



**REQUEST FOR STATEMENT OF
AGREEMENT FROM THE COUNCIL
AS PROVIDED FOR BY LICENCE
CONDITION 21(3)**

**CESSATION OF SUNDAY AND
BANK HOLIDAY COLLECTIONS**

FROM 30/09/2007

REQUEST FOR STATEMENT OF AGREEMENT FROM THE COUNCIL AS PROVIDED FOR BY LICENCE CONDITION 21(3) TO THE CESSATION OF SUNDAY AND BANK HOLIDAY COLLECTIONS FROM 30/09/2007

1. Executive Summary

- 1.1. Royal Mail is one of the very few postal administrations in Europe offering Sunday collections for Monday delivery (see Annex 1, for details of collections in other European Countries). Moreover, the requirement of a universal service set out in the Postal Services Act 2000 specifically does NOT include a Sunday operation. The Sunday Collection service is also, in relative terms, not a particularly long standing arrangement, having been introduced in 1990.
- 1.2. The number of letters collected as 1c stamped items on a Sunday represents less than 4% of the total 1c stamped items posted over the course of a week, with a similar outcome for 2c stamped items. Also, evidence from a recent study (Roland Berger) shows that Saturday deliveries and collections are least favoured by customers which would also support the view that demand for Sunday Collections would be low. However, the cost of handling these items is disproportionately expensive with Sunday collection costs being around 4 times the cost per item of Monday – Saturday costs. This leads Royal Mail to operate in a less efficient manner than it otherwise might. Additionally, declining revenues, the need to fund our planned investments, and our pension deficit, means that we need to eradicate inefficiencies.
- 1.3. Royal Mail takes its customers' experience very seriously and the evidence from various studies (see information, below) indicates that there is little demand for this service from either business or consumer. The importance of eradicating inefficiencies will lead to longer term customer benefits and Royal Mail is reviewing parts of its operations to see what areas it can make improvements in to enhance its service to its customers. This includes reviewing the Monday to Friday collections offering in rural and remote areas.
- 1.4. The low usage of Sunday Collections, the exclusion of Sundays from the requirements of the universal service, the inefficient costs and the limitation of Sunday collections (only around 18,000 post boxes are collected from on a Sunday – whereas there are around 115,000 boxes that are collected from on a Monday – Saturday) mean that the service is limited in its availability to consumers.
- 1.5. The initiative to cease Sunday and Bank Holiday collections was supported by LECG as part of its efficiency review of Royal Mail operations during the 2006/10 Price Control Review and included in both their lower and higher case assessment of Royal Mail's efficient costs.

- 1.6. The proposal is to withdraw the service of Sunday/Bank Holiday collections with effect from 30 September 2007

Background

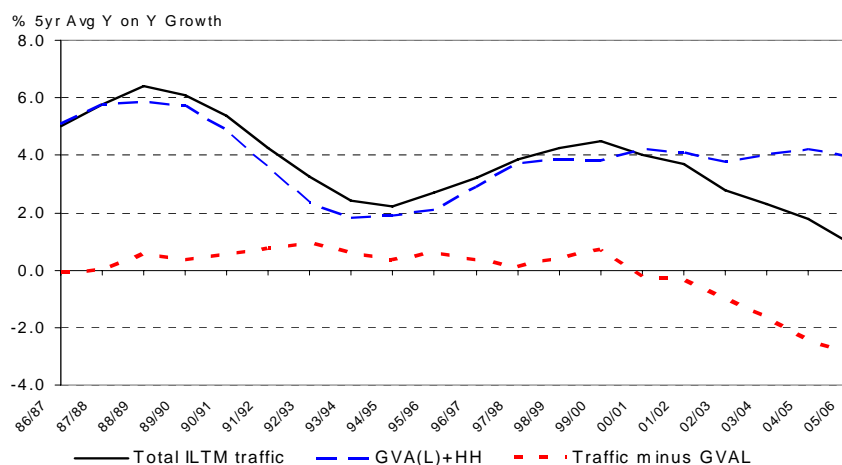
2. Sunday Collection and its role in Service Provision

- 2.1. Royal Mail currently provides a collection service on Sunday, Bank Holiday and Good Friday from approximately 18,000 post boxes. Normal Monday to Saturday is 115,000 boxes, so this means that this service is not available to many consumers. These services are not a Universal Service Obligation (USO) as required under the Postal Services Act 2000, which requires a collection every working day (6 days a week) from each access point. Royal Mail is one of the very few Postal Administrations in Europe that provides a Sunday collection.
- 2.2. Although only 0.74% of mail handled by Royal Mail is collected on a Sunday, the stamped mail is slightly higher than this at around 4%. But, the quality of service received by Sunday collected mail is not as high as during the rest of the week as full processing and network operations are not in place on a Sunday. Sunday collections Quality of Service is 86.9% compared to 94% Monday-Friday.
- 2.3. Also, International Services require that mail that is received into the UK after Saturday is delivered by Tuesday (not Monday). Therefore, International Services do not have a Monday delivery requirement for its mail received after Saturday.
- 2.4. In various surveys as discussed in section 8 customers have ranked Sunday collections low in their list of priorities.

3. Pressure on Royal Mail

- 3.1. Given the commercial environment in which Royal Mail now operates, with reducing revenues, there are significant pressures on the business to reduce costs and operate more efficiently while at the same time maintaining good quality of service. As Postwatch will appreciate following publication of Royal Mail's Interim Results, Royal Mail is operating in a very tough environment with declining volumes, significant downtrading and pension deficit costs placing financial pressure on the organisation. Moreover, as demonstrated by the figure below, the decline in volumes is due to changes in the use of post and whereas, historically, the mails market has broadly followed the UK economy, this has not been the case for the past few years, with the actual overall letters market declining. This reversal in use of mail products is further exacerbated by the rapid rise in upstream competition. The overall effect is that the decline in posted mail, downtrading of products (1c to 2c to M3 to Access etc) and competition is adding further pressure to Royal Mail's revenues and its ability to provide the Universal Service.

Trends in addressed inland letter traffic



In the above Table, the graph is a five year rolling average for year on year growth rates. GVAL represents Gross Value Added (replaced GDP) weighted by letter demand i.e. the sectors that are more relevant to letter volumes such as financial services rather than, for example, manufacturing. HH represents Household growth. The dotted red line shows the letter volumes relative to GVAL. If letter volume growth tracked GVAL then the red line would be equal to 0.0%. As can be seen since the early 2000's there has been a noticeable decline in letter volumes and the gap between GVAL and letter growth has widened

- 3.2. With the low volumes being posted on a Sunday the cost of providing a full service (collection, processing, trunking) is disproportionately high and leads to Royal Mail operating in a less than efficient manner. This was accepted by the work undertaken by LECG as part of its efficiency study into Royal Mail's operations as part of the 2006 price control review work
- 3.3. Furthermore it also has a disproportionate effect on the environmental impact of postal services due to low volumes significantly increasing the carbon footprint per mail item collected on a Sunday. It is estimated that cessation of Sunday collection routes would lead to a reduction in carbon emissions of around 10,000 tonnes per annum.

4. The Cessation of Sunday Collections

- 4.1. The 2007/08 Letters Plan, in looking to mitigate some of the downturn in letter volumes and revenues, includes the cessation of Sunday collections, for the reasons set out in this paper, from 30/09/2007.
- 4.2. The cessation of collections (1200 routes), the closing of buildings (e.g. mail centres) and reduction in the trunking network on Sundays will all result in environmental benefits through lower CO₂ emissions as a result of the reduction in

the use of vehicles, aircraft and energy. There will also be the knock on benefits of a reduction in congestion and noise pollution.

5. Customer Impact

- 5.1. Posting customers who currently use post boxes will find that mail presented to the post box on a Sunday will not be collected until Monday and will not be due for delivery until Tuesday, for 1c mail and Thursday for 2c mail. If customers post on a Saturday, overall quality will improve by 0.01%; if they post on a Monday, it improves by 0.02%.
- 5.2. As evidenced by the volumes collected, most of the business customers do not require Monday delivery as any collection is done on the understanding that mail will be held for dispatch until Monday.
- 5.3. As set out above, there is no impact on International Services as mail arriving in the UK on a Saturday is already due Tuesday delivery.

6. What may customers do to reduce/neutralise the impact?

- 6.1. As there is little impact on business customers, with less than 50 Sunday collections (compared to around 87000 on a Monday – Friday), changes will be notified to them through the proposed communications plan.
- 6.2. For social customers, in addition to a review of the Monday to Friday collections service, which is especially focussing on customers in rural and remote areas, Royal Mail will ensure that there is a detailed communication plan that will alert customers to the change. As set out in this paper the volume of mail and the current limited availability of a Sunday Collection service means that the service is limited in its availability to consumers and the take up is also low.
- 6.3. Customers posting second class mail on a Sunday (47% of Sunday volumes) will notice minor changes in the service they experience and could choose to post first class on a Monday with no adverse effect on the date of delivery.
- 6.4. For first class mail it will be important that it is made clear to customers that any mail posted on a Sunday will not be planned for delivery until Tuesday and the proposed communications plan will bring this to customers' attention prior to the cessation of the Sunday Collection service. This will include a specific point that any urgent material is prioritised such that it does not fall on a Sunday.

7. What will customers do if they cannot use the alternatives proposed above?

- 7.1. It will be necessary to post the items on Sunday accepting that it will not be collected and dispatched until Monday.

8. Who will be affected by the changes?

- 8.1. Overall mail volumes collected on a Sunday are 0.74% of total volumes handled by Royal Mail and relative to the other 6 days of the week, the number of business collections is very small in number. Royal Mail will be speaking to these business customers. For social customers the key impact is on 1c items, as these will now not be planned for delivery until Tuesday. Numbers of such items are relatively low.
- 8.2. 47% of mail posted on Sunday is non-urgent second class mail which further limits any overall impact; the greatest impact will be on customers using first class stamps who comprise 53% of mail posted on Sundays. As shown in 8.3 below, surveys have shown that social customers do not generally use other Post Offices for the purposes of Sunday collections.
- 8.3. Analysis from the study - The Needs of Postal Users, Customer Survey 2006 - carried out by Roland Berger on behalf of Postcomm, Royal Mail and Postwatch indicated that although approximately 15% of users recognised that the post box they normally use was emptied on a daily basis from Monday to Sunday (which approximately matches the availability of Sunday collections - 18,000 of 115,000 post boxes, found mostly outside post offices) - less than 1% of Residents and only 2% of SMEs (from the sample) used the boxes outside Post offices for the purpose of a Sunday collection. Rather, the most important reasons were proximity and convenience. See Figure 1 below.

Figure 1:

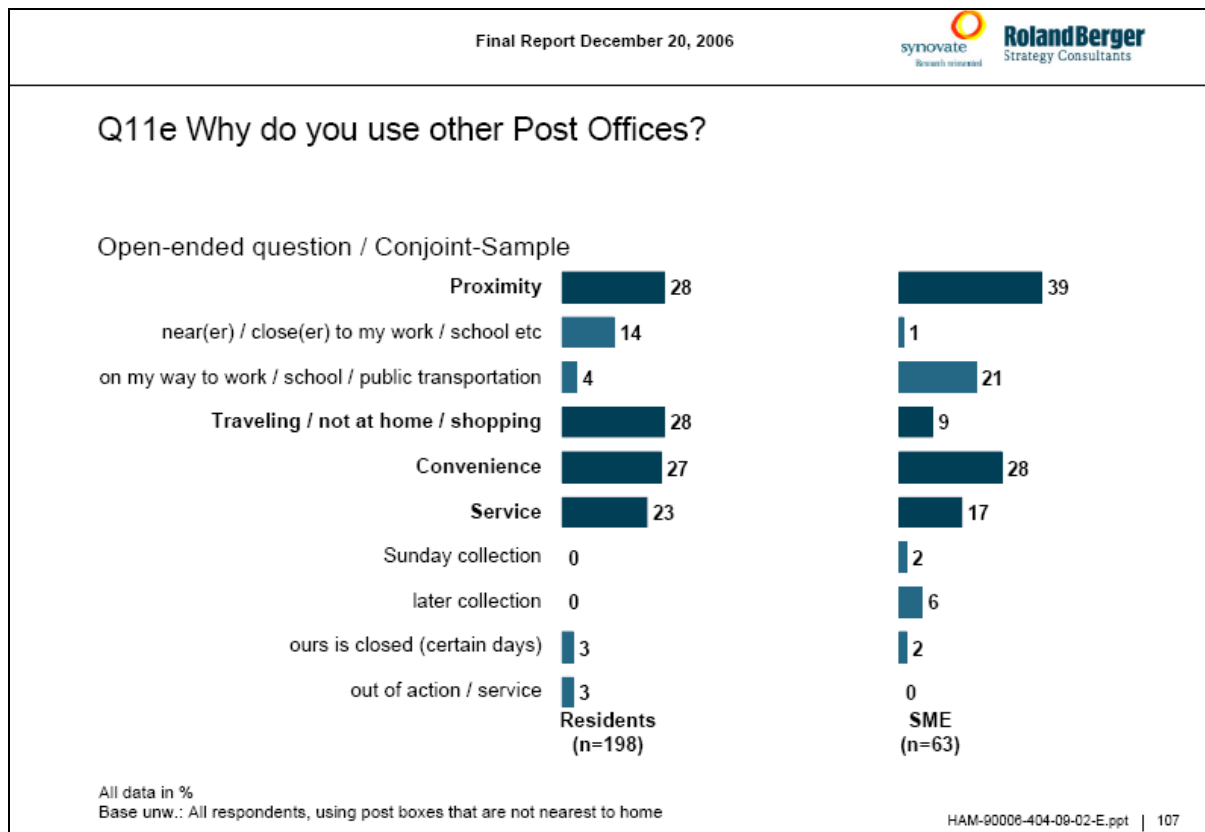
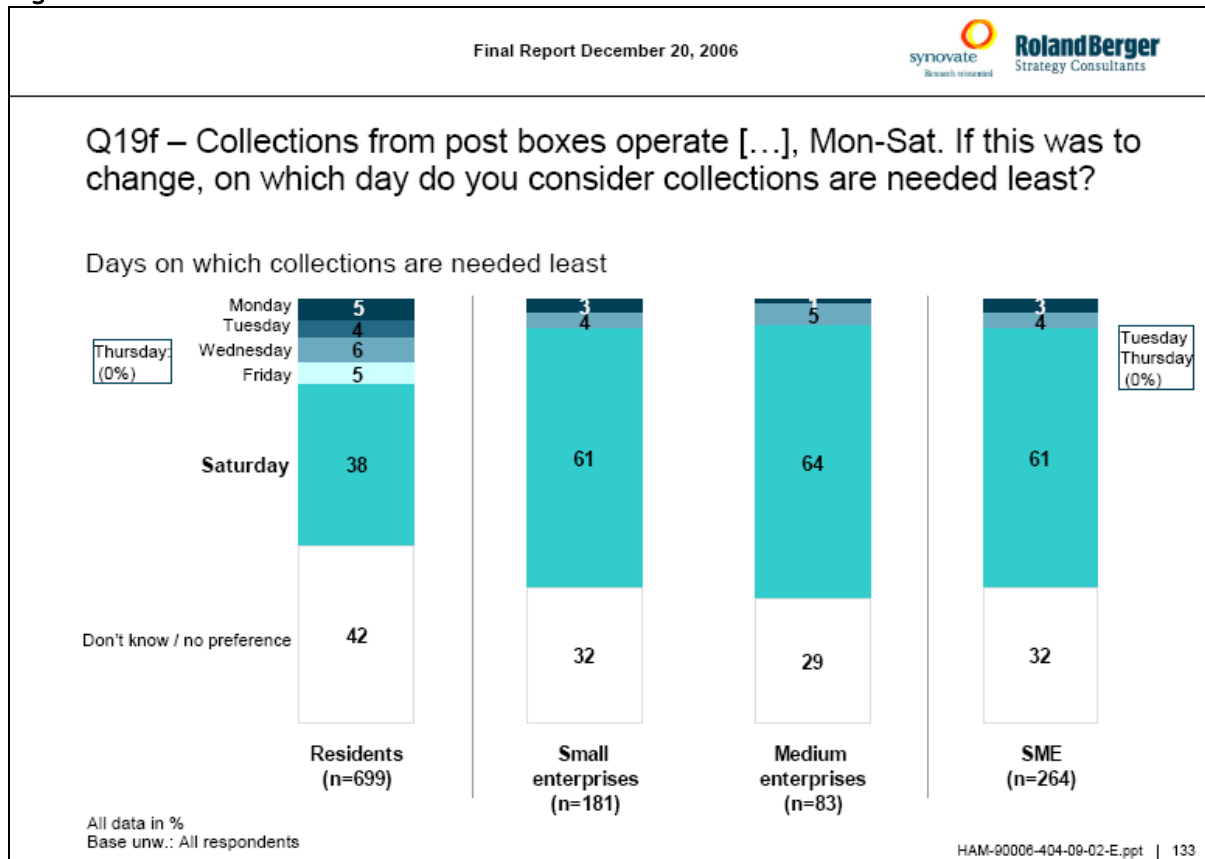
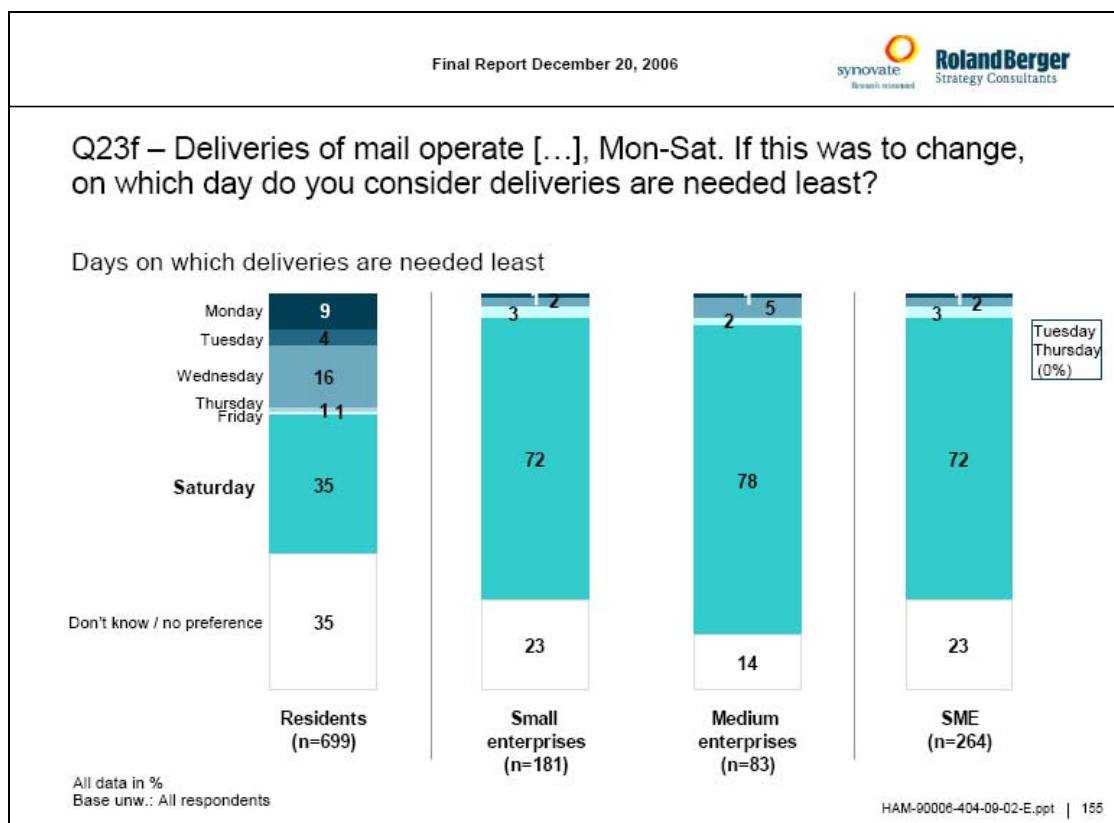


Figure 2:



- 8.4. 80% of social customers either didn't know/had no preference or identified the weekend Saturday collection as the least needed of collections. This figure rises to over 90% amongst SMEs – Figure 2.
- 8.5. The impact on social customers would therefore appear to be minor overall with a similar position for business customers. This view is further supported by the same research showing that Saturday deliveries are also the least favoured by customers with 70% of residents and 95% of SMEs nominating the Saturday delivery as least needed or responding with no preference (Figure 3). It would follow that turnaround of mail on a weekend requiring a Sunday collection is also not as important as the remainder of the week based on the apparent lack of activity on a Saturday.

Figure 3



- 8.6. We have plans to mitigate customer impact as set out above, through communication.

9. Customer notification and communication proposal

- 9.1. Royal Mail intends to communicate these changes through information via its website and also by notices alerting customers at the applicable Post Offices and post boxes. Royal Mail will commence its communication strategy with effect from

early August 2007 so that customers will have a period of notification prior to the changes being made.

- 9.2. Royal Mail will also monitor and review its operations for a period after the cessation of Sunday and Bank Holiday Collections to ensure that the outcome of the changes is consistent with that expected; for example, that the volumes of mail do not lead to overflows etc.

10. Conclusion

- 10.1 Given the disproportionate cost of providing Sunday collections, and the low importance many consumers attach to such collections, ceasing this service makes commercial sense. It is in the long term interests of all customers that Royal Mail continually reduces costs. Royal Mail believes that this change is akin to the rationale for the introduction of Single Daily Delivery (SDD). Like SDD, Royal Mail believes that the costs of maintaining a Sunday and Bank Holiday collection service (including the retention of the associated network - for example Mail Centres being open on a Sunday) is prohibitive in cost terms and encourages inefficiencies that Royal Mail is keen to remove. For example, labour costs associated with the Sunday collection service are very expensive as the duties are covered by either overtime or scheduled attendance - this all adds to the high unit costs per mail item.
- 10.2 Royal Mail has to improve efficiency and reduce costs with the minimum of disruption and to be more commercial in its approach. Collecting, processing and trunking low volumes are expensive for both customers and Royal Mail. Royal Mail has put together a proposal that will introduce cessation of Sunday Collections, starting on 30/09/2007. This is of course a change for customers who post with Royal Mail, but it is considered to be a minor one as it only affects around 18,000 of 115,000 post boxes and a very small number of business customers. Moreover, it is low down the priorities of social customers (many of whom do not have access to such boxes).
- 10.3 Royal Mail Sales and Business Customer Service people will be able to help and support customers through the change period by giving full information. For consumers, information of the changes will be notified through the Royal Mail website and also at the applicable Post Offices and post boxes. The proposal supports our efficiency targets and also reduces the environmental impact from the provision of postal services and provides consistency of service provision throughout the UK, thereby eliminating any confusion.

ANNEX 1 – Weekend Collections in other EU Countries (subject to ratification)

| Country | Saturday Collection | Sunday Collection |
|------------------------|--------------------------------|------------------------------|
| Belgium | No | No |
| Finland | No | No |
| France | Yes | No |
| Germany | Yes | No |
| Greece | No | No |
| Ireland | Yes | No |
| Italy | Yes | No |
| Luxembourg | Yes | No |
| Portugal | No | No |
| Spain | Yes | No |
| Sweden | No | Yes |
| The Netherlands | No | Yes |