

**Ofcom's Review of Postal Regulation
Response to Consultation from
Ofcom's Advisory Committee Northern Ireland
March 2022**

The Advisory Committee for Northern Ireland (ACNI) advises Ofcom on the needs and interests of consumers and citizens in Northern Ireland, across the range of the regulator's work. ACNI has engaged with Ofcom's Postal Review since its Call for Inputs and Review of Postal Users Needs in 2020, and In November 2021 I met with the project team to discuss the interests of NI consumers. We have engaged with informative research commissioned by the Communications Consumer Panel and Consumer Council for NI and will continue to do so. Postal services are discussed regularly at ACNI meetings and also inform broader advice to Ofcom, such as our submission on Ofcom's Plan of Work for 2022/23.

The Committee's response to this consultation reflects its focus on consumer/citizen and small business interests in NI, including the needs of more vulnerable groups. It wishes to highlight a number of key points in relation to the consultation, which are followed by its responses to the consultation questions.

Key Points

- Consumers and many small businesses in NI place a very high value on the Universal Service Obligation (USO), as illustrated by Ofcom and Consumer Council NI research. Affordability, frequency and quality of service as well as uniform pricing are vitally important attributes.
- NI consumers as well as small and microbusinesses have a particular need for the USO parcels service given that the parcels market is significantly less competitive in NI than many other parts of the UK, with many operators charging a levy; any reduction to this service (eg a reduction in weight limit) would be very detrimental to the aims of the USO in NI
- Arrangements for exiting the EU and the NI Protocol have resulted in a number of significant and enduring detriments for consumers – exacerbating the existing surcharge problem and restricting choice due to the number of parcel operators which chose not to deliver to NI or significantly increased their prices; ACNI recognises that Ofcom has limited powers in this respect but asks it to continue to use its convening and advisory role to ensure the issues are well understood.
- Any change to the USO obligation for delivery 6 days a week may have a detrimental impact on older and disabled consumers who are more reliant on the service; further work should be carried out to establish how healthcare uses the USO letters service and the potential impacts of any proposed changes should be carefully assessed
- Affordability continues to be an issue for a significant minority of people in NI where disposable incomes are lower than the rest of the UK; it is likely with the cost of living crisis this will endure and affect more people; in this context safeguards for consumers, including the second class USO letter cap remain vitally important
- ACNI sees no case to open the review of the USO for second class letters early on the basis of financial sustainability; the scheduled review should take full account of consumer need and potentially growing affordability issues and reflect the fact that

other levers, like business efficiency, are more significant in securing financial sustainability

- Financial sustainability is essential to secure the USO in the future; ACNI agrees that it is appropriate to provide Royal Mail with sufficient commercial flexibility to transform its business and deliver the necessary efficiencies, provided the appropriate safeguards to consumers are in place and monitoring and accountability arrangements are significantly strengthened; given the scale of the challenge and the risks and uncertainties involved, Ofcom's oversight and willingness to exert further regulatory control if necessary will be crucial
- Quality of service is central to the value of the postal service; whilst ACNI recognises the challenges of the pandemic it would have liked more information about performance in NI and how that was being addressed, noting anecdotal evidence of continued disruption; the Committee welcomes the proposed enhanced reporting and transparency for stakeholders including ACNI and The Consumer Council – it will be essential that this is broken down to provide all the relevant metrics about and within each Nation
- ACNI strongly welcomes proposals to protect the interests of disabled consumers, recognising specific needs and the greater levels of detriment experienced; Ofcom will play an important role in monitoring the effectiveness of these changes
- ACNI continues to be very interested in innovation in services to meet the specific needs of vulnerable groups, such as those who need an address to receive mail reliably and without risk; in areas where regulation is not the best way to achieve this it urges Ofcom to use its convening and advisory powers to effect changes that will make a real difference
- The Committee strongly agrees that complaints processes need to be strengthened and welcomes Ofcom's proposals, provided that there is sufficient transparent oversight to ensure that guidance is fully applied and effective
- The Committee has been concerned about the high costs of redirection for consumers and also for small businesses who had to avail of the service unexpectedly in the pandemic; it welcomes the proposed concessions but believes there is further work to be done to demonstrate their impact through, for instance, better visibility and take up.

Responses to Consultation Questions

2.1 Do you agree with Ofcom's proposed regulatory approach for regulating postal services over the next 5 year period?

ACNI agrees with Ofcom's regulatory objectives and approach as outlined. The Committee has focused its advice on those areas where the market is not sufficiently competitive to meet consumer and citizen needs, and the sustainability and effectiveness of the USO services.

3.1 Do you agree with our proposed approach to sustainability of the universal service?

Consumers, citizens and small businesses depend on the future sustainability of the universal postal service, and it is therefore essential that the regulatory framework works to ensure the USO is secured for the future.

Any change to the USO obligation for delivery 6 days a week may have a detrimental impact on older and disabled consumers who are more reliant on the service; further work should be carried out to establish how healthcare uses the USO letters service and the potential impacts of any proposed changes should be carefully assessed

The Committee notes Ofcom's view that the sustainability of the USO largely depends on macroeconomic factors and commercial levers within Royal Mail's control. Whilst it recognises the need for the regulatory framework to continue to give Royal Mail the commercial freedom to make the changes necessary, it very much agrees that there is a need for enhanced accountability and understanding of Royal Mail's outlook in the longer term, reflecting the scale of the challenge and level of risk and uncertainty that remains.

ACNI will be interested to understand progress and any need for further regulatory intervention.

4.1 Do you agree with our proposal to maintain the historic approach but with the additional requirement on Royal Mail to set and report against a five year expectation?

4.2 Do you agree with our proposals in relation to the monitoring and publication of the efficiency expectations prepared by Royal Mail?

ACNI believes that greater monitoring, and transparency of reporting is absolutely necessary to ensure that Royal Mail meets expectations and takes appropriate action when targets are not achieved or on track. ACNI also welcomes the publication of a public benchmark which will increase stakeholder understanding of progress and provide a public reference point for further assessments. Ofcom should be prepared to intervene further in appropriate ways if efficiency targets are not met or sufficiently on track.

It is absolutely vital that reporting demonstrates how efficiency improvements impact across the UK, taking account of different needs and issues between and within different Nations. This will also impact on the value of a public reference point and stakeholder engagement across the different parts of the UK. Without this level of reporting it will not be possible to fully understand how efficiency savings impact on different parts of the community and avoid undue detriment. Ofcom has an important role to play in ensuring that this level of granularity is embedded within the reporting framework from the outset.

5.1 Do you agree with our proposed approach of maintaining the current regulatory safeguards of the safeguard cap, high quality of service standards, and requirements on access to universal services?

ACNI believes that it is imperative that the regulatory safeguards for consumers, including the second class stamp cap and the large letters and small parcels cap, should be retained. Affordability is a key issue in NI where disposable incomes are lower than other parts of the

UK and Consumer Council NI research has demonstrated particular affordability pressures. Our expectation is that, as a result of the wider cost of living crisis, affordability issues may become both deeper and wider. The USO parcels services is especially important to consumers and small businesses in a part of the UK where there is less competition, and a significant proportion of operators impose surcharges, or have chosen not to deliver.

The Committee notes Ofcom's view that the likely financial benefits of removing regulatory safeguards appear to be less significant compared with those that Royal Mail could realise through business transformation and efficiencies. It does not see any case to bring forward a review of the second class stamp cap on the basis of financial sustainability. The scheduled review should take full account of consumer need and Royal Mail responsibilities for protecting the USO through a more efficient operation.

5.2 Do you agree with our proposal to not impose further regulatory requirements on Royal Mail in relation to redirection pricing, following implementation of its improved Concession Redirection scheme?

The redirection service continues to be an essential service for consumers and businesses, playing an important role in supporting changing working locations and preventing identity fraud at ever increasing levels. The Committee has been concerned about the high costs of redirection for consumers and also for small businesses who had to avail of the service unexpectedly in the pandemic. It notes that there is no comparable service to provide choice and competitive pricing and that Ofcom research demonstrated that a significant minority of consumers were exposed to affordability issues. The Committee therefore cautiously welcomes the Concession Redirection scheme but believes there is further work to be done to demonstrate its impact through, for instance, better visibility and take up. In monitoring impact, Ofcom should consider whether user needs have changed, in times of increased financial pressure on households.

5.3 Do you have any further evidence on other issues raised in this section?

We note the importance of additional options for consumers in terms of special delivery and signed for items. Consumers wish to be able to avail of these services as and when they are required. We agree that they would benefit from clearer information about what each service provides and a good balance between disaggregating aspects of the service so they only pay for what they need, and a range of options that is simple and straightforward to understand.

6.1 Do you agree with our assessment of the parcels market, namely that it is generally working well for consumers, but improvements are needed in relation to complaints handling and meeting disabled consumers' needs?

As noted above, the parcels market is significantly less competitive in NI where many operators have, for some time, charged a levy. Furthermore, under the NI Protocol customs arrangements for parcels from GB to NI remain complex and uncertain and this has led to detriment for consumers and small and micro-businesses. Some retailers, of all sizes, have increased their delivery charges to NI, adding to the existing surcharge problem. Others

have chosen not to deliver to NI at all, which has significantly limited choice for consumers. Such is the degree of complexity and uncertainty that some retailers have implemented customs processes that have not – at this stage - been required, with knock on impacts through delays and added costs. ACNI is mindful of the growing use of online shopping by consumers and, in particular, the higher level of detriment that can be experienced by disabled consumers who are generally more reliant on online shopping. There can also be significant impact on some small businesses relying on delivery from GB to maintain their supply chains, with wider economic and consumer impacts.

ACNI recognises that Ofcom has limited powers in this respect but, nonetheless, emphasises the potential impact these distinct circumstances could have on the workings of the USO. It asks Ofcom to continue to use its convening and advisory role to ensure the issues are well understood and can be progressed to the benefit of consumers, citizens and small businesses; and that their reliance on the postal USO is reflected in the Postal Review conclusions.

6.2 Do you agree with our assessment of the consumer issues in relation to complaints handling and our proposed guidance?

ACNI strongly agrees that parcel operators need to make substantial improvements in customer service and complaint handling. We recognise, from research and anecdotal feedback, all of the issues which Ofcom has reported in its consultation document. We see clear guidance and close scrutiny as an important first step in resolving this issue, but underline the need for timely enforcement action in areas where performance does not improve significantly.

Having clarity around responsibility between retailer and delivery operator will be important. We also believe that it is necessary to have independent metrics in addition to operators' own reporting of complaints, as these are affected by barriers to making and escalating complaints and categorisation schemes. Ofcom should provide easy and visible ways for consumers to access complaints and customer satisfaction information in order to make informed choices.

We note that consumers in NI have fewer choices of delivery operators, either because they have chosen not to operate in this market or because of additional price constraints. Competition alone is therefore unlikely to leverage appropriate standards of customer service. It is therefore crucial that there is a baseline standard to which operators are transparently held to account and which help consumers make the best choices from the options available.

We agree that, as well as improved complaint handling, there should be more work to establish the incidence of lost and damaged parcels and how this breaks down, including geographically. Ofcom should be prepared to intervene through further regulation where complaint handling is not a sufficient lever to drive a high quality of service.

6.3 Do you agree with our assessment of the issues faced by disabled consumers in relation to parcel services and our proposed new condition to better meet disabled consumers' needs?

ACNI strongly agrees that new conditions are required to better meet the needs of disabled consumers. We recognise that disabled consumers tend to make more use of online shopping but experience a higher frequency of problems in receiving and sending parcels and are more significantly affected as a result. The Committee agrees in principle that the requirement should, in the first instance, focus on fair and appropriate treatment of disabled consumers, with scope for operators to develop their own policies and arrangements to meet this. The guidance should be firm on promotion and visibility of arrangements in ways that meet the diverse needs of disabled consumers, noting how often good policies underdeliver due to low awareness and take up. Ofcom will play an important role in monitoring both the compliance with and impact of these arrangements and – most importantly - intervening decisively when they are not sufficient. It should also use its convening and research powers to support good practice, over and above regulatory requirements.

7.1 Do you agree with our proposal not to include tracking facilities within First and Second Class USO services?

ACNI is aware that more and more consumers and small businesses consider tracking as a hygiene factor, we are also aware of the range of considerations around user needs, competition and financial sustainability of the USO. In NI there are particular considerations around access to services and surcharges, with less competition in the market. However, there are also affordability issues, and consumers should not be required to pay for tracking if they do not need it. We agree that this is a developing situation in terms of user need and the market and Ofcom should continue to monitor the situation. In the meantime, consumers would benefit from clearer information about their choices, as well as greater competition in the NI parcel market.

The Advisory Committee NI will continue to engage with Ofcom’s work on regulating the postal sector, including the conclusions of this review in Summer 2022 and further research, monitoring and policy development, as relevant to NI consumers.

Advisory Committee for Northern Ireland
March 2022