



Post Implementation Review of the Postal Services Act 2011

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Introduction

The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland.

The Consumer Council has specific statutory duties in relation to energy, postal services, transport, and water and sewerage. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.

Post Implementation Review of the Postal Services Act 2011

The United Kingdom (UK) Government, through the Postal Services Bill, had twin ambitions. To safeguard the universal postal service and to secure sustainable futures for Royal Mail and the Post Office¹.

To facilitate this objective, the enactment of the Postal Services Act (PSA) 2011 lifted restrictions on the ownership of Royal Mail, allowed for a future mutual ownership model for Post Office Limited, enabled the transfer of the Royal Mail's historic pension liabilities to government and put the framework in place to deliver a new regulatory regime with the transfer in regulation from Postcomm to Ofcom.

¹ Department for BIS - Delivering for the future: a universal mail service and community post offices in the digital age (October 2010)

In general, with the exception of the Post Office mutualisation, key objectives and measures have largely been implemented, and there has been a significant improvement in the financial position of the universal postal service².

How well is the postal market working for consumers in Northern Ireland (NI) under the current legislation and regulation?

Northern Ireland's unique position within the UK underlines the importance the universal postal service has for social and business postal consumers when connecting to neighbouring communities and economies in Great Britain (GB) and also in the Republic of Ireland (RoI).

Consumers in NI value the service they receive from the universal postal service. Research shows that over nine in ten NI consumers are satisfied with this service, in particular with the following universal postal service features: security of mail, delivery timescales and access points³.

Royal Mail's quality of service statistics show that the BT postcode area, which covers the whole of NI, almost consistently, achieves its 91.5% target for first class stamped and metered mail, with a cumulative yearly total of 93.2% for 2015-16⁴. This could contribute to the high level of satisfaction.

However, competition in NI is not as well developed as other areas of the UK. Whilst some access competition exists in the traditional mail

² Ofcom Consultation - Review of the Regulation of Royal Mail (May 2015)

³ Ofcom Residential Postal Tracker Q2 2014 – Q3 2015

⁴ Royal Mail Quality of Service Performance Statistics 2015-16 (Q1 94.1%, Q2 92.7%, Q3 91.2%, Q4 94.5%)

sector for high volume mailers, consumers and low volume business mailers are still reliant on Royal Mail's universal postal service. This may contribute to the relatively higher level of e-substitution by business senders in NI compared to other areas of the UK⁵.

A low level of competition exists in the single piece parcel market in NI compared to other areas of the UK with 94% of consumers using Royal Mail to send their parcels⁶. Whilst the Consumer Council is supportive of the principle of competition, we believe that NI consumers have not fully benefited from the advantages it can bring in the parcel market, and are therefore susceptible to higher postage costs and fewer innovations.

On the delivery side, NI consumers have experienced a significant level of detriment, particularly in the growing sector of e-commerce parcel delivery. Whilst delivery costs can vary according to service specification and the distance involved, it appears that some online shoppers can find that they are unnecessarily excluded from purchasing goods because of a disproportionately narrow and costly range of delivery options, or that they face high and apparently arbitrary surcharges that also can make online shopping uneconomic. Bad experiences of this nature can erode consumer confidence in ordering online particularly as this information often is presented at a late stage in the online shopping process.

⁵ Ofcom Business Postal Tracker Q2 2014- Q1 2015: 70% of NI businesses moved mail to other communication methods, such as email, compared to 63% across the UK.

⁶ Ofcom Residential Postal Tracker Q2 2014 – Q3 2015.

This is an area the Consumer Council has investigated and is lobbying for change on behalf of consumers. Our research⁷ found that a third (33%) of online retailers apply delivery exclusions to NI consumers. Exclusions can include higher costs, longer delivery times, and no delivery available. Whilst the level of exclusion is similar to other peripheral areas of the UK – Channel Island (42%), Isle of Man (38%) and Scottish Highlands and Islands (31%), it is ten times higher than any other nation of the UK mainland (Scotland 3%, Wales 3% and England 1%). These findings underscore the importance of the universal postal service’s uniform tariff.

We have also uncovered that where free delivery to NI is withdrawn by an online retailer, delivery to NI can cost an average of £10.00. Furthermore, when standard delivery is not available for NI consumers delivery costs could average up to an additional £2.71, on top of the typical delivery fee.

NI holds a unique position in both the UK and Europe. Its geographic location means that whilst being part of the UK, NI does not share a land border with the other nations, England, Scotland and Wales. However it is the only part of the UK to share a land-border with a European Country, namely the RoI. This unique location provides many challenges and opportunities not least with cross-border e-commerce and parcel delivery.

⁷ Consumer Council NI – Online Parcel Premium Report 2015

The UK and RoI economies have been closely aligned, with many consumers in both jurisdictions choosing to shop in their nearest neighbouring country. Almost three quarters (74%) of RoI consumers purchase products from the UK. The UK domestic online market is fairly well served, but one in ten (9%) UK consumers who shop cross-border within Europe, considered its neighbour, the RoI, a popular choice (falling slightly behind Germany and France)⁸.

Even more so, the NI economy is heavily reliant on cross-border trade with the RoI. In 2015, over half (56%) of companies in NI and RoI involved in cross-border sales experienced growth compared to 40% of those with no export sales⁹. One may assume that the rise in e-commerce is contributing to this growth.

This year, the Consumer Council is exploring how well the postal market, including the universal service obligation in NI serves the needs of cross-border mailers, particularly in this important growing area of e-commerce. We hope to release this research in the latter part of 2016, and are happy to share this with you then.

Outlook for the sustainability of the USO

Currently Ofcom considers Royal Mail to be financially sustainable and likely to remain so in the immediate future¹⁰. Whilst Royal Mail is making returns at the lower-end of the 5-10% EBIT (Earnings Before

⁸ Extracted from Civic Consulting (2011), Consumer market study on the functioning of e-commerce and Internet marketing and selling techniques in the retail of goods

⁹ <http://www.intertradeireland.com/newsevents/news/2015/intertradeirelands-q1-business-monitor.php>

¹⁰ Ofcom Consultation - Review of the Regulation of Royal Mail (May 2015)

Interest and Tax) margin range¹¹, Ofcom believes it has the potential to make greater efficiency savings.

Legislative and non-legislative changes that BIS should consider

The Consumer Council acknowledges that there is no current evidence to suggest an urgent need to change the universal service requirements outlined in the Postal Services Act 2011. However, due to the rapidly changing nature of the parcel market with the growth in e-commerce, it is vital that regular monitoring is a feature of the regulatory regime.

Monitoring is essential as the growth of the parcel market has increased beyond expectation, since the introduction of the Postal Services Act 2011. Richard Hooper's updated report on the postal sector indicated that the void created by falling letter volumes will not be filled by the growth in packets and parcels as a result of online shopping¹². It was thought that the parcel market is much smaller than the letters market and has been fully liberalised since 1981, making it already highly competitive. Yet contrary to this, in 2014-15, parcel revenue accounted for 51% of Royal Mail Group's revenue¹³.

Alongside this users' needs are changing. Operators are changing to meet these demands with increased collection options as well as tracked, faster and timed deliveries.

¹¹ 5 – 10% EBIT return margin rate set by Ofcom as a measure of a reasonable rate of return on financing the USO.

¹² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31794/10-1214-postal-services-bill-myth-busters.pdf

¹³ www.royalmailgroup.com/sites/default/files/Annual%20Report%20and%20Accounts%202014-15_0.pdf

Monitoring of this market is fundamental going forward. Given the issues already raised and explored by the Consumer Council in relation to parcel delivery exclusions and surcharging in peripheral areas of the UK, it is more important than ever that the universal service obligation is monitored and remains an essential service for consumers. Due to the importance of the universal postal service to consumers, the Consumer Council believes Government intervention is still required to protect consumers, particularly those who are defined as vulnerable, from any problems which may arise due to market power or forces.



Floor 3
Seatem House
28-32 Alfred Street
Belfast
BT2 8EN

Freephone: 0800 121 6022
Switchboard: 028 9025 1600
Fax: 028 9025 1663
E-mail: info@consumercouncil.org.uk
Website: www.consumercouncil.org.uk

