would be a tragedy if Royal Mail was allowed to fail much of the cost from that scenario would fall back on the Government.

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?

Response:

It is the view of Unite CMA, after an extensive survey of our members on the future of the USO, which saw 789 responses, categorised into three buckets: No change to the existing USO - 3

responses, change to both delivery speed and delivery days - 538 responses, and change to a 5-day USO - 248 responses. In light of member feedback, Unite CMA maintains a cautious approach, recognising that doing nothing will ultimately cost jobs because Royal Mail self-funding a 6-Day USO whilst maintaining good quality jobs will lead to a crunch point in 2025 with the next frontline pay due. It is our opinion that all scenarios will have an impact on jobs, which is why we promote the requirement for an annual index-linked Government subsidy of £600 million or a transitional fund. This will enable Royal Mail to modernise the USO and make it fit for future customers and the needs of UK citizens; this could lead to a 6-day USO over a minimum 3-day delivery span. It would enable trade unions to work within existing agreements on resourcing such as the MTSF, 'Managing the Surplus Framework Agreement,' ensuring that adapting to change does not have to follow a slash and burn route, this must be a red line approach.

In response to the suggestion of reducing the Quality of Service for First Class to 90%, Unite CMA acknowledges the need for adjustments and recognises that this might be a feasible approach. We propose that the Quality of Service should be measured under D+3 with a slight reduction or rounding of percentages, with the suggestion of First Class reducing to 90%. Additionally, the introduction of a paid-for premium service for those who seek faster delivery could provide a viable alternative. To combat the impact on vulnerable user groups, Unite CMA suggests the implementation of a (blue light) format letter that could be easily extracted by machines or manually at delivery frames. This solution aims to ensure a low-cost priority solution, safeguarding the needs of vulnerable users during the potential changes to the USO. Note that these specifications should be a condition with protected format for only the groups that identify as vulnerable users or NHS appointment letters.

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?

Response:

Considering the challenges identified, particularly the financial impact on Royal Mail and the potential environmental implications, a balanced approach may involve a reduction in the frequency of letter delivery to 5 days a week. This option aligns with the evolving user preferences, as highlighted in the research, which indicates that most users, including SMEs, are open to reforming the USO.

However, it is imperative to acknowledge the pressing nature of the challenges faced. The timeline for a 5-day letter delivery to proceed through Parliament will ultimately be too long a timescale. Change is needed now to protect the service and the jobs within Royal Mail. Unite CMA expresses the view that change is successful when people are involved and take part in modernisation. Reform is far too slow and may not be fast enough for Royal Mail to overcome its imminent challenges.

Unite CMA suggests that there are measures that OFCOM has the power to make now without Parliamentary approval, such as Delivery Speed/Days. It is our belief that OFCOM should work with Royal Mail in a way that helps protect jobs and enables the Trade Unions to engage with the transformation of the USO that treats hardworking employees fairly.

Furthermore, maintaining a priority service for urgent items, even with a reduced delivery frequency, ensures flexibility for users who occasionally require faster delivery. This option strikes a balance between achieving cost efficiencies for Royal Mail, meeting user expectations, and addressing environmental sustainability concerns.

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

In addition to the proposed option, stakeholders should consider the urgent support required from OFCOM to facilitate Royal Mail's transformation from a letter delivery company to one that efficiently handles the increasing volume of parcels. The Covid-19 pandemic brought about a seismic shift in mail operations within the UK, accentuating the need for a fundamental shift from a primarily letter-based model to a more parcel-centric approach. The growth in home shopping and the reliance on parcel delivery

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To restore balance, OFCOM needs to consider the weighting against quality of service of automated mail verses that requiring manual sortation. This entails ensuring that items within the UK Postal network receive a more favourable quality target under machinable specifications, while those requiring manual sortation and multiple sortation passes end-to-end are given a much lower quality of service target. This approach aims to create a fair and sustainable postal network that meets the diverse needs of users in the 21st century.

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right to switch off, promoting a real work-life balance by introducing healthier work patterns, exploring options for 5 or 4-day work weeks, and even considering a shorter working week for managers. While the business pursues financial goals, it is equally vital to prioritise the well-being of Royal Mail's workforce, as they are the cornerstone of delivering the future success of the company.