



**Communications
Consumer Panel**

Advisory committee for older
and disabled people



**Panel Defnyddwyr
Cyfathrebiadau**

Pwyllgor Cyngchori Pobl
Hŷn ac Anabl

Communications Consumer Panel and ACOD's response to Ofcom's call for inputs on the future of the Universal Postal Service

The Communications Consumer Panel, established by the Communications Act 2003, is a group of independent experts with direct sectoral experience. The Panel is responsible for ensuring the citizen and consumer voice is represented in the communications sector. We ensure that the sector works for consumers, citizens and micro-businesses, particularly people who may be in a more vulnerable position in society.

We commission research, provide advice and encourage Ofcom, governments, industry and others to look at issues through the eyes of consumers, citizens and micro businesses.

The Panel pays particular attention to the needs of older people and people with disabilities, the needs of people in rural areas and people on low incomes, and the needs of sole traders and micro-businesses, which have many of the same problems as individual consumers.

Four members of the Panel also represent the interests of consumers in England, Northern Ireland, Scotland and Wales, respectively. They consult with the key stakeholders in the Nations to understand the perspectives of consumers in all parts of the UK and input these perspectives to the Panel's consideration of issues.

Following the alignment of the Advisory Committee for Older and Disabled people (ACOD) with the Panel, the Panel is more alert than ever to the interests of older and disabled consumers and citizens. We welcome the opportunity to respond to this call for inputs.

Our response

This is the most significant review of the scope of the USO since postal services regulation came under Ofcom's remit under the Postal Services Act 2011.

The USO currently provides for:

- At least one delivery of letters every Monday to Saturday to every address in the UK and at least one delivery of other postal packets every Monday to Friday.
- At least one collection of letters every Monday to Saturday and at least one collection of other postal packets every Monday to Friday.
- A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK.
- A registered items service at affordable, geographically uniform prices throughout the UK.
- An insured items service at affordable prices.



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- Free end-to-end services for legislative petitions and certain services for blind and partially sighted people.

However, we would like to highlight that some UK postcodes - albeit a small percentage, for reasons such as requiring delivery by ferry - are exempt from the USO, which excludes them from the above benefits.

The need for reform - the postal user voice

Post remains important to allow social and economic inclusion, facilitate economic growth and enable citizen/state interaction. While there may be a reduction in the numbers of postal users sending letters, this does not detract from the significance of letter post to those who receive it, including the disproportionate significance for people who do not have digital means of communication and people who await vital communications from hospitals, solicitors and other organisations that send formal, life-affecting notifications via letter post.

Ofcom's research has highlighted that people with limited/no internet, mobility issues, living in rural/remote locations and older people are particularly reliant on post. At the heart of any change must lie the needs of postal services users - senders and recipients of letters and parcels by first and second class post, across the UK, and particularly individuals and communities dependent upon post. USO provision must remain truly universal, affordable, reliable and uniformly priced across the UK.

We recognise that the postal services usage landscape has changed significantly since 2011. There is no doubt that the current service provided by Royal Mail is falling well short of the needs of many postal users. Consumers and citizens may benefit from reform of the current USO - but that alone may not deliver the required innovation and improvements that people deserve.

We believe it is essential that Ofcom takes time to consider fully the impact of any changes to the USO on postal services users and not rush to implement changes on the basis of Royal Mail's (RM) financial plight or disappointing service performance. We have not seen enough evidence from Ofcom on the experience of postal users, including bulk mailers and micro-businesses and digitally excluded citizens, to understand fully the impact of any changes in regulation. We believe that the review of the USO should be better-informed by a formal economic assessment, robust consumer research and an impact assessment with input from bulk mailers. If USO revisions now are followed by further reviews, change and confusion would be unhelpful for postal service users, who we believe welcome transparency and consistency in postal services.

While Ofcom provides evidence that the letters market is in decline, Ofcom does not explore why this is or what could be done to reinvigorate it, or how improvements in quality of service might affect the market and postal users' expectations.



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We would urge Ofcom not to make the assumption that a change in regulatory requirements on the Royal Mail will cause an improvement in its quality of service. We have not seen any analysis that would evidence this assumption and urge a formal economic assessment.

The evidence base

We support this review of the USO, but have concerns about the evidence base.

There is a lack of clarity about the cost and burden of the USO on RM. Ofcom notes that its analysis of RM's position is based upon its own calculations and that no statutory assessment as set out in Section 44 of the Postal Services Act 2011 has been done. Ofcom believes that the net cost to RM of complying with the USO could be in the region of £325-£675 million per annum. Similarly, the savings Ofcom alludes to in Table 9.1, if the USO were reformed, span a broad range (e.g. £300-£700 million). These are huge ranges and point to the difficulty and uncertainty Ofcom faces in trying to assess costs and savings without conducting a statutory assessment. Given what is proposed, this should be the time when such an exercise is mandatory. An analysis should also be carried out to more precisely ascertain the cost of the impact of a wide range of counterfactuals (of changes to the USO) upon RM. What we don't know is what is the cause of the losses being sustained by RM: the cost of the USO, unsustainable pricing or inefficiencies. The Net Cost Calculation is based upon efficiently incurred costs, but as Ofcom states, since privatisation RM has frequently not been meeting its obligations efficiently.

Similarly, Ofcom accepts that within RM's Reported Business there are elements of cost (e.g. infrastructure and labour) that relate to providing the USO as well as non-USO products/services. This muddies the waters significantly. Ofcom states that non-USO products make up the bulk of RM's business - USO products account for 17% of volumes, yet 30% of revenues. If Ofcom is to establish more accurately the true USO cost to RM, we suggest that more analysis needs to be done to separate out USO and non-USO costs. Whilst accepting that this is no easy task, RM must have some idea so as to be able to set prices for its non-USO products.

We are also concerned by the age and scale of the research used as the consumer evidence base. We note that the larger scale quantitative study dates from fieldwork in 2019 - before the pandemic. A follow up quantitative study of just over 2000 adults in 2023 used an online only methodology - and did not appear to include quotas for disabled people or those with long term health conditions. Given the potential far-reaching consequences of any change to the USO, we suggest that Ofcom commissions a bespoke piece of up-to-date consumer research that informs on the views of consumers, especially those who may be disproportionately impacted by any changes.

We recognise Ofcom's argument that consumers are broadly satisfied with the concept of a reduction in letter post. However, currently, consumers experience a service which is



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underperforming. This could potentially shift the emphasis of responses to research questions in a way that isn't truly representative of consumer need i.e. people might see reliability as the biggest problem to be solved, and therefore state it as a priority. Were there no problem, other features such as frequency might become more of a priority. It's important that we recognise that asking people research questions about priorities when they have been at the receiving end of an underperforming service, means you may get a skewed view of what consumers really need, want and value. Changes to the USO should be informed by a robust sample of postal service users - senders and recipients - from across the UK, including micro-businesses. An example of the specific impact on micro-businesses is that reducing the letter delivery service to five days a week may have more impact if postal delivery is removed on a Saturday, than on a Monday.

We are always willing to facilitate a meeting between Ofcom and participants in our National Consumer Stakeholder Hubs (National Hubs). The last time we held a dedicated session on post was in 2022 and the key messages from stakeholders across the UK were¹:

- Letters remain important even though the market is in steady decline according to Ofcom's research.
- Postal services should be inclusive and accessible, and postal operators should seek to identify and consistently meet consumers' and citizens' individual requirements.
- Postal services remain unaffordable for some consumers, citizens and micro-businesses, particularly those who are financially vulnerable and/or living in rural areas where surcharges are commonplace and consumer choice limited.
- Quality of service should be improved across the postal sector, and where service levels are persistently poor, regulatory intervention should be available.
- Postal operators should use complaints intelligence to understand and help prevent common issues facing consumers in the postal sector.

Digital exclusion and layers of consumer detriment

Digital connectivity may well be changing the face of the way that many people communicate with each other, the way the state connects with us and the way that businesses do so with their customers. However whilst e-substitution is undoubtedly a possibility for many, the UK is not yet in a place where we all have access to a reliable broadband or a mobile network. Availability and uptake are not the same thing. Inaccessibility of digital infrastructure, a lack of digital confidence or skills, and affordability can all be factors in the digital exclusion of individuals and communities. The UK's consumers and citizens are not yet in a position where they can rely on digital

¹ <https://www.communicationsconsumerpanel.org.uk/downloads/ccp-acod-national-stakeholder-hubs---summary-of-discussions-on-postal-services.docx>



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connectivity to fill gaps in postal services delivery and digital connectivity cannot be seen as a universal service, accessible to all.

People who do not have digital means of communication, so cannot rely on email communications and access to the internet to replace the functions of letter post, include disproportionate numbers of older people and people in DE households. We would like Ofcom to examine the layers of impact of any change on postal services users who are digitally underserved.

Simply being digitally connected also does not equate to being comfortable with carrying out all communications - especially formal transactions - online. The reassurance of hard copy documents in these circumstances is clear from the research. While the UK works towards improvements in digital connectivity - and initiatives, often led by charities, take place to increase citizens' digital confidence and skills - this is not a safety net for all. There will always be some UK citizens who, through choice or circumstance, will not be comfortable living a digital-by-default lifestyle.

Consumers in smartphone-only households may find they do not have full access to legal or financial documents that are only viewable online, where letters provide an easy to view, tangible record. While businesses may be under pressure to reduce their carbon footprint, the overall impact is not resolved if consumers have to print digital documents which places an additional cost burden on consumers.

Ofcom cites international examples where changes have been made to the USO in other countries. Whilst worth considering, caution must be exercised as there are significant differences in the geography, size of landmass, size and spread of population, and the level of digital inclusion of some of those countries cited. We note that in many international comparisons, reductions in frequency have been accompanied by increase in quality of service requirements.

Affordability, pricing and consumer choice

Ofcom's research shows that affordability and reliability are considered the most important issues related to letters. Royal Mail has increased its prices of non-capped products many times over the last few years to compensate for lower letter volumes. We note that while 69% of people say they prefer to send emails if possible, 60% say they send fewer letters due to cost. Research suggests that the percentage of people using 1st Class all the time has reduced from 27% to 19% and there has been an increase from 6% to 11% of those saying they use second class all the time. Thirty percent of SMEs who don't send parcels via Royal Mail say price is a key factor in their decision.

Removing caps risks a detrimental effect on people on low incomes and those without recourse to digital alternatives. 'Affordability' is a relative term and we would be extremely concerned by any move to lift all pricing constraints from Royal Mail. Ofcom



states that it has not modelled the impact of removing the Second Class Stamp cap. Ofcom recently decided to remove the safeguard cap from parcels but retain a safeguard cap for Second Class standard and large letters - by way of creating a single basket to give Royal Mail “slightly more commercial flexibility” in setting prices.

Ofcom asserts that free of any price constraints, Royal Mail would have “greater flexibility and capacity to provide additional support for particular groups”. We would suggest that there is no evidence for this. Already stamp pricing differentials exist between people who can purchase stamps online, compared with at a Post Office - see Table 1 below. Already there is evidence that consumers are using more expensive first class stamps to ensure timely delivery - and even the costly Special Delivery option. By removing all price controls, Ofcom would be relying more on hope than certainty that Royal Mail will protect consumers over their shareholders. Consumers who may already be less able to afford to be digitally connected are already susceptible to detriment through digital exclusion. Those people on low incomes will not be safeguarded and be faced with a further burden.

Ofcom’s affordability research looks at the average amount paid by UK households on post as a proportion of their spending - but stamps are not necessarily purchased in that way. In relation to Royal Mail’s Stamp Swap Scheme, we advised RM to make everyone in the UK aware of the changes, due to the way that some consumers prefer to bulk buy stamps to avoid price increases and keep them as currency for later.

Table 1: The digital exclusion penalty in current postal pricing

Prices from 2nd April 2024		1st class		% increase cf. online	2nd class		% increase cf. online
	max weight	Online	Post Office		Online	Post Office	
		£	£	%	£	£	%
Letter	100G	1.35	1.35	0	0.85	0.85	0
Large letter	100G	2.10	2.10	0	1.55	1.55	0
	250G	2.70	2.90	7	1.90	2.10	11
	500G	3.30	3.50	6	2.30	2.50	9
	750G	3.30	3.50	6	2.50	2.70	8
Small parcel	2KG	3.99	4.59	15	3.19	3.69	16
Medium parcel	2KG	5.49	6.69	22	4.69	5.89	26



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Social purpose

At the outset of Ofcom's call for inputs, it rightly highlights the importance of the USO as an agent of social cohesion, as a channel to promote economic growth and as a network to facilitate key interactions between citizens and the state. Social cohesion is a key aspect of the USO and should attract due attention throughout this review. Whilst environmental issues and the Royal Mail's role in contributing towards a net-zero society are valued and relevant to the discussion at hand, a balance must be struck between sustainability and the three key purposes of the USO. The Call for Input highlights the continuing importance of letter post to consumers and citizens as both senders and receivers. The universal postal service provides an ease of access to connectivity with services and people that reduces isolation for people who cannot or will not go online, at an affordable price.

The impacts on citizens of Royal Mail's failures in reliability over the last few years can be far reaching e.g. missed hospital appointments and even operations; missed benefits interviews and consequential sanctions. It is essential that standards of service are not eroded further and that uniform universal pricing is maintained. Postal collections have also been reduced and rescheduled significantly and it is vital that these are not further eroded.

We would urge Ofcom to think more widely about opportunities that the universal postal service could provide. A UK-wide delivery network could be used to deliver things other than post, raising revenues, supporting those who cannot easily access post offices and/or are digitally excluded for some reason. We suggest Ofcom researches what else the postal delivery network might be used for.

We would also urge Ofcom to seriously consider implementing a requirement for a poste restante system for people who cannot receive mail at a home address.

Bulk Mail

A greater understanding needs to be demonstrated of the impact of any changes to the USO upon bulk mailers and access operators. Bulk mail uses the USO network yet is not part of the USO. It accounts for the majority of the letter volumes and revenue for Royal Mail. The importance of such mail has rightly been mentioned by Ofcom e.g. communications from HMRC, DWP, hospitals. Ofcom notes that these letters are one of the main reasons that users think a universal and reliable postal service is important. Currently, given Royal Mail's access and USO services are largely processed in the same way, a similar trend in missed QoS targets is seen in USO D+1 and access D+2 results. In the D+2 market, the QoS for Q3 23/24 stood at 76.1% compared to the 95% target. The difference between this and USO products is that Royal Mail is required to pay compensation to organisations if QoS D+2 falls below 90%.



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There is not yet a Consumer Duty in the communications sector, unlike financial services. Royal Mail is a private company with a near monopoly on the postal market. It benefits from the USO via enormous brand recognition, being able to sell USO products without the cost of added VAT and also in relation to how much VAT it pays as a company on its purchases (fuel, power, fleet, professional fees etc). Ofcom notes in the consultation that if it had concerns about the QoS offered by Royal Mail in relation to access mail, it could introduce specific access performance requirements. Given that these official letters are one of the main reasons that users think a universal and reliable postal service is important, we would encourage Ofcom to consider whether it should take action in this area.

Any change to the USO must also be regarded in terms of any impact it will have on the behaviour of bulk mailers, which Ofcom acknowledges. For example, will it lead to them adopting or accelerating moving to other communication methods that will lead to a decline in bulk mail and therefore accelerate the decline of Royal Mail? Ofcom suggests that bulk mailers may have to adjust their production timelines, but evidence at Ofcom's London event suggested that that is not necessarily possible.

Innovation and inclusivity

We would encourage greater attention to be given by Ofcom to innovation and to what can be added to the USO to benefit postal service users. Whilst the increase in numbers of UK addresses has been portrayed as a negative impact on RM, this also represents an increase in its potential market - not only as senders of mail but also as recipients of bulk mail.

We are disappointed that Ofcom has not considered tracking as important to postal service users as we believe it is. We strongly advise adding this to the USO. By way of example, our parcels user research highlighted a need for more attention to accessibility options:

"I would prefer if delivery drivers could call you to let you know when they're there and wait until I get to the door so I can ask for additional support bringing the parcel in if its heavy."

We also urge Ofcom to consider innovation in protecting consumers who are reliant on post and are struggling to pay their monthly bills. We support innovation in terms of designing measures to support consumers who are least able to afford stamps - akin to a social tariff in this sector - such as stamp tokens for people who rely on benefits e.g. housing and unemployment benefits and the state pension. We note with interest the Australian example of concessions for potentially financially vulnerable consumers.



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Failure to deliver

Royal Mail's quality of service across the UK has repeatedly failed to meet the standards set by Ofcom. We would not wish to see any (or any significant) reduction in the current levels of quality of service that could further erode consumer confidence in Royal Mail.

We have consistently encouraged Ofcom to be more robust in its enforcement and monitoring. Barcoded stamps offer the prospect of much improved reporting of how the service is performing.

We note that the review of the USO makes the assumption that Royal Mail can and will be the only qualified entity to deliver the Universal Service. We would warn of the risk that Royal Mail could therefore be viewed as 'too big to fail' and therefore is to be supported come what may. Without network transformation and efficiency gains, there is a significant risk that Royal Mail will continue to fail to deliver - whatever changes are made to the USO.

Ofcom must not fall victim to the idea that only Royal Mail can perform this duty. It would be wise to talk to other mail operatives as a possible alternative designated Universal Service Provider to Royal Mail - could they deliver the service better than Royal Mail, if faced with the same eventual shape of a future USO? Ofcom has already ruled this out, but in order to ensure protection and safeguarding of postal service users and those reliant on postal services, we believe it should reconsider. Without doing so, Ofcom's ability to take a stance in any negotiations over the USO is weakened.