

Call for input: The future of the universal postal service

Citizens Advice submission
April 2024



**citizens
advice**

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1. Executive summary

Royal Mail shouldn't be rewarded for half a decade of service failures with a licence to slow down deliveries and charge up to £7.35 for a next day stamp. It does not meet its targets - and is under little pressure to do so as a monopoly presence in much of the postal market. What's more, it is not clear it is any more efficient than it was a decade ago.

No one doubts that the USO (Universal Service Obligation) imposes duties on the firm - but these duties were known to investors from the point of privatisation onwards. Cutting them with no strings attached appears guaranteed to see the company requesting further reductions to its requirements in future.

Reform to the USO may be advisable - it is certainly not providing effective consumer protection in its current form. But Ofcom cannot propose a set of options designed to reduce requirements on - and generate substantial savings for - Royal Mail with no commensurate proposals to tackle the issues that matter most to service users. Consumers, businesses and taxpayers should expect enforceable guarantees that the service will be extended to all, meet its targets and be affordable.

It is welcome that Ofcom is having this debate in the open. But ultimately, changes to Royal Mail's obligations should be made - as Parliament intended - through democratic debate. One of the options Ofcom proposes would see the target speed of delivery for important letters, including hospital appointments and benefits letters, reduced. Unlike reductions to delivery days - which require legislative scrutiny - this change could be implemented unilaterally by Ofcom. But reducing the speed would have very similar practical implications to reducing delivery days - and we believe should therefore be subject to the same degree of political scrutiny. Ofcom should fulfil its statutory duties by advising Parliament on a way forward, and must not be seen to be avoiding the necessary debate.

1. Postal services - both in the UK and across Europe - are at a crossroads. On the one hand, post remains a fundamental pillar of our communications network. On the other, we've witnessed a digital upheaval in the way we communicate and letter volumes have declined as a result. This makes Ofcom's consultation paper exploring the future regulation of our postal service under the Universal Service Obligation (USO) timely. However, **we are concerned that Ofcom's outlined approach is far too narrow, leaving vital issues unaddressed.** Unless that approach is reconsidered this review could become a missed opportunity, at best, and at worst leave consumers far more exposed to service failures and rising prices. One option Ofcom proposes, for example, could see 1st class stamp prices rocket nearly 500%, to around £7,¹ with no commensurate requirement on Royal Mail to tackle the quality of service failures that now stretch back nearly half a decade.
2. Our response sets out our objections to Ofcom's position in detail. Fundamentally, we question whether Ofcom's analysis meets the provisions set out in the 2011 Postal Services Act, which requires the regulator to operate with regard to both the financial sustainability of the service, and its efficiency. This consultation devotes considerable time and analysis to the first point on financial sustainability, but crucially makes no assessment of the second point on whether or not Royal Mail is delivering an *efficient* service. Without this, Ofcom's modelling of the costs of the USO is incomplete and cannot be assessed. We only know they are overstated to the extent Royal Mail is not operating efficiently - something the consultation paper acknowledges. And with service cuts being proposed on the basis of this modelling, **there is a real risk that Royal Mail is simply being allowed to pass inefficiency costs on to consumers in the form of higher prices and slower deliveries** - something the regulatory provisions in the 2011 Act clearly sought to avoid.
3. **If Ofcom is to grant any reduction in the scope of the USO, it must make sure that it has reached a clear and considered view on the efficiency of Royal Mail's current operations before doing so.** In our view, before making any changes to the USO, Ofcom must:

¹ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.41.

- 3.1. Commission its own independent analysis into Royal Mail's current efficiency levels, instead of relying on the company's own assessments of its performance. This would a) provide a robust assessment of Royal Mail's current levels of efficiency, allowing for meaningful net cost calculations, and b) could also be used as a basis to decide whether Royal Mails' forward-looking efficiency targets are appropriately ambitious.
 - 3.2. Put in place a system that establishes credible incentives for Royal Mail to deliver efficiency savings. Both Royal Mail and Ofcom should be publicly accountable for its efficiency performance by being required periodically to report to the Business Select Committee.
4. As well as these gaps around basic issues such as service efficiency, the consultation paper also lacks detail on questions of consumer safeguards and regulatory scrutiny of Royal Mail under any revised USO. **All of these gaps in the analysis mean that, based on what is provided, it is not possible to respond to the consultation questions directly.** Without a full and independent assessment on Royal Mail's operating efficiency, for example, we cannot engage with the various questions on Ofcom's assessment of the financial costs of the USO. Similarly, we are presented with questions on the implications for consumers of different cuts to Royal Mail's USO requirements. Ofcom's paper acknowledges that reliability and affordability are the key concerns for the individuals and businesses who rely on post, yet gives no indication of how the regulator would secure these vital principles under a revised USO, beyond the vaguest suggestions that 'it will be important to consider whether additional safeguards are necessary to ensure people's needs are fully met.'² Without this context, we cannot comment on the implications of the cuts Ofcom is putting forward.
5. We have therefore framed our response around what we view to be the key themes and issues for consumers when it comes to revising the USO, with indication in the appendix on which paragraphs are most relevant to specific questions in the paper.

² Ofcom, [The future of the universal postal service](#), 2024, page 2.

6. **The backdrop to the current review is one of ongoing service failures combined with steeply rising prices.** Although the UK parcels market is competitive, Royal Mail holds a virtual monopoly over letter post, making the targets and conditions set by the USO central to consumer protection. Yet Royal Mail has missed its quality of service targets for 4 of the last 5 years. And in that time 1st class stamp prices have almost doubled. This situation has led to a problematic set of incentives for the company - our latest research revealed that 46% of letter consumers reported using 1st class products because they were worried their post might not otherwise arrive on time.³ We're concerned that the lack of effective regulation under the current USO means that, at best, there are few incentives for Royal Mail to actually meet targets and, at worst, we risk creating commercial advantages to ongoing poor service.
7. As the statutory advocate for postal consumers, we've used our insights to identify **3 regulatory priorities for consumers which are substantially absent from Ofcom's review.** These are: **reliability, affordability and universality.** In our response, we set out the ways in which these principles are not effectively realised within the current USO and some practical options to incorporate them into a future-facing model.
8. **Reliability:** Targets under any revised USO must be backed by a more effective, consumer-focused regulatory system. Under current arrangements, Royal Mail faces few commercial incentives to meet requirements - it has missed annual delivery targets for 4 of the last 5 years, yet has received just 2 fines as a result. The most recent, and highest, still amounts to just 0.05% of that year's group revenue for the company.⁴ Enforcement decisions are taken behind closed doors, with Royal Mail the only stakeholder represented. We instead need to move towards a system where consumers are guaranteed a voice in that investigative process, where quality of service standards provide fuller information, and where Ofcom has oversight of a much wider range of

³ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 35. Letter consumers were asked about the 6 months up to June 2023.

⁴ Ofcom, [Royal Mail fined £5.6m for missing delivery targets](#), 2023. Royal Mail, [Financial Report for the full year ended 26 March 2023](#), 2023, page 1. Reported Group revenue for the year ending March 2023 was £12,044m. ($£5.6m / £12,044m$)*100 = 0.05%.

letters in the system. We should also be considering the moves by other regulators to link missed targets to consumer compensation - particularly if consideration is being given to reducing requirements on Royal Mail in any way.

9. **Affordability:** The USO commits to the provision of an affordable postal service, yet the cost of a first class stamp has nearly doubled in 5 years. Royal Mail holds a virtual monopoly over letters and that lack of competitive pressure on prices means proactive regulation is vital. There are a number of steps we believe could be taken to improve oversight. We would like to see greater transparency in pricing scenario modelling - which is largely negotiated privately between Ofcom and Royal Mail at present. We also call for an end to the developing problem of digital exclusion penalties, whereby Royal Mail can charge higher prices for products purchased in person, as opposed to the same product bought online. Finally, we need to see price safeguard caps retained under any future form of the USO, as the most effective and practical measure to guarantee affordable prices for all low income consumers.
10. **Universality:** While the USO is clearly designated a 'universal' service, the way provision is set up at the moment prevents this. Under the current model, the USO commits Royal Mail to delivering to every address in the UK. However, this shuts out millions of people who - either temporarily or permanently - are unable to securely access their post at a fixed address.⁵ This might be due to homelessness or housing insecurity, or because they are a victim of domestic abuse and have someone intercepting their post. But these issues could be resolved - as they have been in other countries. An 'Address & collect' service would give people the option to access post at an alternative location, such as a post office. We would like to see any review of the USO used as an opportunity to make sure that the designated universal service provider has to make reasonable provisions to deliver to every individual, rather than to every address as now.
11. We believe a USO that embodies these principles would far more effectively serve the needs of the consumers it is there to protect. None of the measures we suggest would be incompatible with considerations of

⁵ Citizens Advice, [Millions without mail](#), 2020.

financial sustainability. But crucially, they also stand the best chance of generating a good value service, tackling many of the gaps and knock-on costs within the current system and reducing the likelihood of consumers and government being asked to pick up the tab for service failures and inefficiencies in future.

Citizens Advice's statutory role in postal services

Citizens Advice is the statutory advocate for postal consumers in England and Wales. Our role is to make sure postal services meet the needs of consumers - particularly those in vulnerable circumstances - and small businesses. We have on-the-ground insights from our network of 300 local offices, who see first hand the impact of problems with our postal service, both in terms of the impact on individuals and additional demands on already-stretched frontline services. This is combined with years of postal policy expertise in our national team. Together, these allow us to set out what consumers want and need from their postal services.

2. Postal services continue to form an essential part of our communications network

12. The ongoing shift towards digital has changed the way many of us interact with post, reducing the reliance on letters for digitally engaged consumers. But letters remain a vital part of the UK's national communications infrastructure. 77% of UK adults received important information, like benefits paperwork, court documents, bills or ID through the post in the 6 months leading up to June 2023. And 46% sent important information in the same time period.⁶ Post also remains a tool for social connection - 57% say they'd feel isolated without the ability to send and receive letters and cards.⁷
13. There are a number of reasons for the ongoing significance of post. The UK has high rates of digital exclusion - 1 in 20 households don't have internet access.⁸ As the cost of living crisis continues, an estimated 1 million people disconnected their broadband over the last year because they couldn't afford it.⁹ And 1 in 5 UK adults can't complete basic digital tasks, like using a mouse or search engine.¹⁰
14. Post is also more heavily relied on by certain groups. Digital exclusion is higher amongst older people, those on lower incomes and those living in rural areas.¹¹ These groups depend on post more for social and economic participation.

⁶ Online survey of 4,007 UK adults, Walnut, 25 May - 5 June 2023.

⁷ Ofcom, [Residential Postal Tracker](#), 2022, Q3_5.

⁸ Ofcom, [Review of Second Class safeguard caps 2024: Proposed price caps for Second Class universal services](#), 2023, page 23.

⁹ Citizens Advice, [One million lose broadband access as cost-of-living crisis bites](#), 2023.

¹⁰ Lloyds Bank, [UK Consumer Digital Index](#), 2023.

¹¹ Yates, S. J. et al., [Who are the limited users of digital systems and media? An examination of the U.K. Evidence](#), 2020; Communications and Digital Committee, [Digital exclusion, 3rd Report of Session 2022-23](#), 2023.

Wilfred came to Citizens Advice for help with debts. He has struggled to manage his money since his wife died and cannot use online banking services. Wilfred could not bring his most recent paper bank statements with him to Citizens Advice as they had been delayed in the post. This makes it much harder for Wilfred to manage his money. It also delays any debt advice Citizens Advice is able to give him.

Citizens Advice case study, September 2023

15. People with certain protected characteristics (like racially minoritised groups and people with long-term health conditions or disabilities) are also more likely to rely on post.¹² This is often linked to issues such as digital skills, but also to greater interaction with government services and support as a result of structural inequalities.
16. The centrality of post in many government services is frequently raised by our frontline advisers. As one pointed out:

“There is still a heavy reliance on ‘paperwork’ at all kinds of institutions. Many will not accept online versions of documents, many do not even offer access by email - the Department for Work and Pensions, for example.”
17. They point out that a wide range of essential legal documents, including DWP appeal responses, benefit awards (except for Universal Credit), revision and overpayment notifications (except UC), HMCTS directions and hearing dates continue to be sent via letter post.
18. Given these factors, the way our postal network is regulated - and the extent to which regulation protects service users and particularly people in vulnerable circumstances - is an important question, even as we look to a more digitally-determined future.

¹² Citizens Advice, [The future of the Universal Service Obligation](#), 2023.

3. The USO in its current form isn't protecting consumers

19. With a private company holding a monopoly on an essential service, the USO is designed to impose conditions Royal Mail must meet in order to protect consumers and businesses from poor service and high prices. Ofcom's role is to enforce those obligations, with regard to both the efficiency and financial sustainability of the service.
20. Ofcom's own research suggests that universality, affordability and reliability are the things consumers most prize about their postal service.¹³ But the current USO is not meeting those needs. Below, we set out the key problems and gaps with the existing approach to postal regulation.

Missed targets with minimal sanctions

21. Under the USO, Ofcom sets Royal Mail's quality of service targets. These are particularly important for consumers as Royal Mail, the USO provider, holds a virtual monopoly over letter delivery and so faces no external competitive pressure to tackle poor performance.
22. Yet Royal Mail has failed to meet its quality of service targets for 4 out of the last 5 years (see figure 1 below). The company hasn't met its targets in a single UK postcode area for 6 quarters in a row. This widespread failure to deliver means 1 in 4 people (12.1 million) experienced letter delays in the month leading up to 5 January 2024.¹⁴

¹³ Ofcom, [Review of postal users' needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom, 2020](#), paragraph 4.41.

¹⁴ Online survey of 2,074 18+ UK adults, Yonder Data Solutions, 5-7 January 2024.

Figure 1: Royal Mail performance against delivery targets¹⁵

	2018/19				2019/20				2020/21				2021/22				2022/23				2023/2024		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
% 1C delivered on time (Target: 93%)	92.3	91.4	90.2	92	93.3	93.4	92	93.2	66.2	79	70.6	76.2	87.3	82.4	76.2	79.6	85.1	72.6	54.2	78.9	74.6	74.1	70.1
% 2C delivered on time (Target: 98.5%)	98.8	98.6	99	98.9	98.9	98.8	98.6	98.6	93	95.3	91.5	93.9	97.5	95.7	93.8	94.3	96.1	91.3	78.6	94.5	94.3	91.3	90.2
Postcode Area target % Delivered	92/118	69/118	42/118	80/118	109/118	114/118	82/118	107/118	-	-	-	0/118	14/118	0/118	0/118	1/118	1/118	0/118	0/118	0/118	0/118	0/118	0/118

¹⁵ Royal Mail, [Quality of Service Reports](#), 2018-2024.

23. Millions of people are suffering the consequences of Royal Mail letter delays - our most recent research found 3.6 million people reported a negative impact, such as missing fines, bills or health appointments.¹⁶ People of colour are nearly twice as likely (23%) to experience harm as a result of letter delays compared to white respondents (13%).¹⁷ Similarly, 23% of disabled people experienced negative consequences as a result of letter delays, compared to 12% of non-disabled people.¹⁸ At Citizens Advice, our frontline advisers regularly support people needing help with these issues.

Clare is terminally ill and applied to the council for a blue badge so she could park closer to the hospital. The council sent the blue badge through the post but it didn't turn up. As a result, Claire couldn't park at the hospital. She applied for another blue badge, but she was worried there was no guarantee that this would turn up either.

Citizens Advice case study, November 2023

24. This issue is also hitting businesses. Our research revealed over 25% of small businesses experienced a letter delay in the previous month.¹⁹ Of this group, nearly 2 in 3 people reported direct negative impacts, such as the loss of a customer or payment delays.²⁰
25. Ofcom has investigated Royal Mail's quality of service for USO post five times since 2015 (and has chosen not to investigate in several other years in which Royal Mail missed targets).²¹ Yet the regulator has fined Royal Mail only twice. The most recent - and largest - fine was just £5.6 million, or 0.05% of the group's revenue for that financial year.²²

¹⁶ Online survey of 2,074 18+ UK adults, Yonder Data Solutions, 5-7 January 2024.

¹⁷ Citizens Advice, [Royal Mail delays hit an estimated 15.7 million people in the last month](#), 2023.

¹⁸ Online survey of 2,074 18+ UK adults, Yonder Data Solutions, 5-7 January 2024.

¹⁹ Citizens Advice, [Postal problems cause big challenges for small businesses](#), 2023. From online survey of 1320 small businesses carried out by Yonder Data Solutions, 8- 24 March 2023.

²⁰ Citizens Advice, [Postal problems cause big challenges for small businesses](#), 2023.

²¹ Ofcom, [Closed cases](#).

²² Ofcom, [Royal Mail fined £5.6m for missing delivery targets](#), 2023.

Royal Mail, [Financial Report for the full year ended 26 March 2023](#), 2013, page 1.

Reported Group revenue for the year ending March 2023 was £12,044m. (£5.6m / £12,044m)*100 = 0.05%.

26. Ofcom's penalty guidelines make clear that fines should help to ensure it is not more profitable for a business to ignore them than to comply with regulation.²³ Yet, fines at this level offer few real commercial incentives for Royal Mail to invest in improving standards when the company holds a virtual monopoly over letter delivery. Ofcom has the power to fine companies up to 10% of revenue, meaning it could fine Royal Mail up to £1.2 billion.²⁴ The £5.6m fine is over 200 times smaller than the maximum fine Ofcom could have issued.²⁵

Hypothetical calculation of Royal Mail revenue gained from selling 1st class products but delivering a 2nd class service

If every adult in the UK bought a single 1st class stamp in 2022/23 but 26.3% received a 2nd class service,²⁶ this would represent an unmerited revenue gain of £7m for Royal Mail.²⁷ This is considerably more than Ofcom's fine. And this is only for a hypothetical 54m letters. Total letter volumes in 2022/23 were 7.3 billion.²⁸ This simple calculation shows that it could be cheaper for Royal Mail to fail on quality of service and accept the fine than to invest in actually meeting quality of service targets.

27. Even in cases where concerns have been raised that Royal Mail is ignoring some of the key requirements of the USO, this has not always been acted on by the regulator. An investigation by the Business Select Committee last year received evidence from thousands of postal workers suggesting

²³ Ofcom, [Penalty guidelines - Section 392 Communications Act, 2003](#).

²⁴ Ofcom, [Decision finding Royal Mail contravened its quality of service performance targets in 2018/19 and imposing a financial penalty under paragraph 6 of Schedule 7 to the Postal Services Act 2011](#), paragraph 3.12.

²⁵ Reported Group revenue for the year ending March 2023 was £112,044m. 10% of £12,044m = £1,204.4m. £1,204.4m / £5.6m = 215.

²⁶ Royal Mail, [Designated Universal Service Provider Condition 1.10 Annual Adjusted Quality of Service Report 2022/23](#), 2023, page 2.

²⁷ ONS Annual Population Survey over 16 population for 2023 was 54m.
54m * £1.25 (end of year cost of a 1st class stamp) = £67.5m in hypothetical revenue. If 26.3% of this group actually received a 2nd class service that would affect 14.2m people (26.3% of 54m).
14.2m * £0.75 (end of year price for a 2nd class stamp) = £10.7m. The remainder paid the 'right' price 39.8m * £1.25 = £49.8m. Achieved revenue less merited revenue would be £67.5m - (£49.8m + £10.7m) = £7m undue revenue resulting from service failure.

²⁸ Ofcom, [Post monitoring report - Postal services in the financial year 2022-23](#), 2023, page 3.

Royal Mail was prioritising parcel deliveries (where it faces competition from other companies) over letters (where it is the monopoly provider). This would be in breach of its requirement under the USO to deliver letters 6 days per week.

'Our client has problems receiving his mail. His postman has advised him that they don't always have time to deliver the post and if there's only one letter, they won't bother and they will wait until there are more to deliver.'

Citizens Advice case study, September 2023

28. Despite denials from Royal Mail's management, MPs concluded that the company had "deprioritised delivery of letters as a matter of company policy and that it has systematically failed to deliver against parts of its USO."²⁹ They recommended that Ofcom carry out a multi-year investigation.³⁰
29. But Ofcom has so far failed to act on the recommendation to investigate Royal Mail's performance across multiple years.³¹ The regulator did agree to look at the issue as part of its investigation into missed targets in 2022/23, but accepted the line from Royal Mail management, reporting nothing in Royal Mail's written policies provided evidence of letter deprioritisation and instead suggesting the issue was confined to individual delivery offices.³² Yet, following Ofcom's statement in November 2023, both the Sunday Times and BBC Panorama have used undercover reporting and whistleblowers to indicate the practice is likely still taking place.³³ Findings such as these suggest Ofcom does not have a grip on the issue.

²⁹ Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, page 4.

³⁰ Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, paragraph 31.

³¹ Citizens Advice, [Royal Mail delays hit an estimated 15.7 million people in the last month](#), 2023.

³² Ofcom, [Decision finding Royal Mail contravened its Quality of Service performance targets in 2022/23 and imposing a financial penalty](#), 13 November 2023.

³³ BBC One Panorama, [Royal Mail: Where's my post?](#) 26 February 2024.

Sunday Times, [Undercover at Royal Mail: 'Never mind the letters, just take the parcels.'](#) 16 December 2023.

30. **Overall, we believe Ofcom’s existing position on regulating the USO neglects its duties to ensure the legislation offers meaningful protection for consumers. Their approach offers no concrete incentives to Royal Mail to tackle the reliability issues continuing to plague service users - and indeed their singular focus on options leading to cost savings for Royal Mail in this consultation appears to reward such failures.**

Limited protection from steep price increases

31. The provision of an affordable postal service is intended to be a key principle of the USO, and is consistently identified as a priority by consumers.³⁴ Price controls have traditionally been the mechanism to ensure affordability and prevent Royal Mail exploiting its market dominance.
32. Prior to Ofcom assuming control of post regulation in 2011, Royal Mail was subject to price controls on all its major USO products. When Ofcom took over the role of post regulation it scaled back the scope of these controls dramatically, so that only certain 2nd class products were regulated as a “safeguard”. At the time, Ofcom recognised that this approach ran risks in terms of Royal Mail’s incentives to operate efficiently and regulate prices, but believed this could be mitigated by the prospect of end-to-end competition from companies such as TNT. Soon after that, however, it became clear that end to end competition was not going to emerge, due to Royal Mail’s market dominance. Since then, we’re concerned that the incentives for Royal Mail to control prices and operate efficiently have drastically reduced.
33. This becomes clear when recent pricing trends are reviewed. As figure 2 illustrates, **prices are increasing most dramatically in the parts of the market, such as low weight letters, where Royal Mail has a monopoly or is by far the most dominant player.**

³⁴ Ofcom, [Review of postal users’ needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom](#), 2020, paragraph 4.41.

Figure 2: Royal Mail price changes

1st Class Postage Rates		Weight	Apr-22	Apr-23	Oct-23	Apr-24	% Change Over 24 Months	
Monopoly	Letter	0-100g	£0.95	£1.10	£1.25	£1.35	42%	33%
	Large Letter	0-100g	£1.45	£1.60	£1.95	£2.10	45%	
		101-250g	£2.05	£2.25	£2.70	£2.90	41%	
		251-500g	£2.65	£2.95	£3.30	£3.50	32%	
		501-750g	£3.30	£3.30	£3.30	£3.50	6%	
Non-monopoly	Small Parcel	0-1kg	£4.45	£4.19	£4.19	£4.59	3%	-2%
		1-2kg	£4.45	£4.19	£4.19	£4.59	3%	
	Medium Parcel	0-1kg	£6.95	£6.29	£6.29	£6.69	-4%	
		1-2kg	£6.95	£6.29	£6.29	£6.69	-4%	
		2-5kg	£7.95	£7.99	£7.99	£6.69	-16%	
		5-10kg	£7.95	£7.99	£7.99	£8.39	6%	
		10-20kg	£12.95	£11.99	£11.99	£12.49	-4%	

34. This is concerning as our evidence suggests **growing affordability challenges**, particularly for widely-used products not protected by the safeguard cap. We speak to small businesses and consumers facing these challenges day to day. With rising pressure on household budgets, 1 in 5 people said they would struggle to afford a book of 8 second class stamps.³⁵ This is obviously concentrated amongst those on low incomes, who are also more likely to rely on post for interaction with essential services.

"It's just unworkable. We used to get one price increase a year in April now we get two. A lot of people don't notice the later ones coming in and it's just going up and up. The more the prices go up, the less people will use... For so many very small businesses, it is extremely difficult to survive and I can't see many people managing the way it's going."

Interview with sole trader who relies on postal services, March 2024³⁶

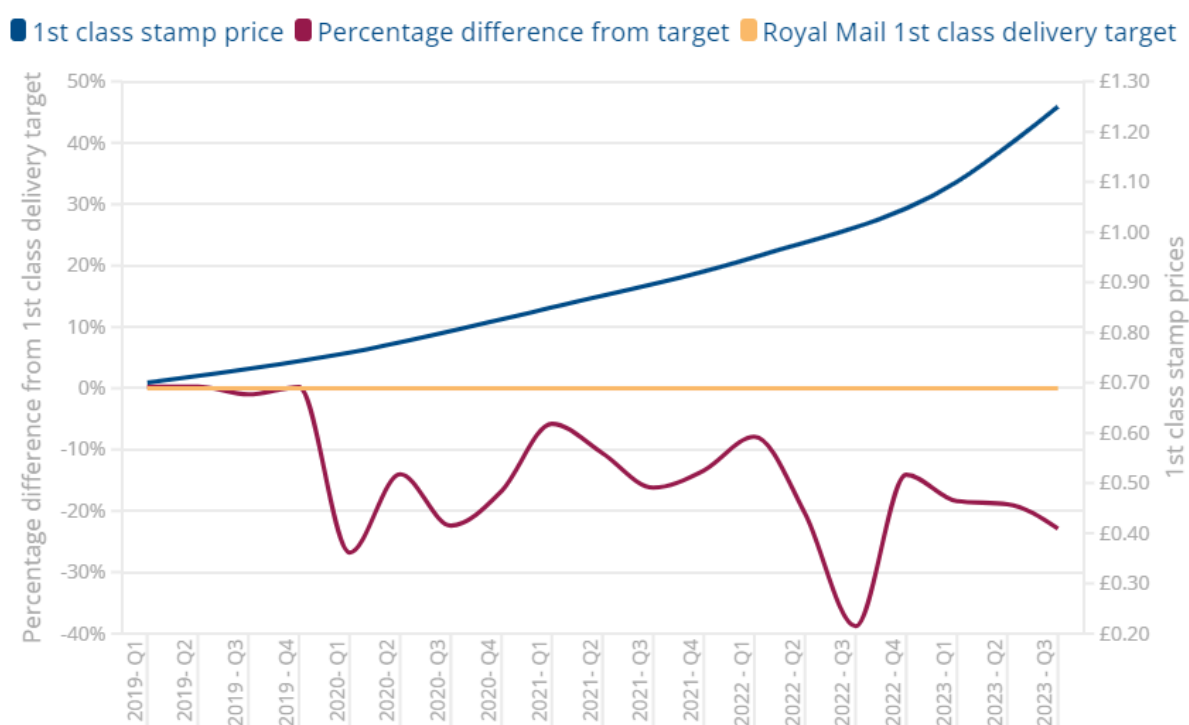
"Sending letters (containing evidence in support of applications, appeals etc) not covered by Freepost options involves spending relatively small but still disproportionate amounts of money which, for low income households, means less for other essentials such as food and fuel. Clients will now embark on journeys to deliver materials by hand, if physically possible"

³⁵ Online survey of 4,007 UK adults, Walnut, 25 May - 5 June 2023.

³⁶ Citizens Advice, interviews with 5 small businesses, 5-7 March 2024.

35. The issue is compounded by the fact that, over the last few years, consumers have been paying significantly more and getting far less (see figure 3). The price of a 1st class stamp has increased 93% over the past 5 years, yet Royal Mail has failed to meet its 1st class delivery targets for the last 15 consecutive quarters.³⁷

Figure 3: 1st class stamp price against 1st class delivery target³⁸



36. **What’s most concerning is that - without effective regulatory oversight on pricing - the incentives for Royal Mail to tackle the issue of reliability become skewed.** Our research revealed 46% of letter consumers reported using 1st class products in the 6 months leading up to June 2023 because they were worried their post might not otherwise arrive on time.³⁹ This can lead to a troubling cycle: if Royal Mail is not effectively penalised for poor service reliability and faces very limited controls on prices as a monopoly provider, more consumers are pushed

³⁷ Royal Mail, [Quality of Service Reports](#), 2018-2024.

³⁸ Royal Mail, [Quality of Service Reports](#), 2019 - 2023.

³⁹ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice’s response to Ofcom’s consultation](#), 2023, paragraph 35.

towards premium-price products, effectively offering a commercial advantage to the company for ongoing poor service. These are precisely the kinds of incentives effective regulation is intended to avoid, but Ofcom has failed to effectively grasp this issue in recent years. Their proposal in the consultation paper to raise 1st class prices by close to 500% could effectively strengthen the loop still further.⁴⁰

37. We're also concerned that the current USO permits a **growing 'digital exclusion penalty'** within what is intended to be a universal pricing structure. The USO is meant to provide a 'one-price-goes-everywhere' service. 2 in 3 people agree that Royal Mail should provide its services at the same price to all.⁴¹ Yet, with the expansion of online markets and competition between Post Office Limited and Royal Mail, Royal Mail has begun to charge more for those buying postage products in person, often at a post office. For example, 2kg 2nd class medium parcels are now 16% more expensive if they are purchased in person.⁴²
38. Until October 2023, this issue only affected the parcels market. But the most recent rounds of price increases have expanded this price differential to letter consumers too. In the UK, where 1 in 4 adults lack basic digital skills,⁴³ we've ended up with a digital exclusion penalty within our national postal infrastructure. With 5 million workers likely to remain acutely digitally under-skilled in 2030, according to the Lords Communications and Digital Committee⁴⁴, this loophole risks exacerbating inequalities and should be a concern for both the regulator and the government.

⁴⁰ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.41.

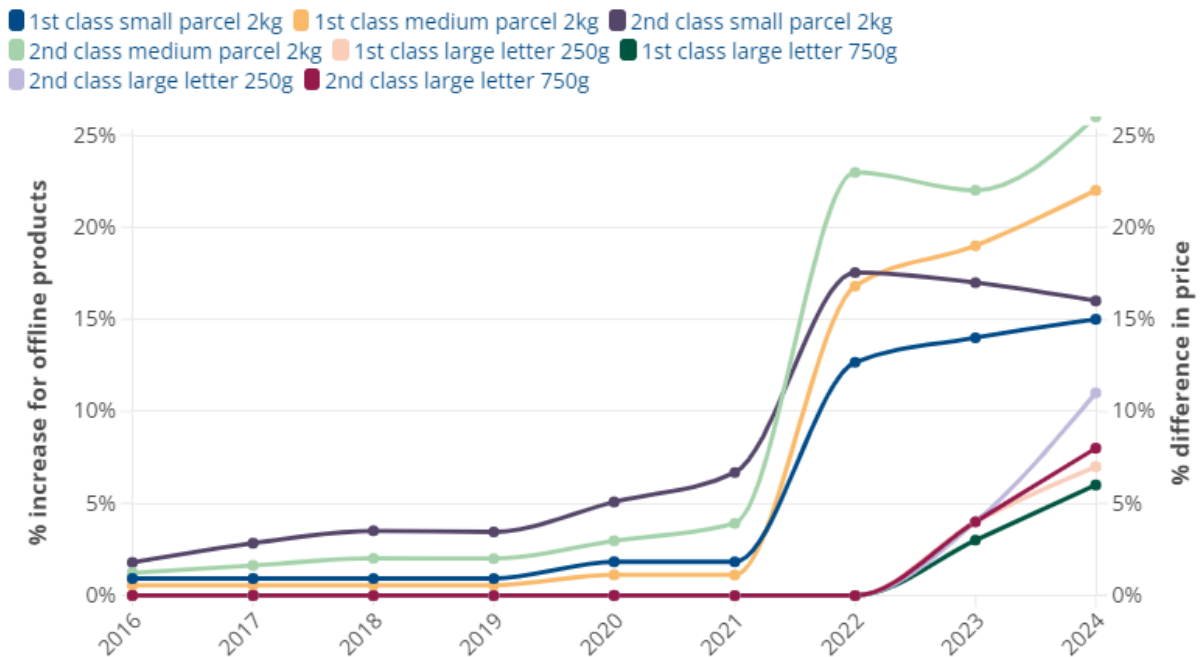
⁴¹ Ofcom, [Review of postal users' needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom](#), 2020, paragraph 4.45.

⁴² Citizens Advice, [The future of the Universal Service Obligation](#), 2023, page 17.

⁴³ Lloyds Bank (2023) [UK Consumer Digital Index](#), page 11.

⁴⁴ Communications and Digital Committee, [Digital exclusion. 3rd Report of Session 2022-23](#), 2023, page 6.

Figure 4: Increase in Royal Mail digital exclusion penalty over time⁴⁵



The current USO is not truly universal

39. The USO should be universal, yet in its current form it's not. Under existing requirements, Royal Mail needs to deliver to every address in the country. But this focus on addresses, rather than individuals, leads to the temporary or permanent exclusion of millions. Between 2010 and 2020, 7 million people in the UK were unable to access their post at some point.⁴⁶ There are several possible reasons for this, including:

- 39.1. **People experiencing homelessness** can struggle to receive post because they may not have an address for letters to be sent to. They may be moving around frequently, or living in temporary accommodation where access to post isn't secure.

⁴⁵ The Great Britain Philatelic Society, [Letter and Packet Rates from 2006](#); Royal Mail, [Our prices: Your handy guide to our UK and International parcel and letter service prices](#), 2024, page 6; Royal Mail, [Our prices: Your handy guide to our UK and International parcel and letter service prices](#), page 6.

⁴⁶ Citizens Advice, [Millions without mail](#), 2020, page 4.

- 39.2. **Victims and survivors of domestic abuse** may experience perpetrators opening, hiding or destroying their post as a means of abuse. If they live elsewhere, they might struggle to receive their post due to fears about giving out their address, or returning to an old address.
- 39.3. **People from a Gypsy, Roma or Traveller community** are sometimes excluded from receiving post because of issues with post not being delivered to sites or living transiently. As these groups face high levels of institutional prejudice, the lack of a postal address can be a barrier for schooling, housing and health services, which in turn can cause further marginalisation from society.
40. Many in these groups are more likely to rely on post due to issues such as digital exclusion, and are often most in need of the services and support to which post offers a gateway.
41. **The recent cost of living crisis has created even greater urgency.** At Citizens Advice, we're helping record-breaking numbers of people with homelessness, while levels of people living in temporary housing are at an all-time high.⁴⁷ Nearly 3/4 of victims of domestic abuse who were still living with their abuser surveyed by Women's Aid said that the cost of living crisis had either prevented them from leaving or made it harder for them to leave.⁴⁸ All of these factors mean the numbers at risk of harm from post exclusion are growing, and the challenges they are facing are becoming more complex.

Maya, separated from her partner due to domestic violence. Following the separation Maya and her young child were made homeless and had to stay in hotels. Maya was accessing support from social services to help her and her child find suitable accommodation. Information from her social worker about her case was sent via post. But the letters were sent to a previous address, meaning Maya missed several letters. This resulted in missing out on accessing a refuge sooner, and her spending extra money on hotel accommodation.

⁴⁷ Citizens Advice, [Homelessness by demographic](#), February 2024, Crisis, [The Homelessness Monitor: England](#), 2023.

⁴⁸ Women's Aid, [The cost of living is preventing women from fleeing domestic abuse](#), 2022.

42. Other countries have been far ahead of the UK in developing services that can offer access to post to people who may be excluded due to their living situation. Yet, without requirements to make the USO genuinely 'universal', the UK continues to lag behind in this area.

⁴⁹ Citizens Advice, [Failure to deliver: How the rising cost of living has exposed an ongoing failure to tackle post exclusion](#), 2024, page 18.

4. There are vital omissions in Ofcom’s consultation, meaning it offers nothing to address consumers’ problems with the current USO

43. A conversation on the future form of the USO offers chances to address the important gaps in the existing legislation and its implementation set out in the previous section. But we’re concerned that **Ofcom’s current review is far too narrow in its scope**. The options for reform it centres on - reducing the number of designated delivery days for Royal Mail, or slowing down delivery speeds - both pave the way for a slower, more expensive service. These **options would generate significant savings for Royal Mail, but none offer anything in return to address consumers’ priorities for a reliable, affordable and universal service**.
44. Some of our specific concerns about Ofcom’s approach to this consultation are set out below.

Ofcom’s proposals have significant affordability considerations, which are not fully addressed by the consultation paper

45. Ofcom’s two main proposals are outlined as follows:

“Making changes to the existing First and Second Class and business products so most letters are delivered through a slower service taking up to three days or longer, with a next-day service still available for any urgent letters; and

“Reducing the number of delivery days offered from the existing six-day-a-week obligation down to five or three days.”⁵⁰

46. While option 2 requires parliamentary approval, Ofcom could pursue option 1 without parliamentary scrutiny through regulatory change.

⁵⁰ Ofcom, [The future of the universal postal service](#), 2024, page 2.

Although this appears permissible by law, this would be a change of such magnitude that we believe parliamentary oversight would be needed. What this option means in practice is slowing down the delivery of billions of important letters, including those for hospital appointments, fines and court documents. Ofcom suggests doing this by significantly increasing the cost of the next day delivery option (i.e. the current 1st class service) to closer align with the special delivery price of £7.35:

“Accordingly, a key option for reducing costs would be to move the overwhelming majority of letters that are currently sent using First Class (D+1) to Second Class (D+3). While this could be achieved by removing the obligation for a priority service, it might also be achieved by Royal Mail positioning its First Class product closer to its Special Delivery product (and therefore increasing the price) by encouraging consumers to default to the standard service.”⁵¹

47. Royal Mail have also been clear that they want to see price caps removed completely within any reform of the USO⁵² - as might be expected from a commercial company with monopoly control of a widely-used essential market. Our concern, however, is Ofcom’s indication in this consultation that it is willing to agree to this:

“We note that if the majority of mail moved to D+3 or slower this may not be compatible with the maintenance of the existing affordability safeguard cap on Second Class [...] Accordingly, the safeguard cap is not included in the modelling for this option. However, if an affordability intervention is still required this will come with a cost which we have not at this time sought to estimate.”⁵³

⁵¹ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.41.

⁵² Royal Mail, [Response to Ofcom’s consultation - Review of Second Class safeguard caps 2024](#), [Royal Mail Submission](#), 2023, page 2.

⁵³ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.53.

If the equivalent of 1st class postage costs are put up to special delivery prices, as is suggested by Ofcom, the rise in the price could soar to an incredible 900% of what it was in 2019.⁵⁴ This would have huge affordability implications, given how widely consumers and small businesses continue to rely on D+1 deliveries. With a 1st class stamp synonymous with overnight delivery for over 50 years, there are risks of consumers being misled by a sudden, radical downgrade of the service. And the change would also sever any compatibility to the capped 2nd class price, which up to now has also placed some constraints on 1st class price increases.

If every purchase of a 1st class stamp in 2023 at the current prices was followed by another one at £7, the difference would put consumers out of pocket by £21.5bn.⁵⁵

48. The end to any form of price protection, with no choice of providers, obviously raises big questions about how affordable access to this essential service can be maintained. Ofcom's assumption is that Royal Mail will voluntarily invest some of the between £100m - £650m⁵⁶ worth of revenue it predicts such changes might generate for the company into supporting access for consumers in vulnerable circumstances:

*"Making changes to the letters USO specification would be likely to improve the financial sustainability of Royal Mail ... Royal Mail may also be able to place a greater focus on investing in innovation and **providing more support for vulnerable users.**"⁵⁷ [emphasis added]*

49. Citizens Advice strongly disagrees with this assessment. Royal Mail is a private company and all its incentives are to generate revenue - **there is no evidence to indicate any change to the USO would lead to it**

⁵⁴ Calculation relating to a hypothetical scenario for illustrative purposes. If 1st class is replaced with a special delivery-type service at a similar price then price of 1st class stamp in 2019 was £0.70p so £7 is a 900% increase.

⁵⁵ Volume of letters in 2023 from [Ofcom's post monitoring report 2022/2023](#) at 7,284,000 and 1st class share assumed 50% (actual volume redacted by RM), price of 1st class stamp at the end of 2023 was £1.10. So 3,642,000 x £7 less 3,642,000 x £1.10 = £21.5m

⁵⁶ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.32.

⁵⁷ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.100.

voluntarily investing in support for consumers in vulnerable circumstances and it appears naive to suggest Royal Mail would do this in the absence of a legal or regulatory requirement. As households have faced intense cost of living pressures over the last two years, Royal Mail has simultaneously increased prices in its monopoly products by 33% (see figure 2), while using revenue to cut costs on the parcels products in which it faces competition. The company has given every indication it would take the same approach to prioritising any savings it made through USO reform.

50. The only concrete option that has currently been put forward to address the major question around affordability, were price caps to be lifted, is some form of ‘targeted’ stamp scheme. This was first mentioned in Ofcom’s 2nd class price cap review,⁵⁸ and is raised again as a potential ‘alternative’ to the safeguard cap in the consultation paper.⁵⁹
51. **Citizens Advice has been clear that it considers a targeted scheme no substitute for universal price protections.** Our extensive experience in supporting people to access targeted support schemes in other areas make clear the extent to which these are blunt tools with numerous practical limitations. As we set out in our response to the review of 2nd class safeguard caps last year,⁶⁰ such schemes create many cliff edges in eligibility criteria, which inevitably lead to many in need of support missing out. There are also a range of challenges around raising awareness and working with delivery partners. And obstacles are likely to be far greater if the scheme itself is designed and implemented by a private company with a commercial incentive to reduce access as far as possible. For example, whilst broadband social tariffs (implemented by providers themselves) are technically available to millions of consumers, only a meagre 8.3% of those eligible actually benefit from the support.⁶¹ That means over £800 million of support goes unclaimed.⁶²

⁵⁸ Ofcom, [Review of Second Class safeguard caps 2024](#), 2023.

⁵⁹ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.92, a).

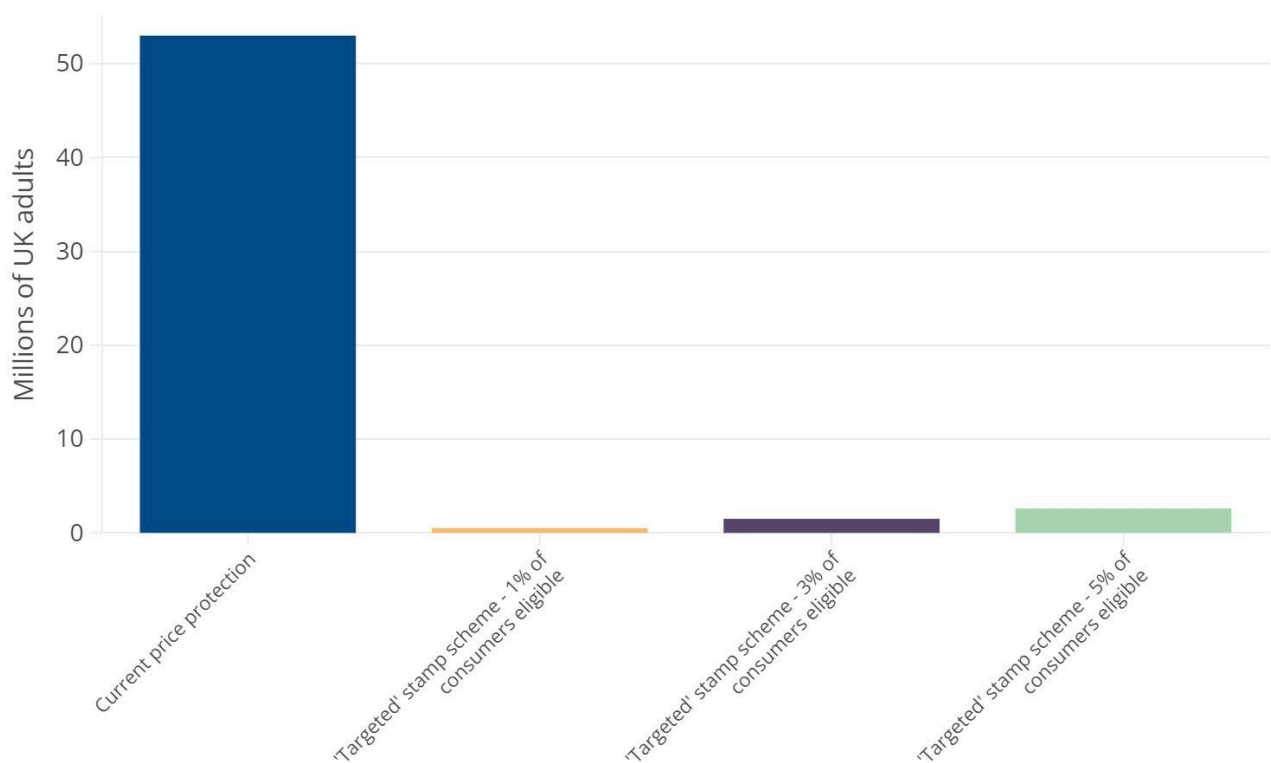
⁶⁰ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice’s response to Ofcom’s consultation](#), 2023.

⁶¹ Ofcom, [Pricing trends for communications services in the UK](#), 2023, page 4.

⁶² Citizens Advice, [Citizens Advice responds to Ofcom’s latest figures on take-up of social tariffs](#), 2023.

52. Against the context of a cost of living crisis which has affected millions of households, it would be wholly inappropriate to remove consumer protections in an essential market with a monopoly provider. And - with various practical limitations combining with commercial incentives to minimise access - a 'targeted' scheme developed by Royal Mail would be no substitute.

Figure 5: UK adults protected by hypothetical targeted stamp schemes⁶³



Ofcom fails to balance assessment of the financial sustainability of the USO with an assessment of the efficiency of the service, as required by legislation, raising questions over its calculations of the USO’s net costs

53. Under the 2011 Act setting the principles of the USO, Ofcom is required to have regard to two key areas as part of their role to ‘secure the provision of the universal postal service.’ These two areas are a) the need for the USO to be financially sustainable, and b) the need for the provision of the

⁶³ These percentages are for illustrative purposes only, and not based on figures put forward in the Ofcom consultation.

USO to be efficient.⁶⁴ Yet, **while this consultation gives close attention to the first point on financial sustainability, it makes no assessment on the vital question of whether Royal Mail is delivering an efficient service.**

54. This omission, as well as neglecting the provisions of the legislation, leads to serious questions about Ofcom's calculations on the net cost of the USO, which informs much of its approach to the review. When it comes to assessing the costs, Ofcom is required to "*consider the extent to which the provider is complying with its universal service obligations in a cost-efficient manner.*"⁶⁵ While Ofcom has an efficiency monitoring programme, according to their own assessment, this does not provide a credible disciplining incentive on Royal Mail to improve. Royal Mail's poor track record on efficiency gains is acknowledged in the consultation paper:

*"Royal Mail has struggled to meet its obligation to deliver its USO services efficiently as it has regularly failed to meet its efficiency targets over the years since privatisation. This has meant that Royal Mail's costs are higher than they otherwise could be, which has in turn had a negative effect on its financial sustainability. We continue to actively engage with Royal Mail to address this issue, among others"*⁶⁶

55. But despite this, Ofcom's net cost model appears to make no adjustment to recognise Royal Mail's current inefficiency. This means that the net cost USO estimates are systematically overstated to the extent that Royal Mail is *not* operating efficiently. With service cuts proposed on this basis, there is a real **risk that Royal Mail is simply being allowed to pass inefficiency costs on to consumers - something the regulatory provisions in the 2011 Act clearly sought to avoid.**
56. It also appears that Ofcom has **no plan to put in place an alternative approach for incentivising Royal Mail to improve its efficiency.** In its forward looking assessment, Ofcom appears to factor in Royal Mail's own planned efficiency targets, but does not appear to have made its own assessment as to whether these efficiency targets are appropriately

⁶⁴ Postal Services Act 2011, Part 3, 29, 3 (a) and (b).

⁶⁵ Ofcom, [Our approach to the net cost calculation](#), 2024, paragraph A7.97.

⁶⁶ Ofcom, [The future of the universal postal service](#), 2024, paragraph 8.43.

challenging. This suggests the regulator is leaving Royal Mail to mark its own homework in setting the appropriate targets. This is wholly inappropriate for a monopolistic provider of an essential service.

57. **If Ofcom is to grant any reduction in the scope of the USO, it must make sure that it has reached a clear and considered view on the efficiency of Royal Mail's current operations before doing so.** In our view, before making changes to the USO, Ofcom must:

57.1. Commission its own independent analysis into Royal Mail's current efficiency levels, instead of relying on the company's own assessments of its performance. This would a) provide a robust assessment of Royal Mail's current levels of efficiency, allowing for meaningful net cost calculations, and b) could be used to decide whether Royal Mail's forward-looking efficiency targets are appropriately ambitious. In both exercises, the efficiency and performance of Royal Mail's USO services should be benchmarked against their other services that face competition (such as parcels) and that of universal service providers in comparable markets.

57.2. Put in place a system that establishes credible incentives for Royal Mail to deliver efficiency savings. Both Royal Mail and Ofcom should be publicly accountable for its efficiency performance, potentially by being required periodically to report to the Business Select Committee.

58. We regard these as the minimum steps necessary to incentivise Royal Mail to prioritise efficiency over the easier options of price rises and reductions to the USO. If for any reason these options are inadequate or unsuitable, a more interventionist approach would be needed. In particular, Ofcom should consider:

- 58.1. Reverting to a system where price controls are applied across all USO products.⁶⁷ Price controls not only protect consumers, but also incentivise efficiency by requiring the regulator to take a view on the appropriate cost savings.
- 58.2. We accept there are challenges to applying a price control formula in a declining market, and it is for this reason that Ofcom decided to remove price controls from Royal Mail and grant it “commercial freedoms” to set prices. However, reverting to widespread controls appears preferable to a system, as currently planned, which effectively means commercial freedom for Royal Mail offering licence for the company to continue to operate inefficiently in a monopoly market.

Ofcom’s analysis of consumer needs is out of date, and inadequate to justify the significant changes being proposed

59. In their discussion paper, Ofcom states ‘the purpose of this document is to present the evidence of changing user needs, and to promote discussion on potential changes required to meet those evolving user needs.’⁶⁸ Yet **those needs have largely been assessed using quantitative data obtained half a decade ago.**⁶⁹ Given the rapid pace of change in the postal market over recent years, using such dated research as key evidence underpinning important decisions about the future of post in the UK risks missing developments in attitudes of postal users.
60. Moreover, **Ofcom has not conducted an impact assessment of the actual options proposed.** For example, the significant changes to

⁶⁷ Prior to Ofcom assuming control of post regulation in 2011, Royal Mail was subject to price controls on all its major USP services. When Ofcom took over the role of post regulation it scaled back the scope of price controls dramatically, so that only the 2nd class stamp was price regulated as a “safeguard.” At the time, Ofcom recognised that this approach ran major risks in terms of incentivising Royal Mail to operate efficiently, but it argued that Royal Mail would be incentivised to operate efficiently because of the prospect of end-to-end competition by TNT. Soon after that, however, it became clear that end to end competition was not going to emerge, due to Royal Mail’s unassailable position. Once this became clear, the incentives on Royal Mail to operate efficiently were severely weakened.

⁶⁸ Ofcom, [The future of the universal postal service](#), 2024, page 4.

⁶⁹ Ofcom, [Review of postal users’ needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom](#), 2020.

delivery targets put forward - which could be enacted by Ofcom without the need for legislative scrutiny - have apparently not been tested with either consumers or senders of time critical bulk mail (such as NHS trusts, HMRC, DWP and debt collection agencies). It is not clear why this research has not been undertaken.

61. In its absence, the current evidence (i.e. inferring from reduced importance being placed on timeliness and more on reliability) does not provide anything like a robust basis for proposing such a fundamental change as a first class equivalent service potentially costing up to £7.35. This is particularly concerning in light of the open letter from Healthwatch and other organisations representing patients and NHS leaders, which asks that the “proposals are scrapped and priority is given to ensuring that patients letters already delayed arrive on time.”⁷⁰ We also spoke to our frontline advisers at Citizens Advice, who echoed such concerns:

“We would need to lobby loudly for various deadlines imposed by eg. DWP, HMCTS to be extended to compensate for fewer postal deliveries.”

“It would make it significantly more difficult to support clients, especially when dealing with time-sensitive issues such as Personal Independence Payment or Attendance Allowance applications.”

Citizens Advice Adviser, March 2024

62. For such major changes, it is crucial that Ofcom present and test its options - with a wide range of stakeholders - in a transparent and accessible way.

⁷⁰ Healthwatch, [Open letter to Royal Mail about the delivery of NHS letters](#), 2024.

5. A conversation on the future form of the USO offers the chance to address important gaps in the existing legislation

63. Citizens Advice recognises the need to consider financial sustainability as part of any decisions around reforming the USO, but we are concerned that, in narrowing the scope of its review to this area almost exclusively, **Ofcom’s review could represent a major missed opportunity to address the concerns of the consumers the USO should be designed to protect.**
64. Based on the unique insight of our network of local charities around England and Wales with years of postal policy expertise in our national team, we have identified 3 principles which should lie at the core of a future USO:
- **Reliable**
 - **Affordable**
 - **Universal**
65. A USO that embodies these principles would not only more effectively serve the needs of the consumers it is there to protect. **It would also generate the best value service for government, tackling many of the failures and knock-on costs within the current system and reducing the likelihood of demands for public subsidy of the service in future.** We outline our proposals for revisions to the USO that could secure these principles below.

5.1 Reliability

66. Ofcom's own qualitative research shows service reliability is a key priority for postal consumers, with 88% of consumers ranking reliability as important.⁷¹ But, as we set out in section 3, Royal Mail has now missed its targets for nearly half a decade, with limited regulatory consequences. For a company with monopoly power in the letters market, this means there are few commercial incentives to tackle service failures and invest in efficiency.
67. If Ofcom is now looking to cut back on those targets, this cannot be effective without credible plans to ensure targets actually stick. This means clear incentives to meet them, a transparent process of investigation and penalties if they are missed. There are a number of practical options to achieve this:
68. **Improved quality of service reporting.** Royal Mail publishes quarterly quality of service reports.⁷² Yet Citizens Advice has called for more granular quality of service reports since 2021.⁷³ As it stands, there are many things which matter to consumers which aren't currently included:
- 68.1. *Scale of delays.* Current reporting indicates whether or not Royal Mail has met its 1st and 2nd class targets. Yet if - as now happens routinely - the targets are missed, there's no indication of whether that delayed post is arriving a day or a week later than it was meant to be delivered. This makes no difference to Royal Mail's performance against its target, yet it can have huge implications for consumers affected. We would like to see the potential for barcoded stamps to capture the scale of delays investigated and incorporated into quality of service reporting where possible.
- 68.2. *Parcels vs. letters breakdown.* The Business Select Committee considered that Royal Mail's prioritisation of parcels over letters had led to a systemic failure to offer a 6 days per week letter

⁷¹ Ofcom, [The future of the universal postal service](#), 2024, page 32.

⁷² Royal Mail, [Quality of Service Reports](#), 2007/8 - 2023/4.

⁷³ Citizens Advice, [Ofcom's call for inputs: review of postal regulation](#), 2021, section 4.

delivery service.⁷⁴ Given these serious conclusions, it is right to give consumers certainty over whether prioritisation of parcels is driving letter delays. Our data indicates that a consistently higher percentage of customers experienced a delay to delivery of a letter than to a delivery of a parcel.⁷⁵ But quality of service reports do not show how letter deliveries compare to tracked items, which were consistently treated as the highest priority.⁷⁶ This could be rectified. Ofcom could also look to implement some form of independent verification of quality of service results, given the ongoing discrepancies between whistleblowers' accounts of parcel prioritisation at the company and the limitations of Ofcom's investigation of the issue.

68.3. *A performance floor for the Christmas period.*⁷⁷ Royal Mail is exempt from quality of service targets for most of December. During this period, Ofcom monitors quality of service but doesn't take enforcement action on performance. But this means there is no backstop, or floor, below which performance cannot fall. We don't agree that the current approach of effectively waiving targets entirely during this period is an appropriate way to secure good outcomes for consumers.

69. **Extension of regulation to cover access mail.** Access mail now accounts for two thirds of the letters market, but is not directly regulated by Ofcom.⁷⁸ Yet many access letters are crucial to consumers, such as letters from the NHS, the Government and essential service providers. The Postal Services Act 2011 doesn't set out clear criteria for what effective delivery of access mail looks like. Instead, this is covered by individual commercial

⁷⁴ Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, page 4.

⁷⁵ Citizens Advice, [Citizens Advice evidence on letter delays and parcel delays - 31/01/2023](#), 2023.

⁷⁶ Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, paragraph 28.

⁷⁷ Citizens Advice, [Citizens Advice response to Ofcom's consultation: Review of postal regulation](#), 2022, page 26 - 28.

⁷⁸ Ofcom, [Annual Monitoring Update for Postal Services](#), 2022, paragraph 3.46. Access mail is the main form of competition in the letters market in the UK and is facilitated by access to Royal Mail's postal network. This means other bulk mail providers collect mail from businesses and other organisations, sort it, and then insert it into Royal Mail's network for delivery.

contracts with Royal Mail, the only UK-wide end-to-end letter provider in the country.

70. However, access providers entering contracts with Royal Mail have little leverage to guarantee service quality (given they cannot shop around). While there have been some steps to improve compensation offered to the sending organisations if delivery contract conditions are not met, this does not extend to affected consumers. We therefore recommend that decision-makers explore bringing access mail more effectively into Ofcom's regulatory remit to help protect consumers. This would mean that Royal Mail would have a regulatory obligation to ensure critical items such as appointment letters and benefits related correspondence arrived on time.
71. **A wider range of representation in investigations into quality of service failures.** In 2023, the Business Committee held an enquiry into Royal Mail's performance and called on Ofcom to include evidence from wider organisations when it investigates quality of service failures.⁷⁹ We strongly feel that Ofcom's quality of service investigations should include the voice of consumers and businesses, to balance Royal Mail's representation. The current approach where Royal Mail, the subject of the investigation, is also the only organisation in a position to provide context - with no requirement to independently consider the impact of service failures on consumers - isn't tenable.
72. **More transparent penalties for failure, which incentivise improved performance.** When Royal Mail fails to meet quality of service targets, Ofcom currently takes decisions on its response behind closed doors, with little clarity on how an appropriate penalty is determined - if one is applied at all. This stands in clear contrast to the approach taken by other regulators. Ofgem, for example, clearly sets out the basic approach and formula it uses to enforce targets for energy companies.⁸⁰ This means there is an assumption of a fine where targets are missed, and the

⁷⁹ Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, paragraph 31.

⁸⁰ Ofgem, [RIIO-ED2 Final Determinations Core Methodology Document](#), 2022. See, for example, page 108 on final determination of penalties on complaints metric.

regulator's approach to determining how this is set is transparent and open to scrutiny.

73. A more transparent process is needed under any revised USO, with clearer benchmarks against which the scale of shortfall against target can be assessed and guidance on how these translate into a meaningful penalty.
74. **Delivery failures should be linked to compensation for consumers.** Regulators across essential services have re-considered their approach to consumer protection in recent years, with the FCA bringing in a new Consumer Duty. Citizens Advice has called for such a Consumer Duty in all essential markets.⁸¹ One area where Ofcom could consider this shift in other sectors is in looking to link regulatory penalties to consumer compensation in the postal sector.
75. Consumer compensation for poor service is accepted as standard in most essential industries - people now expect it if their energy or water supply is interrupted, or their train arrives late.⁸² Ofcom already enforces this in the broadband sector, where consumers have clear rights to money back if their service goes down, engineers miss appointments or there's a delay to a new service.⁸³
76. For postal services, financial penalties set by Ofcom currently go directly to the Treasury. We suggest exploring alternatives to this approach. One option would be a financial penalty taking the form of a small reduction in the following year's 2nd class stamp price cap.⁸⁴ This would mean the penalty levied was effectively shared between the consumers affected, rather than going to the government. This would follow the approach taken in the water sector, where Ofwat recently ordered water companies to pay back £114m to customers through lower bills after missing

⁸¹ Citizens Advice, [The Consumer Duty is here, but will it work?](#), 2023.

⁸² Uswitch, [My broadband services are down, can I get money back?](#), 21 September 2023; Citizens Advice, [Get compensation if you have a power cut](#); Citizens Advice, [Claiming compensation from water companies](#).

⁸³ Ofcom, [Broadband and landline faults and problems](#).

⁸⁴ As an indication of what this might mean in practice, we've estimated the cost to Royal Mail of a 1p reduction in the price cap for 2nd class stamps to be around £3m. This is based on [figures from 2019](#), when Royal Mail was forced to repay £60,000 to Ofcom for breaching the price cap on 2nd class stamps by 1p for 1 week.

targets.⁸⁵ A second - though more complex - option would be auto-compensation. With the recent introduction of barcoded stamps, senders could opt in to register their details and thus get an automatic refund if their post is delivered late.

5.2 Affordability

77. The USO places affordability conditions on Royal Mail as letters are a monopoly market, lacking competitive pressure to keep prices low or improve efficiency. But as discussed in section 3, these controls have become more limited in the last decade and prices have risen steeply. In Royal Mail's most recent half yearly financial results, letter volumes had declined since the previous half yearly reporting period, but letter revenues had actually increased.⁸⁶ With the scale of price hikes Ofcom are now proposing, the principle of affordability underpinning the USO is under serious threat. The Government has recently called on regulators across sectors to consider how they can better support consumers amidst ongoing cost of living pressures.⁸⁷ Below, we set out steps which could be taken under a future model of the USO to secure affordability for consumers.

Retain 2nd class safeguard cap in a monopoly market

78. Given Royal Mail's history of rising prices far above inflation (see figure 2) and the fact it's a monopoly provider of standard letters and a near-monopoly provider of large letters, a safeguard cap continues to be a proportionate consumer protection. It's also the most practical and efficient way Ofcom can keep post affordable - we set out the numerous limitations of 'targeted' alternatives in section 4 above. Price protection must be a key principle driving affordability in the USO - now and in the future.

⁸⁵ BBC, [Water firms forced to pay back customers for poor performance](#), 2023.

⁸⁶ International Distribution Services PLC, [Results for half year ended September 2023](#), 2023.

⁸⁷ Gov.uk, [Chancellor agrees action plan with regulators to support consumers](#), 2023.

Look at extending safeguard caps if mail speeds or classes change, to protect consumers against Royal Mail inefficiency

79. If prices for what people now regard as a 1st class service were substantially increased to cost near £7.35 - as Ofcom's paper proposes - and if 2nd class then increased to around 1st class costs today, we know millions would struggle. Our research shows 26% of UK adults reported they would find it difficult to buy a book of 1st class stamps costing £8.80.⁸⁸ This is especially concerning considering people on low incomes are more likely to rely on post to send important documents.⁸⁹
80. We believe that, if Ofcom's proposals to make significant changes to the speed or classes of post are taken forward - without a credible plan for Royal Mail to improve its efficiency - **there is a serious case for price caps on other monopolistic USO products.** In particular, the affordability of 1st class services are of real concern. Being able to send letters 1st class, rather than 2nd class, was considered important for as many as 56% of UK consumers. This jumps to 71% of those who are 25-34, 68% of people of colour and 66% of those in receipt of Universal Credit - groups who might be more reliant on post in interactions with important government, legal or financial services.⁹⁰

A guarantee of uniform pricing and an end to digital exclusion penalties

81. Despite the commitment to a uniform price structure under the current USO, the rise of online purchase options has allowed new penalties to creep into the system for those who are digitally excluded, with people now paying up to 22% more to buy products in person. Any revised model for the USO must end the current development of a 2-tier system, where digitally excluded consumers have to pay a premium for postal services.

⁸⁸ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 36.

⁸⁹ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, page 18.

⁹⁰ Online survey of 4,007 UK adults, Walnut, 25 May - 5 June 2023.

Greater transparency around pricing decisions

82. There is a general issue around transparency and scrutability when it comes to pricing decisions under the USO, with modelling often withheld from consumer advocates on the basis of commercial sensitivities. For example, we raised concerns about Ofcom's decision to merge a price cap on large and standard 2nd class letters into one 'basket cap' weighted by volume. This leaves the door open to above-inflation price increases for standard 2nd class mail.⁹¹ But neither Ofcom nor Royal Mail are willing to share volumes data which would help us determine this, reducing the accountability that Royal Mail faces for its pricing decisions. To combat this, there should be consumer representation in conversations between the regulator and Royal Mail about modelling pricing structures.

An improved measure of affordability

83. Ofcom should also develop a clearer approach to measure affordability. This must prioritise mitigating against consumer harm and must take into account the full range of evidence available on how low-income consumers engage with the postal market.⁹² As part of this, Ofcom could bring postal services into their regular Communications Affordability Tracker to connect the common issues people face across communications markets.⁹³ This creates an opportunity to achieve a transparent and uniform approach to understanding affordability across sectors - both those that Ofcom regulates and those that are in the remit of other regulators such as the Financial Conduct Authority.⁹⁴

84. In declining markets, it also becomes important to look at affordability for subsets of the population rather than the population as a whole. Ofcom

⁹¹ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 51.

⁹² Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.

⁹³ Ofcom, [Communications Affordability Tracker](#), 2023.

⁹⁴ In order to understand how much available income different consumers are likely to have, it is important to consider a wide range of essential outgoings in order to reflect the lived experience of low-income consumers as accurately as possible. The FCA handbook outlines what expenditure should be considered essential in its recommendations to mortgage lenders. And the common financial statement trigger figures provide a guide for levels of monthly expenditure deemed reasonable depending on household size. These are operated by the Money and Pensions Service and recognised by the FCA. Figures are updated annually.

currently uses average spending on post to calculate expenditure as a percentage of disposable income.⁹⁵ But, in doing so, they take an average of all households, including those who spend nothing on post. The figure for the average spend among households that use post is 6 times higher than the average for all households.⁹⁶ In measuring affordability, Ofcom should therefore look specifically at the experiences of those that continue to rely on post.

Proactive regulation on affordability issues

85. Ofcom should also be quicker to act when concerns around affordability arise. For example, the regulator could be more proactive in monitoring how well Royal Mail's concessionary discount scheme for redirections is working - almost 2 years after Royal Mail re-launched the scheme, there are no official uptake figures from Ofcom by which to assess it. Ofcom should also commit to reviewing the cost of all essential letter products where Royal Mail is the monopoly provider. Where Ofcom sees issues arise, it should act more swiftly to ensure that consumers are adequately protected.

5.3 Universality

86. Since 2018, we've worked with industry, regulators, charities and people with lived experience to develop a solution to post exclusion. We're calling this model 'Address & Collect'. This is a service that would allow people who don't have access to their post to collect their letters at a post office.⁹⁷ It would be free and accessible, while also offering a safe and usable correspondence address. It has already been met with support across the sector and among people who would benefit from it:

"Post exclusion is an issue which affects many people who are homeless and living in temporary accommodation, who frequently change

⁹⁵ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.

⁹⁶ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.

⁹⁷ Post offices continue to be seen as a vital access point for the letters market and they continue to maintain a vital network of 11,500 branches. House of Commons Library, [Post office numbers](#), 2023.

address. There are over 100,000 homeless households living in temporary accommodation in England. Two-thirds (62%) of people living in this situation were given less than 48 hours notice when they last had to move, and 3 in 10 (30%) have lived in 3 or more places during their time in temporary accommodation. A simple Address & Collect service would make it easier for people experiencing homelessness to access important post and relieve some of the stress associated with frequent moves.”

Shelter response to Citizens Advice work plan

“Access to a postal address is often overlooked, yet vitally important, which is precisely why the Address & Collect service from Citizens Advice could make a huge difference. Offering a 'care of address' service for Gypsy and Traveller people at Friends, Families and Travellers, we know the importance of being able to access vital letters regarding healthcare appointments, benefits and even housing..”

Friends, Families & Travellers response to Citizens Advice work plan

“God, it would have been epic, yes. Especially with being homeless, especially in a refuge; you could just walk up to the post office then and you know no one's touched your mail and you could just go in and get it.”

Woman with experience of homelessness and domestic abuse

87. We consider it very positive to see the regulator acknowledging in this consultation that Royal Mail should be delivering extra support for people experiencing post exclusion.⁹⁸ The UK is behind the curve - as Ofcom points out, similar solutions are already available in several other countries.⁹⁹ But it's clear this isn't something that will happen of its own accord. Without pressure from the regulator and ideally enshrining this provision in any future model of the USO, there is currently no incentive for Royal Mail to take this forward. That's why we're asking for Ofcom to **take a proactive role in solving post exclusion by initiating a pilot.**

⁹⁸ Ofcom, [The future of the universal postal service](#), 2024, paragraph 9.92.

⁹⁹ Ofcom, [The future of the universal postal service](#), 2024, paragraph 5.31.

6. We urge Ofcom to rethink their approach to this vital review

88. As we've set out, the USO is a fundamental protection for postal consumers, which should ensure they receive an affordable, reliable and universal service. This is vital because post is an essential communications channel dominated by a single private provider.
89. **Our concerns up to now have been the limitations of the existing structure and enforcement of the USO.** Royal Mail's position has been exceptional in that, despite having a statutory monopoly on a vital public service, it has been subject to relatively light-touch regulation, and therefore has a good deal of freedom to exploit this position. As such it has consistently hiked its prices far above inflation in those letter products where it holds a monopoly, despite also failing to meet its quality of service targets for nearly half a decade.
90. As Ofcom rightly looks to future-proof the regulation of this basic national communications infrastructure, we have to consider how these trends can be addressed. We are particularly concerned that the approach Ofcom sets out in its consultation paper could become a vital missed opportunity to address the lack of incentives for Royal Mail to maximise its operational efficiency.
91. **A sole focus on options to reduce the scope of the USO and generate savings for Royal Mail in the absence of any reciprocal requirements on the company to tackle inefficiencies - in the form of more consistently enforced quality of service targets, wider price controls or both - makes it highly likely that the company will simply request further cuts, or public subsidy, in the near future.** It also leaves consumers most reliant on post trapped in a cycle where they pick up ever more of that tab - paying higher prices for a failing service.
92. **We have set out a wide range of measures that could be taken to ensure a reformed USO better serves its basic purpose of consumer protection.** None of these are incompatible with financial sustainability

considerations - they could be combined with steps to reduce some of the costs associated with the USO were Ofcom to conclude these were needed. But crucially, they would all help to ensure that consumers are not left to pay for inefficiencies, legislative gaps and service failures, as the original 2011 Act clearly intended.

93. Given these questions around the intentions of the Postal Services Act and the extent to which they are reflected in Ofcom's approach, **we need to see appropriate political scrutiny of Ofcom's proposals**. Ofcom has already set out that it could carry out certain cuts without the need for legislation, but we would not want to see major changes taking place via the back door.
94. **We are also struck by the lack of innovation or long-term thinking in Ofcom's proposals**. There are examples of other countries taking a more holistic, creative approach in considering reform to their postal services. In France, the social value of frontline postal workers is developed through schemes such as 'Veiller Sur Mes Parents' (watch over my parents), whereby postal workers are paid a small fee to look in on elderly or vulnerable people. Ireland has taken steps to tackle post exclusion, in the form of Address Point.¹⁰⁰
95. The reform of a 500-year-old national institution should not simply come down to a series of cuts for managed decline, designed to deliver for the bottom line of a private company - as Ofcom appears to have settled on. Instead, it is time for the regulator to draw on the ideas and expertise of the sector more widely. We would suggest **convening a working group involving industry, government and consumer groups to identify innovative options for reorienting the USO to meet future requirements**. We also feel that options for USO reform should emerge from that working group initially, with Ofcom putting these out for consultation once the group has reported.

¹⁰⁰ An Post, [Address Point](#), 2024.

Appendix: Consultation questions mapping

1: Do you agree that we have identified the correct aims, supporting principles and features of the USO? Do you consider that these should continue to be respected as far as possible when assessing potential changes to the USO?

Please refer to *Section 2: Postal services continue to form an essential part of our communications network* and *Section 3: The USO in its current form isn't protecting consumers* for our view on the key principles and features of the USO.

2: Do you agree with our assessment of the direction of change in postal needs of residential (including vulnerable) users and SMEs? Are there other factors relevant to their future demand which we have not considered?

Please refer to *Section 2: Postal services continue to be an essential part of our communications network* and *Section 3: The USO in its current form isn't protecting consumers* for our view on the needs of postal users.

Please also refer to *Section 4: There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO*, paragraphs 59 - 62 for our view on Ofcom's analysis of postal users' needs.

3: Do you agree with our assessment of the bulk mail market? Are there other factors relevant to its future evolution which we have not considered?

Please refer to *Section 4: There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO*, with specific reference to paragraph 60.

4: Are there specific events/changes that could trigger a significant change in demand for large mail users, including public services?

Please refer to *Section 2: Postal services continue to form an essential part of our communications network*, with specific reference to paragraphs 13 - 14 on digital exclusion in the UK.

5: Do you agree with our proposed approach to estimating the financial burden of the USO?

Please refer to *Section 4. There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO*, with specific reference to paragraphs 53 - 58 for our view on Ofcom's omissions.

6: Do you agree with our considerations regarding the unfairness of the financial burden of the USO?

Please refer to *Section 4. There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO*

7: Do you agree with our considerations regarding the impact of the financial burden of the USO?

Please refer to *Section 4. There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO*, with specific reference to paragraphs 53 - 58 for our view on Ofcom's omissions.

8: Do you agree with our analysis of the different options available to change the USO and the impact of those changes on residential (including vulnerable) users, SMEs and bulk mail users? If not, please explain why and set out any option(s) which we have not considered.

Please refer to *Section 5: A conversation on the future form of the USO offers the chance to address important gaps in the existing legislation* for our detailed proposals on how to change the USO to better protect consumers and small businesses.

Please also refer to *Section 4. There are vital omissions in Ofcom's consultation, meaning it offers nothing to address consumers' problems with the current USO* for our view on Ofcom's analysis.

9: Which option(s) do you consider would be most appropriate to address the challenges we have identified, while also ensuring that users' needs are adequately met?

Please refer to *Section 1: Executive summary*, paragraphs 1 - 4 for an explanation of why it has not been possible to respond to the consultation questions directly.

Please also refer to *Section 5: A conversation on the future form of the USO offers chances to address important gaps in the existing legislation* and *Section 6. We urge Ofcom to rethink their approach to this vital review* for our detailed proposals on how to ensure that user needs are adequately met.

10: Do you have any other views about how the USO should evolve to meet users' needs?

Please also refer to *Section 5: A conversation on the future form of the USO offers chances to address important gaps in the existing legislation* and *Section 6. We urge Ofcom to rethink their approach to this vital review* for our detailed proposals on how to ensure that user needs are adequately met.

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