



Post – Present and Future

The future of the UK postal service

April 2024



What is the universal postal service?

- Postal services remain valuable because they offer important social and economic benefits, especially where universality is achieved.
- Absent regulation, where the market is unable or unwilling to meet the needs of consumers, a universal service obligation is required.
- Fundamental principles:
 - A uniform non-discriminatory national service; and
 - A requirement that services are affordable and uniformly priced.
- Separate regulatory regime for bulk mail users, focused on regulated access obligations, but at present how Royal Mail manages and delivers bulk mail broadly aligns with its provision of the universal service obligation (USO).

The UK Universal Service Obligation

The universal service obligation (USO) means Royal Mail has to offer:



To deliver letters 6 days



...and parcels 5 days

Two delivery speeds



1st Class
(next day)



2nd Class
(within 3 days)

**This has not
changed since**



- The specification of the USO comprises the minimum requirements set by Parliament in the Postal Services Act 2011, and the scope of the services and other details set by Ofcom.
- Ofcom's duties include the need to secure the provision of a universal postal service which meets users' reasonable needs, taking account of the need for it to be financially sustainable and efficient.

Why did Ofcom engage now?

- Very public difficulties in relationship between Government and Royal Mail and Royal Mail and Parliament
- Chronic failures in QoS delivery since 2020
- Loses of over £1M per day
- Need to rebase discussions away from politics onto the underlying truths – postal demand changes

The Guardian

Royal Mail fined £5.6m by UK regulator for missing delivery targets

Ofcom says performance missed targets by 'significant and unexplained margin' causing customers 'considerable harm'

Sky News February 2023

Royal Mail referred to regulator over 'systemic letter delivery failures'

The company denies that it misled MPs as a parliamentary committee releases a damning report on the performance of Royal Mail and its management.

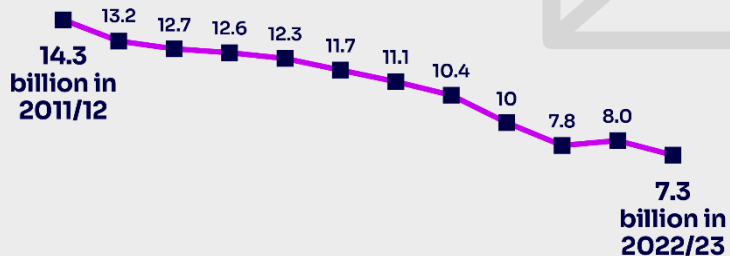
Use and attitudes have changed...

Older post user, Aberdeen, 2023

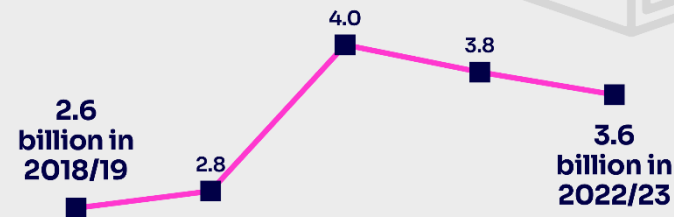
I think that most people would be accepting of a delivery of letters maybe only once or twice a week.



Letter volumes have decreased



Parcel volumes have increased

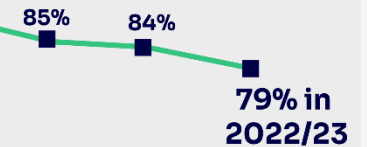


Importance of post has declined

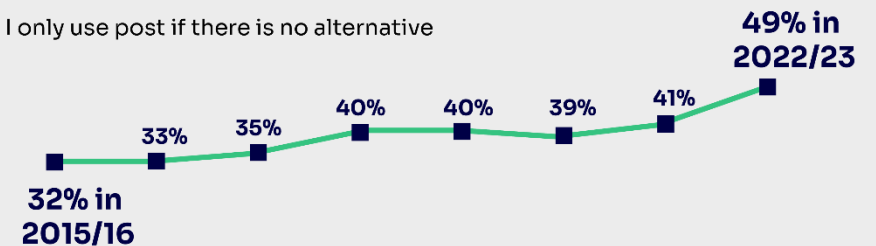


There are some things that I will always need to send by post

89% in 2019/20



I only use post if there is no alternative



Postal services remain important to people

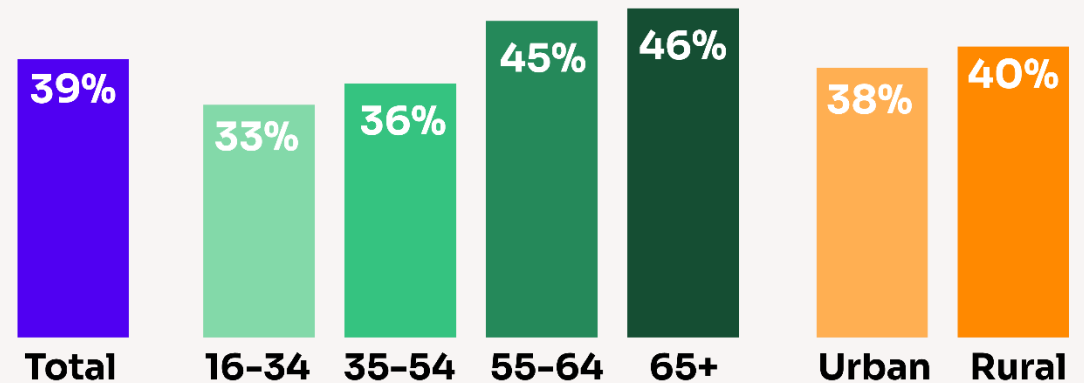
*I live in Snowdonia, the nearest shop is in the village 25 minutes' drive away...
The post is really important to us because of where we live*

Remote location, 60s, Wales



79%
agree there are some things that will always need to be sent by post

39% would feel CUT OFF FROM SOCIETY without letters almost every day



For letters: Affordability and Reliability are key

What's important to people when it comes to letters:

Affordability 90% in 2020 | **91%**

Reliability 87% in 2020 | **88%**

Monday -Friday delivery 81% in 2020 | **79%**

Next day service 72% in 2020 | **69%**

Delivery 6 days a week 68% in 2020 | **63%**

Saturday deliveries 63% in 2020 | **58%**

Qualitative research

- Post needs to be trusted
- Need to be sure it will get there
- Need a good idea of when it will get there
- Bills, medical letters etc to arrive in good time
- Strong acknowledgement that most letters were not urgent, so delivery speed was rarely critical
- Openness to consider reduction in number of days for collection and delivery (to 4/5)
- Overall, view that users would need deliveries every 2/3 days

Similarly, SMEs prioritise affordability and reliability when sending letters

What's important to SMEs when choosing a postal provider to send letters:

Delivery to recipient's door	88%
Low cost	86%
Delivery within 3 days	83%
Convenient to post	81%
Same price to send to anywhere within UK	81%
Fast delivery	78%
Daily collection service	61%
Next day delivery option	60%



Consumers care about environmental sustainability

Ipsos Issues Index: December 2023

What do you see as the most/other important issues facing Britain today?

Issue	Top mentions (%)	% Change since November	Position Change since November
Inflation/Prices	34%	+9	+1
Economy	31%	-4	-1
Immigration/immigrants	29%	+7	+1
NHS/Hospitals/Healthcare	28%	+4	-1
Housing	15%	-3	-
Poverty/Inequality	14%	+1	+1
Pollution/Environment/Climate change	13%	-	-
Lack of faith in politics/politicians/government	12%	-4	-2
Education/Schools	12%	-	-
Crime/Law & Order/Antisocial Behaviour	7%	-3	+1

Base: 1,005 British adults 18+, 8-13 December 2023

Source: Ipsos Issues Index • Created with Datawrapper

I would prefer postal services to be delivered in an environmentally sustainable way, even if...

...it takes a little longer

20% disagree



49% agree

...I have to pay more for it

31% disagree



36% agree

And among SMEs...

Importance that letter delivery is fulfilled in an environmentally responsible way

16% Not important



61% Important



Cost the key challenge

Estimated net cost of the USO to Royal Mail:

£325m-£675m in 2021/22

Potential options for USO reform and 2021/22 net cost saving:

Reduction in letter delivery to 5 days per week

£100-200m

Reduction in letter delivery to 3 days per week

£400-650m

Reduction in delivery speed to within 3 days

£150-650m

- The consequence of a letters USO that does not align with people's needs is that people could pay higher prices than necessary.
- There is an increasing risk of the current obligations becoming unsustainable both financially and operationally.

The approach to net cost

To estimate what the net avoidable cost (cost savings less revenue losses) would be if Royal Mail no longer had the obligation to provide a universal service i.e. if Royal Mail had full commercial freedom to change the products and service features it provides.

We considered RM would make three types of changes:

- 1 Stop** some USO products and features (e.g. reducing frequency of delivery for USO letters and stopping 1st Class as offered now).
- 2 Change** some non-USO as well USO products and features (e.g. the number of days it delivers access and bulk letters).
- 3 Introduce new** products and features (e.g. an express next day letter service delivered as a parcel instead of a 1st Class letter).

Our analysis started from Royal Mail's **current network and the costs, volumes and revenue** (2021/22 to be exact). We assumed no transition period and allowed for changes to tax and efficiency.

Potential response

Options but not proposals at this stage

- Two primary options: shifting majority of letters to a non-priority service (retaining a next day option); or reducing the minimum number of delivery days for letters.
- No changes for parcels requirements.

Quality of service

- Any changes to the USO must not result in a reduction in quality of service.
- We may need to reconsider our existing enforcement regime though - in the context of what the obligations will ultimately be.

This is the beginning of the process:

Our CFI intends to encourage an informed discussion about how we ensure that the postal service is sustainable into the future.

Seeking to maintain fundamental principles of USO:

- Universality
- Affordability
- Uniform pricing.

Affordability remains key

- As part of looking at the future development of the USO, it is also appropriate to consider new options to ensure access and affordability for all users.

Call for Input closed **3 April 2024 with over 2000 responses.**

Progress so far

- Notwithstanding some headline suggesting an existential threat to letter services the tenor of the debate has changed from a sole focus on Royal Mail failure to an acceptance of the need for change to support Royal Mail reform
- Proposal for reform put forward by Royal Mail broadly aligns with our identified options and some indication of union support
- Much still to be done to ensure all stakeholder concerns addressed

Royal Mail has proposed that:

- the 2nd Class D+3 service become a 5-day rather than 6-day service; and
- current D+2 Wholesale Access Service move to D+3.

They say this will allow them to move delivery pattern for non-express mail saving c£300M pa



Thank you

