

Royal Mail

Royal Mail's response to Ofcom's Proposed Annual Plan 2020/21

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Executive Summary

Royal Mail welcomes the opportunity to comment on Ofcom's proposed Plan of Work 2020/21. We recognise the important role that Ofcom plays in securing the provision of the Universal Postal Service. We are pleased that Post remains a critical area of focus for Ofcom. It was also helpful to hear – at the stakeholder meeting in London – that Ofcom confirmed that Post was a priority for the Ofcom Board. **We have five asks of Ofcom in relation to its proposed Plan of Work for 2020/21.**

We need a supportive regulatory environment that will help to keep the Universal Service market funded. Royal Mail is the proud provider of the Universal Postal Service. A modern and contemporary Universal Postal Service is vital to the UK economy. It is the delivery backbone of e-commerce in the UK. At present, the high fixed cost Universal Service network is funded by the market, unlike Broadband where there is considerable public subsidy. The economics of the Universal Service are fragile. **We ask (1) Ofcom to engage with us on developing a supportive regulatory environment to maintain a market-funded USO (Universal Service Obligation).**

We welcome Ofcom's regard to Government priorities to secure the long-term sustainability of the sector (Page 6 of plan). **We ask (2) that Ofcom provide further detail on the activity where "industry and Ofcom ... work together to secure the long-term sustainability of the sector".**

With the above context, we ask for Ofcom to take account of the following:

- **Understanding the needs of postal users.** We note that the milestone for this project is a report in 2020. It would be very helpful for us, as well as other stakeholders, to understand the timing of this report and the status – for example, will it be a consultation? **We ask for (3) further clarity on the process and timing of this project.**
- **Review of the future regulatory framework for post.** Within this umbrella project are a series of detailed reviews and activities – cost modelling of Royal Mail's operations; review of Royal Mail's efficiency; review of access and parcel competition and whether additional consumer protections are required. We have the following requests:
 - **We ask (4) that Ofcom sets out the structure and timing for its regulatory review at its earliest opportunity.** It will enable stakeholders to plan how to engage with Ofcom's processes, including ensuring appropriate resource is available to actively participate in Ofcom's review.
 - Ofcom's new review of regulation follows on relatively shortly after its review of the regulatory framework that concluded in March 2017. **We ask (5) that Ofcom's new review is proportionate and takes account of the extensive research and activity performed during the prior two-year review.**
- We note that Ofcom is continuing its ongoing activity to **monitor Royal Mail's performance**, as well as consumers' experience in the postal sector. We do not cover this any further in our response.

We need a supportive regulatory environment that will help keep the Universal Service market funded. We ask (1) Ofcom to engage with us on developing a supportive regulatory environment to maintain a market-funded USO.

- 1.1 Royal Mail is the designated Universal Service Provider (USP) in the UK. We provide a six-day-a-week service to more than 30 million addresses. We recognise that our role comes with important obligations as the USP. What we do is vital to the UK economy – we are the delivery backbone of the vibrant e-commerce economy. In turn, the market funds the high fixed cost of the Universal Service network. It is in the interests of all stakeholders that the Universal Service remains market funded. This contrasts with Broadband, where there has been and continues to be considerable public subsidy. Most recently, in September 2019 the UK Government pledged £5 billion to support the rollout of full-fibre broadband¹.

Ofcom has noted Government's priorities in relation to sustaining the Universal Postal Service. We ask (2) that Ofcom provide further detail on the activity where "*industry and Ofcom ... work together to secure the long-term sustainability of the sector*".²

- 1.2 We welcome Ofcom's statement in its proposed Plan of Work that "*We are having regard to Government's priorities in this area, including the need for industry and Ofcom to work together to secure the long-term sustainability of the sector*". It is important, as set out above, that Ofcom, Royal Mail and other stakeholders work together on a sustainability framework for the Universal Postal Service.
- 1.3 Ofcom's consultation did not set out its activities whereby Ofcom and industry would work together on sustainability issues. It would be helpful for us and other stakeholders to understand this further.

Ofcom has set out some information on its project to understand the needs of postal users. We ask for (3) further clarity on the process and timing of this project.

- 1.4 Ofcom, in its December 2019 Annual monitoring update on the postal market, notes that the growth in parcel volumes and decline in letter volumes continue. In this context, Ofcom intends to assess whether the postal market is meeting the reasonable needs of users. It is important that Ofcom considers the needs of not just current but also future postal users. It is critical that this work considers what a 21st century USO for Post looks like.
- 1.5 There are a wide range of stakeholders to engage with. We understand that Citizens Advice have set out initiatives to be carried out in 2020/21 in the area of consumers' interests as part of its draft consumer workplan. National and regional Government will also have views. Some of these stakeholders may consider it appropriate to commission further market research. **A clear timetable of activities will help to enable full engagement across the spectrum of stakeholders and the timely provision of insight for Ofcom's work.**
- 1.6 We note that the milestone for this project is a report in 2020. It would be very helpful for us, as well as other stakeholders, to understand the timing of this report and the status – for example, will it be a consultation? Will Ofcom undertake one consultation or multiple consultations? We recognise the importance of this work and will fully participate. But, we

¹ "*So I can announce we are committing £5bn to support full-fibre rollout to the hardest to reach 20% of the country.*" Chancellor Sajid Javid on Monday 30th September at the Conservative Party conference.

² Ofcom, Ofcom's proposed Plan of Work 2020/21, Paragraph 3.3.

need more clarity on process, in particular timing of consultations, so we can have the right resource available to meaningfully respond.

Ofcom has not published an indicative timeline for its review of the future regulatory framework for Post. A timetable will help stakeholders to engage. We ask (4) that Ofcom sets out the structure and timing for its regulatory framework review at its earliest opportunity.

- 1.7 Ofcom indicated in its March 2017 Decision Document on the Review of the Regulation of Royal Mail that it intends to retain the current regulatory approach until 2022. 2022 is fast approaching and it is clear that Ofcom has already started preliminary-work on activities and projects that fall under its review of the future regulatory framework for Post. This series of detailed reviews and activities include: cost modelling of Royal Mail's operations; review of Royal Mail's efficiency; review of access and parcel competition and considering whether additional consumer protections are required.
- 1.8 This is a detailed and multi-faceted programme of work. We – and other stakeholders – will have views as well as evidence that will be helpful for Ofcom in its review. It will take time for us to consider how best to engage with all aspects of this review. Currently, we do not know whether all activities will be started together and progressed in parallel or whether there is a staged approach. We do not know if it is one main consultation document that will set out Ofcom's thinking on all the key areas or multiple consultations at different times on specific areas of interest. We expect other stakeholders will be in a similar position. It is important for us to understand the timings, so we can fully engage and ensure that we have the right level of resource available to participate fully.
- 1.9 We also appreciate that – as a complex project – it will take time for Ofcom to fully plan out its review. **Accordingly, we ask (4) that Ofcom sets out the structure and timing for its regulatory framework review at its earliest opportunity.**

We ask (5) that Ofcom's new review is proportionate and takes account of the extensive research and activity performed during the prior two-year review.

- 1.10 Ofcom's new review of regulation follows on relatively shortly after its review of the regulatory framework that concluded in March 2017. This was a detailed and comprehensive review. It started on 16 June 2015 and concluded on 1 March 2017, nearly two years later. The regulatory financial reporting consultation followed on 31 March 2017 and concluded on 18 December 2017. As part of Ofcom's review, it commissioned extensive third-party review. It used four consultants (Deloitte, Analysys Mason, WIK Consulting and Punter Southall). Ofcom engaged across a wide range of stakeholders. It was an extensive, detailed and long-running review. From this exercise, Ofcom will have gathered a significant amount of information and insight.
- 1.11 Ofcom's review found that
 - *“We have decided that the approach to regulation we established in 2012 should remain in place until 2022. We consider that the imposition of wholesale or retail price controls and/or efficiency targets on Royal Mail would not be appropriate in order to secure the objectives of the regulatory regime. Market conditions and the shareholder discipline which Royal Mail is subject to as a privatised company are more likely to be effective in securing an efficient and financially sustainable universal postal service than the imposition of additional regulation.”*

- *“Consumers’ interests are best served by competition. The UK has one of the most competitive parcels sectors in the world.”*
- *“Access competition continues to perform well and meets the needs of large senders of mail.”³*

- 1.12 In 2020, Royal Mail is still subject to market conditions and shareholder discipline that drives us to deliver on efficiency. The parcels sector remains highly competitive in the UK. We believe that Access competition continues to perform well – no further regulatory intervention is required. We believe that Ofcom’s findings set out in 2017 also apply now in 2020. Hence, we do not believe there needs to be a wide-ranging review. Rather Ofcom should undertake a narrow-focused review considering the key issue of financial sustainability of the USO.
- 1.13 Ofcom is starting its work on the next review of the regulatory framework only a relatively short period after concluding the review of the regulation of Royal Mail. There is a considerable knowledge base within Ofcom that can be leveraged.
- 1.14 We believe Ofcom’s findings in 2017 still appear relevant now, and that Ofcom has significant evidence and information gathered only a short while ago. **We ask (5) that Ofcom’s new review is proportionate and takes account of the extensive research and activity performed during the prior two-year review.**

Concluding remarks

- 1.15 We welcome the opportunity to comment on Ofcom’s proposed Plan of Work 2020/21. In particular we welcome Ofcom’s work on postal users needs. The USO needs to be contemporary and relevant for both current and future users. In addition, we have some asks of Ofcom for the coming year. Greater clarity on the timetable and consultation process would help stakeholders’ plans for meaningful engagement with Ofcom. We would welcome more focus by Ofcom on financial sustainability of the USO. Lastly, Ofcom’s review of the regulatory framework should be proportionate, taking into account its relatively recent significant and comprehensive review of the regulation of Royal Mail.

³ Ofcom, Review of the Regulation of Royal Mail, 1 March 2017, Paragraph 1.2.