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 Group: Communication Workers Union

 @CWUnews

From the office of **Terry Pullinger** Deputy General Secretary (Postal)

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Dear Mike,

CWU Pay Claim 2017

In advance of the April 2017 review date, I am writing to formally present the union's pay claim for all CWU represented grades in RMG. Our claim is based on analysis of a range of key economic indicators and the company's improved financial performance.

Over recent years, and in the face of serious commercial challenges, CWU members have delivered significant increases in productivity and improvements to the company's profitability and business performance. As your own Corporate Social Responsibility Report recognises: "Success at Royal Mail depends on our people...we rely on them to fulfil the Universal Service and go the extra mile in delivering a high quality customer service".

Given Royal Mail's continued commitment to its people and to provide industry-leading pay and conditions, we believe our members deserve an inflation-plus pay award in April 2017 that maintains their living standards and rewards them for their vital, ongoing contribution to the business.

Cost of Living

Maintaining our members' living standards relative to the rising cost of living is a key priority for the CWU. Our preferred measure – the Retail Prices Index (RPI) - was 2.6% in the year to January 2017, up from 2.5% in December. Inflation has therefore risen significantly from the 1.6% recorded at the time of the last pay settlement (linked to RPI in March 2016) and is forecast to rise further over the year ahead.

According to an average of independent forecasts (collected by IDR in February 2017) inflation is forecast to rise over the coming months, with RPI hitting 3.0% in March 2017 before peaking at 3.8% in October 2017 and then falling back to 3.6% in March 2018. The Treasury's latest average long term forecasts show that RPI is expected to be 3.5% in 2017 and 3.4% in 2018. As a result, the CWU will be seeking an inflation-plus deal, either as a one year settlement from April 2017 or as part of a longer term deal that reflects RPI in 2018 and 2019.

According to IDR's survey of employers' intentions for 2017, the all-items RPI still remains employers' primary reference point for inflation, with two-thirds citing it as one of the most relevant inflation measures.

The CWU believes the RPI is the most relevant cost of living measure for our members as it is more focused on the costs faced by workers. This is because it includes the housing costs of people with a mortgage, it excludes the top 4% of households by income and it excludes pensioner households.

A report by leading economist Mark Courtney in 2014 found that the statistical method used to calculate the CPI is biased downwards. This means that CPI is likely to under estimate inflation by around 0.6 percentage points on average.

Although declassified as a national statistic, the RPI is still published by the Office for National Statistics because it is used to determine annual increases in the level of pension payments from defined benefit schemes, commuter train fares, Government bond interest and student loan interest charges. As the TUC have argued, if the RPI formula is good enough for the Government, the bond markets and for billions of pounds of public debt, it is good enough for unions and employers.

Pay Settlements

In submitting our claim, we also wish to highlight the latest trends in settlement levels. Median average pay settlements (recorded by IDR and XpertHR) are currently running at 2.0% for the whole economy while the Labour Research Department's recorded median settlement is currently standing at 2.1%. Across the whole economy, the upper quartile pay settlement is 2.5% (as recorded by IDR) and 2.3% (recorded by XpertHR).

At the time of the 2016 pay deal (1.6% from April 2016) median average pay settlements as recorded by XpertHR, IDR and LRD were running at 2.0%. Any pay deal will therefore need to address the erosion of our members' living standards over the past 12 months relative to RPI and also the rising inflationary pressures that are forecast over the next three years in 2017, 2018 and 2019.

Pay Comparisons

For the purposes of pay comparability, the tables below set out a number of comparators for the main Operational Grade (OPG) in Royal Mail Letters – the most populous CWU represented grade in RMG.

From 1st April 2016, an OPG was paid a maximum basic national weekly pay rate of £412.30 (£489.01 in London). At 39 hours a week, the national rate is equivalent to £10.57 per hour.

By comparison, UK median average full-time basic pay was £505.50 per week whilst the mean average full-time basic pay rate was £614.20 per week in 2016 (Annual Survey of Hours and Earnings, ONS, 2016).

The Royal Mail OPG grade is therefore paid 81.6% of the UK median (or £93.20 less per week) and 67.1% of the UK mean average pay rate (or £201.90 less per week).

The table below shows that weekly pay for a Royal Mail OPG grade is below the median and mean average weekly pay for a full time UK employee and is also below the pay of a number of other roles recorded by the Office for National Statistics.

Table 1: Royal Mail OPG pay comparisons with roles recorded by the Office for National Statistics

Role	Median average pay	Mean average pay
UK weekly pay for full time employees	£505.50	£614.20
Skilled Trades Occupations	£460.00	£487.50
Transport & Mobile Machine Drivers Operatives	£432.00	£466.50
Transport and distribution clerks and assistants	£439.90	£464.80
Process plant and machine operatives	£408.00	£439.60
RM Letters OPG	£412.30	£412.30
Customer service occupations	£372.60	£417.70

Source: ONS Annual Survey of Hours and Earnings (ASHE) 2016

Table 2 below shows that weekly pay for a Royal Mail OPG grade is below that of several other public service roles.

Table 2: Royal Mail OPG pay comparisons with public service roles 2016

Role	Max pay rate
School classroom teachers (England & Wales)*	£733.03
Police Officers (Constable)**	£728.26
Senior Prison Officer****	£603.32
Fire-fighter (competent)***	£567.99
Qualified Nurse	£540.05
RM Letters OPG	£412.30
*NASUWT website (upper pay range max) ** Police Federation, constables pay scales (max) ***FBU – pay settlement 2016, firefighting roles ****Prison Service Pay Review Body 15 th report on England and Wales 2016	

As Royal Mail is the only universal postal operator in the UK, it is difficult to make like-for-like comparisons between pay rates in Royal Mail letters with roles outside the organisation. It is also difficult to compare Royal Mail pay rates with similar grades in European incumbent postal operators due to limited publicly available information. However, we do hold some information on pay in Deutsche Post, which shows that for the main postal delivery grade pay is higher at the German incumbent than at Royal Mail.

The maximum hourly pay rate for the main postal delivery grade at Royal Mail is £10.57, compared with €15.37 (£12.86¹) for the equivalent grade in Deutsche Post since 2001, and €18.18 (£15.21²) for workers who commenced employment before 2001.³ This challenges WIK's assertion that Deutsche Post has been more effective at exerting downward pressure on remuneration costs than Royal Mail.⁴

Royal Mail's Financial Performance

In recent years, CWU members have played a critical role in improving Royal Mail's financial performance. The half year results to September 2016 show that revenue was up one per cent on an underlying basis, with good growth in GLS (9%) offsetting a 1% decline in UKPIL revenue. Parcel volumes were up 2%, driven by growth in Royal Mail account and import parcels leading to a 3% increase in revenues. Adjusted operating profit before transformation costs was £320 million and the declared dividend was 7.4p per share, up 5.7% from 7.0p per share.

For Royal Mail Group, the last full financial results for 2015/16 showed:

- Revenue up 1% to £9,251m;
- Operating profit *before* transformation costs up 5% to £742m;
- Operating profit *after* transformation costs down 2% to £551m;
- Operating profit margin after transformation costs was down to 6.0% from 6.4%;
- Profit before taxation down to £538m from £569m;
- Free cash-flow increased to £453m (impacted by £100m from the sale of the Paddington site) and this supported a dividend payment of 21p (up 5% from the previous year).

¹ Based on an exchange rate of 1 Euro = 0.837 GBP, 21st July 2016

² Based on an exchange rate of 1 Euro = 0.837 GBP, 21st July 2016

³ Ver.di – United Services Union, 2016

⁴ Review of the projected costs within Royal Mail's business plan, WIK, 31 March 2016

Since privatisation we have seen a significant improvement in the company's financial performance with adjusted operating profit before transformation costs increasing each year from 2012/13 as shown in table 3 below.

Table 3: Royal Mail Operating profit before transformation costs 2013-2016

Year	Operating profit before transformation costs	Underlying change*
2015/16	£742m	5%
2014/15	£740m	6%
2013/14	£729m	na
2012/13	£598m	na

**Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance.*

Source: Royal Mail Annual Reports and Accounts

Royal Mail Efficiency

From 2010/11 through to 2015/16, Royal Mail has delivered annual productivity improvements (using its own measure of the number of weighted items per gross hour) of 4.4%, 3.2%, 1.7%, 1.7%, 2.5% and 2.4%.

In addition, Ofcom's efficiency measure, PVEO (Price, Volume, Efficiency, Other) shows that Royal Mail reduced costs by 0.7% in 2013-14, 2.6% in 2014/15 and 1.5% in 2015/16. Real costs of the Reported Business reduced by 1.7% in 2015/16 compared to 2.1% in 2014-15.

UKPIL people costs reduced by 1% in the year to 2015/16 due to a 2.0% reduction in frontline hours, savings from the management reorganisation programme in 2015 and the impact of its cost avoidance programme.

Total non-people costs reduced 3.0% in the year to 2015/16, driven by the company's cost avoidance programme.

In the six months to September 2016, people costs declined by one per cent, largely driven by a 2.2 per cent improvement in collections, processing and delivery productivity in the core network. This more than offset pay increases, largely the 1.6 per cent frontline pay award. The improvement in productivity was achieved through a 1.1 per cent reduction in core network hours, coupled with the absorption of a higher workload, driven by an increase in tracked products. Royal Mail continues to target annual productivity improvements of 2.0-3.0 per cent per annum.⁵

Ofcom's statement on the regulation of Royal Mail published in March 2017 concludes that Royal Mail has made progress on efficiency in recent years and has continued to achieve efficiency savings.

Ofcom reported in May 2016 that average operational efficiency in terms of gross hours has improved by 5.8% since 2010-11 (approx 1.9% per annum) for Delivery Offices, and 8.8% since 2012-13 (approx 2.9% per annum for Mail Centres).⁶

⁵ Royal Mail results for the half year ended September 2016, 17th November 2016, accessed at: <http://www.royalmailgroup.com/sites/default/files/Half%20Year%20Results%202016-17.pdf>

⁶ Ofcom, 25th May 2016, *ibid*, para 4.56, p.43

The CWU has maintained that the efficiency improvements made by Royal Mail in recent years have been significant, rather than at the 'lower end of a reasonable range for improvement'. There is a limit to how hard staff can be expected to work in physically demanding jobs and how far Royal Mail can push efficiency improvements before quality of service is threatened.⁷ FTI Consulting supports this view, saying that management's capacity to manage change is limited by the need to maintain its high quality of service targets.⁸

Headcount Reductions

The CWU has (and continues to have) serious concerns about Royal Mail's resourcing strategy and the impact of overall reductions in headcount.

Royal Mail reports and accounts show that the number of employees fell by 48,552 over a ten year period, from 198,552 in 2003 to 150,000 in 2013. This is the equivalent of 4,850 job losses per year. Since privatisation, UKPIL has lost 11,000 jobs - from 150,000 employees in March 2013 to 139,000 employees in 2016 (a drop of 8%). This equates to an aggregate 3,666 job losses per year between 2013 and 2016.

As well as improving profitability and productivity, the business has made huge financial savings as a result of annual reductions in headcount. A reduction of 3,500 jobs saves the business around £105 million per annum (assuming current OPG grade max plus employer on-costs). Over three years this would equate to a total saving of £315m.

The reduction in headcount is also reflected in the significant reduction in paybill costs for CWU represented grades which fell from £4.37 billion in 2015 to £4.25 billion in 2016 (a fall of £115m or 2.6%).

Dividend Payments

The company's improved financial position has enabled it to pay annual increases in dividend payments to shareholders. Since privatisation, Royal Mail has now paid out dividends totalling £638 million.

The first issue of shares in October 2013 saw 70% of shares transferred into private hands: individuals 17%; financial institutions 43%; and employees 10%. The Government maintained 30% of shares, assets that were sold off in two equal tranches in June and October 2015.

As such, private investors received dividend payments on 70% of Royal Mail shares between October 2013 and June 2015, and 85% between June 2015 and October 2015. These were worth £261.55 million. Subsequent dividends payments on privately held shares have been £295 million, giving a cumulative total of £565.55 million.

In total, employees have earned £63.8 million: 10% of dividends. The Government, meanwhile, earned £81.45 million on their holdings, sacrificing approx. £87.75 million following their sale in June and October 2015.⁹

⁷ CWU Submission to Ofcom: Review of the Regulation of Royal Mail, September 2015, p.14, available at:

<http://www.cwu.org/departments-services/research/documents-and-consultation-responses/postal/>

⁸ FTI Consulting, September 2015, *ibid*, p.13

⁹ <http://www.royalmailgroup.com/investors/shareholder-communications/dividend-information;>

http://www.royalmailgroup.com/sites/default/files/Annual%20Report%20and%20Accounts%202015-16_0.pdf

Table 4: Royal Mail share dividends 2013 – 2016

Ex-dividend date	Pence per share	Total payment (£m)	Government share (£m)	Private sector share total (£m)	Employee share total (£m)
02/07/2014	13.3	133	39.9 (30%)	93.1 (70%)	13.3 (10%)
27/11/2014	6.7	67	20.1 (30%)	46.9 (70%)	6.7 (10%)
02/07/2015	14.3	143	21.45 (15%)	121.55 (85%)	14.3 (10%)
03/12/2015	7.0	70	-	70 (100%)	7 (10%)
30/06/2016	15.1	151	-	151 (100%)	15.1 (10%)
08/12/2016	7.4	74	-	74	7.4 (10%)

Royal Mail's Quality of Service

Royal Mail has reported that for the financial year to date (2016/17) it is meeting its First Class quality of service target.¹⁰

However, the CWU has expressed our concern to Ofcom that Royal Mail's capacity to meet its quality of service obligations is being undermined by the constant pursuit of cost efficiencies. The ongoing reductions in staff numbers and Royal Mail's targeting of around £600m in cost avoidance by 2017-18 is likely to severely limit its ability to maintain and improve its service standards.

Royal Mail has itself expressed concerns to Ofcom about the impact of efficiency on quality of service, saying: "The necessary pursuit of efficiency must always be balanced by the impact on our people and regulated quality of service requirements we must deliver"; and "If we drive change too hard through major operational or pay related initiatives, this could trigger declines in quality of service below the regulatory minimum."¹¹

The push for ever greater cost efficiencies is therefore likely to put Royal Mail's service quality at serious risk.

Customer Satisfaction

Royal Mail reported that its customer satisfaction ratings in letters is between 87% and 90% based on its own Consumer Satisfaction Survey for 2015/16.¹²

Ofcom's latest residential consumer satisfaction results show that the large majority of consumers continue to be satisfied with most aspects of postal services. The results suggest that consumer satisfaction remains high, and at similar levels to that reported last year.

Conclusion

In summary, the CWU believe that a combination of rising inflationary pressures and continued increases in Royal Mail's productivity, efficiency and profitability provide a compelling and affordable case for a consolidated, inflation plus pay rise for all CWU represented grades. In seeking either a one year or longer term deal, the CWU's priority will be to maintain members' living standards and reward them for their ongoing and significant contributions to the success of Royal Mail.

¹⁰ Royal Mail quarterly quality of service and complaints report, Q3 2016/17, accessed at: <http://www.royalmailgroup.com/sites/default/files/Quarterly%20Quality%20of%20Service%20and%20Complaints%20Report%202016-17%20Q3.pdf>

¹¹ Royal Mail submission to Ofcom, August 2016, available at: https://www.ofcom.org.uk/data/assets/pdf_file/0033/90789/Royal-Mail.pdf

¹² Review of the Regulation of Royal Mail, Ofcom, 1st March 2017

I look forward to further talks with the business in pursuance of our claim. We have already signalled we would be agreeable to separate pay talks in relation to our members in Fleet and Parcelforce Worldwide (PFW).

I await your early response

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Terry Pullinger', with a stylized flourish below it.

Terry Pullinger
Deputy General Secretary (Postal)