

Age UK is the new force combining

AGE and **HELP THE AGED** WE WILL
Concern



Consultation response

Ref:6012

Securing the Universal Postal Service

Date January 2012

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Name: Gretel Jones

Age UK
Tavis House
1-6 Tavistock Square
London WC1H 9NA
T 0800 169 80 80 F 020 3033 1000
E policy@ageuk.org.uk
www.ageuk.org.uk

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is 207-221 Pentonville Road, London N1 9UZ.

This consultation from the postal regulator Ofcom has arisen due to concerns that the current financial position of Royal Mail may not allow it to continue to provide the universal postal service. This has occurred primarily due to the 25% fall in volume of mail since 2006 due to consumers substituting traditional mail with digital means of communication. It makes several proposals aimed at ensuring future sustainability of the universal service.

Key points and recommendations

- We think that capping the price of a second class stamp is a reasonable compromise between full price deregulation and ensuring postal services remain affordable for all. We think the initial cap for a second class stamp should be set at no more than 45p which is already a substantial increase over the current price of 36p.
- We think Royal Mail should make it clearer to consumers how long the average second class post will take to be delivered.
- It is vital that Ofcom set and monitor the quality of standards of service for the provision of the universal service. This will be particularly important with regard to quality standards for the second class postal service if there is a price cap on it.

1. Introduction

1.1 Despite the fall in mail volumes over the past few years, we agree that sending and receiving mail remains an important and valued service for consumers. Our main concerns regarding the liberalisation of postal services has been to ensure there are a sufficient number of postal access points and that the universal mail service is maintained. We therefore were pleased that the Postal Services Act 2011 provided that where a conflict arose between Ofcom's general duties to promote competition and securing the universal postal service, the latter should take precedence.

1.2 Given we think it is highly unlikely that domestic consumers will benefit from increased competition in the near future, if ever, it is important that the universal service does not become a sub-standard service. Maintenance and monitoring of quality service standards is critical in ensuring this does not happen. While we note that the average household expenditure on postage is generally very low, we suspect that older people spend more than the estimated average of 40p per week.

1.3 This is because research conducted by the Payments Council in response to the desire of the banks to withdraw cheque services found that older people were more likely to send cheques **through the post to pay bills**. 'Chequebook holders aged 55 and over are more likely to use cheques to pay bills by post, over the counter in a bank branch or Post Office and make a donation to charity. The older the person the more likely they are to use cheques for such things.'¹

¹ Awareness and acceptability of alternatives to cheques. Payments Council. November 2011.

1.4 It has been extremely disappointing that Royal Mail has failed to bring in sufficient efficiency improvements since liberalisation was introduced. We are aware that original monopoly providers in other European Member States have managed to achieve these and it remains unclear to us quite why Royal Mail has consistently failed to do so. It is imperative that any proposals to change the way Royal Mail is regulated do not weaken the incentives for Royal Mail to become more efficient.

1.5 We can understand that, due to the desire to find a private investor to take over some or all of the Government's shares in Royal Mail, Ofcom has a desire to reduce regulation and so give some regulatory certainty. However, we are concerned that this should not provide greater risk to the future of the universal service. We see there is a tension between the duty on Ofcom to secure the universal service and the need to ensure that Royal Mail institutes efficiencies instead of seeking to put up prices. In the past Postcomm has had to agree to price increases because Royal Mail argued it was financially unable to continue to offer the universal service. However, the resulting income Royal Mail has received from price increases seems to have reduced the incentive for Royal Mail to make efficiency savings.

2. Securing the Universal Service and protecting consumers. Qs 6.1 to 6.6

2.1 Given the intention to sell shares in Royal Mail we think it would be sensible to impose a regulatory condition on Royal Mail to provide the universal service. We see no real prospect of any other postal operator being capable of doing this in the long term. However, given the current uncertainties about the future of postal services and the intention to allow the proposed regime to be in place for seven years it is vital that Ofcom continue to monitor certain aspects of Royal Mail, in particular its financial position. We also want to see agreed standards of service maintained and monitored. We do not want the universal service to become a sub-standard service.

2.2 We agree that price controls have not worked given the fundamental changes in the postal market and agree that in general Royal Mail should be allowed to fix its own prices. We think that capping the price of a second class stamp is a reasonable compromise between full price deregulation and ensuring postal services remain affordable for all. Given the current price for a first class stamp is 46p and for a second class stamp 36p, we think the initial second class stamp should be capped at 45p. This is already a considerable increase and we think that it is unacceptable to have the price cap set at a higher level and certainly not at 55p.

2.3 If a price cap is agreed, it is imperative that Ofcom set quality service standards for second class post and monitor the performance of Royal Mail closely. We also think Royal Mail should make it clearer to consumers how long the average second class post will take to be delivered. While we think most consumers understand first class mail will be received the next day, we do not think they are currently so sure about how long second class mail will take to be delivered. Given it is estimated that half the mail sent by residential consumers is greeting cards, it is important they are clear when, for example, a birthday card will be delivered.

3. Regulatory Financial Reporting. Qs 8.1 – 8.4

3.1 We are not in a position to comment on the proposals made in this document for the financial reporting Royal Mail will be required to make to Ofcom. However it is vital that Ofcom should be in a position to be fully informed of the costs and profits of the various divisions of Royal Mail if it is to be in a position to be able to judge whether Royal Mail can continue to provide the universal service.