

A Review of Royal Mail's Collection and Delivery Times – Consultation Document

The needs of users in relation to collection and delivery times

October 2006

Summary

Each year, domestic customers post around 2.6 billion items of mail and receive around 14 billion items. Most of this mail is collected and delivered by Royal Mail, whose licence obliges it to provide the 'universal service' of at least one collection from every post box and Post Office and at least one delivery to every home or premises every working day.

Royal Mail's universal service obligation does not, however, specify the times at which these collections and deliveries should be made. During the recent price control consultations Postwatch argued strongly that the licence should be changed to include obligations for specific collection and delivery times. Postcomm decided against changing Royal Mail's licence at that time on the basis that such a change would have reduced Royal Mail's flexibility to manage its operations effectively. However Postcomm made it clear in its final decision on the price control that it expects Royal Mail to achieve its efficiency targets through innovation and genuine efficiency rather than a degradation of customer service such as through earlier collection times¹. Postcomm has also said that it would consider the merits of a licence condition for collection and delivery times if Royal Mail's behaviour indicated that it was not acting in the best interest of customers².

Customers are starting to see the benefits of competition in the postal industry. Large, bulk mailers have been able to switch their collection and sortation to postal operators who may provide better services and/or lower prices than Royal Mail. Retail customers and small/medium sized enterprises (SMEs) (who in most cases cannot choose an alternative postal operator for most of their mail at the moment) have experienced improved quality of service with 94.1% of 1st Class mail currently arriving the next working day compared to 90.1% in 2003/2004. However, certain aspects of the quality of the universal service are perceived by some customers to have declined. For example, in some rural areas Royal Mail has brought forward the last collection time of a post box, in some cases to 9am

¹ Royal Mail's Price and Service Quality Review 2006-2010, Licence Modifications, June 2006, Executive Summary, page 4.

² Licence Modification Proposals, March 2006 Paragraph 4.48

(from 4pm). In addition, following Royal Mail's decision to implement Single Daily Delivery (SDD), many customers now get their post delivered later in the day.

Postcomm wants to establish whether customers' needs remain sufficiently protected at a time when Royal Mail's practices are clearly changing.

This consultation opens the debate about the impact of Royal Mail's changing practices and whether customers' needs remain sufficiently protected. It seeks views from as many customers as possible by including a number of key questions. These include questions about customers' willingness to pay for increased levels of service (or the savings that they expect if collections and delivery service levels decrease).

In parallel with this consultation, more detailed market research to identify customers' needs is being carried out on behalf of Postcomm, Postwatch and Royal Mail. Postcomm will also be working with Royal Mail to identify its (efficient) costs or savings of changing the existing service levels.

The outcome of this consultation and the associated market research and costing analysis will require Postcomm to reach a balanced judgement between what customers' needs are, their willingness to pay for improved collections and delivery arrangements and the cost to Royal Mail of implementing such changes. If Postcomm judges that changes to the current practices are necessary, it will consider first the least intrusive way in which such changes could be implemented.

Postcomm is consulting separately on its overall regulatory strategy going forward³. Postcomm will take into account the emerging results of that Strategy Review in any decisions it makes on collections and deliveries.

Post Offices are currently used as the access point for large and registered items of mail and the structure of the Post Office network will be important to postal users in the future. Postcomm understands that the Government may consult on

³ Postcomm's Strategy Review 'The postal market – 2010 and beyond: Key questions for stakeholders', August 2006

the future of the social (rural and urban deprived Post Offices) network and does not therefore seek comment on this issue in response to this consultation.

Key Questions

Postcomm invites customers to reply to the following questions. The responses, together with additional work being carried out, will enable Postcomm to reach a judgement on whether customers' needs remain sufficiently protected at a time when Royal Mail's practices are changing.

When responding to the questions it would be helpful if customers could also provide some information about how they use the postal service – for example, whether they are in a rural or urban location, the number of letters they post or receive and the extent to which these letters are to support business purposes or are personal mail.

Collection times

1. What are the most important elements of the collections postal service for you and/or your business?
2. What are your essential needs (either as a sender and/or a recipient of mail) for collection times?
3. Have you noticed any change in your collection times over the last two years? Has this had any effect on you or your business (if it has please explain how)?
4. If collection times are brought forward at your nearest post box would you be able to make use of other collection points (post boxes or Post Offices near where you live, near your work etc) that have later collection times? If not, please explain why.
5. How important is it for you to be able to respond to mail on the same day that you receive it?
6. Would you be prepared to pay more for a guaranteed collection time

of no earlier than 5.30pm? What would you consider to be an acceptable increase in the price of a 1st class stamp for this collection time?

7. Would you expect to pay less for earlier collection times? What would you consider to be a reasonable decrease in the price of a 1st class stamp if collections were brought forward by three hours?

Delivery times

8. What are the most important elements of the delivery postal service for you and/or your business?
9. What are your essential needs (either as a sender and/or a recipient of mail) for delivery times?
10. Have you noticed delivery times changing since the implementation of Single Daily Delivery? Has this had any effect on your business (if it has please explain how)?
11. If you are a small business customer, would you be prepared to pay more for a guaranteed delivery time of no later than 9.00am? What would you consider to be an acceptable increase in the price of a 1st Class stamp for this delivery time?
12. If you are a domestic customer, would you be prepared to pay more for a guaranteed delivery time of no later than 11.00am? What would you consider to be an acceptable increase in the price of a 1st Class stamp for this delivery time?
13. Would you expect to pay less for later delivery times, for example, 2.00pm deliveries? What would you consider to be a reasonable decrease in the price of a 1st Class stamp if deliveries are made at this time?

General

14. What is more important to you/your business: the time of collection and delivery, or the consistency of the time?

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1. Introduction

Purpose of this document

1.1 This document addresses two issues:

- it seeks customers' views on their needs in relation to collection and delivery times; and
- it explains Royal Mail's existing policies and the application of those policies in relation to the management of collection and delivery times.

1.2 Chapter 4 includes key questions on which Postcomm seeks answers. Postcomm welcomes views from customers on all the issues raised in this document. However, customers are also welcome to respond only to those issues that directly affect them, or to raise other issues that they consider to be important. When responding to the questions it would be helpful if customers could also provide some information about how they use the postal service – for example, whether they are in a rural or urban location, the number of letters they post or receive and the extent to which these letters are to support business purposes or are personal mail.

Rationale for this review

1.3 Customers are starting to see the benefits of competition in the postal industry. For example, large, bulk mailers have been able to switch postal operators for some of their mail, and retail customers and small/medium sized enterprises (SMEs) have experienced improved quality of service. However, certain aspects of the quality of the postal service are perceived by some customers to have declined. For example, in some areas last collection times have been brought forward, and deliveries are generally being made later than they used to be.

- 1.4 So far, Postcomm has decided against a licence condition for collection and delivery times. This is because of its strong commitment to proportionate regulation and the absence of strong evidence that customers' needs are not being sufficiently protected by the existing requirements in Royal Mail's licence. In addition, such a licence condition would have reduced Royal Mail's flexibility to manage its operation effectively. However, Postcomm has made clear that it expects Royal Mail to achieve its efficiency targets through innovation and genuine efficiency rather than a degradation of customer service such as earlier collection times.
- 1.5 Domestic customers and small/medium sized enterprises (SMEs) are unlikely to be able to switch from Royal Mail to other operators in the foreseeable future. Royal Mail's practices towards collections and deliveries for these customers are changing. Therefore, in addition to this consultation, Postcomm is undertaking a joint market research project with Postwatch and Royal Mail to ensure that it has sufficient information to establish whether customers' needs remain sufficiently protected.
- 1.6 The joint survey will implement the National Audit Office's recent recommendation in its report 'Re-opening the post: Postcomm and the quality of mail services'⁴. That report recommended that Postcomm should carry out 'joint research with Postwatch and Royal Mail to establish the needs of consumers, how they are changing and how the universal service may be best adapted to accommodate them'. The survey is being undertaken by an independent consultancy firm with expertise in both market research and the postal industry.

Postcomm's statutory duties

- 1.7 Postcomm must exercise its functions in the manner it considers best calculated to ensure the provision of a universal postal service. This

⁴ National Audit Office. Re-opening the Post: Postcomm and the quality of mail service. Page 7, paragraph 15c – Recommendations

consists (amongst other things) of the delivery and collection at least once every working day of mail (not exceeding 20kg in weight) at affordable prices that are geographically uniform throughout the UK. Royal Mail is currently the only postal operator that is obliged by its licence to provide this “universal service”.

1.8 Postcomm must also exercise its functions in the manner it considers best calculated to further the interests of users of postal services, wherever appropriate by promoting effective competition between postal operators. In doing so, Postcomm must have regard to the interests of those who are disabled or chronically sick, are of pensionable age, are on low incomes, or reside in rural areas. In addition, Postcomm must exercise its functions in the manner it considers is best calculated to promote efficiency and economy by postal operators and have regard to the need to ensure that licensed postal operators can finance their activities.

1.9 Postcomm will be working with Royal Mail to identify its (efficient) costs or savings of changing the existing service levels. The outcome of this consultation and the associated market research and costing analysis will require Postcomm to reach a balanced judgement between what customers’ needs are, their willingness to pay for collections and delivery changes and the cost to Royal Mail of implementing such changes. If Postcomm judges that changes to the current approach are necessary, it will consider first the least intrusive way in which such changes could be implemented.

Royal Mail’s licence obligations

1.10 Royal Mail’s licence sets targets for the delivery of mail. For example, 93% of 1st Class stamped and metered mail should be delivered by the end of the following working day and 98.5% of 2nd Class stamped and metered mail should be delivered by the end of the third working day after posting. New targets for collections and deliveries were accepted

by Royal Mail as part of the current price control. Further details of these are in Chapter 3.

- 1.11 Royal Mail is obliged by its licence to meet the reasonable needs of users when providing post boxes⁵, taking into account the costs of providing and servicing these boxes⁶. Royal Mail's licence sets minimum requirements for the number of post boxes in urban areas; although there are no similar requirements in rural areas, Royal Mail must nevertheless meet the reasonable needs of users in those areas. Royal Mail must also provide facilities for customers in all areas to post larger items of mail and registered mail. This does not necessarily have to be at a Post Office although Royal Mail has generally chosen to meet this licence obligation by using Post Offices.
- 1.12 Postcomm is aware that the issue of collection and delivery times is linked closely with a number of other issues, such as access to Post Offices, and post boxes. Postcomm does not propose to consider these issues in this review, and it understands that the Government may consult on the future of the social (rural and urban deprived) Post Office network later this year⁷. However, if this review identifies issues that are important to customers in relation to Post Offices, or other postal issues, Postcomm will consider how best to take those issues forward.

Other issues

- 1.13 An EU Directive that restricts the speed of vehicles weighing between 3.5t and 7.5t to 56 mph⁸ is being implemented in 2007. Royal Mail says that it is taking this into account when considering changes to collection and delivery times. Postcomm allocated Royal Mail £97 million of

⁵ The Postal Services Act 2000 and Royal Mail's licence refer to "access points". For the purposes of this document 'post boxes' is used instead of 'access points'

⁶ Royal Mail's licence, Condition 3, paragraph 1.

⁷ Jim Fitzpatrick MP, Minister in the Department for Trade and Industry, at the Trade and Industry Committee on 18 July 2006.

⁸ Postal Services Directive 97/67 EC- (as amended by Directive 2002/39/EC)

additional revenue in the price control to help address this issue⁹. Although Royal Mail argued that it needed considerable additional revenue to implement the Directive, its arguments were inconsistent with international evidence at the time, which suggested that the legislation would have little impact. In addition, Royal Mail provided insufficient calculations and evidence to back up its arguments. Postcomm is undertaking further work to understand the impact the legislation will have by contacting other European postal regulators and operators. In the absence of compelling evidence to the contrary, Postcomm considers that the speed restriction should be capable of being implemented without any adverse impact on customers.

1.14 Royal Mail has carried out its own research on issues surrounding collections and deliveries. It has not published this research but if Royal Mail believes that the outcome of the research is relevant to the current consultation, Postcomm considers that Royal Mail should publish the research in full on its website for customers to consider.

1.15 Postcomm is consulting separately on its overall regulatory strategy going forward¹⁰. Postcomm will take into account the emerging results of the Strategy Review consultation in any decisions it makes on collections and deliveries. It will, however, continue to apply regulation that is consistent with the government's "Better Regulation" guidelines¹¹. In particular, its regulatory strategy will be proportionate: light touch where competition is sufficiently developed and more detailed where there is little actual competition or any early prospect of it.

Structure of this document

1.16 This document is structured as follows:

⁹ The price control is for the period of April 2006 to March 2010.

¹⁰ Postcomm's Strategy Review 'The postal market – 2010 and beyond: Key questions for stakeholders', August 2006

¹¹ Better Regulation Task Force, Principles of Good Regulation.

- Chapter 2 provides background on how collection and delivery times have changed since April 2004;
- Chapter 3 sets out Royal Mail's current collection and delivery specification and its performance against its licence requirements. The chapter also discusses how market developments might influence customers' future needs;
- Chapter 4 seeks customers' views on what they need from collections and deliveries, and includes key questions to be answered;
- Chapter 5 discusses what possible changes Postcomm could implement in order to better meet customers' needs if the outcome of this Review and the additional work being carried out indicates that changes are necessary;
- Appendix 1 – explains the legal background to the requirements for collections and deliveries; and
- Appendix 2 – gives examples of what happens in some other European countries.

Process and timetable

1.17 This document is subject to a three month consultation period. Postcomm requests responses by no later than 8 January 2007. Contact details are set out below.

1.18 Postcomm will assess the responses it receives to this consultation and the survey, and aims to publish its findings in the first quarter of 2007.

Contact details

1.19 Anyone with views on the issues raised in this document should send their responses by 8 January 2007 to:

Helen Courtis
Postcomm
Hercules House
6 Hercules Road
London
SE1 7DB

1.20 If you would like to meet with Postcomm to discuss this review, or if you have any questions please contact Helen Courtis (helen.courtis@psc.gov.uk, 020 7593 2134) or Adam Swinburn (adam.swinburn@psc.gov.uk 020 7953 2192).

Confidentiality of responses

1.21 Postcomm wishes to make public the responses it receives to this consultation document. If you do not want all or part of your response to this document to be read by anyone outside of Postcomm, please ensure that your response clearly indicates which parts are confidential. If you are happy for the substance of your contribution to be made public but do not want the name of the individual who signed it or organisation who submitted it to be revealed, please indicate this by adding 'name of organisation/sender not to be published'. However, Postcomm is a 'public authority' for the purposes of the Freedom of Information Act 2000, and must act at all times in accordance with applicable law.

2. Changes to collection and delivery times since April 2004

Introduction

2.1 This chapter provides details of how collection and delivery times have changed since April 2004. It also explores the reasons why Royal Mail says it has changed collection and delivery times. (Chapter 3 gives details of Royal Mail's current collection and delivery times.)

2.2 The chapter considers:

- Collection times since April 2004:
 - The collection time specification;
 - The changes that have been made to collection times;
 - Reasons why changes are made to collection times; and
 - Complaints.
- Delivery times since April 2004:
 - The delivery time specification;
 - The changes that have been made to delivery times;
 - Reasons why changes are made to delivery times; and
 - Complaints.

Collection time specifications

2.3 Royal Mail has provided Postcomm with different versions of its previous collection time specifications. In March 2006, during the negotiations on the price control, Royal Mail gave Postcomm a Monday to Friday collection time specification for post boxes that it said had not changed since 1996:

Collection time specification provided by Royal Mail in March 2006

National Time Specification (Monday to Friday)	Final Collection Time	Description ¹²
Commercial Area	18:30 – 19:30 hrs	Post boxes within postcode sectors containing business density of 10% or more.
Town / City Areas	17:30 – 18:30 hrs	Post boxes in locations within recognised town/city boundaries. In addition, this must be extended to encompass postcode sectors with a business density between 5-9%.
Rest of UK	16:00 – 17:30 hrs	Post boxes within postcode sectors containing business density of lower than 5%, except where the sector falls within a major city.
Deep Rural	09:00 – 16:00 hrs	Excludes any location which falls into the above categories. It must not be applied to postcode sectors less than 20 minutes normal travelling time from the centre of a town/city.

¹² These are the descriptions Royal Mail provided to Postwatch in 2005.

2.4 Royal Mail later told Postcomm that other collections were included in the specification:

Business boxes	17:30 – 19:30	Mail collected from business boxes on Monday to Friday
Post Office branch	Should be made as close as reasonably possible to the closing time of the branch. The exceptions are where distance from Mail Centre prevents this, in which case an earlier final collection should be made.	Post Office Branches on working days
Saturday	09:00 – 12:30 or 13:00 except on public holidays	All collections

2.5 Royal Mail subsequently told Postcomm that it did ‘not categorise collection points on Saturday as they all need to be collected by lunchtime’. However information subsequently received from Royal Mail as part of this review indicates that the above specification is inaccurate in certain respects. For example:

- Saturday collections are actually broken down into further categories with individual final collection times;
- the earliest final collection time on Saturday was 7.00am, not 9.00am; and
- the earliest final collection time on Saturday was recently amended from 7.00am to 9.00am.

2.6 Royal Mail says that the sub-categories for ‘Saturday collections’ are guidance rather than part of the collection specification. Whilst

recognising that Royal Mail's guidance has been produced for internal operational reasons and is not formally required under its licence, Postcomm considers that it is in customers' interests to be aware of this information.

Changes to collection times

2.7 Information from Royal Mail indicates that most changes to final collections times occur in deep rural areas. Since these must have a final collection time between 9am and 4pm, Royal Mail has far greater flexibility to change final collection times compared to the other areas. Royal Mail says that changes are sometimes necessary so that collections from remote areas can reach their destination on time.

2.8 Postcomm requested information from Royal Mail in relation to changes to final collection times on a national level, and in South Wales, in order to understand on a more detailed level the changes that can occur in a specific area. The national information which reflects the number of collection time changes since May 2004, is shown in Table 1 below. The South Wales information, which reflects the number of collection time changes in this area since May 2004, and how these changes compare with the collection time specification, is shown at Table 2.

Table 1: National collection time changes since May 2004

National	Total number of post boxes ¹³	Total number of changes	Collection time made earlier	Collection time made later	Collection time made earlier by more than 3 hours
Monday to Friday	114,348	18,711 (16.4%)	16,609 (14.5%)	2,102 (1.8%)	3,189 (2.8%)

¹³ This is the total number of boxes in the calculation, it excludes Post Office collections which Royal Mail was unable to produce, and where boxes have been removed since May 2004.

Saturday	114,003	9,026 (7.9%)	5,516 (4.8%)	3,510 (3.1%)	119 (0.1%)
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Table 2: South Wales collection time changes since May 2004

South Wales	Total number of post boxes	Total number of changes	Changes made within specification	Changes made outside specification	Collection time made later	Collection time made earlier	Collection time made earlier by more than 3 hours
Monday to Friday	5,051	454 (9%)	302 (6%)	152 (3%)	49 (1%)	405 (8%)	267 (5.3%)
Saturday	5,051	325 (6.4%)	314 (6.2%)	11 (0.2%)	199 (3.9%)	126 (2.5%)	1 (0%)

2.9 This information shows that Royal Mail usually changes final collection times to make them earlier. Royal Mail has informed Postcomm that the majority of post boxes in South Wales moving to an earlier specification, or moving by more than three hours earlier, are low usage rural boxes moving from the 'Rest of UK' category to the 'Deep Rural' category.

2.10 Royal Mail told Postcomm during the recent price control negotiations that it had no intention of implementing mass changes to rural collection times. Royal Mail stated that it had previously considered whether to carry out such an exercise in order to increase efficiency, but had decided not to proceed with the initiative at that time because of the potential level of customer dissatisfaction it would cause, especially to businesses in rural areas.

Royal Mail's reasons for changing collection times

2.11 Some of the reasons Royal Mail has given for changing final collection times are:

- To ensure the mail from the post box arrives at the mail centre in sufficient time to enable the mail to be processed and despatched to plan, and to enable the mail centre operation to run efficiently;
- To ensure Royal Mail meets its end to end Quality of Service targets. (However, Royal Mail has recently told Postcomm that "there is no evidence to suggest that local changes to final collection times have affected Quality of Service results between 2003/04 to 2005/06". It has also said that changes have been made recently to ensure future Quality of Service. For example, it states that changes may be necessary in order to maintain reliable network connections when an EU 56mph speed limit for 7.5 tonne lorries is introduced in August 2007);
- To improve the efficiency of the collection route – for example, the South Wales area was able to save £85,400 mainly on afternoon collection duties by combining some collections with morning and early afternoon deliveries;
- To reflect changes to the road network, for example, new roads, one-way systems and parking restrictions, and speed limits; and
- To reflect changing customer requirements. For example, rural boxes with very low usage may receive less frequent collections, which are combined with other activities such as delivery where possible. Conversely, boxes used more heavily may be given a collection at the later end of the specification.

Collection times - complaints

2.12 The volume of complaints in relation to collection times is lower than that for delivery time complaints. This may be because customers are

satisfied with their collection time service. However, Royal Mail's volumes indicate that households in the UK post approximately 2.6 billion letters per year, but receive about 14 billion letters per year, so domestic customers will have much less experience of collections than of deliveries. So the low level of complaints could also be due to lack of customer awareness of when collections are made, despite the final collection time being displayed on the box.

2.13 It should be noted that the level of complaints in relation to both delivery and collection times is much lower than complaints relating to lost, damaged or delayed mail. Postcomm will be consulting soon on the compensation arrangements for lost, damaged and delayed mail.

2.14 The process for customers to complain about final collection times is to contact Royal Mail. If customers are unhappy with the way Royal Mail has dealt with their complaint, or if they wish to escalate it, they must contact Postwatch. Postcomm does not deal with individual complaints, but is sometimes contacted if the complaint is about its policy decisions, or in order to escalate a complaint within Royal Mail. Therefore, Royal Mail receives the majority of customer complaints, followed by Postwatch, with Postcomm receiving very few.

2.15 Table 3 below shows the approximate complaint figures received by Royal Mail, Postwatch and Postcomm from April 2004 in relation to collection times which include business collection times, collection time changes and erratic collection times:

Table 3: Complaints about collections from April 2004

	2004/05	2005/06	Periods 1-4 2006/07 (April, May, June and July 2006)
Royal Mail	325	543	205

Postwatch	89	97	27
Postcomm	5	18	4

2.16 The above complaints information shows a low number of complaints when compared to other categories of complaints. For example, in 2005/06 Royal Mail received around 758,700 complaints about lost mail¹⁴. However, there is an increasing trend in complaints received by Royal Mail about collections which appears to correlate with an increasing number of collection time changes that have been made during this time.

Delivery time specifications

2.17 The delivery time specification by which Royal Mail operated as at April 2004 is shown at table 4 below:

Table 4: Royal Mail's April 2004 delivery time specification

National Time Specification	Description ¹⁵	Final Delivery Time ¹⁶
Town	Customers in town areas where delivery density is in excess of 300 delivery points/km ² areas will be scheduled to receive a delivery by lunchtime. (Lunchtime is about 13:00.) Normal exceptions apply to remote areas, Highlands and Islands.	Lunchtime [about 13:00]
Rural	Customers in rural areas where delivery point density is less than 300 delivery points/km ² . Areas will be scheduled to receive a delivery by mid-afternoon. (Mid-afternoon is about 15:00.) Normal exceptions apply to remote areas, Highlands and Islands.	Mid-afternoon [about 15:00]
Firms	A firms route is defined as what the office calls a 'firms route' and/or a van-based delivery route including a considerable number of businesses. Existing customers on firms vans routes (or other	Around 09:00 [but no later than currently planned]

¹⁴ Complaints received by Royal Mail about loss and part loss.

¹⁵ Royal Mail says the quoted densities for urban and rural addresses are a rule of thumb.

¹⁶ Royal Mail says 'times are guidelines, not definitive cut offs'

	<p>van-based deliveries including a considerable number of business delivery points) will not be affected by Single Daily Delivery and should be retained from the current delivery structure. Where practical, these should aim to complete by around 09:00 or finish no later than currently planned.</p> <p>However, Firms deliveries on town residential walks WILL be affected and the Town Routes Operational Spec will apply to these customers i.e. they will receive a delivery by lunchtime i.e. around 1300hrs.</p> <p>A second delivery must be provided for any mails which do not connect with a firm's delivery.</p>	
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Source: Royal Mail

Changes to delivery times

- 2.18 During 2003/04 and 2004/05 Royal Mail underwent a major change programme, as part of its renewal plan. As part of this, Royal Mail decided to change from two deliveries a day to a single daily delivery (SDD). One of the key reasons provided by Royal Mail for this change was that only 4% of mail was delivered on the second delivery and yet the second delivery operation represented 20% of all delivery costs.¹⁷ Royal Mail has informed Postcomm that the requirement before SDD was for town and firms deliveries to be completed by 9.30am. There was no formal specification for second deliveries or rural deliveries. However, second deliveries in urban areas would typically take place between 11.00am and 2.00pm. Rural deliveries took place between 7.00am and 2.00pm, although some rural deliveries extended until mid-afternoon.
- 2.19 However, despite having set targets for reducing work hours (which for example, equated to approximately 6,100 per week in South Wales) Royal Mail did not actually save any money from implementing SDD. None of the efficiency benefit was passed on to customers in the form of lower prices because the target for reducing work hours was coupled

¹⁷ National Quarter 4 Report, 2003/04.

with a move from a six day to five day working week and an increase to £300 per week basic pay for front line staff if the target was achieved.

2.20 The implementation of this change to single daily delivery was staggered in order to minimise adverse impact on customers. Royal Mail had completed the implementation of single daily delivery by March 2005 with the exception of a small number of offices with particular requirements (for example, building works).

Royal Mail's reasons for changing delivery times

2.21 Some of the reasons Royal Mail provided to Postcomm in August 2006 for changing delivery times, are:

- To incorporate a change of national delivery specification, for example, SDD;
- Optimisation of outdoor routes (i.e. delivery walks) within the specification to improve efficiency – this may change the route of delivery and, therefore, change a delivery point's delivery time;
- Optimisation of indoor hours (i.e. sorting and preparing mail) to improve efficiency; and
- To reflect local variation to outdoor routes, for example, where there is delivery point growth in an area.

2.22 Royal Mail has informed Postcomm that, generally, postmen and women do not have the flexibility to change or re-order their delivery walks to a significant degree. A customer is most likely to experience a change to their delivery time due to mail volume fluctuations, incidents affecting the arrival of mail into the delivery office (for example, road accidents), or when their usual delivery officer is on leave and is replaced with a temporary delivery officer.

2.23 Royal Mail does not record the delivery time for each individual delivery point, but says that delivery points should all be scheduled to receive a

delivery by no later than the delivery specification permits. However, information received from Royal Mail indicates that as a result of an initiative called 'Delivery Best Practice' it expects that there will be a shift in the peak of deliveries to between 1-2 hours later. This initiative is described in paragraph 3.29.

Delivery times - complaints

2.24 The level of complaints in relation to delivery times is higher than complaints relating to final collection times, although still lower than complaints relating to, for example, lost mail.

2.25 The process for customers to complain about delivery times is the same as for collection times - customers must contact Royal Mail. If customers are unhappy with the way Royal Mail has dealt with their complaint, or if they want to escalate it, they must contact Postwatch. Postcomm does not deal with individual complaints, but is sometimes contacted if the complaint is about its policy decisions or in order to escalate a complaint within Royal Mail. Therefore, Royal Mail receives the majority of customer complaints, followed by Postwatch, with Postcomm receiving very few.

2.26 Table 5 below shows the approximate complaint figures received by Royal Mail, Postwatch and Postcomm from April 2004, in relation to delivery times which includes complaints about variation in delivery times, changes to delivery times and complaints about the current delivery times:

Table 5: Complaints about deliveries from April 2004

	2004/05	2005/06	Periods 1-4 2006/07 (April, May, June and July 2006)
Royal Mail	29528	11389	5917

Postwatch	6214	1581	377
Postcomm	184	92	29

2.27 The complaints data indicates that the change to SDD had a negative impact on customers, reflected in the high level of complaints in 2004 when SDD was being implemented. The level of complaints decreased significantly in 2005/06. However, the trend for Royal Mail's complaints is heading upwards again in 2006/07.

3. Royal Mail's current collection and delivery policy

- 3.1 This chapter provides details of the current situation in relation to collection and delivery times. It puts into the public domain for the first time the collection and delivery specifications that Royal Mail says it currently operates by. It also publishes information about Royal Mail's performance against its new licence targets for collections and deliveries.
- 3.2 This chapter explains:
- The requirements in Royal Mail's licence for collections and Royal Mail's current collection time specification;
 - Royal Mail's performance in relation to the collection requirements;
 - The requirements in Royal Mail's licence for deliveries and Royal Mail's current delivery time specification; and
 - Royal Mail's performance in relation to the delivery requirements.
- 3.3 The chapter also provides a background to developments in the postal market, and how market developments might influence customers' future needs.

Introduction

- 3.4 Postcomm considers that it is important that an appropriate collection time specification is defined and published to ensure transparency for customers and to ensure Royal Mail is compliant with its licence obligations.
- 3.5 Royal Mail has told Postcomm that it acknowledges that its collections specification is not fit for purpose and is currently the subject of a company review. For example, it considers that the definition of "deep rural" is no longer appropriate. Royal Mail has also acknowledged that, in practice, there are post boxes that are out of line with the

specification and have been for a number of years. Postcomm expects Royal Mail to take account of the responses to this consultation as well as the concurrent market research in its review.

Royal Mail's current specification for collections

- 3.6 The current price control introduced new licence targets for collections and deliveries into Royal Mail's licence to reflect better customers' concerns about these issues.
- 3.7 Royal Mail must complete 99.90% of collections each working day¹⁸ or face automatic financial consequences, depending on the severity of the failure. In addition to this, it is required to measure and publish information on a quarterly basis on the percentage of collections that are made every working day at or after the final collection time advertised on the post box¹⁹.
- 3.8 In July 2006 Royal Mail reissued guidance for use by its Collection Managers. This gives details of the current collection time specification and is shown at Table 6 below. (There are some changes to the earlier specification that Royal Mail gave Postcomm in March 2006 during the price control negotiations²⁰ and these are highlighted in bold.):

Table 6: Royal Mail's current collection time specification

National Time Specification	Description	Final Collection Time
Commercial Area	10% or more addresses in the sector are business, on Monday to Friday.	18.30 – 19.30
Town / City Area	5-9% of addresses in the sector are business, or where location is within a recognised town/city boundary, on Monday to Friday.	17.30 – 18.30
Rest of UK	Less than 5% of addresses in the sector are business, on Monday to	16.00 – 17.30

¹⁸ Royal Mail's licence, Annex to Condition 4

¹⁹ Royal Mail's licence, Condition 4, paragraph 6(b)

²⁰ As outlined in paragraphs 2.3, 2.4, 2.5.

	Friday.	
Deep Rural	Postcode sector more than 20 minutes driving time from the centre of town/city, on Monday to Friday.	09.00 – 16.00
Business Boxes	Mail collected from business boxes on Monday to Friday.	17.30 – 19.30
Post Office Branch	Post Office Branches on working days	Collection should be made as close as reasonably possible to the closing time of the branch. The exceptions are where distance from Mail Centre prevents this, in which case an earlier final collection should be made.
Saturday Collections	Commercial Area (definition above)	11:30
	Town / City Area (definition above)	11:30
	Rest of UK (definition above)	10:30
	Deep Rural (definition above)	09:00²¹
Sunday Collections²²	All post boxes situated outside Post Offices, and any post boxes designated a Sunday collection post box.	Not before 11:00

Source: Royal Mail

3.9 In addition to the above Saturday categories, the guidance also states that at least one collection must be made on a Saturday including a full final midday collection in town areas. A minimum of one Saturday collection should be made in rural areas. The latest collection time on

²¹ This was amended from 07:00 in June 2006.

²² Sunday collections do not form part of Royal Mail's universal service obligation so Royal Mail are not obliged to provide them. Nevertheless, customers may find the information interesting.

Saturday should not normally be before the times shown above. No final collections should be made before 09:00.

Adherence to the current specification

- 3.10 This collection time specification is currently under review by Royal Mail. The guidance given to Collection Managers states that any changes made to collection times must be compliant with the above collection specification. However, where post boxes already have times earlier than their specification category there is no requirement to bring it back into line with the specification, although the times must not be made any earlier.
- 3.11 Royal Mail says that ‘final collection times can be set outside of these time parameters where it is logistically impossible to meet the standard or the cost of doing so is unreasonable’. Postcomm was concerned with this statement and asked Royal Mail for clarification. Royal Mail responded, saying that ‘the aim of these guidelines is to ensure service provision is tailored to customer need whilst taking into account the logistical challenge of getting the mail back to the Mail Centre in time for sorting and despatch. The cost and efficiency of the collection operation is also a consideration’.
- 3.12 Royal Mail estimates that, in May 2006, approximately 22-29% of post boxes (but not Post Offices) were out of line with the specification between Monday and Friday, and approximately 14% of post boxes (but not Post Offices) were out of line with the specification on Saturday. Between 11-24% are earlier than the specification on Monday to Friday and between 5-11% are later. On Saturdays 13% of boxes were earlier than the specification and 1% were later.
- 3.13 Royal Mail did the same calculation for May 2004, and found that similar quantities of post boxes were out of line with the specification. Approximately 23-28% were out of line between Monday and Friday, with between 9-22% earlier than the specification and 6-14% later, and

approximately 15% were out of line on Saturday, with 14% of these earlier than the specification. It concluded that non-compliance with the specification has not been caused by changing final collection times in the last two years. It did, however, acknowledge that there has been some movement towards earlier final collection times (rather than making collection times later) between Monday and Friday over the last two years

3.14 Postcomm considers that the high proportion of post boxes outside the specification is further evidence that Royal Mail needs to review its collection time specification, and the application of it, taking into account responses to this document and the results of the market research. Postcomm is concerned that Royal Mail was not able to produce more accurate estimations of post boxes that are out of line with the specification.

3.15 In July 2006 Royal Mail provided the following guidelines to its Collection Managers. They outline the instructions that must be followed when requesting a final collection time change until Royal Mail's review of the collection specification is completed:

- Identify a sound reason for requesting the change, for example, if mail is failing to meet the final despatch;
- Changes must be compliant with the collection specification, however, where post boxes have times earlier than their specification, there is no requirement to bring it back into line with the specification but they must not be made any earlier; also post boxes that currently comply with the specification must not be moved outside of it;
- At least two weeks advance notice must be given to the public by placing a sticker/notice on the affected post box stating the new time and when it will come into effect, as well as a local contact number for customer questions;

- Changes must be agreed with the Area General Manager;
- The Head of External Relations must be notified at least two weeks in advance of the intended change to the post boxes affected, the old and new final times and the supporting reasons, so that they may pass the information to the appropriate regional Postwatch committee; and
- Managers should consider carefully where to direct customers to for an alternative later posting facility.

Royal Mail's current collections performance

3.16 The table below shows the percentage of collections made at or after the final collection time advertised on each post box. It suggests that approximately 3% of collections from post boxes have been made earlier than the advertised final collection time.

	Quarter 1 of 2006/07 (27/03/06 – 25/06/06)
Percentage of collections made at or after the advertised final collection time on post box.	96.94%

Issues raised

3.17 Postcomm's current consideration of collection times was stimulated by complaints received by Postcomm and Postwatch from customers, primarily in relation to the bringing forward of collection times. Information provided by Royal Mail indicates that:

- The collection time specification has not always been applied consistently or correctly;
- The collection time specification itself is not fit for purpose;

- Royal Mail has made changes to the collection time categories of individual boxes without notifying Postwatch or Postcomm within the one month period required in its new licence²³; and
- Royal Mail has altered the collection specification without notifying Postwatch or Postcomm as it is required to do by its licence²⁴.

3.18 Postcomm made clear to Royal Mail and stated publicly that it expected it to introduce efficiency savings in a way that did not adversely impact customers. Postcomm considers that the way in which Royal Mail has implemented changes to collection times recently (and in the past – see Chapter 2) calls into question whether Royal Mail adequately takes into account customers’ needs when it makes these changes.

3.19 If Royal Mail carries out the final collection before the final collection time, this could mean that some letters will be collected a day later than the customer anticipated (because they were posted after the box was emptied early but before the last time stated on the plate). This means that those letters will not be delivered until at least a day later than the customer expected. In the case of 1st Class mail, the customer will have paid for a service that they have no chance of receiving. Many post boxes have tabs on them that indicate the day on which the next collection will take place; providing it had been changed by the person emptying the box, the tab would indicate to the customer that the last collection had been made. However, Postcomm is aware that not all post boxes have tabs and even if a tab accurately reflects the fact that the box has been emptied early, it may not be possible for a customer to go to a box with a later collection time.

3.20 Postcomm has also identified a lack of consistency and transparency in terms of the information that Royal Mail is required to provide to Postcomm and Postwatch in compliance with the requirements of its licence. Whilst recognising that Royal Mail’s guidance has been

²³ Royal Mail licence, Condition 4, paragraph 6(d)

²⁴ Royal Mail licence, Condition 4, paragraph 6(c)

produced for internal operational reasons and is not formally required under its licence, Postcomm believes that putting information about Royal Mail's collections specification into the public domain will help customers assess whether their needs are being met. Postcomm expects Royal Mail to address these issues, and any other issues which are identified during this review process.

Royal Mail's current specification for deliveries

3.21 Since May 2006, Royal Mail has had a licence target to complete 99.90% of deliveries each day²⁵ or face automatic financial consequences, depending on the severity of the failure. In addition to this, it is required to measure and publish information on a quarterly basis on the percentage of deliveries completed each day by the latest delivery time in its own specification²⁶.

3.22 The latest guidance Royal Mail issued to its managers gives details of the current delivery time specification and is shown at Table 7 below. The main change from the specification which Royal Mail operated by from April 2004 is that Royal Mail has extended by approximately one hour the final delivery time in towns from "around 1pm" to 2pm (highlighted in bold).

Table 7: Royal Mail's current delivery time specification

National Time Specification	Description ²⁷	Final Delivery Time
Town	Customers in town Areas where delivery density is in excess of 300 delivery points/km ² areas will be scheduled to receive a delivery by 14:00 . Normal exceptions apply to remote areas, Highlands and Islands. All mail must connect with the single delivery.	14:00
Rural	Customers in rural Areas where delivery point density is less than 300 delivery points/km ² . Areas will be scheduled to receive a delivery by mid-afternoon. (Mid-	15:00

²⁵ Royal Mail's licence, Condition 4, Annex

²⁶ Royal Mail's licence, Condition 4, paragraph 6(a)

²⁷ Royal Mail says that the quoted densities for urban and rural addresses are a rule of thumb)

	afternoon is about 15:00.) Normal exceptions apply to remote areas, Highlands and Islands. All mail must connect with the single delivery.	
Firms ²⁸	<p>A firms route is defined as what the office calls a 'firms route' and/or a van- based delivery route including a considerable number of businesses.</p> <p>Existing customers on firms vans routes (or other van-based deliveries including a considerable number of business delivery points) will not be affected by SDD and should be retained from the current delivery structure. Where practical, these should aim to complete by around 09:00 or finish no later than currently planned.</p> <p>A second delivery must be provided for any mails which do not connect with a firms delivery.</p>	09:00

Adherence to the current specification

3.23 Royal Mail says that the category of 'Firms' shown above is internal guidance rather than a part of the delivery specification. Whilst recognising that Royal Mail's guidance has been produced for internal operational reasons and is not formally required under its licence, Postcomm considers that it is in customers' interests to be aware of this information.

3.24 Recent information from Royal Mail, received in August 2006, states that 'deliveries are scheduled to be completed by these times and Royal Mail endeavours to maintain this every working day, but daily volume variations, transport disruptions and operating issues mean that there may be some limited extension'.

3.25 Postcomm has received information from Royal Mail which shows that between April and July 2006, approximately 60,000 delivery points (0.2%) had a reclassification of category from town to rural. This does not necessarily mean that these customers will receive a later delivery but it does mean that Royal Mail has the flexibility to deliver until 15:00.

²⁸ This is not a service for which Royal Mail charges customers.

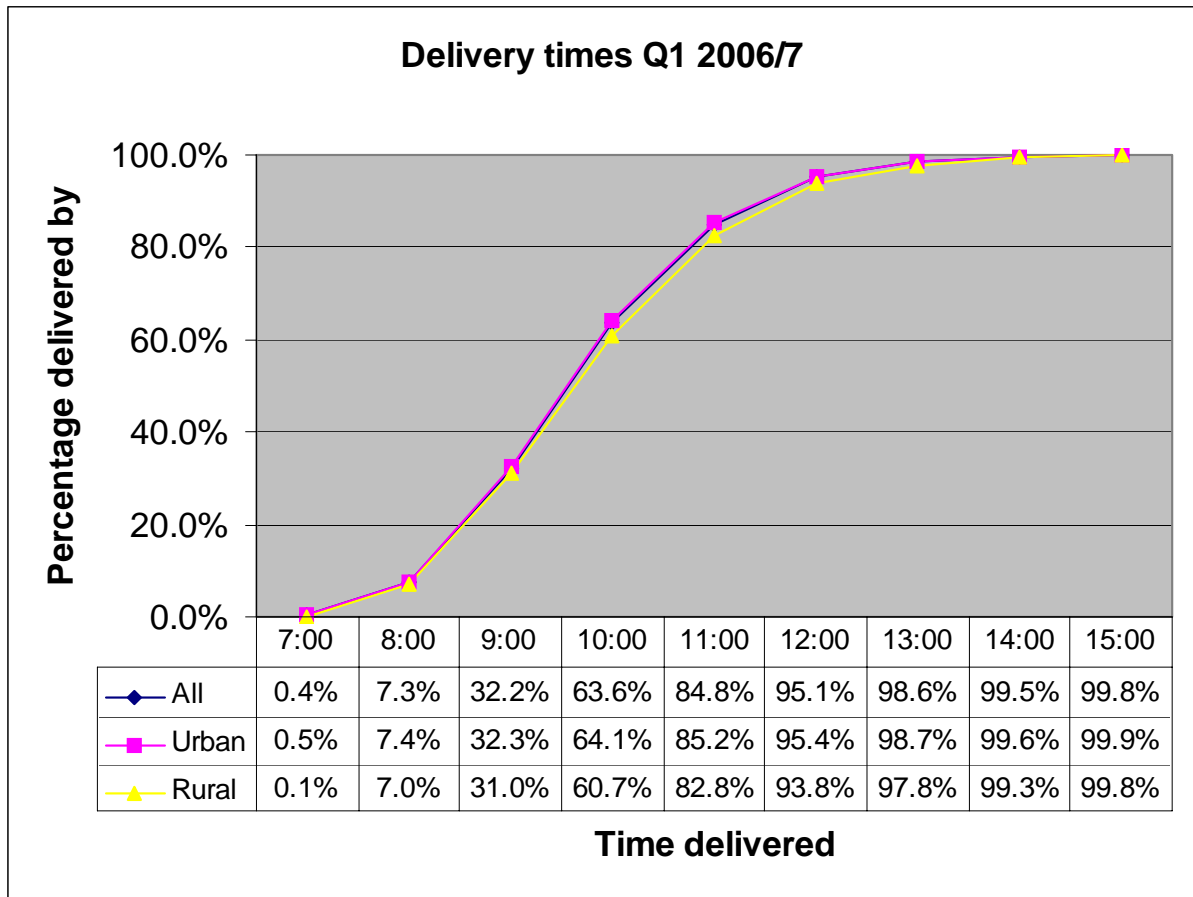
The reclassification from urban to rural does not appear consistent with the level of growth in urbanisation that is present in the UK.

Royal Mail's current delivery performance

3.26 The table below shows the percentage of deliveries made by Royal Mail's final delivery time. It suggests that so far in this reporting year, 0.41% of deliveries in rural areas and 0.23% of deliveries in urban areas have been made after the specified final delivery time.

	Quarter 1 of 2006/07 (27/03/06 – 25/06/06)
Percentage of deliveries made by final stated delivery times – rural areas.	99.77%
Percentage of deliveries made by final stated delivery times – urban areas.	99.59%

3.27 The graph below provides an estimate of the percentage of all deliveries made by each hour of the day, broken down into rural and urban areas, in Quarter 1 of 2006/07.



Source: Royal Mail

- 3.28 This shows that there is little difference in the times at which rural and urban customers receive their mail, with the majority of mail being delivered between 8.00am and 11.00am.
- 3.29 Information recently received from Royal Mail indicates that as a result of an initiative called 'Delivery Best Practice' it expects that there will be a shift in the peak of deliveries to between 1-2 hours later. The graph indicates that this shift would result in the majority of mail being delivered between 9.00am and 12.00pm, instead of between 8.00am and 11.00am at present.
- 3.30 Royal Mail says that this initiative will extend the application of best practices across the delivery organisation to improve the poorer performing delivery offices. It includes a review of all delivery duties both indoor and outdoor. The impact of the initiatives includes decreasing the average time required to perform indoor work at the

delivery office and was predicted to produce annual savings of £113 million by 2009/10.

Issues raised

- 3.31 If a delivery is made after the last collection time, this means that a customer will not be able to respond to mail on the same day that it was received unless they travel to a box with a later collection time. In the case of businesses, they may be unable to begin processing orders or bills until later in the day. In businesses where employees' work consists of responding to the mail that the business receives, they may have to start work later than expected.
- 3.32 The definition of 'Firms' is unclear. Postcomm considers that it may be appropriate for an improved definition to be made available to customers to ensure transparency. Royal Mail claims that the category of 'Firms' is internal guidance and is not part of its formal delivery specification required by the licence. Whilst recognising that Royal Mail's guidance has been produced for internal operational reasons and is not formally required under its licence, Postcomm considers that it is in customers' interests to be aware of this information.

How market developments might influence customers' needs

- 3.33 It is widely acknowledged that customers' needs are likely to change over the next few years in response to developing postal competition and increasing use of technology such as e-mails and mobile phone texts.
- 3.34 The UK postal market is now fully open to competition and currently there are eighteen licensed operators, including Royal Mail. The new entrants have a wide range of business models. Some have developed limited end-to-end networks, and TNT Post UK has recently announced proposed trials of end-to-end this year in cities including Edinburgh, Glasgow and Manchester and is said to be considering expanding the service to other cities. However, the vast majority of mail

currently conveyed by competitors is given to Royal Mail for final delivery through contractual access arrangements.

- 3.35 Prior to 2005/06, the UK postal market grew consistently (year-on-year) throughout the past few decades except for a few isolated periods. Royal Mail's end-to-end volumes, i.e. from collection to delivery, declined slightly in 2005/06 when compared to 2004/05, possibly because mail is increasingly being challenged by e-substitution as banks and utilities encourage households to "go online", or because big organisations, such as banks, are able to switch to alternative mail providers. However, Royal Mail experienced volume growth in Special Delivery (up by 7%) in the same period, in response to increasing customer demand for time certainty and security.
- 3.36 Mailings from businesses dominate postal mail flows. In 2004/05 business customers were responsible for sending 87% of letters, while domestic customers, who represent a small and declining part of sent mail volumes, represented the remaining 13% of the market. An average household spends less than 50p per week on postal services²⁹. However, most mail is received by domestic customers. Households in the UK post approximately 2.6 billion letters per year, but receive about 14 billion letters per year out of a total postal volume of 21 billion letters. So although domestic customers are posting less, they are very important both as receivers within the postal market, and potentially for increasing fulfilment demand by buying goods on-line.
- 3.37 As use of the internet becomes more commonplace, for example, online bank statements and e-birthday cards, traditional mail may be used less. However, it also provides an opportunity for fulfilment of online purchases, for example, from e-bay. If this pattern develops further, more customers would benefit from the choice of using alternative operators because there are already operators in the market competing with Royal Mail for some of this mail.

²⁹ Family spending. A report on the 2003-04 Expenditure and Food Survey", Office for National Statistics.

3.38 The developing postal market could impact on domestic customer needs in a number of ways. For example:

- If customers started sending and receiving more high value packets through the post, but less domestic mail due to e-substitution, their needs might be more focussed on security of mail or access to a Post Office, or to another venue that was able to weigh and charge for packets and parcels; they may be less concerned about collection times; and
- If Royal Mail's collection and delivery operation develops in a way which means that more and more customers are unable to respond to their mail on the same day that they receive it, they may choose alternative means of communication for time-sensitive correspondence.

3.39 The developing postal market could impact on SME needs in a number of ways. For example:

- As for domestic customers, if Royal Mail's collection and delivery operation develops in a way which means more and more customers are unable to respond to their mail on the same day that they receive it, they might choose alternative means of communication for time-sensitive correspondence;
- If end to end competition develops, it may be that there will be opportunities for SMEs to receive earlier deliveries and later collections, so their expectations or needs for collection and delivery times may actually become more demanding; and
- The reduction in the price of e-communication could lead customers to expect lower prices in communication in general, and therefore in the price of postage.

4. Customers' needs from collection and delivery times

Introduction

4.1 This chapter discusses the issues that customers may consider important with respect to collection and delivery times. This includes a discussion about their willingness to pay for improved services. The chapter also lists key questions that Postcomm seeks answers to from this consultation.

What do customers need from collection times?

4.2 The distinction between needs and wants is a difficult yet important one to establish. What a customer is prepared to pay for is one way of determining the needs of customers. For example, a lot of customers might say they want five collections a day, with a final collection time of 8pm, but significantly fewer of those customers might be prepared to pay the additional cost of providing that level of service, for example, through a considerable increase in the cost of a first class stamp.

4.3 Although Postcomm will be better informed following the responses to this consultation and the results of the market research, there are some issues that it is currently aware of which do cause concern to some customers. For example:

- Some small businesses need to be able to respond to their post on the same day they receive it and, therefore, require sufficient time between delivery and last collection to allow them to process their mail; and
- Some domestic customers, particularly in rural areas, are unhappy with collections being made earlier, especially if as a result they have to travel further to use a post box with a later collection time.

- 4.4 Complaints data received by Royal Mail, Postwatch and Postcomm, which also provides an indication of customer satisfaction with collection times, is outlined in chapter 2, paragraph 2.15.

What do customers need from delivery times?

- 4.5 Again, it is necessary to identify needs as opposed to wants in relation to delivery times. Many customers have said they preferred the previous delivery operation of two deliveries a day with the first one being made earlier in the morning. However, there is little evidence to suggest that customers would be willing to pay for an earlier morning service.
- 4.6 Although Postcomm will be better informed following the responses to this consultation and the results of the market research, there are some issues it is currently aware of which do cause concern to some customers. For example:
- Some small businesses are reliant on their post to begin their working day, and therefore need early deliveries. In addition to this they may not be within the ‘firms’ category of the delivery specification outlined in chapter 3, paragraph 3.22 and are unwilling to meet the cost of paying Royal Mail to deliver their mail at a guaranteed early time;
 - Some business and domestic customers are unhappy that the time their mail is delivered is unreliable, i.e. that the time varies.

Key questions

- 4.7 Postcomm invites customers to reply to the following questions. The responses, together with additional work being carried out, will enable Postcomm to reach a judgement on whether customers’ needs remain sufficiently protected at a time when Royal Mail’s practices are changing.

- 4.8 When responding to the questions it would be helpful if customers could also provide some information about how they use the postal service – for example whether they are in a rural or urban location, the number of letters they post or receive and the extent to which these letters are to support business purposes or are personal mail.

Collection times

1. What are the most important elements of the collections postal service for you and/or your business?
2. What are your essential needs (either as a sender and/or a recipient of mail) for collection times?
3. Have you noticed any change in your collection times over the last two years? Has this had any effect on you or your business (if it has please explain how)?
4. If collection times are brought forward at your nearest post box would you be able to make use of other collection points (post boxes or Post Offices near where you live, near your work etc) that have later collection times? If not, please explain why.
5. How important is it for you to be able to respond to mail on the same day that you receive it?
6. Would you be prepared to pay more for a guaranteed collection time of no earlier than 5.30pm? What would you consider to be an acceptable increase in the price of a 1st class stamp for this collection time?
7. Would you expect to pay less for earlier collection times? What would you consider to be a reasonable decrease in the price of a 1st class stamp if collections were brought forward by three hours?

Delivery times

8. What are the most important elements of the delivery postal service for you and/or your business?
9. What are your essential needs (either as a sender and/or a recipient of mail) for delivery times?
10. Have you noticed delivery times changing since the implementation of Single Daily Delivery? Has this had any effect on your business (if it has please explain how)?
11. If you are a small business customer, would you be prepared to pay more for a guaranteed delivery time of no later than 9.00am? What would you consider to be an acceptable increase in the price of a 1st Class stamp for this delivery time?
12. If you are a domestic customer, would you be prepared to pay more for a guaranteed delivery time of no later than 11.00am? What would you consider to be an acceptable increase in the price of a 1st Class stamp for this delivery time?
13. Would you expect to pay less for later delivery times, for example, 2.00pm deliveries? What would you consider to be a reasonable decrease in the price of a 1st Class stamp if deliveries are made at this time?

General

14. What is more important to you/your business: the time of collection and delivery, or the consistency of the time?

5. Next steps

5.1 This chapter outlines the possible options for action available to Postcomm following this consultation, the associated market research and costing information from Royal Mail.

Are customers' needs being met?

5.2 The main objective of this review is for Postcomm to understand whether customers' needs remain sufficiently protected at a time when Royal Mail's practices are changing. This includes customers' willingness (or not) to pay for changes.

5.3 Following the response to this consultation and the results of the joint customer survey being conducted by the independent consultants, Postcomm should have sufficient information to understand better customers' needs in relation to collection and delivery times, and whether or not these needs are being sufficiently provided for. Postcomm should also have sufficient information from Royal Mail regarding the costs of implementing alternative collection and delivery operations and be able to judge the willingness of customers to pay for the level of service that they have identified as being desired.

5.4 Table 8 below outlines the range of possible action Postcomm could take. It is illustrative but not exhaustive:

Table 8 Possible outcomes of this Review

	Scenario	Possible Action	Possible implications
1	Customer needs are being met	a) Consider whether Royal Mail's licence is too burdensome	i) Licence modification to reduce or remove requirements that relate to collections and deliveries
		b) Nothing	i) None

2	Collection times are not meeting needs	a) Change the collection time specification (see Table 6)	i) Voluntary agreement with Royal Mail ii) Undertakings iii) Licence modification
3	Delivery times are not meeting needs	a) Change the delivery time specification (see Table 7)	i) Voluntary agreement with Royal Mail ii) Undertakings iii) Licence modification

5.5 Once Postcomm is satisfied that it has identified the needs of customers, it will assess whether Royal Mail's current licence obligations in relation to its collection and delivery policies are appropriate to meet customers' needs. This is likely to involve making a judgement between the value customers place on particular collection and delivery times with the cost to Royal Mail of delivering that service. Implicit in this will be a judgement on whether customers are willing to pay for the potential increased costs of ensuring their needs are met. For example, the cost of requiring Royal Mail to make all deliveries before midday and all collections after 5pm could result in a significant increase in the cost of a first class stamp.

5.6 This consultation and associated market research will help Postcomm to identify whether and how much customers are willing to pay for an increase in service and, in particular, whether the changes are genuinely "needed" by customers or just "preferred". Postcomm will require Royal Mail to produce accurate costing information in relation to its operations and the impact of possible changes to it.

5.7 It may be the case that the results of the consultation and survey indicate that Royal Mail's current delivery and collection policies are appropriate and that there is no need for change. However, if a need for change is identified Postcomm will start by considering the least intrusive response (for example voluntary undertakings). It may be that the necessary changes can be delivered within the framework of Royal Mail's existing licence obligations. However, Royal Mail's licence itself may require amendment. In the absence of Royal Mail voluntarily agreeing a licence amendment, Postcomm may decide that it is in customers' best interests to refer the matter to the Competition Commission.

Appendix 1 The legal background

A1.1 The European Postal Services Directive 97/67/EC as amended by Directive 39/2002/EC (“the Directive”), and the Postal Services Act 2000, stipulate the minimum legal requirements of the universal service.

A1.2 The minimum requirement for the universal service obligation (USO) in the Directive states that (subject to certain exceptions) Member States must ensure the provision of a universal service of at least:

- One collection from appropriate access points;
- One delivery to all addresses;
- Every working day and not less than five days a week; and
- In respect of postal items and packages up to 10 kilograms, plus a service for registered and insured items.

A1.3 The Act gives effect, in the UK, to the Directive’s requirements and states that Postcomm must exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service. The universal service requirements set out in the Act are almost identical to those in the Directive, except that the Act also requires:

- Geographical uniformity of price for universal service products;
- The delivery of postal packets up to 20 kilograms; and
- Defines ‘working day’ to include Saturday.

These are permitted but not required by the Directive. The legal features of the universal service are set out in Table 9 below.

Table 9: The legal features of the UK universal service

Components	Legal obligation
General scope	Licence requirement that the universal service includes services for letters posted individually and services for letters posted both sorted and unsorted in bulk.
Frequency of delivery and collection	At least once per working day and not less than 5 days a week under the Directive and the Act. "Working day" under the Act includes Saturday for the collection and delivery of letters.
Weight of postal items and package	Required by the Directive up to 10 kilograms. The Act requirement is 20 kilograms.
Services for registered items and insured items	Required by the Directive. The Act requires a service for registered items. Licence requirement is for registered and insured.
Geographic pricing uniformity	Permitted but not required by the Directive. Required by the Act.
Affordable prices	Required by the Directive and the Act. No definition of what is affordable. Decision of Postcomm, usually exercised through price control (e.g. price of stamps).
No. of access points (ease of access)	The Directive requires a "reasonable" level of access. A licence requirement (Condition 3 of Royal Mail's licence).
Product range	Permitted but not required by the Directive. Licence requirement.
Quality of service standards (e.g. transit	The Directive sets the cross border transit times. Decision of Postcomm in all other respects, set out in

times, delivery/collection times, etc)	a licence requirement (Condition 4 of Royal Mail's licence).
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A1.4 Royal Mail is deemed to have met its USO licence requirements if it made at least one collection and one delivery every working day³⁰, except in such geographical conditions or other such conditions which Postcomm designates as exceptional³¹. The times by which Royal Mail had to make the collection or delivery are not stated in Royal Mail's licence.

³⁰ Royal Mail's licence, Condition 2, paragraph 4 (a)

³¹ Royal Mail's licence, Condition 2, paragraph 4 (a)

Appendix 2 European examples

- A2.1 Postcomm sought information from other European postal regulators on their experiences of regulating collection and delivery times. Ten postal regulators responded to questions from Postcomm about service requirements in relation to collection and delivery times. None of them set latest acceptable delivery times, although An Post in the Republic of Ireland is limited to “organise its daily activities in such a way as best meets the requirements of a majority of customers in the most economical way.”
- A2.2 Similarly, for collection times, most of the European regulators who responded do not set an earliest acceptable collection time. However, in Germany, letter box clearances are required to be “based on the dictates of business life.” By contrast, in Cyprus mail must be posted by 12 noon if it is to count as being posted that day. Any mail posted after this time is taken to have been posted on the following day. In the UK such a system would mean that first class mail posted on a Monday after midday could only be expected to be delivered on Wednesday.
- A2.3 Four of the ten European regulators had observed changes being made to collection and/or delivery times. In Norway, changes were being made with the stated purpose of standardising and simplifying collection and delivery times in urban areas. Similarly, the postal operator in Slovenia was making changes due to the “reorganization of business processes.” Any changes in Spain were attributed to the introduction of new services, and a resulting change in timetables to accommodate these services.
- A2.4 The German regulator had observed collections being made earlier and deliveries being made later, which gave the postal operator more time to sort the mail. Later delivery in Germany also enables the operator to

use fewer staff. However, if the system used for measuring transit times – the time taken for a letter to get from the sender to the recipient – was done from a customer point of view (e.g. letters may be inserted into post boxes by 5.00pm) it would lead to a decrease in quality of service performance.