



# Ofcom Consultation: Changes to Royal Mail's regulatory reporting requirements

THE CONSUMER COUNCIL RESPONSE

31 October 2022

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## 1. ABOUT US

The Consumer Council was established in April 1985 as a non-departmental public body (NDPB) under the General Consumer Council (Northern Ireland) Order 1984 (The Order). We operate under the Department for the Economy (DfE) on behalf of the Northern Ireland Executive.

Our vision is to protect and empower consumers in Northern Ireland by ensuring the legislation and regulation for consumer protection works effectively for consumers here.

Our mission is to be the trusted go-to organisation for Northern Ireland consumers, working with governments and stakeholders to inform policy and decision making, using our research, insight and expertise to deliver positive outcomes for consumers.

We have statutory duties in relation to consumer affairs, energy, postal services, transport, water and sewerage, and food accessibility. These include responding to enquiries, investigating complaints, carrying out independent research, educating and empowering consumers, and advising government on matters relating to consumer affairs.

Our non-statutory functions educate and empower consumers against unfair or discriminatory practices in any market including financial services. We are also a designated super-complaints body under the Enterprise Act 2002 and the Financial Services and Markets Act 2013.

As an insight-led evidence based organisation, we:

- Provide consumers with expert advice and confidential guidance.
- Engage with government, regulators and consumer bodies to influence public policy.
- Empower consumers with the information and tools to build confidence and knowledge.
- Investigate and resolve consumer complaints under statutory and non-statutory functions.
- Undertake best practice research to identify and quantify emerging risks to consumers.
- Campaign for market reform as an advocate for consumer choice and protection.

We have responsibilities under the Rural Needs Act 2016 and Section 75 of the Northern Ireland Act 1998 to ensure government policies recognise consumer needs in rural areas, and promote equality of opportunity and good relations across a range of equality categories.

We represent and campaign on behalf of all Northern Ireland citizens, in particular those in vulnerable circumstances, and pay particular regard to consumers:

- who are disabled or have long term health conditions
- who are of pensionable age
- who are on low incomes
- who live in rural areas

We use a set of eight guiding principles developed by the United Nations to assess where the consumer interest lies, and develop and communicate our policies, interventions and support. These provide an agreed framework through which we approach regulatory and policy work.

**Figure 1: Consumer Principles**



The principles ensure we apply a consistent approach across our statutory and non-statutory functions, and in all our engagement with consumers and stakeholders.

They serve to protect consumers, setting out the minimum standards expected from markets when delivering products or services in Northern Ireland. They also frame our policy position and approach to resolving consumer disputes with industry, offering a straightforward checklist to analyse and validate outcomes, in particular among vulnerable groups and consumers with a disability.

## 2. RESPONSE TO CONSULTATION

The Consumer Council is pleased to respond to Ofcom's consultation on changes to Royal Mail's regulatory reporting requirements. We previously responded<sup>1</sup> to Ofcom's consultation on the Review of Postal Regulation in Spring 2022.

The role of the Consumer Council is to promote and safeguard the interests of consumers in Northern Ireland and we have statutory duties in relation to postal services. We recognise the vital role Ofcom plays in regulating the universal postal service to ensure it is financially sustainable and acknowledge the important role that regulatory reporting plays. While we do not have sufficient expertise in regulatory reporting to be able to answer the questions set out in the consultation document, we do provide general comments on areas of the regulatory reporting which may have an impact on consumers and on the affordability of the universal postal service.

Ofcom's role in these matters is of fundamental importance as it must ensure its proposed regulatory reporting contributes to an affordable and accessible universal postal service for all consumers across Northern Ireland. This must be an essential criterion that is applied and achieved in any regulatory oversight framework including the universal service provider's reporting requirement. We strongly believe that monitoring is a key part of Ofcom's regulatory framework and for identifying where there may be a need to intervene to protect consumers. We trust that Ofcom will ensure its regulatory reporting requirements play a full part in protecting consumers, especially from experiencing affordability issues with the universal postal service.

Before Ofcom finalises its regulatory reporting requirements, we would like the following comments to be taken into consideration.

### **Annual Financial Forecasts and Five-Yearly Financial Forecasts**

We note in the consultation document that Royal Mail has struggled to provide the current requirement for a Strategic Business Plan to be submitted at the start of the financial year. Ofcom's proposal for the new Annual Financial Forecasts (AFF) and Five-Yearly Financial Forecasts (FYFF) to be provided by 31 May instead of the start of the financial year seems to be an appropriate change especially if it means Ofcom can expect better compliance by Royal Mail, and it gives Ofcom the stated 'greater assurance that the information we need is reliable and complete'. However, Ofcom should routinely assess whether this deadline still ensures timely intervention if required and ensures that Ofcom does not lose any current regulatory oversight.

### **Efficiency Measures and Affordability**

We view Ofcom's proposal to require Royal Mail to provide more detailed and structured information on efficiency initiatives as a positive step. We note that the current requirement 'with no prescription of detail' has resulted in 'the level of detail provided by Royal Mail in its Strategic Business Plans has not been consistent.'<sup>2</sup> As such this has resulted in the need for statutory information requests by Ofcom. Although we are not able to comment on the technicalities of this area, if Ofcom's proposal to specify the structure and level of detail Royal Mail must provide as part of the AFF gives Ofcom better flexibility in analysis, then the Consumer Council supports this proposal. Particularly if this allows Ofcom to ensure progress is made in this area and where there is evidence of inadequate progress, allows Ofcom to intervene and take the appropriate corrective

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<sup>1</sup> [Consumer Council for Northern Ireland \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/2022/220101/220101.pdf)

<sup>2</sup> [Consultation: Changes to Royal Mail's regulatory reporting requirements \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/2022/220101/220101.pdf) (3.42)

action. Ofcom is best placed to ensure there is adequate progress by Royal Mail in meeting Ofcom's efficiency expectations.

More generally we believe that consumers will benefit from efficiency measures by Royal Mail. Particularly in relation to the affordability of USO products by reducing Royal Mail's reliance on price increases and helping ensure the long-term sustainability of the universal postal service. In our response to the review of postal regulation consultation<sup>3</sup> in Spring 2022 we stated:

*'The regulatory focus must be on efficiency and there must not be a reliance on increasing prices or any move to reduce consumer protection measures.'*<sup>4</sup>

*'With this in mind, we agree with Ofcom that Royal Mail relying on price rises instead of improving its efficiency performance will weaken the sustainability of the universal postal service.'*<sup>5</sup>

The Consumer Council is of the view that affordability is one of the overarching principles of the universal postal service and this must not be put at risk.

The current cost of living crisis is having a significant negative impact on Northern Ireland consumers. In February 2022 we commissioned research which we cited in our response to the review of postal regulations.<sup>6</sup> This research<sup>7</sup> provides evidence that a significant proportion of Northern Ireland consumers have affordability issues with the postal service. To recap these findings:

- 28% of Northern Ireland consumers have affordability issues with the current price of the standard second-class letter service;
- 46% of Northern Ireland consumers have affordability issues with the minimum cost of sending a second-class small parcel at a post office; and
- 34% of Northern Ireland consumers have affordability issues with the minimum online cost of sending a second-class small parcel.

Additionally, rural consumers are much more likely to have affordability issues in these three areas compared to their urban counterparts. For instance, a greater proportion have affordability issues with the price of second-class letters (29% of rural consumers compared to 27% of urban consumers), the minimum cost of sending a second-class small parcel at a post office (50% of rural consumers compared to 44% of urban consumers), and the minimum cost of sending a second-class small parcel when buying postage online (38% of rural consumers compared to 32% of urban consumers).

Since this research was carried out rising food, housing and energy costs have all pushed inflation rates<sup>8</sup> to those not seen in recent decades. This is of particular concern for Northern Ireland consumers as income after tax for the lowest earning households remains 8.9% lower here compared to the UK.<sup>9</sup> This shows that consumers across Northern Ireland are struggling financially. Ofcom must ensure unnecessary costs are not passed onto consumers through price increases resulting in the universal postal service becoming unaffordable for consumers in Northern Ireland.

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<sup>3</sup> [Consumer Council for Northern Ireland \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/consumer/council-ni/2022-02-01-consumer-council-for-northern-ireland/)

<sup>4</sup> [Consumer Council for Northern Ireland \(ofcom.org.uk\) pp.11-12](https://www.ofcom.gov.uk/consult/condocs/consumer/council-ni/2022-02-01-consumer-council-for-northern-ireland/)

<sup>5</sup> [Consumer Council for Northern Ireland \(ofcom.org.uk\) pp. 12](https://www.ofcom.gov.uk/consult/condocs/consumer/council-ni/2022-02-01-consumer-council-for-northern-ireland/)

<sup>6</sup> [Consumer Council for Northern Ireland \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/consumer/council-ni/2022-02-01-consumer-council-for-northern-ireland/)

<sup>7</sup> The Consumer Council. Social Market Research. Consumers' views on and experience of the postal service. February 2022.

<sup>8</sup> [Consumer price inflation, UK - Office for National Statistics](https://www.gov.uk/economy/price-inflation)

<sup>9</sup> [102873 - 45645 Consumer Council - NI Household Expenditure Tracker Q4 v3 pp.3](https://www.ofcom.gov.uk/consult/condocs/consumer/council-ni/2022-02-01-consumer-council-for-northern-ireland/)

Further details (including demographic breakdowns such as economic and disability status) for our research into the affordability of the postal service for Northern Ireland consumers is provided in Annex 1. We would ask Ofcom to consider these findings when conducting its proposed review of safeguard caps and before finalising the regulatory reporting requirements.

Ofcom's further proposals in relation to transformation and efficiency monitoring cited below are welcomed by the Consumer Council as these will provide greater transparency for Ofcom, and provide the opportunity for external scrutiny by increasing stakeholders' understanding of efficiency performance:

*'We propose to require Royal Mail to publish a PVEO expectation including transformation costs. To ensure comparability and enable stakeholders to track Royal Mail's performance over time using a consistent metric, we propose that the actual PVEO performance that Royal Mail must publish should also include transformation costs. We will continue to receive confidentially, as now, Royal Mail's annual PVEO performance both including and excluding transformation costs which would allow us to understand better the impact of any fluctuations in transformation costs over the forecast years.'*<sup>10</sup>

*'To support our aim of increasing stakeholders' understanding of Royal Mail's efficiency performance, we consider that Royal Mail must also provide commentary on its actual progress, specifically, the reasons that explain its performance, including the factors, that it considers have affected it (whether favourably or adversely).'*<sup>11</sup>

This may help keep downward pressure on further price increases that are applied to the universal postal service. In this context, it would be beneficial for stakeholders to understand how efficiency performance is contributing to better consumer outcomes especially on the affordability principle. Taking account of Ofcom's role and expertise on regulatory reporting it should make its own analysis available to stakeholders including the Consumer Council when it assesses Royal Mail's efficiency performance and how this is ensuring the universal postal service is affordable to consumers across Northern Ireland, including those with a disability, older consumers, those on low incomes and those that live in rural areas. This approach would allow for better monitoring, reporting and quicker interventions to address issues that affect consumers across Northern Ireland.

Additionally, as part of Ofcom's annual monitoring reporting update for postal services, we would suggest that Ofcom includes a section for consumer views on the affordability of the universal postal service. We would ask that analysis is included for consumers across the different nations of the UK.

### **USO delivery suspensions notification**

We note that Ofcom proposes:

*'...to remove the requirement for Royal Mail to notify us within one week of any new multi-premises delivery suspension. All other procedural requirements and reporting obligations will remain in place. We consider that this will remove a disproportionate regulatory requirement on Royal Mail.'*<sup>12</sup>

It is not clear from the consultation document or supporting information what is meant by a 'multi-premises' delivery point and the Consumer Council would ask Ofcom to clarify this definition. If this

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<sup>10</sup> [Consultation: Changes to Royal Mail's regulatory reporting requirements \(ofcom.org.uk\)](#) (5.34)

<sup>11</sup> [Consultation: Changes to Royal Mail's regulatory reporting requirements \(ofcom.org.uk\)](#) (5.36)

<sup>12</sup> [Consultation: Changes to Royal Mail's regulatory reporting requirements \(ofcom.org.uk\)](#) (6.41)

is referring to a communal post room in a block of flats or similar, then the removal of this requirement may impact on Ofcom's ability to quickly intervene and protect vulnerable consumers. For example, supported living establishments often have one single delivery point and Ofcom might lose sight of instances which affect vulnerable consumers who are potentially less likely to exercise their right to appeal.

Ofcom states that it has not identified any significant increase in multi-premises delivery suspensions since the requirement was introduced in 2013. While we do not support unnecessary data gathering, if Ofcom decides to remove this requirement, it must continue to ensure that the annual monitoring provides suitable consumer protection. Ofcom must be able to reassess if there is a need to reinstate the 'live' delivery suspensions updates during the regulatory period.

The requirement that all other 'procedural requirements and reporting obligations will remain in place'<sup>13</sup> such as the right to be immediately informed, and the right to review by Royal Mail and appeal to Ofcom is encouraging, as these are essential consumer protections.

However, we recommend that the publicly available information about delivery suspensions and appeals needs to be reviewed. This information should be freely available on both Ofcom's and Royal Mail's websites, and in other formats. When carrying out website reviews we established that Royal Mail provided clear and easy to follow guidance for consumers about the reasons for delivery suspensions, and the three-stage review and appeals process.<sup>14</sup> However, Ofcom provided little easily accessible information about the consumer's right to appeal, and we ask Ofcom to consider a standalone webpage to ensure there is full transparency of the appeals process especially given the impact on consumers receiving mail. This will be an important independent source of guidance to support consumers if they find their mail deliveries suspended for any reason.

### 3. CONCLUSION

The Consumer Council welcomes the opportunity to comment on the changes to Royal Mail's regulatory reporting requirements. Although we are not in a position to discuss the technicalities of the regulatory reporting consultation, we still hope the insight we have provided will be of interest to Ofcom.

In summary we would like Ofcom to consider the following points before finalising Royal Mail's regulatory reporting requirements:

- That affordability is one of the overarching principles of the universal postal service and this must not be put at risk.
- We believe consumers will benefit from regulatory approaches that ensure unnecessary costs are not passed on to consumers, particularly in relation to the affordability of USO products.
- Ofcom is best placed to ensure there is adequate progress by Royal Mail in meeting Ofcom's efficiency expectations.
- Ofcom's should make its own analysis available to stakeholders including the Consumer Council when it assesses Royal Mail's efficiency performance and explain how this is ensuring the universal postal service is affordable to consumers across Northern Ireland.

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<sup>13</sup> [Consultation: Changes to Royal Mail's regulatory reporting requirements \(ofcom.org.uk\)](#) (6.44)

<sup>14</sup> [Delivery Exceptions \(royalmail.com\)](#)



- Ofcom should include a section for consumer views on the affordability of the universal postal service in its annual monitoring reporting update for postal services.
- If Ofcom removes the requirement for multi-premises reporting, it must continue to ensure that the annual monitoring provides suitable consumer protection and be able to reassess if there is a need to reinstate the 'live' delivery suspensions updates.

We would welcome the opportunity to further engage with Ofcom regarding the postal market. We are happy to share knowledge and insights from qualitative and quantitative research we have commissioned at a Northern Ireland level, alongside any complaints we have received that have a particular impact on consumers and the postal market.

## 4. CONTACT INFORMATION

To discuss our response in more detail, please contact:

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The Consumer Council consents to this response being published.

## 5. ANNEX 1- Research Findings<sup>15</sup>

How important or unimportant are the following to you when deciding to use Royal Mail to send letters and parcels within the UK? - The cost of sending letters represents value for money: Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Important</b>	29%	38%	34%	29%	29%
<b>Important</b>	41%	42%	36%	40%	43%
<b>Neither</b>	16%	13%	15%	16%	14%
<b>Not Important</b>	6%	1%	6%	6%	5%
<b>Not important at all</b>	4%	3%	5%	4%	5%
<b>Don't know</b>	4%	2%	3%	5%	4%

How important or unimportant are the following to you when deciding to use Royal Mail to send letters and parcels within the UK? - The cost of sending parcels represents value for money: Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Important</b>	33%	42%	36%	30%	33%
<b>Important</b>	40%	42%	38%	41%	38%
<b>Neither</b>	15%	10%	15%	15%	15%
<b>Not Important</b>	6%	1%	5%	6%	6%
<b>Not important at all</b>	2%	3%	3%	3%	3%
<b>Don't know</b>	4%	2%	3%	5%	5%

<sup>15</sup> The Consumer Council. Social Market Research. Consumers' views on and experience of the postal service. February 2022.

How satisfied or dissatisfied are you in terms of each of the following? - Parcel prices are affordable: Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Satisfied</b>	9%	8%	13%	10%	5%
<b>Satisfied</b>	36%	36%	34%	35%	37%
<b>Neither</b>	24%	19%	23%	26%	22%
<b>Dissatisfied</b>	23%	26%	21%	22%	27%
<b>Very Dissatisfied</b>	6%	8%	7%	5%	5%
<b>Don't know</b>	3%	2%	3%	3%	5%

How satisfied or dissatisfied are you in terms of each of the following? - Letter prices are affordable: Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Satisfied</b>	10%	13%	15%	11%	9%
<b>Satisfied</b>	37%	29%	37%	36%	38%
<b>Neither</b>	26%	28%	25%	29%	24%
<b>Dissatisfied</b>	19%	22%	15%	16%	20%
<b>Very Dissatisfied</b>	5%	7%	6%	5%	6%
<b>Don't know</b>	2%	1%	2%	3%	3%

The minimum cost of sending a small parcel by 2nd class post at a Post Office is £3.20. Parcels sent by second class post are typically delivered to anywhere in the UK within three days. Do you find this service is expensive or inexpensive? Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Expensive</b>	14%	17%	13%	11%	13%
<b>Expensive</b>	45%	46%	42%	43%	50%
<b>Neither</b>	23%	20%	26%	25%	25%
<b>Fairly Inexpensive</b>	14%	11%	13%	15%	10%
<b>Very Inexpensive</b>	2%	4%	4%	2%	1%
<b>Don't know</b>	3%	1%	1%	3%	2%

How affordable do you find the current minimum cost of postage for sending second class letters (66p), small parcels at a Post Office (£3.20) and small parcels when buying postage from Royal Mail's website (£2.90) - Second class letters (66p)? Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Affordable</b>	15%	14%	21%	17%	11%
<b>Affordable</b>	55%	54%	53%	54%	59%
<b>Not very affordable</b>	22%	25%	22%	23%	21%
<b>Not at all affordable</b>	5%	6%	7%	4%	9%
<b>Don't know</b>	2%	1%	2%	2%	1%

How affordable do you find the current minimum cost of postage for sending second class letters (66p), small parcels at a Post Office (£3.20) and small parcels when buying postage from Royal Mail's website (£2.90)? - Small parcels at the Post Office. Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Affordable</b>	10%	12%	17%	10%	7%
<b>Affordable</b>	42%	37%	41%	42%	42%
<b>Not very affordable</b>	38%	45%	30%	39%	40%
<b>Not at all affordable</b>	8%	4%	10%	7%	10%
<b>Don't know</b>	2%	2%	2%	2%	1%

How affordable, do you find the current minimum cost of postage for sending second class letters (66p), small parcels at a Post Office (£3.20) and small parcels when buying postage from Royal Mail's website (£2.90)? - Small parcels from Royal Mail's website. Base: All respondents

	All n=1,002	Older Consumers (n=291)	With a disability (n=348)	Low income (n=530)	Rural (n=348)
<b>Very Affordable</b>	14%	17%	21%	16%	13%
<b>Affordable</b>	49%	49%	46%	50%	48%
<b>Not very affordable</b>	28%	28%	23%	26%	31%
<b>Not at all affordable</b>	6%	3%	8%	5%	7%
<b>Don't know</b>	3%	3%	3%	2%	1%