

Your response

Question	Your response
Question 1: Do you have any comments on Ofcom's proposed Plan of Work 2023/24?	<p><i>Is this response confidential? – N (delete as appropriate)</i></p> <p>Royal Mail welcomes the opportunity to comment on Ofcom's proposed Plan of Work for 2023/24. The postal sector has undergone significant change in recent years as demand shifts from letters to parcels. It is essential Royal Mail remains relevant, sustainable, and fit for purpose. Ofcom sets out that its priority in the forthcoming year is to focus on the</p>

monitoring of the postal market and Royal Mail's performance following the conclusion of the 2022 Review of Regulatory Framework¹ and a review of the safeguard caps for post. Significant resources were invested by both Ofcom, Royal Mail, and other stakeholders in the review of regulation. However, the regulatory framework and Ofcom's plan of work maintain the policy status quo. It also increases the regulatory reporting burden without demonstrating meaningful consumer benefits. Ofcom's plan of work needs to reflect fundamental shifts in the dynamics of the postal market and changing consumer needs.

We would welcome further clarity on all Ofcom's key planned postal activities including whether there are any other pieces of work Ofcom are planning for that have not been specified in the Plan of Work.

USO

We note Ofcom's plan of work confirms its view that change to the scope of the Universal Service Obligation (USO) is a matter for Government. We urge Ofcom to factor flexibility into its Plan of Work to support BEIS in its decision making; to allow us to respond quickly to the financial challenges we face. We also request that Ofcom works with BEIS to provide us and other stakeholders with a clear process and timeline setting out which organisation holds the responsibility for assessing the case and decision making at different points in the process.

We remain committed to the USO and the one-price-goes-anywhere service to every address across the country. A supportive regulatory regime is required to ensure that the USO remains relevant and sustainable.

Consumers are increasingly taking advantage of electronic and online services leading to reduced reliance on letters and the continued structural decline in letter volumes. Our research and Ofcom's show that customer needs would now be met by a five-day letter

¹ Review of the future regulatory framework for post (2022)

delivery service.² Continuing to deliver letters six days a week even though consumers no longer need it is an inefficient use of resources. It also comes at significant structural cost to Royal Mail

As Ofcom has noted, a financially sustainable Universal Service should be achieving an EBIT margin of 5-10%.³ Since privatisation, we have only achieved this twice. The current financial position of Royal Mail means urgent change is critical.

The UK is not alone in the need for change within the postal sector. Countries such as Italy and Denmark have reduced the number of days they deliver. With others reducing the quality of their service such as France's reduction to a 3-day letter delivery speed. We urge Ofcom to ensure that its plan of work allows it to work with relevant stakeholders to ensure the USO in the UK best meets consumer needs in the long term.

Consultations

Royal Mail's overarching priority is to provide a sustainable, affordable, one-price-goes-anywhere universal letter and parcel service that meets the needs of consumers, including those more vulnerable. We note that 2023/24 will see the implementation of Ofcom's changes to Regulatory Reporting Requirements following its review of Postal Regulation. These proposals materially increase the regulatory burden on Royal Mail when the business should be focussing on addressing significant financial and operational challenges.

As we have expressed previously, we are disappointed with the outcome of Ofcom's 2022 Regulatory Review. We consider that Ofcom's decision not to allow tracking in the USO and greater flexibility on special delivery is unacceptable from a consumer perspective. It is inconsistent with Ofcom's stated objective of being the consumer champion. It is also short-sighted given rapidly changing consumer needs

² In 2020 Ofcom's "Review of Postal User Needs" concluded that a five-day (Monday-Friday) letters service would meet the needs of 97% of consumers and SMEs.

³ Review of Postal Regulation (2022)

and market dynamics and the need for Royal Mail to adapt quickly and innovate.

Safeguard Cap Review

Spending on postage represents less than 0.2% of average household expenditure. We maintain that affordability is not an issue for the vast majority of customers and that should be reflected in the way in which we are regulated. We request that Ofcom concludes this review in good time to provide regulatory certainty when we are developing our pricing strategy and making pricing decisions.

Conclusion

Given the financial issues the business faces 2023/24 is set to be a challenging year. We urge Ofcom to build flexibility into its Plan of Work so that it can provide the regulatory changes to allow Royal Mail to move quickly to address the significant financial and operational challenges ahead. We look forward to working with all our stakeholders to ensure we keep the Universal Service relevant and sustainable given changing customer needs and market dynamics.