

# Royal Mail

**Royal Mail's response to Statement of Strategic Priorities for telecommunications, the management of radio spectrum and postal services**

**March 2019**



## **Contents**

<b>Executive Summary .....</b>	<b>3</b>
<b>Chapter 1 - Royal Mail's role in the UK economy .....</b>	<b>5</b>
<b>Chapter 2 – Government priorities under the current framework.....</b>	<b>8</b>
<b>Chapter 3 – Network resilience is already embedded in Royal Mail .....</b>	<b>10</b>
<b>Chapter 4 – Proposed changes to the SSP.....</b>	<b>13</b>

## Executive Summary

We welcome the Department for Digital, Culture, Media and Sport (DCMS) Statement of Strategic Priorities (SSP). We support the overarching objectives as expressed in the Ministerial Foreword. It is important to set out clear **strategic priorities and desired outcomes for the postal sector**. These, in turn, influence Ofcom in its regulatory decision making.

**Royal Mail is the proud provider of the Universal Postal Service.** We deliver a 'one price goes anywhere' service to over 30 million addresses (including 1.3 million businesses) across the country, six days a week. The Universal Service continues to play a vital role in the UK economy. It is still an essential service for customers, companies and communities. Royal Mail contributes to the UK economy in a number of ways. **We are one of the UK's largest employers, with one in every 194 jobs in the UK provided by Royal Mail.**<sup>1</sup> Our ongoing investment programme is one of the largest of its kind in the UK. Investing in technology and innovation is a core part of our growth strategy. **(See Chapter 1).**

Under the Postal Services Act 2011 (PSA 2011), Government outlined the legal framework for postal regulation. It took into account the unique circumstances of post; that it is not like other utilities.<sup>2</sup> At the same time, Government also informed Ofcom of key principles that should guide its development of detailed regulatory obligations for the postal sector.<sup>3</sup> These principles were **flexibility, financial sustainability and regulatory certainty**. The Government saw these as the means through which Royal Mail (as the Universal Service Provider) can deliver the Universal Service. **We believe these principles remain relevant today. (See Chapter 2).**

We note that **the priority set out for the postal sector in the SSP is network resilience**. In terms of resilience, we distinguish between two forms: **i)** Critical National Infrastructure (CNI) resilience, and **ii)** business-as-usual (BAU) contingency planning. Established processes and structures exist to manage both forms of resilience effectively. These help to ensure that we can continue to deliver a high-quality service to customers when events beyond our control materialise. **On this basis, we do not consider network resilience as a priority for the SSP relative to other areas.** It is our view that network resilience alone does not meet the ministerial objectives of creating a *"pro-competitive and pro-investment environment"*.<sup>4</sup> **(See Chapter 3).**

**We also already have all the incentives we need to drive efficiency.** The Department for Business, Energy & Industrial Strategy (BEIS) has stated that *"the regulatory regime provides strong incentives for Royal Mail to find efficiencies"*.<sup>5</sup> Ofcom has also said that it considers *"market conditions and shareholder discipline are more likely to be effective in securing an efficient and financially sustainable universal postal service than the imposition of additional regulation"*.<sup>6</sup>

<sup>1</sup> Royal Mail, Annual Report and Financial Statements 2017-19. <https://www.royalmailgroup.com/media/10169/royal-mail-group-annual-report-and-accounts-2017-18.pdf>, page 6.

<sup>2</sup> Richard Hooper, Saving the Royal Mail's universal postal service in the digital age. (2010), page 27.

<sup>3</sup> <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>

<sup>4</sup> DCMS, Statement of Strategic Priorities for telecommunications, the management of radio spectrum and postal services (2019), page 3 of the ministerial foreword.

<sup>5</sup> BEIS (2017), Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 1.

<sup>6</sup> Ofcom, Review of the Regulation of Royal Mail (2017), page 4.

To achieve the priorities and desired policy outcomes, we consider that the **Government priorities underpinning the current framework remain relevant**. We need a **supportive regulatory environment that promotes investment and supports innovation**, especially given recent developments in the postal market. As such, we recommend that the following priorities are reflected in the SSP. These are designed to ensure Royal Mail can continue to meet the needs of current and future consumers:

1. **Ofcom should promote flexibility** to allow a market-funded Universal Service to be contemporary and be able to adapt to a changing market.
2. **Ofcom should give priority to the financial sustainability of the Universal Service** in discharging its duties, enabling the Universal Service Provider to compete for new and existing revenue pools.
3. **Ofcom should promote greater regulatory certainty** to provide the right environment for investment and innovation.

We propose these priorities for inclusion in the SSP in Chapter 4. We would welcome the opportunity to meet with DCMS to discuss this further.

	<b>Consultation question</b>	<b>Summary response</b>
1	Do you agree with the Government's strategic priorities and desired policy outcomes for telecommunications, the management of radio spectrum and postal services?	Government's strategic priorities and desired policy outcomes for the postal sector are much wider than those set out in the SSP consultation.  They include flexibility, financial sustainability and certainty. See Chapters 1, 2 and 4.
2	Does this document set out clearly the role of Ofcom in contributing to the Government's strategic priorities and desired outcomes?	The role of Ofcom is wider than that set out in the SSP. Our recommendations are set out in Chapter 4.

## Chapter 1 – Royal Mail's role in the UK economy

**Royal Mail is the proud provider of the Universal Postal Service.** We deliver a 'one price goes anywhere' service to over 30 million addresses (including 1.3 million businesses) across the country, six days a week.

The Universal Postal Service continues to play a vital role in the economy. It is a key part of the digital economy which is strategically important to the UK's economic future, and is **still an essential service for companies, customers and communities.**

**Royal Mail contributes to the UK economy in a variety of ways.** We support e-commerce by delivering a significant proportion of items purchased online that result in physical delivery. We are one of the UK's largest employers, with **one in every 194 jobs in the UK is provided by Royal Mail.**<sup>7</sup> We are a responsible employer, offering our people good working conditions and fair pay.

We have invested significantly in the business to enhance our service offering and improve our operational efficiency. **Since privatisation in 2013 we have invested over £1.8 billion in our UK operations.**<sup>8</sup> **Our ongoing investment programme is one of the largest of its kind in the UK.** Investing in technology and innovation is a core part of our growth strategy and includes initiatives such as IT Transformation, Postal Digital Assistant (PDA), Mailmark and Labels to Go.

### **Royal Mail plays a pivotal role in the UK economy. It supports e-commerce and is a major provider of responsible employment.**

- 1.1 Royal Mail is the proud provider of the Universal Postal Service. We deliver a 'one price goes anywhere' service to over **30 million addresses** (including 1.3 million businesses) across the country, six days a week. A contemporary Universal Postal Service is vital to the UK economy. It is the delivery backbone of e-commerce in the UK. **We are proud of the role we play in connecting companies, customers and communities.**
- 1.2 **Royal Mail delivers a significant proportion of items purchased online that result in physical delivery, wherever consumers are based in the UK.** A healthy e-commerce market requires a highly specified postal service. The majority (89%) of physical e-commerce value (e.g. not media downloads or services) requires delivery to the consumer's door.<sup>9</sup> Our Consumer Satisfaction and Brand study found that 54% of consumers state that Royal Mail are their most trusted delivery company, and 93% of recipients are satisfied with Royal Mail based on the last time they received a parcel delivered by us.<sup>10</sup> **The Universal Service offers the strongest combination of service benefits** e.g. insurance coverage, compensation, confirmation, and transit times – at competitive prices.<sup>11</sup>

<sup>7</sup> Royal Mail, Annual Report and Financial Statements 2017-19. <https://www.royalmailgroup.com/media/10169/royal-mail-group-annual-report-and-accounts-2017-18.pdf>, page 6.

<sup>8</sup> Royal Mail, Annual Report and Financial Statements 2017-18, page 9.

<sup>9</sup> 2015 estimate from Verdict data (excludes products acquired through a service contract/subscription service, tickets & events, travel sales and financial services) – e-commerce up to 30kgs excluding Click & Collect and PUDD.

<sup>10</sup> Run by Watermelon, based on 3,000 interviews.

<sup>11</sup> Royal Mail offers at least one more service benefit than the best priced competitor within each weight category. For the same combination of service benefits, alternative providers offer higher price points than Royal Mail.

1.3 **We are one of the UK's largest employers, with one in every 194 jobs in the UK is provided by Royal Mail.**<sup>12</sup> Our employment is disproportionately weighted towards areas where there are fewer job opportunities available, enabling us to make a significant contribution to social inclusion. **We are a responsible employer**, offering our people good working conditions and fair pay. We remain committed to providing the best pay and terms and conditions in our industry. Figure 1 below summarises our contribution to the UK economy.

**Figure 1: Summary of Royal Mail's contribution to the UK economy. Information taken from Royal Mail's Corporate Social Responsibility Report 2017-18.**

UK Parcels, International & Letters (UKPIL), is the UK's pre-eminent delivery company. As the **UK's sole designated Universal Service Provider**, we are proud to deliver a 'one price goes anywhere' service on a range of letters and parcels to over **30 million addresses (including 1.3 million businesses) across the country, six days a week**. The Universal Service is vital for economic growth. It is the physical fulfilment arm of the digital economy and is crucial to the UK's economic future.



**GLS is a force for growth.** It is one of the largest, ground based deferred parcel networks in continental Europe, covering 41 countries and nation states in Europe and, following recent acquisitions, seven states in the western US. It has a replicable and scalable business model and key strengths in business-to-business (B2B) and business-to-consumer (B2C) markets.



Royal Mail Group offers services to suit every customer: consumers, sole traders, SMEs, large businesses and access operators. We are proud of the **role we play in connecting companies, customers and communities** across the UK through Royal Mail and overseas through GLS. We deliver more parcels in the UK each year than all of our competitors combined.



**We enable commerce and growth, by providing the delivery backbone of e-commerce through the Universal Service Network**

The Universal Postal Service plays a vital role in the UK's economic growth. **Royal Mail delivers a considerable proportion of the items purchased online in the UK that result in a physical delivery.**

The **value for money, convenience and depth of coverage of the Universal Service Network** makes Royal Mail a **key delivery partner for SMEs across the UK**. By offering delivery services to all parts of the country, we help them to compete with larger businesses while giving consumers greater choice. In the UK, there are around 5.7 million SMEs, generating 51 per cent of total turnover in the country.



**We make the seventh largest contribution of any UK company to the UK economy**

Our employment is disproportionately **weighted towards areas where there are fewer job opportunities available**, enabling us to make a significant contribution to social inclusion.

Cebr found that **Royal Mail added £10.1 billion to the UK economy in 2017-18**, comprising direct and indirect contributions. This includes our contribution through the employment we provide, the suppliers we work with and the taxes we pay.

The Universal Service that we provide has a vital role to play in the UK's economic future. It is an integral part of the strategically important digital economy, which is forecast to grow to more than 30 per cent of UK GDP by 2020. The UK is a global leader in this field. It has the highest per person spend on e-commerce, more than double the next highest country.



**We are one of the UK's largest employers, with one in every 194 jobs in the UK provided by Royal Mail**

**We directly employ around 141,000 people**, with GLS employing around 18,000 people across Europe and the US.

**We promote strong labour standards in our industry.** We believe that good employment conditions drive quality. Permanent Royal Mail and Parcelforce Worldwide employees earn considerably above the Living Wage. We work continually with our unions to agree changes to our business model to ensure a sustainable future for Royal Mail.



**We are a responsible employer**

Royal Mail is proud to be a responsible employer. **We offer our people good working conditions and fair pay.** At the year-end, 98.7 per cent of Royal Mail employees were on permanent contracts. All permanent Royal Mail and Parcelforce Worldwide employees earn considerably above the Living Wage that is defined by the Living Wage Foundation. This exceeds the legal minimum set by the Government.

As well as a competitive salary, they receive **additional benefits associated with permanent employment**, such as National Insurance contributions, paid holiday and a good pension. We remain committed to providing the best pay and terms and conditions in our industry.

<sup>12</sup> Royal Mail, Annual Report and Financial Statements 2017-19. <https://www.royalmailgroup.com/media/10169/royal-mail-group-annual-report-and-accounts-2017-18.pdf>, page 6.

**We have invested significantly in the business since privatisation to enhance our service offering and improve our operational efficiency.**

1.4 Since privatisation in 2013, we have **invested over £1.8 billion in our UK operations** and in 2017-18 we made a net cash investment of around £445 million.<sup>13</sup> **Our ongoing investment programme is one of the largest of its kind in the UK.** Investing in technology and innovation is a core part of our growth strategy. Examples of this are summarised in Figure 2.

**Figure 2: Examples of our investment in technology and innovation**

IT Transformation	Postal Digital Assistant (PDA)	Mailmark	Labels to Go
<p>We are transforming from a letters delivery business, to a parcels delivery business heavily driven by IT. Changing consumer needs and preferences requires new and better applications. When we started the Barcoding Parcels project in 2014, we were tracking around 20% of our parcels. Now, over 70% of parcels are barcoded and we aim to barcode virtually all of our parcels. In addition, we are increasingly using data rich 2D barcodes that provide significantly more information.</p>	<p>We completed the rollout of our Postal Digital Assistant (PDA) technology. This technology has been used in the rollout of estimated delivery windows for customers using our Tracker 24/48 service. PDAs significantly increase our scanning capability. They give us more interfaces with our customers, expanding the number of interactions they have with their parcels.</p>	<p>We rolled out Mailmark which provides barcode technology and online-reporting for machine-readable business, advertising and publishing mail. We have invested £70 million in this initiative. Around 90% of in scope mail now has a Mailmark.</p>	<p>We developed digital capabilities to enhance customer convenience. In April 2017 we launched our new self-service solution, Labels to Go. Customers buying postage online can now print off delivery and return laels from their mobile phones at the majority of our 1,200 Customer Service Points.</p>

1.5 Our **strategic focus on investment** is an opportunity to meet changing consumer expectations, and means we are better positioned to grow our existing customer relationships. This in turn enables us to **fund investment in our growth** and maintain **fair terms and conditions for our people.**

<sup>13</sup> Royal Mail, Annual Report and Financial Statements 2017-18, page 9.

## Chapter 2 – Government priorities under the current framework

There are some **fundamental differences between the postal and telecommunication sectors**. Post is labour intensive, whereas the telecom sector is infrastructure heavy. The postal sector already has a universally available service and satisfaction with postal services is high. This is not the case in the telecommunications sector.

As a result of the challenges faced by Royal Mail, Government commissioned Richard Hooper to undertake a detailed review. He found that **post is not like other utilities**.<sup>14</sup> Hooper concluded that the Universal Postal Service was under serious threat, which triggered a series of major reforms to the regulatory environment. These included: introducing the revised Postal Services Act 2011 (PSA 2011); Ofcom taking Postcomm's place as regulator; and Ofcom announcing a new regulatory framework in March 2012 (after consulting with stakeholders).

At the same time as developing the revised PSA 2011, Government also informed Ofcom of key principles to be considered in Ofcom's development of detailed regulatory obligations for the postal sector. These principles were **flexibility, financial sustainability and regulatory certainty**.<sup>15</sup> These are still valid today.

In 2017, BEIS conducted a Post Implementation Review of the PSA 2011. It considered the extent to which the expected benefits of the new regulatory regime have been realised. The expected benefits included:

- **A reduction in regulatory burdens.** The evidence suggested that *"the conditions imposed by Ofcom resulted in a lower regulatory burden"*.<sup>16</sup>
- **Greater regulatory certainty** to allow Royal Mail to focus more fully on modernisation and less time on seeking regulatory consents. BEIS found that *"Ofcom's decision to review the regulatory framework in 2015-16...created some uncertainty"*.<sup>17</sup>

### There are some fundamental differences between the postal and telecommunications sectors in the UK.

2.1 **Unlike the UK telecommunications sector, the postal sector already has a universally available service.** We deliver to all parts of the UK, from the most urban locations to the most remote postal route – Haroldswick area of Unst in the Shetland Isles.<sup>18</sup> The network infrastructure already exists to provide coverage that is reliable, secure and universal. This national service features a range of products and services to satisfy the spectrum of consumer needs from a standard, affordable second class service to 1pm next day delivery with full tracking and insurance. The only company currently capable of providing the Universal Service in the UK is Royal Mail. No other company is likely to have an equivalent national network in the foreseeable future.

2.2 **Telecommunications and media are ranked as the worst performing sector** apart from transport according to the July 2018 Customer Satisfaction Index.<sup>19</sup> Whereas, **consumer**

<sup>14</sup> Richard Hooper, Saving the Royal Mail's universal postal service in the digital age, (2010), page 27.

<sup>15</sup> <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>

<sup>16</sup> BEIS (2017). Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 20.

<sup>17</sup> BEIS (2017). Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 21.

<sup>18</sup> <https://www.royalmailgroup.com/en/press-centre/press-releases/royal-mail/most-remote-postal-route/>

<sup>19</sup> <https://www.instituteofcustomerservice.com/research-insight/research-library/ukcsi-the-state-of-customer-satisfaction-in-the-uk-july-2018>



**satisfaction with postal services is high** and we continue to deliver a high quality of service across the UK. Ofcom has also acknowledged that *“postal services and delivery is the only sector to see an increase in customers’ perception of value for money”*.<sup>20</sup> By contrast, value for money ratings have fallen for a range of other services; most markedly banks, gas and electricity providers, and supermarkets.<sup>21</sup>

**Ofcom’s 2012 regulatory framework was grounded on certain key principles. These took into account the unique circumstances pertaining to post.**

- 2.3 Government commissioned Richard Hooper to undertake a detailed review. He found that **post is not like other utilities**.<sup>22</sup> Hooper concluded that the Universal Postal Service was under serious threat, which triggered a series of changes to the regulatory environment. These included: introducing the revised Postal Services Act; Ofcom taking Postcomm’s place as regulator; and Ofcom announcing a new regulatory framework in March 2012 (after consulting with stakeholders).
- 2.4 Under PSA 2011, Government set out the legal framework for postal regulation, taking into account the unique circumstances of post. It also stated that it was *“keen to ensure that regulation is lifted wherever possible and appropriate to give the Universal Service provider the necessary financial and commercial flexibility to deliver the Universal Service in what is clearly a declining market”*. Ofcom has a duty under the PSA 2011 to **secure the provision of a Universal Postal Service**, having regard to its **financial sustainability and efficiency**.
- 2.5 At the same time as developing the PSA 2011, Government set out key principles to guide Ofcom’s development of detailed regulatory obligations for the postal sector. These principles<sup>23</sup> were as follows:
- » **Flexibility.** Government acknowledged the structural decline in the mail market and that the Universal Service Provider (USP) should have the flexibility to react to rapid change should it be required to help secure the future of the Universal Postal Service.
  - » **Financial sustainability.** Private sector investment in Royal Mail is critical and investors want to know that it is a viable investment proposition. Thus, Ofcom has a primary obligation to ensure the financial sustainability of the Universal Service. This includes the *“need for a reasonable commercial rate of return”*.<sup>24</sup>
  - » **Greater regulatory certainty.** Market conditions, specifically the extent of volume declines and the comparative success of upstream Access competitors, heightened the need for a balance to be struck between securing the Universal Postal Service and encouraging competition. This principle also encompasses the intent that regulation is only used where it is deemed appropriate to promote efficiency and effective competition.
- 2.6 The Government saw these as the means through which Royal Mail (as the USP) can continue to deliver the Universal Service. These principles remain relevant today, particularly in the context of recent market developments, as set out in Chapter 4.

---

<sup>20</sup> Perceived value for money increased from 5.92 in 2005 to 6.91 in 2015. Ofcom’s Customer Experience Report 2015.

<sup>21</sup> Ofcom’s Customer Experience Report 2015. Research Annex page 67.

<sup>22</sup> Richard Hooper, Saving the Royal Mail’s universal postal service in the digital age, (2010), page 27.

<sup>23</sup> <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>.

<sup>24</sup> <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>.

## Chapter 3 – Network resilience is already embedded in Royal Mail

We note that **the priority set out for the postal sector in the SSP is network resilience**. This is rightly identified as one key area Ofcom should consider, but this is more relevant to telecommunications than post.

We already have a **secure and resilient network**, with plans in place to maintain a high-quality service to customers when events beyond our control materialise. In terms of resilience, we distinguish between two forms: **i) Critical National Infrastructure (CNI) resilience**, and **ii) business-as-usual (BAU) contingency planning**. Established processes and structures exist to manage both forms of resilience effectively. These help to ensure that we can continue to deliver a high-quality service to customers when events beyond our control materialise.

**We consider that we are well prepared in relation to CNI planning.** We engage with the BEIS, Ofcom and Government agencies on our preparedness for events from cyber-attacks to flooding. We also participate in the BEIS Sector Security and Resilience Plan.

We also take BAU contingency planning and investment very seriously. This is embedded within our business processes and our regulatory conditions require that we have contingency plans in place. Against that background, **we do not consider network resilience as a priority for the SSP relative to other areas.**

**There is a difference between requirements under the Critical National Infrastructure (CNI) and BAU contingency planning. There are established processes and structures to manage both effectively.**

- 3.1 It is important to **separate resilience under CNI from BAU contingency planning**. The two are distinct.
- 3.2 Ofcom rightly holds Royal Mail to account for **Quality of Service (QoS), which can be impacted by both BAU and CNI contingencies**. However, we are expected to actively manage the BAU disruptions to minimise the impact on quality of service on an ongoing basis. In contrast, we would be expected to manage a CNI incident to minimise the impact but not as a recurring challenge. It is not just about meeting our QoS targets; it is about keeping our business running.

**Royal Mail engages with BEIS, Ofcom and Government under CNI resilience planning. We consider that we are well prepared.**

- 3.3 We consider that planning under **CNI relates to hostile or emergency events outside of our control**. Whilst we plan for cyber-attacks, terrorist attacks or any other scenario, these are very different to manageable disruptions, such as transport issues or poor weather.
- 3.4 Royal Mail engages with BEIS, Ofcom and Government agencies in assessing and monitoring our preparedness for these types of event. We also participate in the BEIS Sector Security and Resilience Plan. These sector resilience plans are classified information as they contain sensitive security information. Published summaries are available to inform the public of the risks and actions being taken. The most recent summary sets out a priority *“to work with Royal Mail to maintain robust contingency and resilience plans in response to key risks to the national*

network.<sup>25</sup> This summary also notes that “*levels of resilience are good and there are inevitable limits to how far vulnerability to very severe events can be reduced.*” **We consider that we are well prepared.**

3.5 As an example of our engagement with Government on security matters, Royal Mail was used as a case study<sup>26</sup> by the Centre for the Protection of National Infrastructure (CPNI) in relation to Mail Screening. This case study referred to an incident in October 2013. Royal Mail was responsible for intercepting a letter bomb sent to an office in Northern Ireland. At the time, Justice Minister David Ford praised Royal Mail for its vigilance. He said: “*Royal Mail has been very active in putting in place security measures to detect and deal with suspicious packages, which in turn helps to secure and protect our citizens.*”

**We take BAU contingency planning and investment very seriously. We have a secure and resilient network, with contingency plans in place to maintain our service.**

3.6 One of our key regulatory conditions requires us to have in place **contingency arrangements to enable the continued provision of the Universal Service.**<sup>27</sup> This is, as far as practicable, in the event of regional or national industrial action, emergency or natural disaster. Under the regulatory framework, Royal Mail is required to review its plans every two years. In practice, Royal Mail conducts reviews on an ongoing basis.

3.7 Royal Mail has a wide range of **contingency plans to mitigate the impact of, and manage the recovery from, these events.** A few of the plans are generic to a type of operational unit while others are bespoke either to a critical unit or part of the network. As contingency plans are an operational matter, Ofcom does not actively review or approve these. Instead, it requires Royal Mail to review its plans every two years, as per its obligations under DUSP conditions 1.11.1 and 1.11.2.

**Figure 3: Case study for BAU contingency planning**

**Case study: Highways England programme impacting our network**  
 Government has embarked on the biggest investment in the Strategic Road Network for a generation. Royal Mail is supportive of this, however **in the short term this has an impact on our Quality of Service (QoS).**

**Roads are crucial to our network.** We use an extensive road network to deliver mail between our Mail Centres. We have identified some high impact routes that require specific focus. This network is augmented with Air and Rail for speed and cost reasons. **There are five main factors from this investment that affect Royal Mail:**

Timing	Major increase in roadworks	Notification	Type of closure	Location
--------	-----------------------------	--------------	-----------------	----------

**Central Postal Control (CPC)** is a unit within Royal Mail that manages the impact of any unplanned events. **It aims to minimise the impact of roadworks, but this is not always possible.** CPC provides a centralised and co-ordinated response to anything which may cause a risk to our network, including roadworks. CPC have a comprehensive list of available contingency routes to use. When we are aware of roadworks in advance we can make an effective plan in a vast majority of cases.

There are occasions when we are unable to fully mitigate the impact of events. Some events are too big to fully mitigate (eg the Beast from the East). Some events are not known to us until it is too late to respond (eg unadvised roadworks).

<sup>25</sup> Public Summary of Sector Security and Resilience Plans 2017, December 2017, Page 12.

<sup>26</sup> [https://www.cpni.gov.uk/system/files/documents/a6/76/Mail\\_Screening\\_Matters\\_Article\\_Derry\\_Letter\\_Bomb.pdf](https://www.cpni.gov.uk/system/files/documents/a6/76/Mail_Screening_Matters_Article_Derry_Letter_Bomb.pdf).

<sup>27</sup> Ofcom's Designated Universal Service Provider (DUSP) condition, paragraph 1.11.

## Figure 4: Further examples where our resilience is demonstrated

### Case study: London 2012 Olympics

Royal Mail was proud to play its part in the Olympics. We were the chosen provider to deliver tickets for the London 2012 Olympic and Paralympic Games.

**Eighteen months of operational planning and a dedicated customer service team** ensured that collection and delivery services for customers remained excellent throughout the Games period. Tickets were tracked through our system, with customers receiving SMS notifications both letting them know when the tickets would arrive, and upon successful delivery.

We delivered 1.6 million envelopes enclosing approximately 7.5 million tickets to customers, with **over 98 per cent of them arriving first time, on time.**

### Case study: Grenfell

Many of the survivors of the Grenfell Tower tragedy lost everything. **Royal Mail colleagues played a role in keeping the lines of communication open** for people with no address and no form of identification.

Teams across our business worked to set **up enquiry phone lines and redirect mail while maintaining business as usual to surrounding areas.** Colleagues also volunteered their time to sort donated goods at nearby Greenford Mail Centre.

His Royal Highness Prince Harry visited the Mail Centre in July to pay tribute to the Royal Mail and British Red Cross teams who worked tirelessly to support the victims.

### Awards for contingency planning

Royal Mail's approach to business continuity (business protection in Royal Mail) is aligned directly to the BCI's Good Practice Guidelines. Royal Mail has been a gold level partner for 7 years. Our Head of Business Protection is a BCI accredited trainer and provides expert advice to their training packages, sits on the BCI's top strategy group and is a frequent speaker at the BCI World Conference.

- **Royal Mail won the BCI European Awards in 2016, and was shortlisted in 2018.**
- **We were highly commended in 2018 for Recovery of the Year – Beast from the East**



**On the basis of the above, we do not view network resilience, in both its forms, as appropriate for the SSP.**

- 3.8 The DCMS consultation states that *“we expect that [Ofcom] will review Royal Mail's contingency plans and mitigating actions, to make sure that the needs of current and future customers will be met effectively and efficiently.”* Royal Mail is required to have plans in place, keep them up-to-date and engage with Ofcom on them.
- 3.9 We have already set out above how we are **planning and investing appropriately** to secure long-term resilience. We have **every commercial incentive to maintain our high quality of service for our customers.** Given our robust and effective BAU contingency planning, and meaningful engagement with Government on CNI, **we do not consider network resilience as a priority for the SSP relative to other areas.** In the next section, we set out areas which we think have a clearer case for inclusion as priorities in the SSP.

## Chapter 4 – Proposed changes to the SSP

It is our view that a focus on network resilience alone does not meet the ministerial objectives of creating a “*pro-competitive and pro-investment environment*”.<sup>28</sup> To achieve this, **the priorities and desired policy outcomes need to go further than those set out in the SSP consultation.**

**We already have all the incentives we need to drive efficiency.** BEIS has stated that “*the regulatory regime provides strong incentives for Royal Mail to find efficiencies*”.<sup>29</sup> Ofcom has also said that it considers “*market conditions and shareholder discipline are more likely to be effective in securing an efficient and financially sustainable universal postal service than the imposition of additional regulation*”.<sup>30</sup>

We consider that the **Government priorities underpinning the current framework remain relevant.**<sup>31</sup> We need a **supportive regulatory environment that promotes investment and supports innovation**, especially given recent developments in the postal market. As such, we recommend that the following priorities are reflected in the SSP. These are designed to ensure Royal Mail can continue to meet the needs of current and future consumers:

1. **Ofcom should promote flexibility** to allow a market-funded Universal Service to be contemporary and be able to adapt to a changing market.
2. **Ofcom should give priority to the financial sustainability of the Universal Service** in discharging its duties, enabling the Universal Service Provider to compete for new and existing revenue pools.
3. **Ofcom should promote greater regulatory certainty** to provide the right environment for investment and innovation.

4.1 As Figure 5 below illustrates, we consider **that the SSP should reflect the Government priorities defining the current framework** (refer to Chapter 2). There have been developments in the postal market since 2011. The structural decline in letters and intense competition in parcels has impacted our recent trading conditions and profitability. It is our view that the original principles set out by Government in 2011 remain relevant, particularly when taking into account the impact of recent postal sector trends.

---

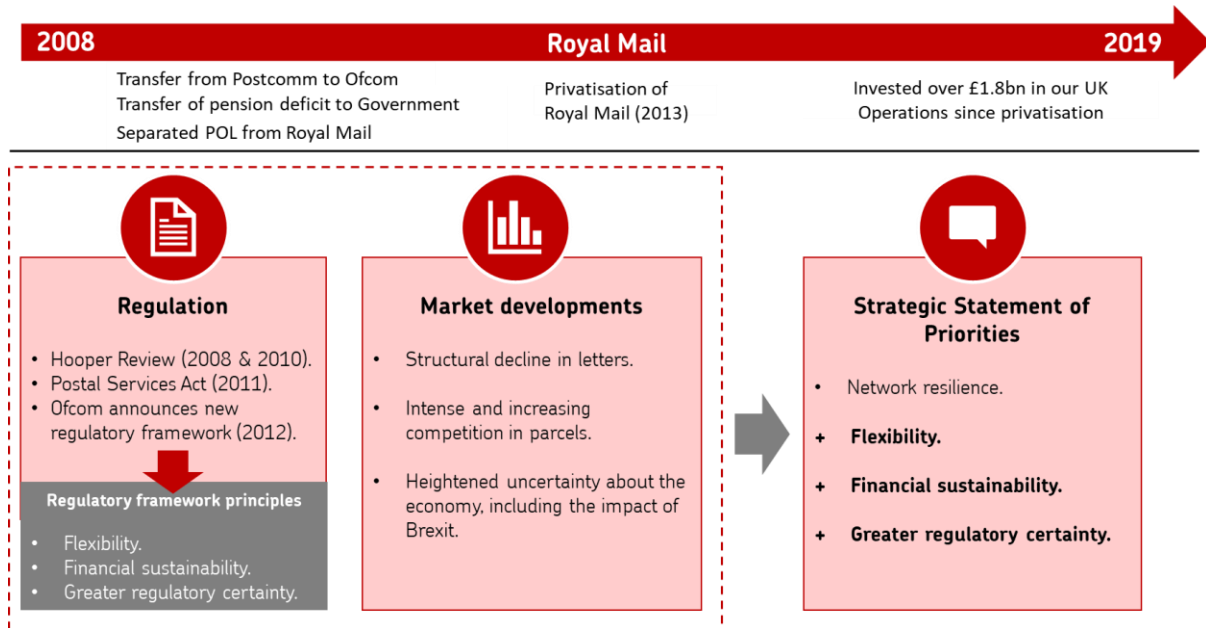
<sup>28</sup> DCMS, Statement of Strategic Priorities for telecommunications, the management of radio spectrum and postal services (2019), page 3 of the ministerial foreword.

<sup>29</sup> BEIS (2017), Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 1.

<sup>30</sup> Ofcom, Review of the Regulation of Royal Mail (2017), page 4.

<sup>31</sup> <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>

**Figure 5: Market developments and their impact on the regulatory framework**



**We consider the Government’s policy objectives of 2011 remain relevant today. Recent market developments have made it even more important there is a supportive regulatory environment for investment and innovation.**

4.2 It is our view that the **original principles set out by Government previously** (flexibility, financial sustainability and regulatory certainty) **remain relevant now as they ever were.** In this section, we take each of the three principles set out by BIS in 2011, and discuss their relevance today given market developments. We propose these priorities for inclusion in the SSP.

**To achieve an environment that supports investment and innovation to deliver the best outcome for UK consumers, we propose that the following drafting is reflected in the SSP.**

**Flexibility**

Priority under current framework<sup>32</sup>: *“The structural decline in the mails market demands flexibility from operators and regulator alike. The Universal Service provider should have the flexibility – where appropriate – to react to market dynamics in pricing and product innovation”.*

4.3 **Declining letter volumes and increasing competition in parcels** are putting increasing pressure on the ability of the Universal Service Provider to stay competitive and dynamic, to meet the needs of current and future consumers. User needs are evolving: for example, customers want and expect faster and more frequent delivery. The **postal sector needs to innovate and adapt to make sure that it can continue to meet the needs of people, businesses and the environment; and the regulatory framework needs to adapt too.**

<sup>32</sup> In this section, the text in grey boxes is drawn from the 2011 BIS letter, <https://www.gov.uk/government/publications/postal-services-bill-and-intentions-for-the-postal-regulatory-framework-letter-from-vince-cable>.



- 4.4 At the same time, **developments in the parcels sector have outpaced consumer protection regulation**. End recipients typically do not choose the parcel delivery company when purchasing. This can lead to poor outcomes for consumers that are not protected by industry standards, and reflect poorly on the reputation of the sector. **Parcel operators should be held to the same consumer protection standards**.

**Proposed priority:** Ofcom should promote flexibility to allow a market-funded Universal Service to be contemporary and market facing, to meet the needs of current and future consumers. Ofcom should challenge parcel operators to deliver good value to consumers, including through raising consumer standards.

### **Financial sustainability**

#### **Priority under current framework:**

- *“An investor will want to know that the company is a viable investment proposition”.*
- *“The reference to the need for the Universal Service to be ‘financially sustainable’ includes ‘the need for a reasonable commercial rate of return for any Universal Service provider’”.*
- *“It is essential that the regulatory framework should provide the space and incentives for Royal Mail to be successful, to make the necessary efficiency improvements and allow for good performance to be rewarded”.*

- 4.5 It is still the case that investors need to know that Royal Mail Group is a viable investment proposition. **Recent trends in the postal sector** have heightened the need for financial sustainability.
- 4.6 **First, e-substitution is driving structural decline in letter volumes**. This has a direct impact on our revenues. In its Annual monitoring update on the postal sector, Ofcom stated that *“addressed letter volumes (which include letters and large letters) declined by 5% to 11.1 billion items in 2017-18, reflecting continual structural decline in mail”*. Whilst some cost reduction is possible in response to letter volume decline, Royal Mail postmen and women must still walk the same streets, delivering fewer items as they go. There are high fixed costs. **Reducing letter volumes therefore has a direct impact on revenues, but only enables very marginal reductions in cost**. As a result, efficiency decreases, unit costs go up and this impacts our profitability.
- 4.7 **Second, intense competition in the parcel market has placed (and continues to place) downward pressures on prices**. Ofcom lists a number of operators in the UK - excluding Royal Mail and Parcelforce - that offer parcel services.<sup>33</sup> These operators have no regulatory requirements to provide certain services, deliver everywhere, or meet quality and affordability requirements. Many do not cover the high cost to serve areas. If they do, they apply a surcharge or reduced service specification.<sup>34</sup>

<sup>33</sup> The Alternative Parcels Company Limited, Amazon Logistics (encompassing both Amazon Marketplace and Amazon Retail), DHL International Limited (including legacy DHL and UK Mail operations), DPD Group UK Limited, DX (Group) plc, FedEx UK Limited, Hermes Parcelnet Limited, Royal Mail Group Limited including Parcelforce Worldwide, TNT UK Limited, Tuffnells Parcels Express Limited, UPS Limited and Yodel Delivery Network Limited. Ofcom Annual Monitoring Report 2017-18.

<sup>34</sup> Triangle Management Insights (2015) - the depth of coverage of the USO compared to the broader market. Research for Royal Mail.

- 4.8 **Taken together, structural decline in letters and intense competition in parcels have the potential to impact the future financial sustainability of the USO.** Government recognised in the PSA 2011 that for the Universal Postal Service to be financially sustainable, the USP needs to make a “reasonable commercial rate of return”. Ofcom estimated this as between 5 – 10% EBIT margin for the Reported Business. The Reported Business is delivering “below the 5-10% range that Ofcom considers consistent” for securing a financially sustainable Universal Service.<sup>35</sup> It was 4.4% in 2017-18, down from 4.6% in 2016-17.<sup>36</sup>
- 4.9 Now that Royal Mail is subject to private sector discipline (since privatisation in 2013), the role of Ofcom in promoting efficiency in this context is simply not necessary and can be reduced or removed. Shareholder scrutiny, intense competitive pressure in parcels and rapid e-substitution in letters are already major spurs to efficiency.
- 4.10 Ofcom should focus on its duty to secure the Universal Service. This emphasis on a proactive duty to secure the Universal Service needs to be significantly enhanced. Any intervention must come before the Universal Service has become financially unsustainable. This, in turn, requires **providing Royal Mail with the flexibility and regulatory underpinnings to actively respond on a timely basis to an emerging sustainability threat.** The regulatory framework needs to continue to provide the right incentives, and allow for good performance to be rewarded.

**Proposed priority:** Ofcom should give priority to the financial sustainability of the Universal Service in discharging its duties, enabling it to compete for new and existing revenue pools.

**Greater regulatory certainty**

**Priority under current framework:** “it is more important than ever that the right balance is struck between securing the universal postal service, which is the Government’s first priority, and encouraging competition”.

- 4.11 The finances of the Universal Service are fragile. Regulatory certainty provides investors with confidence to invest for the long term. **Stability and predictability in the regulatory framework is essential to encourage the necessary planning, investment and innovation.**
- 4.12 BEIS has previously said that “Ofcom’s decision to review the regulatory framework in 2015-16, as with all policy reviews, has created some uncertainty”.<sup>37</sup> Ofcom announced the regulatory framework in March 2012. It was meant to remain settled for a period of 7 years. However, Ofcom subsequently announced a Fundamental Review of the Regulation (FRR) of Royal Mail in 2015, in which all options were back on the table. This **cut the intended 7-year regulatory period short.** The FRR decision was published in 2017 and will then again be reviewed in 2022. Thus, **the reality for Royal Mail has been detailed and ongoing scrutiny.**

<sup>35</sup> BEIS (2017), Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 5.

<sup>36</sup> [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0027/128268/Annual-monitoring-update-postal-market-2017-18.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0027/128268/Annual-monitoring-update-postal-market-2017-18.pdf)

<sup>37</sup> BEIS (2017), Post Implementation Review of Part 3 and Part 4 of the Postal Services Act 2011, page 21.



4.13 Further, market developments have means that the **postal sector is becoming increasingly uncertain and inherently riskier for investors**. The 'fair bet' principle recognises that investors "*need to benefit from sufficient upside potential from any investment to offset the downside risk of failure*".<sup>38</sup> Applying this principle would ensure that Royal Mail has the **opportunity to make higher returns where a risky investment is successful**, without the threat of regulatory intervention.

4.14 Thus, regulatory certainty is important for giving us confidence that we can continue to invest. It is important to ensure returns on investment would not be adversely affected by significant changes in the regulatory framework or regulatory judgements. This is achieved by not unduly increasing regulatory intervention and imposing onerous regulatory burdens.

**Proposed priority:** Ofcom should promote greater regulatory certainty to provide the right environment for investment and innovation, and to reduce the regulatory burden for Royal Mail.

---

<sup>38</sup> Ofcom (2017), [https://www.ofcom.org.uk/\\_\\_data/assets/pdf\\_file/0033/99636/Vol1-Market-review.pdf](https://www.ofcom.org.uk/__data/assets/pdf_file/0033/99636/Vol1-Market-review.pdf), page 6.