



Ofcom consultation: Review of the price safeguard cap for Second Class standard letters, large letters and parcels up to 2kg

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1. Executive Summary

1.1 The Consumer Council welcomes the opportunity to respond to Ofcom's consultation on the review of the price safeguard cap for second class standard letters, large letters and parcels up to 2kg.

1.2 The Consumer Council is limited in its ability to fully assess the potential impact of the proposals, particularly how the proposed 29% basket cap headroom would affect consumers in Northern Ireland (NI). Without access to the same information as Ofcom we rely on Ofcom's assessment.

1.3 However, we highlight a number of general risks supported by evidence related to potential price increases allowed within the proposed level of the price safeguard cap.

1.4 Ofcom must fully consider the Consumer Council's evidence to better understand the impact of its proposals on consumers and to ensure the second class postal service is affordable for all consumers in NI.

1.5 The Consumer Council presents evidence for NI consumers which shows that:

- **Royal Mail is a near monopolist in the single piece letters market and it has a significant share of the single piece parcels market.**

For example, our research¹ shows 90% (n = 536) of NI consumers and 87% (n = 137) of NI businesses send letters using Royal Mail. Also, 81 % (n = 232) of NI consumers and 72% (n = 48) of business across NI send parcels with Royal Mail.

- **Many vulnerable consumers do not have access to the internet.** For instance, this affects a significant proportion of older consumers (45%, n = 660) and those with a disability (26%, n = 581)². This means they rely on the postal service.
- **NI consumers have a lower level of disposable income compared to their UK counterparts and vulnerable NI consumers are struggling with household bills.** Research³ shows that NI households have a discretionary £107 weekly income compared to £201 in the UK. The Consumer Council's research⁴ also shows nearly two thirds of NI consumers with a disability (63%, n = 236) and over two thirds of those on low income (67%, n = 295) struggle with household bills.
- **Many NI vulnerable consumers have reason to complain about the affordability of the postal service.** Nearly one in five older consumers (19%, n = 35), those with a disability (19%, n = 19) and

¹ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

²Ibid.

³ [Asda. Income Tracker. June 2018.](#)

⁴ The Consumer Council. Consumer Insight. YouGov. 1,033 quantitative interviews with consumers. Research took place between 1 and 24 February 2018.

low income consumers (18%, n = 32) have reason to complain about the affordability of the universal postal service⁵.

- **Vulnerable NI consumers have the lowest tipping point for sending standard letters and small parcels.** For example, consumers with a disability say at 63p the standard second class letter service would be too expensive for them to use and at £2.85 sending small parcels would be too expensive. Additionally, consumers not online have the lowest tipping point (£2.83) for sending small parcels and the second lowest tolerance for price increases to second class stamps (67p)⁶.

1.6 Our evidence identifies a potential issue with raising the level of the standard letter cap. The tipping point for letters for those consumers with a disability is 63p. This is lower than the proposed maximum level of the standard letter cap.

1.7 The Consumer Council would ask Ofcom to reassess if the proposed level of increase is affordable for NI consumers with a disability.

1.8 The Consumer Council has concerns about the potential negative effect of the 29% headroom in the basket cap for large letters and parcels on consumers. This could lead to significant price increases for products protected by the basket cap. For example, the tipping

⁵ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

⁶ Ibid.

point for small parcels for those with a disability is £2.85 and those not online is £2.83.

1.9 The Consumer Council would ask Ofcom to investigate how it can address this matter. For instance, if sub caps for individual products within the basket would help to keep prices affordable for vulnerable consumers.

1.10 The Council Consumer also believes that Ofcom will need to:

- More robustly monitor the effect of future price increases allowed with the caps on consumers and Royal Mail's efficiency gains;
- Intervene without delay if there is any evidence prices, even within the limits of the cap, are causing affordability issues;
- Provide evidence and assurances that the level of the standard letter and basket cap will be affordable to all NI consumers; and
- Improve the transparency around the potential price increases for individual products protected by the basket cap.

2. Who we are and what we do

2.1 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.

2.2 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.

2.3 We pay particular attention to consumers:

- Who are disabled or chronically sick;
- Of pensionable age⁷;
- With low incomes; and
- Who live in a rural areas.

3. Postal Services

3.1 As the statutory representative for consumers of postal services in NI and with a duty to promote and safeguard NI consumers, the Consumer Council welcomes the opportunity to respond to Ofcom's consultation on the review of the safeguard cap for second class standard letters, large letters and parcels up to 2kg.

⁷ Referred to as older consumers throughout the rest of the report.

4. Background

4.1 We welcome Ofcom’s pre-consultation and consultation engagement with The Consumer Council on the price safeguard cap for second class stamps for letters, large letters and parcels up to 2kg. It is vital this engagement continues and Ofcom looks at how it can improve its future approach to consumer engagement with The Consumer Council.

4.2 The Consumer Council uses eight consumer principles to understand how particular issues, policies and regulatory proposals are likely to affect NI consumers. We would encourage Ofcom to use these as part of its regulatory approach to ensure consumer needs are being met in the postal market and as part of its decision making process before it reaches a final decision on the level of the price safeguard cap.



4.3 The Consumer Council supports the price cap on second class stamps for letters, large letters and parcels up to 2kg. It is a key safeguard that protects vulnerable consumers⁸ from price rises which could negatively affect access to the universal postal service.

4.4 The focus of our response is on the older consumers⁹, consumers with disabilities, low income consumers and those living in rural areas. We refer to these as vulnerable consumers. We also look at the view of NI businesses.

4.5 We provide evidence from the following main sources:

- The Consumer Council’s Vulnerable Postal Consumer Research¹⁰;
- Northern Ireland Statistics and Research Agency (NISRA)¹¹; and
- The Consumer Council’s Insight Research¹².

4.6 The Consumer Council notes that Ofcom has access to commercially confidential information which is vital to its decision making for the price safeguard cap proposals. We also understand that Ofcom is unable to publish or share this information. This means The Consumer Council is limited in its ability to fully assess the potential impact of the proposals on NI consumers and must rely on Ofcom’s

⁸ This consists of those who are disabled or chronically sick, of pensionable age, with low incomes and who live in a rural areas.

⁹ Those aged 65 and over.

¹⁰ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

¹¹ Northern Ireland Statistics and Research Agency (NISRA). Central Household Survey 2017-18.

¹² The Consumer Council. Consumer Insight. YouGov. 1,033 quantitative interviews with consumers. Research took place between 1 and 24 February 2018.

assessment. For instance, with no examples about the size of potential price increases for the individual products within the basket it is unclear how the proposed 29% headroom for the basket cap would affect consumers in NI.

4.7 In this context, The Consumer Council highlights a number of general risks related to potential price increases allowed within the proposed price safeguard cap and how this could affect vulnerable consumers. These concerns must be adequately addressed by Ofcom.

5. Question 1. Do you agree with our market analysis? Please state your reasons and provide evidence to support your view.

Key Points

The Consumer Council believes there is insufficient competitive constraints to argue for the reduction in the scope of the safeguard cap through the removal of price caps or a reduction in the range of products it protects.

The Consumer Council provides evidence which clearly demonstrates that in NI:

- Royal Mail is still a near monopolist in the single piece letters market;
- Royal Mail has a significant share of the single piece parcels market;

- Many vulnerable consumers do not have access to the internet, especially older consumers and those with a disability; and
- Many vulnerable consumers rely on Royal Mail to send letters and parcels, and depend on the Post Office Network to access these products.

5.1 The Consumer Council maintains its position from August 2016¹³ that there are insufficient competitive constraints to argue for the reduction in the scope of the safeguard cap through the removal of price caps or a reduction in the range of products it protects. Additionally, at that time we stated:

- A price cap for consumers represents the minimum standard of protection consumers should receive against price increases¹⁴;
- Royal Mail was dominant in the letters and parcels market in NI¹⁵; and
- Competition in the parcel market was not as well developed in NI compared to other parts of the UK so we urged caution about any changes at a UK level which would unintentionally cause

¹³http://www.consumercouncil.org.uk/sites/default/files/original/RM_Regulation_Consultation_response_Final_Approved.pdf.

¹⁴[ibid.](#)

¹⁵[ibid.](#)

detriment to consumers in NI by reducing access, and could lead to significant price increases. For instance, NI consumers already pay higher delivery charges compared to those consumers living in mainland GB when ordering goods online¹⁶, or abandon purchases because delivery charges are too high.

- 5.2 This remains The Consumer Council's view. We outline the reasons below.

Letters

- 5.3 The Consumer Council agrees with Ofcom that Royal Mail is still a near monopolist in the single piece letters (both standard and large letters) market. We note Ofcom's consultation document states that Royal Mail has a 99% volume share of the single piece letter market¹⁷.
- 5.4 The Consumer Council's research¹⁸ supports this view. For example, it shows 90% (n = 536) of NI consumers sending letters use Royal Mail and 87% (n = 137) of NI businesses use Royal Mail to send letters.

Parcels

- 5.5 The Consumer Council agrees with Ofcom that Royal Mail also has a significant share of the single piece parcels market. The consultation document states that Royal Mail has 80 - 90% of the single piece

¹⁶ [The Consumer Council. The Online Parcel Premium. June 2015.](#)

¹⁷ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P19, paragraph 3.9.](#)

¹⁸ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

parcels market 2kg or below and 70 – 80% of the overall single piece parcels market¹⁹.

- 5.6 Again, our research generally supports this. It shows that 81 % (n= 232) of NI consumers send parcels with Royal Mail rather than other postal operators²⁰. Additionally, it shows 72% (n= 48) of businesses across NI send parcels with Royal Mail²¹.

Access to the internet

- 5.7 Ofcom highlights an important point about access to the internet²². There are many vulnerable consumers in NI who still do not have access to the internet (Table 1) especially older consumers (45%, n= 660) and those with a disability (26%, n= 581). This means they have no choice and cannot switch to digital alternatives. They must be protected by Ofcom.
- 5.8 Without access to a digital alternative, Royal Mail is their only realistic option to communicate in writing with others. The Keep Me Posted campaign also recognises the importance of the postal service to more vulnerable consumers so they receive paper copies of statements and bills²³. The postal service is also equally important for those not online who need to send items of mail.

¹⁹ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P28, paragraph 3.50.](#)

²⁰The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

²¹ Ibid.

²² [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P3, paragraph 1.1. P19, paragraph 3.8.](#)

²³ <http://www.keepmeposteduk.com/get-the-facts>

Table 1. NISRA data from Central Household Survey 2017-18. % with and without access to the internet.

Group	All respondents	Access to internet (%)	No access to the internet (%)
Consumers overall	(n = 5668)	84	16
Older consumers	(n = 1466)	55	45
With disabilities²⁴	(n = 2234)	74	26
Low income	Not available ²⁵	Not available	Not available
Rural consumers	(n = 2021)	82	18

Source: Northern Ireland Statistics and Research Agency (NISRA). Central Household Survey 2017-18.

5.9 Having no internet access also reduces consumer access to competition in the parcel market as many alternative providers sell their parcel products through online platforms. It means these consumers cannot access cheaper products offered by alternative operators through the internet.

5.10 Royal Mail’s dominant position in the letters and parcel market in NI is highly likely to continue. We outline the key reasons why below.

End-to-end competition in the letter market in NI

5.11 There is no end-to-end competition in the letter market. This means it will not have any significant influence on Royal Mail’s behaviour in NI. Also, with the withdrawal of Whistl’s end-to-end delivery in the

²⁴ Longstanding illness.

²⁵ NISRA does not provide cross break data for this group.

UK in 2015²⁶ and the continued structural decline in letter volumes²⁷ it is difficult to foresee consumers in NI benefitting from this type of competition in the near future.

Operator Awareness

5.12 Ofcom research²⁸ shows NI consumers have significantly more awareness of Royal Mail and its products compared to other operators. For example²⁹, the majority of NI consumers (86%, n = 153) had encountered Royal Mail compared to a significantly smaller proportion (11%, n = 19) who had encountered Parcelforce and (10%, n = 18) My Hermes³⁰.

Competition in the Parcel Market

5.13 The Consumer Council's research³¹ shows many NI consumers and businesses say competition in the parcel market is limited (Table 2). Half of consumers (50%, n = 140) and over a third (35%, n = 23) of businesses share this view.

5.14 Vulnerable consumers are more likely to say competition in the parcel market is limited. A greater proportion of those not online (34%, n = 14), with a disability (26%, n = 8), those on low incomes

²⁶ https://www.ofcom.org.uk/data/assets/pdf_file/0029/94961/2015-16-Annual-Report.pdf

²⁷ Ofcom consultation document. Page 4. Paragraph 1.7. Total letter volumes down by approximately 3% per year since 2012-13.

²⁸ https://www.ofcom.org.uk/data/assets/pdf_file/0020/111692/Residential-Postal-Tracker-Q1-Q4-2017-tables.pdf

²⁹ Parcels, letters and packets.

³⁰ https://www.ofcom.org.uk/data/assets/pdf_file/0020/111692/Residential-Postal-Tracker-Q1-Q4-2017-tables.pdf

³¹The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

(22%, n = 13) and older consumers (18%, n = 12) compared to the general population (14%, n = 40) believe there is no competition at all in the parcel market³². Competition in the parcel market is not working well for these consumers.

Group	All who send parcels	Limited	
		Not very much (%)	None at all (%)
Consumers overall³³	(n= 286)	35	15
Older consumers	(n = 67)	34	18
With disabilities	(n= 31)	17	26
Low income	(n= 60)	33	22
Rural consumers	(n= 85)	38	14
Not online	(n= 42)	28	34
Businesses	(n= 67)	28	7
Rural Businesses	(n= 25)	28	8
Source: The Consumer Council. February - March 2017.			

Access Points


5.15 Royal Mail has the largest number of access points in NI for consumers to send letters and parcels. This consists of the post office network, post box network and Royal Mail customer service points. Royal Mail has also recently announced the trial of parcel post boxes in the UK³⁴.

³² The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

³³ All that use Royal Mail to send mail.

³⁴ <https://www.royalmailgroup.com/royal-mail-trials-uk%E2%80%99s-first-parcel-postboxes>

5.16 The Post Office network helps to demonstrate this point. Table 3 shows the size of this network in NI compared to other operators' access networks³⁵.

Table 3. Number and % of access points in NI


³⁵ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P29, Table 3.1.](#)

Rural Access Points

- 5.17 Ofcom highlights Post Offices are likely to be the main option for consumers in many rural areas³⁶. The Consumer Council agrees that this applies to NI consumers.
- 5.18 The Post Office network has significantly more reach into many rural communities across NI compared to other operators. There are 486 Post Offices in NI and over two thirds (68%, n = 330) of these are located in rural communities³⁷. In comparison, The Consumer Council analysis shows the next largest network in NI has nearly a [~~2~~] of its outlets in rural areas. This helps to show the importance of Post Offices to rural consumers so they have access to postal services.
- 6. Question 2. Do you agree with our assessment of affordability of Second Class postal services? Please state your reasons and provide evidence to support your view.**

Key Points

Ofcom must fully consider The Consumer Council's evidence to better understand the regional impact of its proposals before it reaches a final decision on its assessment of affordability.

The Consumer Council's evidence shows that:

- Consumers in NI have a lower level of disposable income

³⁶ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P29, paragraph 3.53.](#)

³⁷ [The Consumer Council. Post Office Network Consultation. December 2016.](#)

compared to the UK;

- Vulnerable NI consumers are struggling with household bills;
- Consumers in NI spend significantly more on postal services than is estimated in the ONS UK household data;
- Vulnerable NI consumers are more likely to be regular senders of post;
- Vulnerable NI consumers have the lowest net satisfaction scores for the cost of sending standard letters and parcels, and are least satisfied with affordable pricing. The cost of sending letters and parcels is the lowest area of net satisfaction for NI businesses;
- Many NI vulnerable consumers feel the second class service is poor value for money. NI business also have negative views about value for money;
- Many NI vulnerable consumers have reason to complain about the affordability of the universal postal service;
- Vulnerable NI consumers have a lower tipping point for sending standard letters and small parcels. Those with a disability and not online are at immediate risk; and

- NI consumers with a disability also have a higher cost of living and struggle more with the cost of essential goods.

6.1 To assist with Ofcom’s analysis and better inform its decision making, we have outlined evidence below about NI consumers’ and businesses’ views and attitudes towards the price and affordability of the postal service.

6.2 The evidence we provide identifies the potential risk of the proposals to NI consumers. We want to make sure no issues are masked by a focus on UK analysis and Ofcom’s policy objectives³⁸ are achieved for NI consumers. We would ask Ofcom to fully consider this evidence before making a final decision.

6.3 The Consumer Council recognises Ofcom’s view that assessing affordability is challenging³⁹. In addition to Ofcom’s analysis it is important for it to look at and discuss the following areas:

- The levels of disposable income in NI;
- NI consumer concerns with household bills;
- NI consumer expenditure on postal services;
- NI consumer satisfaction with pricing features of the postal service;

³⁸Ensure a basic affordable universal service product is available to all; protect vulnerable consumers from ongoing price increases; allow Royal Mail to make a reasonable commercial rate of return on the safeguarded product; and minimise the effect of the safeguard caps on Royal Mail’s pricing freedom so as to avoid a material effect on wider financeability and/or efficiency incentives (together, the “safeguard caps objectives”).

³⁹ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P39, paragraph 4.13.](#)

- NI consumer views on the value of money for second class products; and
- The importance of affordability and the tipping point for consumers in NI.

Disposable income

- 6.4 Consumers in NI have a lower level of disposable income compared to the UK⁴⁰. The ONS data for Gross Disposable Household Income (GDHI) across the UK and its constituent countries in 2016 shows NI had the lowest share of total GDHI and the lowest GDHI per head of population⁴¹.
- 6.5 Asda's Income Tracker research⁴² also shows NI consumers have the lowest average discretionary household income in the UK. The difference is significant. It shows NI households have a discretionary £107 weekly income compared to £201 in the UK⁴³.
- 6.6 These findings (Paragraph 6.4 and 6.5) show the increased financial pressure on NI consumers' income which will help influence consumers' attitudes towards price rises. This helps to underline the importance of regional analysis before reaching a UK wide regulatory decision.

⁴⁰<https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomemgdhi/1997to2016#what-was-the-average-disposable-household-income-in-your-local-area>

⁴¹[Ibid.](#)

⁴²<https://corporate.asda.com/media-library/document/income-tracker-report-may-2018/proxyDocument?id=00000164-3ae7-dbf0-a9fe-faf71e6e0000>

⁴³[Ibid.](#)

NI consumer concerns with household bills

6.7 A greater proportion of vulnerable consumers who are online are struggling with household bills (Table 4). The Consumer Council's research⁴⁴ shows nearly two thirds of consumers with a disability (63%, n= 236) and over two thirds of those on low income (67%, n = 295) are most affected. These consumers are at risk of affordability issues.

Group	All respondents	Struggling with household bills (%)
Consumers overall	(n=1033)	58
Older consumers	(n = 157)	33
With disabilities	(n= 375)	63
Low income	(n= 440)	67
Rural consumers	(n= 353)	62

Source: The Consumer Council. February 2018.

NI consumer expenditure on Postal Services

6.8 Consumers in NI spend significantly more on postal services than the ONS estimated UK household data suggests. This data indicates UK consumers spend approximately 70p per week⁴⁵ or £3.03 per month. Our research⁴⁶ shows that individual NI consumers spend on average £4.24 per week or £18.37 per month on all postal services. This

⁴⁴ The Consumer Council. Consumer Insight. YouGov. 1,033 quantitative interviews with consumers. Research took place between 1 and 24 February 2018.

⁴⁵ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P41, paragraph 4.21.](#)

⁴⁶ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

consists of spend on letters, parcels and postage on items bought online⁴⁷.

6.9 Our research⁴⁸ also shows businesses spend on average £12.30 per week or £53.29 per month on postal services. This includes spend on letters, parcels and postage on items bought online.

6.10 Ofcom will need to take account of these figures for NI consumers and businesses (Paragraph 6.8 and 6.9).

Vulnerable consumers are regular senders of post

6.11 Our research⁴⁹ shows some vulnerable consumers are more likely to be regular senders of post. For instance, rural consumers (41%, n = 80) and those with a disability (39%, n = 66) are more likely to send mail items regularly compared to consumers overall (35%, n = 222). Additionally, The Consumer Council notes that Ofcom research at a UK level shows those aged over 65 and without internet access send more mail than average⁵⁰.

Businesses are regular senders of post

6.12 Businesses are also regular senders of post. The most regularly⁵¹ sent mail items by businesses include invoices (90%, n = 93), letters to customers (80%, n = 67), parcels to UK destinations (75%, n = 47) and

⁴⁷ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

⁴⁸Ibid.

⁴⁹Ibid.

⁵⁰ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P41, paragraph 4.23.](#)

⁵¹ Regularly sent items= once a month or more often.

letters to other businesses (74%, n = 45)⁵². This helps to show the importance of mail to businesses.

Satisfaction levels

6.13 Pricing is the weakest part of the universal postal service for consumers and business (Table 5). The Consumer Council research⁵³ shows:

- Vulnerable consumers have the lowest net satisfaction scores. For the cost of sending letters, low income consumers are least satisfied (31%, n = 55). Those not online score the lowest for the cost of sending parcels (19%, n = 25). Rural consumers (43%, n = 75) are least satisfied with affordable pricing. Increasing prices will have a more significant negative affect on these groups.
- Businesses in NI also have lower scores for pricing related features compared to the other features of the universal postal service but perform significantly better on affordable pricing with a net satisfaction score of 75% (n = 107). This suggests at current prices businesses are significantly less likely to be affected by affordability issues.

⁵² The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

⁵³ Ibid.

Feature of postal service	Consumers (n= 572)	Older Consumers (n= 184)	With Disability (n=99)	Low Income (n=177)	Rural (n= 175)	Not online (n= 131)	Business (n= 142)	Rural Business (n= 61)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Speed of delivery	86	90	75	88	89	95	88	97
Security of item	86	83	75	85	87	84	84	94
Reliability of service	85	90	77	88	87	97	80	94
Location and distance I need to travel to access points	83	83	72	83	88	84	85	48
Quality of advice	83	87	75	85	82	94	84	84
Products/services on offer	77	82	70	82	75	89	80	93
Ability to track items	76	69	52	75	81	63	87	90
Uniform tariff	69	68	51	66	75	68	84	94
Affordable pricing	52	49	50	50	43	48	75	78
Cost of sending letters	43	35	44	31	37	39	53	59
Cost of sending parcels	36	20	23	20	32	19	45	50

Source: The Consumer Council. February - March 2017.

Value for money

- 6.14 The Consumer Council's research⁵⁴ shows many vulnerable consumers feel second class is poor value for money (Table 6). Older consumers (29%, n = 80), those on low income (28%, n = 102) and those not online (27%, n = 63) are significantly more likely to say the price of sending second class letters is poor value for money compared to consumers overall (22%, n = 220).
- 6.15 Our research⁵⁵ (Table 6) also shows those not online (29%, n = 68), older consumers (28%, n = 77), those on a low income (28%, n = 102) and those with disabilities (27%, n = 46) are more likely to feel the second class price of sending small parcels is poor value for money. This is greater compared to the overall population (23%, n = 230) who feel this service is poor value for money.
- 6.16 NI businesses also have negative views about value for money with one in five (40%, n = 80) saying second class letters are poor value for money.

⁵⁴ Ibid.

⁵⁵ Ibid.

Table 6. Price of sending letters and parcel by second class. % who say second class is poor value for money and % net⁵⁶ VFM score

Group	All respondents	Letter		Small Parcel	
		Poor VFM (%)	Net VFM (%)	Poor VFM (%)	Net VFM (%)
Consumers overall	(n=1000)	22	33	23	28
Older consumers	(n = 276)	29	23	28	18
With disabilities	(n= 170)	21	32	27	12
Low income	(n= 363)	28	21	28	18
Rural consumers	(n= 321)	23	44	25	28
Not online	(n= 234)	27	23	29	11
Businesses	(n= 200)	40	-3	29	15
Rural Business	(n= 83)	41	-11	32	7

Source: The Consumer Council. February - March 2017.

Importance of affordability

6.17 Two thirds (68%, n = 680) of NI consumers say affordability is important (Table 7). It is more important to older consumers (77%, n = 213), those with a disability (71%, n = 121), consumers not online (70%, n = 164); and rural consumers (62%⁵⁷, n = 225).

6.18 Businesses in NI also feel affordability is important to them (Table 7). They have a similar proportion of older consumers who feel pricing of letters and parcels (79%, n = 158) is important.

⁵⁶ Net value for money = total proportion good value for money – total proportion poor value for money.

⁵⁷ Net importance.

Table 7. % who say affordable pricing is important for sending letters and parcels.			
Group	All respondents	Important (%)	Net Importance⁵⁸ (%)
Consumers overall	(n=1000)	68	51
Older consumers	(n = 276)	77	67
With disabilities	(n= 170)	71	58
Low income	(n= 363)	64	49
Rural consumers	(n= 321)	— ⁵⁹	62
Not online	(n= 234)	70	57
Businesses			
Businesses	(n= 200)	79	70
Rural business	(n= 83)	79	69
Source: The Consumer Council. February - March 2017.			

Affordability-Reason to Complain

- 6.19 Ofcom must consider the levels of dissatisfaction with affordability. Table 8 shows nearly one in five older consumers (19%, n = 35), those with a disability (19%, n = 19) and low income consumers (18%, n = 32) have reason to complain about the affordability of the universal postal service.
- 6.20 Businesses have a lower level of dissatisfaction (10%, n = 14) with affordability compared to consumers overall (16%, n = 92).

⁵⁸ Net importance = total proportion important – total proportion not important.

⁵⁹ Cross break data not available.

Table 8. % that are dissatisfied with affordable pricing		
Group	All who use RM	Affordable Pricing (%)
Consumers overall	(n= 572)	16
Older consumers	(n= 184)	19
With disabilities	(n= 99)	19
Low income	(n= 177)	18
Rural consumers	(n= 175)	— ⁶⁰
Not online	(n= 131)	16
Businesses	(n= 142)	10
Rural Businesses	(n= 61)	7
Source: The Consumer Council. February - March 2017.		

Affordability – Tipping Point

6.21 The Consumer Council has concerns about the affordability of prices and how future price increases could negatively affect consumers especially the more vulnerable. Ofcom should take account of the evidence we provide below.

6.22 Our research⁶¹ shows vulnerable consumers have a lower tipping point for sending letters and small parcels (Table 9). For instance:

- Consumers with a disability are at risk. They said at 63p the standard second class letter service would be too expensive for

⁶⁰ Cross break data not available.

⁶¹ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

them to use. Additionally, those with a disability had a lower average tipping point (£2.85) compared to nearly all the other groups for sending small parcels which is lower than the current cost of sending these items using the second class service.

- Consumers not online are also at risk. This group had the lowest tipping point (£2.83) for parcels and the second lowest tolerance for price increases to second class stamps (67p).

6.23 Businesses had a higher tipping point for both services. This was £0.71 for second class stamps and £3.41 for small parcels.

Table 9. Consumer and business attitudes to the price of sending standard letters and small parcel by second class		Standard Letter Tipping Point (Price at which it gets too expensive⁶²)	Small Parcel Tipping Point (Price at which it gets too expensive⁶³)
Group	All respondents	(£)	(£)
Consumers overall	(n =1000)	0.74	3.16
Older consumers	(n = 276)	0.71	3.01
With disabilities	(n = 170)	0.63	2.85
Low income	(n = 363)	0.72	3.02
Rural consumers	(n = 321)	0.73	3.02
Not on the internet	(n = 234)	0.67	2.83
Businesses	(n = 200)	0.73	3.41
Rural businesses	(n= 83)	0.71	3.41

Source: The Consumer Council. February - March 2017.

⁶² Question. The cost of sending a standard letter by 2nd class mail is 55p, at what price would you regard a second class stamp to be so expensive that you would not consider buying at all? (2017).

⁶³ Question. The minimum cost of sending a small parcel by 2nd class mail is £2.85, at what price would you regard a second class parcel to be so expensive that you would not consider sending at all? (2017).

NI consumers with a disability

- 6.24 The Consumer Council's most immediate concern is for those with a disability. Their tipping point is lower for both letters and parcels compared to consumers overall (Table 9).
- 6.25 UK consumers with a disability also have a higher cost of living. For instance, it is estimated this is around £570 extra per month in the UK. The average extra monthly cost for a consumer with a disability living in Northern Ireland is £612⁶⁴.
- 6.26 A Consumer Council study⁶⁵ shows those with a disability have less money at the end of the month and struggle more with the cost of essential goods. For instance, 22% (n = 85) of those with a disability find it a constant struggle to keep up with bills compared to 15% (n = 97) of those without a disability.
- 6.27 These additional financial pressures help to explain why this consumer group is at risk of being affected detrimentally by what would seem to be small price increases to the second class postal service.

Businesses

- 6.28 We note that Ofcom feels if the postal service is affordable to residential consumers it is likely to be the same for almost all SMEs⁶⁶.

⁶⁴ Scope. The Disability Price Tag. 2018.

⁶⁵ The Consumer Council. Consumer Insight. YouGov. 1,033 quantitative interviews with consumers. Research took place between 1 and 24 February 2018.

⁶⁶ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P47, paragraph 4.40.](#)

The Consumer Council broadly agrees with this view. Our research⁶⁷ shows that businesses in NI have:

- A better net satisfaction score for the affordable pricing (75%, n = 107) indicator compared to consumers overall (52%, n = 297) (Table 5);
- A smaller proportion who are dissatisfied and have a reason to complain about affordable pricing (10%, n = 14) compared to consumers overall (16%, n = 92) (Table 6); and
- A higher tipping point for second class letters (£0.71) and small parcels (£3.41) compared to those with a disability (£0.63 for letters and £2.85 for parcels).

6.29 This suggests if the level of the caps meets the needs of vulnerable consumers it will also benefit businesses as prices will be affordable.

6.30 However, The Consumer Council would ask Ofcom to consider the following for businesses before making its final decision:

- The cost of sending letters (53%, n = 75) and parcels (45%, n = 64) is the lowest area of net satisfaction for NI businesses (Table 5);

⁶⁷ The Consumer Council. Vulnerable Postal Consumer Research. Millward Brown Ulster. 1,000 quantitative interviews with consumers. Research took place between 2 February and 27 March 2017.

- NI businesses compared to consumers generally have the most negative views about value for money with 40% (n = 80) saying second class letters are poor value for money and 29% (n = 58) saying parcels are poor value (Table 6);
- Businesses have a lower tipping point for second class standard letters (£0.71) compared to consumers overall (£0.74) ; and
- Businesses send higher volumes of mail compared to consumers.

7. Question 3. Do you agree with our analysis of the commercial flexibility afforded to Royal Mail under the safeguard caps? Please state your reasons and provide evidence to support your view.

Key Points

The Consumer Council relies on Ofcom's assessment to ensure commercial flexibility does not have a negative effect on the affordability of prices for consumers and that Royal Mail makes sufficient efficiency gains.

However, The Consumer Council does have concerns about the potential negative effect the 29% headroom for large letters and parcels on consumers which could lead to significant price increases for products protected by the basket cap.

The Consumer Council has also identified a potential issue with raising the level of the standard letter cap.

- 7.1 It is important to highlight that The Consumer Council does not have access to the confidential information available to Ofcom and we rely on Ofcom's assessment to ensure commercial flexibility does not have a negative effect on the affordability of prices for consumers.
- 7.2 Additionally, The Consumer Council relies on Ofcom to ensure Royal Mail makes sufficient efficiency gains and does not unfairly rely on price increases for those products protected by the safeguard cap.
- 7.3 In this context (Paragraph 7.1 and 7.2), we make general comments below on the analysis Ofcom presents in the consultation document⁶⁸.
- 7.4 The Consumer Council notes Ofcom's conclusion that the universal postal service is currently in a financially sustainable position⁶⁹. We also note the downside risks⁷⁰ that could have affected Royal Mail profitability have reduced in recent years.
- 7.5 The Consumer Council understands Royal Mail has been able to earn a commercial rate of return on the safeguard products and it is now in better position to make efficiency gains⁷¹. We agree that efficiency gains are critical to the sustainability of the universal postal service

⁶⁸ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. Section 5. P52- 59. Paragraph 5.1 to 5.32.](#)

⁶⁹ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P58, paragraph 5.30.](#)

⁷⁰ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P57, paragraph 5.23.](#) Impact of potential industrial action and affordability of the pension scheme.

⁷¹ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P58, paragraph 5.28.](#)

and welcome Ofcom's view that it expects Royal Mail's efficiency to improve⁷². This is vital.

7.6 The Consumer Council does have concerns about the existing and proposed continuation of the 29% headroom for large letters and parcels. This is significant and depending on how Royal Mail prices the safeguarded products within the basket, it could have a detrimental impact on vulnerable consumers. Equally, The Consumer Council is unable to establish or understand the size of any potential increases for individual products protected by the basket cap which could negatively affect consumers.

7.7 The Consumer Council has also identified a potential issue with raising the level of the standard letter cap. Again, this may have a detrimental impact on vulnerable consumers especially those with a disability (Paragraph 6.22).

8. Question 4. Do you agree with our proposals relating to the standard letter safeguard cap? Please state your reasons and provide evidence to support your view.

Key points

The Consumer Council has concerns about the potential negative effect of the proposed letter safeguard cap on vulnerable consumers especially those with a disability.

The Consumer Council wants to ensure the proposals will not lead to

⁷² [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P57, paragraph 5.24.](#)

affordability issues and we would ask that Ofcom addresses this matter.

The Consumer Council's evidence shows that:

- Vulnerable consumers are more likely to have a complaint about the affordability of the universal postal service; and
- The tipping point for letters for those consumers with a disability is 63p. A price of 65p would take prices beyond the tipping point and those consumers have told us they would consider this cost so expensive they would not use the service.

The Consumer Council would ask Ofcom to reassess if the proposed level of increase is within the tolerance levels for NI consumers with a disability.

8.1 The Consumer Council has concerns about Ofcom's proposal to raise the level of the standard letter cap by 5% in real terms⁷³. We understand this would increase the upper limit of the cap to 65p (from 60p) and would increase by CPI each year. Our immediate concern is the negative affect on vulnerable consumers, especially those with a disability which will lead to affordability issues, and we

⁷³ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P60, paragraph 6.5.](#)

would ask that Ofcom addresses this matter. We discuss this in more detail below.

8.2 The Consumer Council's response to questions one and two outlined:

- **Many vulnerable consumers in NI, especially older consumers and those with a disability, do not have access to the internet.** These consumers are captive (Paragraph 5.8). This means even though they feel the cost of sending letters by second class is too expensive they may continue to do so as they have no other choice.
- **Vulnerable consumers in NI are already struggling with household bills.** A greater proportion of these are low income consumers, those with a disability and rural consumers (Paragraph 6.7).
- **Vulnerable consumers are regular senders of letters.** This includes a greater proportion of rural consumers and those with a disability (Paragraph 6.11).
- **Vulnerable consumers feel the cost of sending a letter is poor value for money.** Older consumers, those on low income and not online are more likely to have this view (Paragraph 5.13).

8.3 Importantly, vulnerable consumers are more likely to have a complaint about the affordability of the universal postal service

(Paragraph 6.19). Nearly one in five older consumers (19%, n = 35), those with a disability (19%, n = 19) and low income consumers (18%, n = 32) have reason to complain about the affordability of the universal postal service. The regulatory framework must deal with this major cause of complaint for vulnerable consumers and the safeguard cap is the way to address and control these concerns.

8.4 More specifically, The Consumer Council has concerns about the negative effect of small price increase on some vulnerable groups. To recap, those with a disability and not online are at risk (Paragraph 6.22).

8.5 The tipping point for those consumers with a disability is 63p (Paragraph 6.22). A price of 65p would take prices beyond the tipping point and those consumers have told us they would consider this cost so expensive they would not use the service. This consumer group must be protected.

8.6 Ofcom must make sure the safeguarded products are affordable to vulnerable NI consumers especially those with a disability. The Consumer Council would ask Ofcom to reassess if the proposed level of increase is within NI consumers with disabilities' price tolerances. This will benefit all those more vulnerable groups and SMEs so the universal postal service is affordable to all.

9. Question 5. Do you agree with our proposals relating to the basket safeguard cap? Please state your reasons and provide evidence to support your view.

Key Points

The Consumer Council has significant concerns about the 29% headroom within the basket cap for large letters and parcels which could lead to significant price increases to safeguarded products with detrimental consequences for vulnerable consumers.

The Consumer Council's evidence shows that:

- Vulnerable consumers are more likely to have a complaint about the affordability of the universal postal service; and
- The tipping point for small parcels those with a disability is £2.85 and those not online is £2.83.

Ofcom should investigate how it can address the matter. For instance, if sub caps for individual products within the basket would help to keep prices affordable for vulnerable consumers.

9.1 The Consumer Council welcomes that Ofcom is not proposing to increase the level of basket cap for large letters and parcels up to 2kg⁷⁴.

⁷⁴ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P61, paragraph 6.5.](#)

- 9.2 However, The Consumer Council has significant concerns about the 29% headroom for large letters and parcels. This could, depending on Royal Mail's pricing policy, lead to significant price increases to safeguarded products with detrimental consequences for vulnerable consumers (Paragraph 6.22). Ofcom's analysis of Royal Mail Second Class stamp parcel prices from 2011 to 2019 shows the nature and extent of the price increases that can occur within the basket which is a concern⁷⁵.
- 9.3 Importantly, the potential price increases which consumers may face for each product protected by the basket is not discussed in the consultation. With this lack of transparency, The Consumer Council is unable to adequately answer Question 5.
- 9.4 Instead, we must rely on Ofcom to make the right decision so the prices remain affordable to all consumers and that they are protected against significant price increases. However, below we highlight our key concerns which Ofcom will need to assess and address before it reaches a final decision.
- 9.5 Our immediate concern is the negative effect on those with a disability and those not online which will lead to affordability issues.
- 9.6 The Consumer Council's response to questions one and two outlined:

⁷⁵ [Ofcom consultation. Review of the Second Class Safeguard Caps 2019. July 2018. P14, paragraph 2.30.](#)

- **Many vulnerable consumers in NI, especially older consumers and those with a disability, do not have access to the internet.** This is important in the parcel market as lack of internet access reduces consumer access to competition (Paragraph 5.9).
- **Vulnerable consumers feel competition in the parcel market is limited.** This includes those not online and consumers with a disability. Also, access operator networks have less coverage in NI (Paragraph 5.13 and 5.14).
- **Vulnerable consumers are regular senders of parcels.** This includes rural consumers and those with a disability (Paragraph 6.11).
- **Vulnerable consumers in NI are already struggling with household bills.** A greater proportion of these are low income consumers, those with a disability and those living in rural areas (Paragraph 6.7).
- **Vulnerable consumers feel the cost of sending a small parcel is poor value for money.** Consumer's not online, older consumers, those on a low income and those with disabilities are more likely to have this view (Paragraph 6.15).

- 9.7 The Consumer Council would also highlight that many NI consumers are paying higher delivery prices to receive parcels when they shop online⁷⁶.
- 9.8 Vulnerable consumers are more likely to have a complaint about the affordability of the universal postal service (Paragraph 7.3).
- 9.9 Like those sending letters, The Consumer Council has concerns about the negative effect of small price increases on some vulnerable groups when sending parcels. Again, those with a disability and those not online are at most at risk.
- 9.10 The tipping point for those with a disability is £2.85 and those not online is £2.83. Our research⁷⁷ suggests that these groups are already at a tipping point which is a concern.
- 9.11 Ofcom should investigate how it can address the matter. The basket cap should focus on the needs of NI consumers with a disability which will benefit all the vulnerable groups and SMEs. This will help to make sure the universal postal service is affordable to all.
- 9.12 As Ofcom has access to market information from Royal Mail, it is in the best position to take account of The Consumer Council's evidence and decide how it can better protect these consumers. One way may be to introduce sub caps within the basket cap.

⁷⁶ <http://www.consumercouncil.org.uk/sites/default/files/2018-07/Online%20Parcel%20Premium%20Report.pdf>

⁷⁷ The Consumer Council's Vulnerable Postal Consumer Research.

9.13 We would ask Ofcom to assess if sub caps for individual products within the basket would help to keep prices affordable for vulnerable consumers by avoiding future significant price increases.

10. Question 6. Do you have any comments on our proposed modifications to the DUSP conditions specified in Annex 5?

10.1 The Consumer Council has no comments to make on Ofcom's proposed modifications to the DUSP referred to above.

11. Question 7. Please provide any further comments or additional evidence that you believe we should consider in reaching our decision on the Second Class safeguard caps.

Key Points

The Consumer Council believes that Ofcom will need to:

- Robustly monitor the effect of the caps on consumers and intervene if there is any evidence prices, even within the limits, are causing affordability issues;
- Robustly monitor the efficiencies made by Royal Mail;
- Provide evidence and assurances that the level of the standard letter and basket cap will be affordable to all NI consumers;
and

- Improve the transparency around the potential price increases for individual products protected by the basket cap.

11.1 The Consumer Council believes it is necessary for Ofcom to robustly monitor the proposed level of the caps and to commit to intervening if there is any evidence that the second class service is not affordable to all NI consumers. Ofcom should commit to an intervention even if price increases are within the tolerances allowed by the level of the cap if these price increases result in consumer detriment.

11.2 Ofcom must also robustly monitor the efficiencies made by Royal Mail. Royal Mail must make adequate efficiencies and not rely on price increases that negatively affect the affordability of the universal postal service to consumers, so they are not exposed to significant price increases.

11.3 We would ask Ofcom to make available sufficient evidence on how and why it reached certain decisions while addressing the concerns raised in The Consumer Council's response.

11.4 The Consumer Council would also ask:

- Ofcom for assurances that the level of the standard letter and basket cap will be affordable to all NI consumers;

- Ofcom to improve the transparency around the potential price increases consumers could face on the products protected within the basket cap; and
- Ofcom to detail how it intends to more robustly monitor the impact of the price safeguard cap on consumers over the next regulatory period in its decision document.

12. Contact details

12.1 If you wish to discuss any aspect of this response please contact:

- Kellin McCloskey on 028 9025 1637 or by email on kellin.mccloskey@consumercouncil.org.uk; or
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