
Review of postal regulation

Call for inputs

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[Call for inputs: Review of postal regulation – Welsh overview](#)

CALL FOR INPUTS:

Publication date: 11 March 2021

Closing date for responses: 20 May 2021

Contents

Section

1. Overview	1
2. Context	3
3. Approach to regulation	8
4. Financial sustainability and efficiency	15
5. Universal service obligations	21
6. Parcels regulation	39
7. Access regulation	54

Annex

A1. Responding to this consultation	68
A2. Ofcom's consultation principles	70
A3. Consultation coversheet	71
A4. Consultation questions	72
A5. Overview of the relevant legal framework	74
A6. Glossary and defined terms	91

1. Overview

Postal services play a key role in our society. They are used by almost everyone in the UK on a regular basis, from receiving online shopping deliveries or important medical correspondence, to sending letters to relatives. Ofcom's role as the postal regulator centres on securing the provision of a universal service, having regard to both financial sustainability and efficiency. We also have a duty to further the interests of consumers, where appropriate by promoting competition.

The postal market has changed dramatically in recent years. The number of letters people send and receive has fallen, as they increasingly rely on email and other online communications, while parcel volumes have grown significantly. These trends have accelerated during the Covid-19 pandemic and have created challenges as well as opportunities for postal operators. We have seen technology play an increasing role in improving postal services. For example, many operators now use tracking technology to improve customer service, and some have trialled the use of drones to deliver in remote places. Intense competition between parcel couriers delivering consumer goods ordered online has also increased.

We must ensure that postal regulation keeps pace with changes in the market and remains relevant, fit for purpose, and effective. We last reviewed our regulatory framework for post in 2017 and said that it should remain in place until 2022. This document is the first step in our next review of future postal regulation and invites views on the main themes we are considering as part of our review. We are not making any policy proposals at this stage.

Issues we are considering

In this period of significant change in the postal markets, we aim to ensure our regulatory framework is fit for purpose and effective. We aim to provide commercial flexibility to the universal service provider, to allow competitive and well-functioning parts of the market to operate effectively and to target our regulatory intervention where appropriate. The existing universal service obligation requires Royal Mail to deliver letters and parcels to every address in the UK at a uniform and affordable price. Current wholesale access regulation allows other postal operators to use parts of Royal Mail's network to fill gaps in their own network and offer alternative letter services to businesses. We believe our overall approach has worked well to date, but we welcome views on whether it remains fit for purpose or whether any changes are needed.

Sustainability and efficiency. Our current regulation aims to support Royal Mail to secure a universal postal service that is sustainable and efficient. We seek to incentivise Royal Mail to modernise its business, to manage the decline of letters appropriately, and to make efficiency savings, without degrading the quality of the delivery services or raising prices without justification. These are essential to secure the future of a sustainable, efficient, and affordable universal postal service. We welcome views on our current approach to sustainability and efficiency and how it might be improved.

Letters and the universal service. In 2020, we published a comprehensive review of the needs of postal users across the UK, to see if the universal service requirements on Royal Mail still reflect what people and businesses need today. Responsibility for potential changes to the minimum requirements of the universal service rests with Government and are therefore not within the scope of this review. But we are considering those parts of the universal service obligation that do fall within our remit, including:

- the safeguard price caps that apply to Second Class stamps and smaller parcels;
- the affordability of Royal Mail's redirection service, which allows people to redirect mail from their old address to their new one; and
- Royal Mail's quality of service targets, which apply to certain universal service products.

We welcome stakeholder views on whether any changes to universal service regulations within our remit are required in relation to letter products.

Parcels market, including consumer protections and the universal service. As people's reliance on parcels continues to grow, we are seeking views on the effectiveness of competition and consumer protection in the parcels market. We invite views on issues arising in relation to complaints handling and redress. We are also inviting views on whether changes to the universal service are required for parcels, such as the inclusion of tracking services in the universal service obligation.

Access and bulk mail. Royal Mail is currently required to provide wholesale access to its network. While competition from bulk letters providers relying on wholesale access to Royal Mail's network has remained strong in the last five years, some wholesale access customers have raised concerns about Royal Mail's engagement when introducing new wholesale services and about the changes in Royal Mail's access charges over recent years. Some have also requested changes to the scope of the access regulation itself. We welcome views on the current access regulations and whether any changes are needed.

Next steps

Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on Thursday 20 May. We intend to publish a full consultation on the future regulation of postal services later this year, before concluding our review in 2022.

2. Context

Summary

In this section, we set out a high-level overview of the wider context of our review. We summarise recent market developments – including changes in demand for particular services and the significant impact of Covid-19 pandemic on the postal market. We look at how the industry is adapting to this evolving market and provide a high-level overview of some of the innovation and changes implemented by stakeholders. Finally, we provide an overview of Ofcom's legal duties in regard to post.

Market developments

- 2.1 In 2017, we noted that there had been a number of significant developments in the postal market since we first set the regulatory framework in 2012. These included an intensification in the level of competition and innovation in parcel services. As set out in our annual monitoring reports over the years since, this trend for growth, competition and innovation in the parcels sector has continued over the last five years.¹ Furthermore, these changes have been amplified by the Covid-19 pandemic.

Letter decline and parcel growth trends

- 2.2 The UK wide domestic parcels market grew by 8.0% in 2019-20 with 2.8 billion items delivered and with a corresponding 1.7% real term increase in revenues.¹ Many parcel operators have announced expansion and investment plans to meet increased demand which has accelerated as a result of the Covid-19 pandemic.
- 2.3 For Royal Mail, domestic parcels volumes in its Reported Business² grew by 3.8% in 2019/20. As of Q3 2020/21, parcels revenues surpassed letter revenues for the first time, accounting for 60% of Royal Mail UK's³ revenues for the nine months to December 2020.⁴ This volume growth has accelerated both for Royal Mail and for other operators during the pandemic. For example, Royal Mail parcel revenues are up 37% year on year (up 31% by volume), as at Q3 2020/21.⁴
- 2.4 In the letters market, Royal Mail's Reported Business letter volumes declined by 7.6% in 2019/20 compared to the year prior.¹ This is consistent with longer term market trends as letter volumes have fallen year on year since 2011.⁵ This decline has accelerated during the pandemic, with letter

¹ Ofcom, 2020. [Annual Monitoring Update on Postal Services, Financial Year 2019-2020](#) [accessed 22 December 2020]

² The Reported Business is the part of Royal Mail's parcels, international and letters (UKPIL) business that undertakes activities for the purpose of, or in connection with, the provision of universal service and non-universal service products, excluding the activities and products of Parcelforce International and Royal Mail Estates Limited.

³ Royal Mail UK refers to the UK and international parcels and letters delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

⁴ Royal Mail, 2021. [Trading update for the nine months ended December 2020](#) [accessed 11 February 2021].

⁵ Ofcom, 2020. [Annual Monitoring Update on the postal market 2019-20: interactive data](#) [accessed 12 January 2020].

volumes declining by 23% year on year (-16% by revenue), as at Q3 2020/21.⁴ Nonetheless, total letter volumes in 2019/20 still amounted to just under 10 billion items and are still expected to remain a core service for Royal Mail through the next regulatory review period, although longer term trends are uncertain.⁶

Impact of Covid-19 pandemic

- 2.5 The Covid-19 pandemic has exacerbated the long-term trends in parcel volume growth and letter volume decline as highlighted above, created demand for new services from parcel operators, and reiterated the significance of post as a means of communication, particularly for some vulnerable groups of the population.
- 2.6 National lockdowns and regional restrictions throughout 2020/21 prompting temporary closures of retail outlets has led to a sharp rise in online shopping. For example, in Q2 of 2020 internet sales amounted to 31.4% of total retail sales, up from 18.4% in the same period the year prior.⁷ This led to a sharp increase in demand for parcel delivery services, catalysing a pre-existing long-term trend.
- 2.7 The Covid-19 pandemic has also created demand for new services from parcel operators. In August 2020, Amazon stated that it had delivered in excess of two million home testing kits.⁸ In November 2020 Royal Mail was awarded a contract from the Department of Health and Social Care to deliver additional Covid-19 home test kits, seven days a week, having handled over 90% of all testing kits since the start of the pandemic.⁹
- 2.8 Reduced demand for advertising and bulk business mail has driven down letter volumes, initially prompted by business inactivity during the first national lockdown and sustained by the longer-term economic downturn. Despite declining volumes, the pandemic has emphasised the importance of letters in providing key services to citizens, and in particular vulnerable groups of the population with less access to other forms of communication. This includes the delivery of important government, NHS, administrative and bank communications to households.
- 2.9 Finally, the Covid-19 pandemic has also forced postal operators to adapt to new ways of working, primarily due to social distancing rules. This has posed logistical challenges and, in some instances, increased operational costs (for example by requiring the purchasing of personal protective equipment or expanding vehicle fleets to accommodate social distancing).

Adapting to a changing market

- 2.10 Increasing parcel volumes and decreasing letter volumes are not unique to the UK. Similar trends have occurred in other developed economies. Postal service providers have responded by

⁶ The number of letters delivered by end-to-end operators other than Royal Mail in 2019-20 was less than 5 million items (under 0.1% of total letters volumes).

⁷ ONS, 2020. [Internet sales as a proportion of retail sales](#) [accessed 2 March 2021].

⁸ Amazon, 28 August 2020. [Amazon Logistic network](#) [accessed 2 March 2021].

⁹ Royal Mail plc, 19 November 2020. [Half Year 2020-21 Results \(Slide Pack\)](#) [accessed 2 March 2021].

reconfiguring their networks and operations to accommodate parcel delivery and improving efficiencies to offset falling revenue from declining letter volumes:

- a) investing in improved machine reading and sorting technologies, through barcoding, digital address reading and automation;
- b) centralisation of letter sorting centres to share resources and decentralisation of parcel sorting centres to meet customer service demands; and
- c) increasing delivery flexibility by combining or separating parcel and letter delivery rounds, or varying times depending on daily volumes.¹⁰

Parcel innovation

- 2.11 The parcel market is traditionally categorised into three segments: consumer to business/consumer (C2X), business to consumer (B2C) and business to business (B2B). B2C is the fastest growing parcel market segment, linked to e-commerce and characterised by end-to-end competition between parcel operators. Innovation in B2C tends to be fuelled by consumer demands, such as live tracking and parcel returns services.
- 2.12 Consumer ‘pick up/ drop’ off locations (PUDOs) are a prime example of such innovation and have increased in line with B2C parcel volumes. These allow consumers to collect and return parcels from collection points, such as convenience stores or train stations, which consumers may find more suitable than home delivery. Some PUDO networks also provide additional C2X delivery services, facilitating consumers to drop parcels off to return to retailers, or send parcels directly to other recipients.¹¹
- 2.13 Some couriers, such as DPD, Hermes and Yodel, have also started to offer home parcel collection services whereby they will collect parcels from consumer properties to deliver elsewhere, or back to retailers in the case of returns. Consumers must pre-book their collection online and pay in advance. In October 2020, Royal Mail launched its own ‘Parcel Collect’ service, which operates similarly to other home parcel collection services.¹²
- 2.14 Ofcom’s Review of User Needs found that whilst Royal Mail remains the preferred and most recognized C2X parcel operator (48% of participants solely using Royal Mail or Parcelforce¹³) there is a growing awareness and inclination by consumers to use other parcel operators, with Hermes being the most commonly used alternative.¹⁴
- 2.15 Whilst there is intense competition between parcel operators for B2C deliveries, consumers typically do not have a choice over which operator will fulfil their order. This is because businesses

¹⁰ WIK-Consult, 2019. International Benchmark: Postal Operations and Efficiency.

¹¹ Collect+ operate a network of 10,000 stores and since May 2020 has expanded to process parcels on behalf of a range of parcel operators including Yodel, DPD, FedEx and Amazon. Hermes operates a network of 5,000 ParcelShops including 900 lockers which are accessible 24/7. Collect+, May 2020. [About Collect+](#). Hermes, 2020. [ParcelShops](#) [accessed 2 March 2021].

¹² Royal Mail, 21 October 2020. [Posties to collect as well as deliver mail on doorstep](#) [accessed 2 March 2021].

¹³ Parcelforce is part of the Royal Mail Group and specialises in express parcels. [Parcelforce](#) [accessed 2 March 2021].

¹⁴ Ofcom, November 2020. [Review of postal users' needs: Report](#) [accessed 4 January 2021].

and online retailers tend to enter into bulk agreements with a limited number of providers and assign the parcel operator at the point of ordering.

Other developments

- 2.16 Negotiations between Royal Mail and the Post Office concluded that their long-term mail distribution agreement signed in 2012 would come to an end in March 2021. In December 2020, it was agreed that it would be replaced by a new commercial agreement offering both parties greater flexibility to adapt to changing consumer demands and market trends.¹⁵
- 2.17 Environmental factors have impacted parcel operators who continue to invest in reducing the emissions produced by their fleets by replacing petrol or diesel vehicles with electric vehicles as well as looking to other means of last mile delivery.¹⁶ This trend is driven in part by environmental legislation, such as the introduction of the Ultra-Low Emission Zone (ULEZ) in central London in April 2019, with similar initiatives being consulted on elsewhere.¹⁷ The proposed 2030 ban on new petrol and diesel vehicles is likely to catalyse the transition to electric vehicle fleets over the course of the decade.

Legal duties

- 2.18 We briefly set out below Ofcom's main statutory duties relating to postal services, as set out in the Postal Services Act 2011 (the "PSA 2011") and the Communications Act 2003 (the "CA 2003"). The legal framework relevant to our review is set out in more detail in Annex 5.¹⁸
- 2.19 Section 29(1) of the PSA 2011 requires Ofcom to carry out its postal functions in a way that it considers will secure the provision of a universal postal service, while having regard to its financial sustainability and efficiency.
- 2.20 Section 29(3) of the PSA 2011 provides that, in performing its duty under section 29(1), Ofcom must have regard to the need for the provision of a universal postal service to be:
- financially sustainable; and
 - efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.
- 2.21 Section 29 of the PSA 2011 does not require that Ofcom give more weight to one of those considerations over the other. We must take them both into account in arriving at a judgment as to

¹⁵ Post Office, 17 December 2020. [Post Office and Royal Mail reach Commercial Agreement](#) [accessed 2 March 2021].

¹⁶ For example, in 2020 DPD and Royal Mail announced plans to increase their electric vehicle fleet. DPD trialled the Volta Zero – the first purpose built full-electric 16-tonne delivery truck. Royal Mail partnered with London Electric Vehicles to trial new electric vans.

¹⁷ Examples include [Clean Air for Bristol](#), [Leeds clean air zone](#) and [low emissions zones in Scotland](#).

¹⁸ Annex 5 contains a description of the services that must as a minimum be included in a universal postal service (as set out in section 31 of the PSA 2011). This includes minimum requirements on delivery and collection of letters (Monday to Saturday) and other postal packets, for example parcels, (Monday to Friday), a service of conveying postal packets at affordable prices with a uniform tariff throughout the UK, provision of registered and insured services, and free of charge services (such as services to blind or partially sighted persons). Exceptions to the minimum requirements and Ofcom's role in reviewing these minimum requirements are set out in Sections 33 and 34 of the PSA 2011 (see Annex 5 for a more detailed description).

how we ought to carry out our functions, including when considering imposing or modifying regulatory conditions.

2.22 Section 3(1) of the CA 2003 sets out Ofcom's general duties. Ofcom's principal duty is to further the interests of citizens and of consumers, where appropriate by promoting competition. In performing our general duties, we are also required, under section 3(4) of the CA 2003, to have regard to a range of other considerations, which appear to us to be relevant in the circumstances, including:

- the desirability of promoting competition in relevant markets;
- the desirability of encouraging investment and innovation in relevant markets;
- the needs of persons with disabilities, of the elderly and of those on low incomes;
- the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
- the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable. Section 3(5) of the CA 2003 provides that, in performing its duty to further the interests of consumers, Ofcom must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.

2.23 When carrying out any of our functions relating to postal services, if we were to consider that any of our general duties conflict with our duty under section 29 of the PSA 2011 – i.e. the duty to secure provision of a universal postal service – priority must be given to the latter.¹⁹

2.24 Additionally, pursuant to section 3(3) of the CA 2003, in performing its general duties, Ofcom must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed, and any other principles appearing to us to represent the best regulatory practice. In this regard, we also note Ofcom's general regulatory principles.²⁰

2.25 Finally, we have an on-going duty under section 6 of the CA 2003 to keep the carrying out of our functions under review with a view to ensuring that regulation by Ofcom does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

¹⁹ Section 3(6A) of the CA 2003.

²⁰ Ofcom. [Ofcom's regulatory principles](#) [accessed 8 March 2021].

3. Approach to regulation

Summary

In this period of significant change in the postal markets, we aim to ensure our regulatory framework is fit for purpose and effective. Our objectives, in line with our legal duties, are to secure a universal postal service which is sustainable and efficient, support competition in the wider postal market, and deliver benefits to consumers.

To deliver these objectives, our overall framework aims to provide Royal Mail, the universal service provider, with commercial flexibility supported by a number of safeguards, along with limited regulation in increasingly competitive areas of the market.

We believe our overall approach as summarised in this section has worked well to date, but we welcome views on whether it remains fit for purpose or whether any changes are needed given a market which is rapidly changing and where a number of challenges are being faced. We also seek stakeholders' views on specific areas of our regulatory framework which we deal with in the next four sections.

Context

- 3.1 Postal services play a key role in our society. The ability to send and receive letters and parcels is important both socially and economically. It connects us and allows us to communicate in unique ways, offering a means of social communication that is accessible to all but particularly for more vulnerable groups (perhaps with less access to online communication channels). It also allows us to complete business transactions and provide goods and services without having to meet in person.
- 3.2 Postal services are used by almost everyone in the UK on a regular basis, from receiving online shopping deliveries or important medical correspondence, to sending letters to relatives. Our Review of User Needs found high levels of consumer and business satisfaction with Royal Mail and broader postal services.²¹
- 3.3 Within the context of postal services, the universal service obligation (USO) plays a key role. The USO essentially ensures that letters and parcels are delivered to around 30 million business and household addresses in the UK. This too has a strong social and economic rationale. Consumers place a high value on the affordability of the service, on uniform tariffs across the UK, and frequent and reliable deliveries every week, as set out in our recently published research.²¹ Many still depend on it for their business needs: attracting customers, invoicing, supplying goods and receiving payments. Without a universal postal service, consumers in different parts of the country could face different levels of service and perhaps different prices for basic postal services.
- 3.4 However, delivering a universal postal service gives rise to a number of challenges and opportunities as the needs of consumers change, placing less reliance on letter services and

²¹ Ofcom, 2020. [Review of postal users' needs: Report](#) [accessed 4 January 2021].

requiring greater, more effective parcel delivery solutions. Currently, this is also happening against a backdrop of the global Covid-19 pandemic which has, and continues to create, both short-term and longer-term impacts.

- 3.5 In our recent Annual Monitoring Update, we noted that Royal Mail needs to modernise its network and become more efficient to prevent putting the universal postal service at risk in the longer term.²² We also saw a potential opportunity for the lost value from the delivery of letters to be offset by significant growth in parcels if the increased demand for delivery of goods bought online is sustained and if Royal Mail can deliver against its transformation plans.

Our objective

- 3.6 The universal postal service is relied upon by millions of people and businesses across the UK. As the postal regulator, our legal duties and regulatory objectives are to secure a universal postal service which makes sure postal users benefit from a postal market that meets their reasonable needs, is affordable, is financially sustainable and efficient, promotes and supports competition in the wider postal market, and delivers benefits to consumers.^{23, 24}
- 3.7 These duties and objectives are consistent with Ofcom's overall goal to make communications work for everyone by promoting choice, securing standards and preventing harm. It is also in line with the Government's 2019 Strategic review which focused on:
- a) ensuring the needs of current and future customers will be met effectively and efficiently; and
 - b) the need for a postal services market that is competitive and delivering good outcomes for consumers and other users of postal services.²⁵

Our current approach

- 3.8 In 2012, we introduced a new regulatory framework to meet our legal duties and regulatory objectives, recognising the challenges facing the postal sector and Royal Mail at the time.^{26, 27} We considered that the best way to do this was for Royal Mail to determine how best to meet the challenges it faced. We therefore decided to simplify the regulatory regime and provide Royal Mail with greater commercial flexibility, both pricing and operational, supported by a number of

²² Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#) [accessed 22 December 2020].

²³ Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#) [accessed 22 December 2020].

²⁴ See Section 2 for an overview and Annex 5 for a more detailed description of our legal duties, and the legal framework relevant to our review (including a number of minimum requirements covering, for example, delivery/collection, affordability, and 'free of charge' services (e.g. to blind or partially sighted persons)).

²⁵ DCMS, 2019. [Statement of Strategic Priorities for telecommunications, the management of radio spectrum, and postal services](#). Section 4, Postal Services [accessed 20 December 2020].

²⁶ Hooper, 2010. [Saving the Royal Mail's universal postal service in the digital age: An Update of the 2008 Independent Review of the Postal Services Sector](#) [accessed 22 December 2020].

²⁷ Hooper, 2008. [Modernise or decline: Policies to maintain the universal postal service in the United Kingdom](#) [accessed 22 Dec 2020].

safeguards, together with limited regulation in increasingly competitive areas of the market (e.g. parcels).

3.9 The key regulatory safeguards, also set out in Table 3.1, were:

- **Affordability.** A cap on the price of Second Class stamps for letters and parcels up to and including 2kg so vulnerable consumers can access a basic universal service;
- **Competition.** We required Royal Mail to continue to provide access to its network for bulk letter competitors; and
- **Monitoring.** An effective and on-going monitoring regime to track Royal Mail's performance in respect of the universal service, efficiency levels, pricing and competition.

Table 3.1: Overview of the current postal regulations

Letters		USO Parcels		
Type of regulation	USO letters	Access	0-2kg	>2kg-20kg
Price control	Safeguard cap ⁽¹⁾	Margin squeeze	Safeguard cap ⁽¹⁾	None
Service delivery	6 days	6 days	5 days	5 days
Speed of delivery	D+1, D+3	D+2, by D+5 ⁽³⁾	D+1 ⁽⁴⁾ , D+3	No
Quality of Service	Yes	No ⁽⁵⁾	Yes	Yes
General conditions ⁽²⁾	Yes	Yes	Yes	Yes

Notes: (1) Applies to second-class stamps with a) a cap for standard letters, and b) a basket cap on large letters and parcels up to and including 2kg; (2) Applies to all postal operators e.g. the requirement to establish procedures for dealing with postal service complaints; (3) Regulation to reflect Royal Mail's by D+5 'economy service' to be effective from 5 April 2021²⁸ (4) Royal Mail also offers a next day Special Delivery Guaranteed by 1pm service on items up to 10kg to meet its registered and insured item service obligations; and (5) regulation requires Royal Mail to be transparent on the quality of service it offers for D+2 and D+5 access.

3.10 In 2012, we explained our view that market conditions and shareholder discipline would be more likely to be effective in securing an efficient and financially sustainable universal postal service rather than imposing more regulation, such as wholesale or retail price controls and/or efficiency targets which could potentially increase the risk of regulatory failure.²⁹

3.11 However, we also recognised that Royal Mail might have the incentive and ability to increase prices or decrease service levels, to the detriment of consumers, instead of taking on the efficiency challenge.³⁰ This might be done in a way that resulted in a detriment to the universal service in the longer term by, for example, accelerating the market decline of letters.³⁰

²⁸ Ofcom, 2021. [Modification of the USP Access \[D+5\] Condition for regulating access to Royal Mail's postal network: Statement](#) [accessed 8 March 2021].

²⁹ Ofcom, 2017, [Review of the Regulation of Royal Mail: Statement](#), Section 1 [accessed 22 December 2020].

³⁰ Ofcom, 2012. [Securing the Universal Postal Service - Decision on the new regulatory framework: Statement](#). Paragraphs 6.157 [accessed 22 December 2020].

- 3.12 To balance the increased flexibility with the potential risks, we developed a new regulatory framework. Its aim was to create the right incentives, with safeguards where needed, to deliver the desired regulatory outcomes that balanced the needs of all stakeholders across the letters and parcels markets.
- 3.13 The 2012 framework also reflected recommendations for a new regulatory regime, as set out in the 2008 and 2010 reports by Richard Hooper on behalf of the Government, reflecting the challenges facing Royal Mail at that time.^{26,27} These reports recognised that preserving the universal service should be the regulator's primary duty, encouraging Royal Mail to become more efficient, promoting both innovation and competition without undermining the universal postal service, and focusing regulation only where needed, to avoid 'micromanagement' of Royal Mail.
- 3.14 The current regulatory framework, updated in 2017 to take account of changes in market conditions,³¹ therefore sets out to deliver a number of regulatory outcomes, balancing the increased commercial flexibility provided to Royal Mail with a number of safeguards:^{32, 33}
- **Service.** Secure a universal postal service which meets, and is driven by, the reasonable needs of users. We recently completed a review of the extent to which the minimum requirements of the universal postal service (set by Parliament) reflect the reasonable needs of the users of postal services provided in the UK. That review found that users' needs are changing and we discuss some of the specific findings of that review in Section 5 (letters and USO) and Section 6 (parcels).
 - **Affordability.** Ensuring the affordability of services as a valuable protection for vulnerable consumers in particular.³⁴ There is currently a price cap on second-class letters and small parcels up to and including 2kg. We discuss single piece letters and parcels pricing safeguards in Section 5 and access pricing in Section 7 (bulk mail/access).
 - **Competition.** Promotion of competition, with minimal regulatory intervention in increasingly competitive areas. To maintain competition in letters, Royal Mail is required to offer network access to its bulk mail competitors together with a margin squeeze price control safeguard (see Section 7). In other increasingly competitive areas, such as the growing parcels segment, we introduce limited regulation only when necessary and appropriate given the benefits that competition can bring. These benefits include increased choice for customers, service innovation and competitive prices.
 - **Innovation and investment.** Providing Royal Mail and other postal operators with the freedom to invest and innovate, with Ofcom intervening where appropriate in line with our duties and in line with ensuring Royal Mail has commercial flexibility, with appropriate safeguards. For

³¹ Imposing or modifying regulatory conditions subject to general tests as laid out in Schedule 6 of the PSA 2011 e.g. justifiable, non-discriminatory, proportionate and transparent.

³² Ofcom, 2011. [Securing the Universal Postal Service: Proposals for the future framework for economic regulation: Consultation](#) [accessed 22 December 2020].

³³ Ofcom, 2016. [Review of the Regulation of Royal Mail: Consultation](#), paragraphs 2.24-2.31 [accessed 22 December 2020].

³⁴ See Section 2 for an overview and Annex 5 for a more detailed description of our legal duties and the legal framework relevant to our review (including a number of minimum requirements covering, for example, delivery/collection, affordability, and 'free of charge' services (e.g. to blind or partially sighted persons)).

- example, Royal Mail has been investing in automated parcels hubs as part of its transformation plans and has recently launched a new Economy (D+5) letters access service.³⁵
- **Monitoring.** We cover a number of areas as part of our monitoring regime, in support of our regulatory framework, which include:
 - the setting and monitoring of appropriate quality of service standards and other targeted consumer protection measures. This includes a USO requirement to deliver at least 98.5% of second-class items within 3 working days of collection. Similar standards exist for first-class and next day guaranteed delivery (Section 5).
 - the financial sustainability and efficient delivery of the USO, taking this into account when developing our regulation and supported by the effective monitoring and publication of relevant information to all stakeholders. We currently publish information on Royal Mail's progress in delivering efficiency improvements and our assessment of sustainability in our annual monitoring report.³⁶ We discuss our proposals in relation to sustainability and efficiency further in Section 4.
 - a fit for purpose and proportionate regulatory financial reporting framework.³⁷ This framework sets out the reporting requirements and the regulatory accounting principles and rules with which Royal Mail must comply to provide us and stakeholders with the information needed for our monitoring regime. As part of this framework, we require Royal Mail to provide us with quarterly and annual regulatory accounts which report the profitability of the universal service network.

- 3.15 To ensure our regulations remain effective, we closely monitor the postal market and retain the right to intervene if required, including taking enforcement action where appropriate. We may choose to intervene where, for example, consumers might be negatively affected due to poor service quality or allegations of anti-competitive behaviour. For example, Ofcom fined Royal Mail £1.5m for failing to meet its first-class delivery target in 2018/19.³⁸
- 3.16 Generally, we have sought to review the framework at 5 year intervals (2012, 2017 and now for 2022). These multi-year review periods are intended to provide an appropriate degree of certainty as to the regulatory framework for all postal stakeholders including Royal Mail, potential investors, and other postal operators.

Looking forward

- 3.17 Our aim is to ensure our regulatory framework continues to remain relevant, fit for purpose and effective. Any future framework will need to be effective in achieving our legal duties and regulatory objectives i.e. securing an affordable universal postal service which meets the

³⁵ Ofcom, 2021. [Modification of the USP Access \[D+5\] Condition for regulating access to Royal Mail's postal network: Statement](#) [accessed 8 March 2021].

³⁶ Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#) [accessed 22 Dec 2020].

³⁷ We plan to review the regulatory financial reporting framework as part of our forthcoming review of postal regulation consultation.

³⁸ Ofcom, 2020. [Royal Mail fined £1.5m for missing 2018/19 delivery target](#) [accessed 5 February 2021].

reasonable needs of users and which is sustainable and efficient, promoting competition where appropriate, and protecting consumers' interests.

- 3.18 To deliver our legal duties and regulatory objectives, the current framework provides commercial flexibility to Royal Mail, with targeted regulation in relation to USO and access services, whilst allowing competitive and well-functioning parts of the market to operate with minimal regulatory intervention. Our starting point is that we believe this approach is working well – particularly in protecting consumer interests and promoting competition – but we welcome input on how it could be further improved going forward.
- 3.19 Continuing with our current approach has potential advantages including the provision of a clear and stable regulatory environment, reducing uncertainty and helping stakeholders – including consumers, Royal Mail, and investors – when planning and making longer-term investment decisions. When looking at alternative approaches, it is also important to consider the risks of regulatory failure through, for example, increased intervention as identified by Richard Hooper in his analysis of the market ahead of the current framework being introduced in 2012.³⁹
- 3.20 That said, we recognise that the postal market is undergoing an unprecedented period of uncertainty and significant change as the market continues to transition towards parcels and away from letters. This has been exacerbated by the Covid-19 pandemic. Against this backdrop, Royal Mail and other postal operators face a number of challenges in transforming their businesses. Royal Mail is under particular pressure to transform, in order to ensure the long-term sustainability and efficiency of the USO, as highlighted in our recent Annual Monitoring Update.⁴⁰
- 3.21 We therefore also recognise that our current regulatory approach and framework may need to evolve in light of changing market conditions and changing user behaviours and needs (such as those identified in our recent research).⁴¹ We seek views from stakeholders on whether our overall regulatory approach will remain appropriate looking forward and how it may need to develop. These views could also include emerging areas, such as environmental sustainability. We would also welcome views on areas where we could look to remove regulations which may be a burden or are no longer necessary to achieve our regulatory objectives.
- 3.22 In the remaining sections, we set out possible areas where we may consider developing our existing regulations. Some of these areas have come to light following our regular engagement with stakeholders. In these sections, we seek views on these and other areas Ofcom should be considering under this review.

³⁹ Hooper, 2010. [Saving the Royal Mail's universal postal service in the digital age: An Update of the 2008 Independent Review of the Postal Services Sector](#) [accessed 22 December 2020].

⁴⁰ Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#) [accessed 22 December 2020].

⁴¹ Ofcom, 2020. [Review of postal users' needs: Report](#) [accessed 4 January 2021].

Consultation question

Question 3.1: Do you consider that Ofcom's overall regulatory approach remains appropriate for regulating postal services over the 5-year period (2022-2027)? If not, please explain the areas where you think changes should be made, with supporting evidence.

4. Financial sustainability and efficiency

Summary

Our current regulation aims to secure a universal postal service that is sustainable and efficient and meets the reasonable needs of users. We seek to incentivise Royal Mail to modernise its business, to manage the decline of letters appropriately, and to make efficiency savings, without degrading the quality of the delivery services or raising prices without justification. These are essential to secure the future of a sustainable, efficient, and affordable universal postal service.

This section sets out our current approach to financial sustainability and efficiency, and we welcome views on how this current approach might be improved.

Approach to sustainability and efficiency

- 4.1 Ofcom is required by section 29 of the PSA 2011 to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service.⁴² ⁴³ In performing this duty, we must have regard to the need for the provision of the universal postal service to be financially sustainable and efficient. This includes the need for a reasonable commercial rate of return for the universal postal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of a universal postal service.
- 4.2 When undertaking previous reviews of the regulatory framework for postal services, we have granted Royal Mail considerable commercial and operational flexibility to adapt to the changing market environment. This reflected our view that Royal Mail were best placed to manage the long-term financial sustainability and efficiency of the universal postal service.
- 4.3 We believed this approach would enable Royal Mail to make commercial decisions to manage mail volume decline would support and incentivise financial sustainability and efficiency, and best support a market-funded universal postal service.⁴⁴ We also imposed a monitoring and reporting regime as part of our safeguards in recognition of the potential risks to users of the postal service arising from increased commercial flexibility and in order to incentivise the delivery of a sustainable and efficient universal postal service. This regime includes (amongst other things) monitoring of Royal Mail's quality of service, pricing, financial performance and efficiency.

⁴² See Annex 5 for a more detailed summary of our legal duties.

⁴³ The universal service obligations (USO) are imposed on the universal service provider by any designated universal service provider (DUSP), with the services as defined by Ofcom as part of a universal postal service order (UPSO).

⁴⁴ Ofcom, 2012. [Securing the Universal Postal Service - Decision on the new regulatory framework: Statement](#) [accessed 5 January 2021]; Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#) [accessed 5 January 2021].

Financial sustainability

- 4.4 A financially sustainable universal postal service is a key objective of our overall regulatory framework, as set out in Section 3, and is supported by the effective monitoring and publication of a number of financial sustainability measures which we describe in more detail below. The reporting and forecasting of these measures helps us assess any risks to the sustainability of the universal postal service and inform our thinking on whether our regulatory framework needs to change or not and the potential impacts that any changes may have.
- 4.5 In 2012 we considered what measures/metrics we could use as part of our monitoring regime to provide an indication of medium to longer-term financial sustainability. We concluded that the ‘financeability’ Earnings Before Interest and Tax (EBIT) margin⁴⁵ was the appropriate measure (as a percentage of total revenues for the Reported Business).⁴⁶ We concluded that an EBIT margin in the range of 5-10% was appropriate and consistent with the need for Royal Mail to earn ‘a reasonable commercial rate of return commensurate with the level of risk within the business’.⁴⁷
- 4.6 In addition to monitoring the EBIT margin for the Reported Business, we also decided in 2012, to consider certain financial metrics and data relating to the Relevant Group.⁴⁸ We considered Relevant Group level data meaningful as this is the level at which the company manages its cash and makes investment decisions. Shareholders, investors, and analysts also consider Royal Mail’s financial health at this level. These metrics and data included a consolidated income statement, balance sheet, cash flow statement, and cash flow projections.
- 4.7 In 2017, we decided that the 5-10% EBIT margin remained the appropriate range to use when considering the medium to longer-term financial sustainability of Royal Mail’s Reported business.⁴⁹ We also decided that it would be appropriate to consider supplementary financial metrics and data relating to the Relevant Group, which would enhance our understanding of the short to medium term sustainability of the universal postal service.⁵⁰ The supplementary financial health metrics that we decided upon assisted in the monitoring the Relevant Group’s ability to meet its financial obligations. We stated we would consider, as a minimum and among other metrics we may find

⁴⁵ In 2014, we explained that we considered it appropriate to adjust the EBIT margin to restate pension costs on a cash basis rather than the rate which is based on the accounting standards because the cash rate gives a better view of the true costs of pensions, we refer to this particular measure as the ‘financeability EBIT margin’.

⁴⁶ The Reported Business is the regulatory entity which contains the universal postal service network and all the products provided through or in relation to that network. Royal Mail PLC holds a group of companies, including Royal Mail Group Limited (Royal Mail). The Reported Business is contained within Royal Mail as part of the UKPIL business unit. We refer to Royal Mail PLC and the group of companies it holds collectively as the Relevant Group.

⁴⁷ Ofcom, 2012. [Securing the Universal Postal Service - Decision on the new regulatory framework: Statement](#), paragraph 5.47 [accessed 3 March 2021].

⁴⁸ We refer to Royal Mail PLC and the group of companies it holds collectively as the Relevant Group.

⁴⁹ Ofcom, 2017. [Securing the Universal Postal Service - Decision on the new regulatory framework, Annexes 5-11: Statement](#), paragraph A6.62 [accessed 3 March 2021].

⁵⁰ Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#) [accessed 5 January 2021].

appropriate, the FFO/Debt, Net Debt/EBITDA and EBITDA/Interest (interest cover) metrics, and the Viability Statement Royal Mail publishes as part of its own financial reporting.⁵¹

Royal Mail's financial sustainability progress

- 4.8 In our recent Annual Monitoring Update, we found it helpful to consider both the short-term and longer-term financial sustainability of the universal service. In our 2019/20 update we noted that even though the Reported Business' EBIT margin decreased from 1.6% to 0.4% in 2019-20 (below the 5%-10% range), Royal Mail is likely to be sustainable in the short-term.⁵² This was based on our consideration of the financial health metrics referred to above, which together did not indicate any short-term financial health issues. We also noted that this view of short-term financial sustainability had not altered during the first half of 2020-21 despite the impact of Covid-19 pandemic.
- 4.9 However, the downward trend in the Reported Business's EBIT margin in recent years, as a long-term indicator of the financial sustainability of the universal postal service, was noted as a concern. We stated that unless Royal Mail modernises its network and becomes more efficient, there is a risk it will not be able to secure a commercial rate of return for the Reported Business. This could put the financial sustainability of the universal postal service at risk in the longer term.

Drivers of financial sustainability

- 4.10 As part of our 2019/20 Annual Monitoring Update, we discussed a number of factors which are driving the financial sustainability of Royal Mail's Reported Business and the universal postal service. These factors, which Royal Mail has either direct control over or can influence, are likely to remain relevant going forward, and include:
- **Growth in parcels.** The growth in overall parcel volumes represents an opportunity for revenue growth for Royal Mail, even where it faces competition from other parcel operators (see Section 6). For example, Royal Mail parcel revenues are up 37% year on year, as at Q3 2020/21.⁵³
 - **Decline in letters.** The Reported Business addressed letter volumes have fallen due to ongoing structural decline which has been exacerbated by the impact of the Covid-19 pandemic, with ongoing uncertainty likely to continue into 2021. The revenue effect of this volume decline was offset in part by price rises across all Reported Business products.⁵⁴ We note that, in some instances, price rises may risk accelerating the market decline of letters and potentially undermine the universal service in the longer term (for letter pricing, see Sections 5 and 7).

⁵¹ We stated that we would consider, as a minimum and among other metrics we may find appropriate, the FFO (funds from operations)/Net Debt, Net Debt / EBITDA and EBITDA / Interest (interest cover) metrics. Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#), 3.63 [accessed 5 January 2021].

⁵² Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#) [accessed 22 Dec 2020].

⁵³ Royal Mail, 2021. [Trading update for the nine months ended December 2020](#) [accessed 11 Feb 2021].

⁵⁴ There was a -16% decline in letter revenues year on year, as at Q3 2020/21.

- **Cost transformation.** Royal Mail has indicated that it is committed to its transformation plan to reduce costs by modernising its network, becoming more efficient, and transitioning towards becoming a parcels-led business. This is in the context of costs increasing faster than revenues in 2019-20. We discuss cost transformation in more detail in the Efficiency subsection below and how it is key to driving improvements in financial sustainability.

Efficiency

- 4.11 An efficient universal postal service is a key objective of our overall regulatory framework and is also a key driver of financial sustainability as described above. Our current approach to efficiency is to provide Royal Mail with operational flexibility, on the basis that it has incentives to make improvements in order to maximise shareholder returns. This is supported by the inclusion of efficiency metrics in our monitoring regime, in order to assess Royal Mail's performance on efficiency over time.
- 4.12 In 2017 we decided against supplementing this approach with regulatory efficiency targets on parts of Royal Mail's business.⁵⁵ In reaching this view, we considered Royal Mail's historic efficiency performance and the incentives on Royal Mail to make further efficiency improvements in the future. We considered that as Royal Mail was privatised, market conditions and shareholder incentives were more likely to be effective in securing an efficient universal postal service than the imposition of additional regulation. We also noted that Royal Mail relying on service degradation or price rises without improving its efficiency performance could undermine financial sustainability in the longer term and also undermine affordability and/or reasonable needs of users.⁵⁶ For example, excessive price rises could push customers towards e-substitution, which would accelerate letter decline, widening the gap between the costs and returns of letter delivery.
- 4.13 The 2017 statement set out the metrics we would use to monitor Royal Mail's efficiency performance. These metrics include the following high-level indicators of efficiency:
- a) the overall change in real costs, which provides a high-level simplified view of efficiency;
 - b) Price, Volume, Efficiency and Other (PVEO) analysis, which provides a measure of efficiency by disaggregating movements in costs in terms of price changes (i.e. cost inflation), volume effects, efficiencies achieved, and other one-off costs;
 - c) frontline gross hours in delivery and processing, which captures year-on-year changes in paid hours (these will change as a result of volume changes as well as efficiency); and
 - d) productivity, which is the ratio of workload (weighted volumes) to frontline gross hours.
- 4.14 Furthermore, we periodically review Royal Mail's annual business plans and carry out international benchmarking to help understand opportunities for future efficiency gains as well as progress in comparison with Royal Mail's peers. For example, the most recent Annual Monitoring Update

⁵⁵ Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#) [accessed 5 January 2021].

⁵⁶ Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#) [accessed 5 January 2021].

included an analysis of the level of automation as a proportion of parcels processed by Royal Mail in comparison with five other European postal operators.⁵⁷

Royal Mail's efficiency progress

- 4.15 Our monitoring regime reports on a range of metrics to assess Royal Mail's progress in making efficiency gains. Efficiency performance continues to be a concern. Although Royal Mail reportedly met its overall cost avoidance target for the UK business in 2019-20, real costs for the Reported Business increased by 1.4%. Our analysis indicates that there were no underlying efficiency improvements (excluding transformation costs); Royal Mail did not meet its 2%+ target of productivity improvement, achieving 1.0%. Further, frontline hour reductions were low and Royal Mail stated that these did not fully absorb the additional pay costs which flowed through from the October 2018 reduction in the contracted working week. There were some improvements, such as an increase in parcel automation from 12% to 33%.⁵⁸
- 4.16 Within the monitoring report, we also noted Royal Mail's progress against its transformation plan which we also monitor and helps inform our long-term view of financial sustainability. Key parts of this transformation plan include revisions to delivery routes, rollout of dedicated parcel routes, increased use of data and technology, and further parcel automation.
- 4.17 We also explained that we continue to be concerned that many of the enablers of efficiency improvements identified by Royal Mail in its ambition to transform the business are behind schedule and have yet to be implemented. This is due to delays and changes to the original plan which have meant significant productivity improvements have yet to be realised. We recognise that this has been complicated by the impact of the Covid-19 pandemic, but continue to see efficiency, alongside modernising the network, as critical to the longer-term financial sustainability of the universal service.
- 4.18 Since our most recent Annual Monitoring Update, there have been developments in this area. In December 2020 Royal Mail and the CWU agreed a deal which includes plans to support the modernisation of Royal Mail's network.⁵⁹ Details of the joint modernisation plan are expected in due course. This agreement was ratified by the union members on 3 February 2021.⁶⁰

Looking forward

- 4.19 We recognise the importance of the universal postal service being financially sustainable and efficient. Unless Royal Mail is able to become more efficient, and to adapt to a changing market, we also recognise that there is a risk it will not be able to secure a reasonable commercial rate of return for the universal service business in the longer-term.

⁵⁷ Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#), paragraph 6.33 [accessed 22 December 2020].

⁵⁸ Ofcom, 2020. [Annual Monitoring Update on Postal Services. Financial Year 2019-2020](#) [accessed 22 December 2020].

⁵⁹ CWU and Royal Mail, 2020. [Key Principles Framework Agreement \(The Pathway to Change\)](#) [accessed 2 March 2021].

⁶⁰ Royal Mail, 2021. [Royal Mail welcomes CWU ballot result](#) [accessed 2 March 2021].

4.20 Subject to stakeholder comments and further consideration as part of our review, our initial view is that the approach of the existing regulatory framework towards sustainability and efficiency, and the range of measures we use, are likely to continue to be appropriate for the next review period. It acknowledges the inherent incentives within a private company to drive financial sustainability and efficiency, and supports it by providing operational flexibility for Royal Mail to work out the best way forward whilst also avoiding the risk of regulatory micromanagement or failure. It also ensures that there are some important safeguards in place, such as the monitoring regime which allows us and industry to assess Royal Mail's progress. However, we also acknowledge that we, and stakeholders, have had concerns in relation to sustainability and efficiency during the last review period. Therefore, we welcome stakeholder views on what the framework should entail going forward.

Consultation question

Question 4.1: Do you consider that Ofcom's current approach to financial sustainability and efficiency of the universal postal service will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

5. Universal service obligations

Summary

While letter volumes have continued to decline in recent years, people and businesses across the UK still rely on the universal service provided by Royal Mail for the sending of letters and parcels at an affordable, uniform price.

The universal service is underpinned by a range of regulations we have imposed on Royal Mail, including a safeguard cap on the price of Second Class stamps to ensure basic letter and parcel services are available to all at an affordable price, and quality of service standards that Royal Mail needs to meet. There are also specific requirements for the services Royal Mail provides as part of the universal service, including special delivery, metered mail and redirections. Redirection services allow people to redirect mail from their old address to their new one, and some stakeholders have raised affordability concerns for this service.

We are seeking views and evidence from stakeholders on whether our existing approach in these areas remains appropriate, or whether any changes are needed.

As well as our regulation, there are some minimum requirements of a universal service which have been set by Parliament, including the requirement for a delivery of letters to every home or premises six days a week. The minimum requirements cannot be changed by Ofcom, and do not fall within the scope of this review. We are also not currently anticipating making changes in this review to our existing requirements for Royal Mail to provide both First Class and Second Class services.

Market context

- 5.1 As set out in Section 2, the UK postal service market has changed significantly in recent years. Letter volumes and revenue have continued to decline since 2011, as customers increasingly move towards digital communications. Despite this, the letters market is still significant, with almost 10 billion addressed letters being sent in 2019-20.⁶¹

Overview of the letters market⁶²

- 5.2 The UK letters market can be split into three parts:
- a) Single piece end-to-end services (mainly USO services) – single letters that individuals or SMEs send via post boxes and post offices (e.g. birthday card/invoice), which are collected and delivered by Royal Mail;

⁶¹ Ofcom, 2020. *Annual Monitoring Update on Postal Services. Financial Year 2019-2020*, page 2 [accessed 22 December 2020].

⁶² This includes letters and large letters.

- b) Bulk mail end-to-end services (non-USO) – large volumes of mail collected directly by Royal Mail from large businesses or organisations and then sorted, distributed and delivered by Royal Mail; and
 - c) Access for bulk mail services (non-USO) – large volumes of mail collected directly by competing access operators from large businesses or organisations, and then inserted into Royal Mail's network for delivery.
- 5.3 The focus of this section is on single piece end-to-end letters services,⁶³ which are mainly USO services.⁶⁴ Royal Mail provides a range of USO letter services (e.g. First Class, Second Class, Redirection and Special Delivery Next Day Guaranteed by 1pm). There is no significant competition in single piece letter services, either from other end-to-end or access operators. Therefore, users of single piece letter services rely almost exclusively on Royal Mail's universal service.
- 5.4 For completeness, we note that this section is also relevant in places to single piece parcels. In particular, many of the USO services referred to above can also be used for the delivery of single piece parcels (up to 20kg), and the price cap on Second Class stamps and quality of service standards which we discuss below also apply to certain single piece parcels services. In Section 6, we consider parcels more specifically, including the most appropriate scope of the universal service for parcels in the years ahead.

USO letter service trends

Volume trends

- 5.5 The volume of single piece letters sent using the universal service has declined over time.⁶⁵ Between 2018-19 and 2019-20, we estimate the volume of single piece letters to have declined by approximately 10.7%,⁶⁶ with around 1.8 billion single piece letters being sent in 2019-20.

Pricing trends

- 5.6 Royal Mail is required to provide some universal services free of charge (e.g. Articles for the blind or partially sighted, Poste restante⁶⁷). With other universal services (e.g. First Class, Second Class, Redirections), Royal Mail is required to provide them at affordable, uniform prices throughout the UK. Under the current regulatory framework, Royal Mail's pricing in relation to some Second Class products is also subject to safeguard caps.⁶⁸

⁶³ For bulk mail services, see Section 7.

⁶⁴ Our estimates suggest that single piece letter volumes are virtually all USO letter volumes (approximately 99%).

⁶⁵ We use single piece letter volumes as a proxy for USO volumes. As noted above, our estimates suggest that single piece letter volumes are approximately 99% of all USO letter volumes.

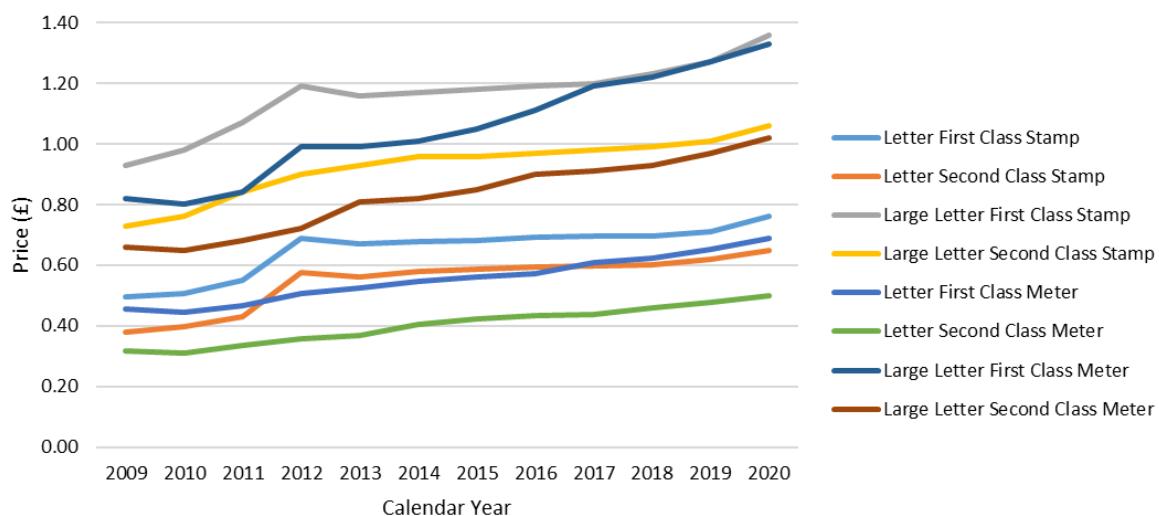
⁶⁶ Ofcom, 2020. *Annual Monitoring Update on Postal Services. Financial Year 2019-2020*, page 20 [accessed 22 December 2020].

⁶⁷ Poste restante is a service which allows users to have mail delivered to a post office for a reasonable period. The address of the post office is used as the customer's postal address.

⁶⁸ The main purpose of the safeguard caps is to ensure that users are able to access a basic, affordable universal service and to protect vulnerable users from ongoing price increases, whilst ensuring that Royal Mail has sufficient commercial pricing flexibility. See below for more details.

- 5.7 Users can pay for Royal Mail's universal services through two payment methods: stamps and mail meters. Royal Mail offers metered services at discounted prices relative to regular stamped services.⁶⁹
- 5.8 Since 2013, Royal Mail's prices for letters and large letters (both stamps and metered mail) have consistently risen. Between 2013 and 2020, we estimate that the real price of a First Class and Second Class letter stamp increased approximately by 13% and 16%, respectively. In nominal terms, this corresponds to an increase of 27% in First Class letter stamps, and 30% in Second Class letter stamps (see Figure 5.1).

Figure 5.1: Royal Mail USO letter and large letter prices in real term



Source: Ofcom Annual Monitoring Update on the postal market: Financial year 2019-20 data.

- 5.9 In January 2021, Royal Mail further increased its stamp prices, with First Class stamp prices rising by £0.09 to £0.85 and Second Class stamp prices rising to the maximum permitted by the safeguard cap (by £0.01 to £0.66). First Class and Second Class prices for large letters and metered mail have also increased.

Affordability research findings, household expenditure and disposable income trends

- 5.10 As mentioned above, Royal Mail is required to provide some universal services at affordable, uniform prices throughout the UK. We present below an update on some research findings which we have previously considered as part of assessing the affordability of postal services, including trends in household postal expenditure and disposable income. We welcome stakeholder views on whether these remain relevant to assessing affordability going forward, and/or whether there is additional evidence we should consider.

⁶⁹ Metered services are more suited for SMEs and other organisations that send higher volumes of mail.

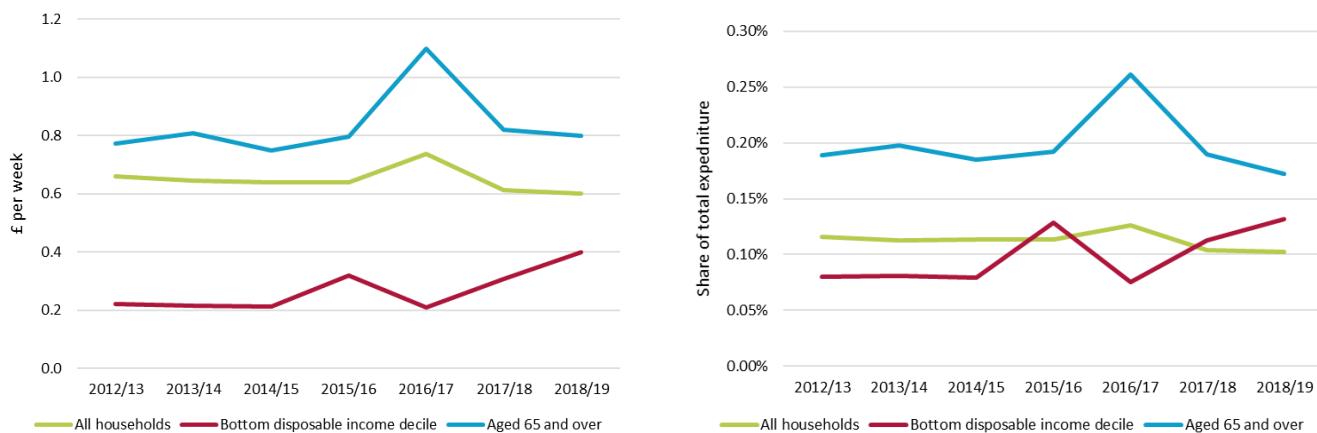
Affordability research findings

- 5.11 Our 2019/20 Residential Postal Tracker suggests that 13% of respondents reported reducing their use of postage stamps to afford essentials like food or heating, and 8% had to cut back on essentials to afford postage stamps.⁷⁰ The research suggests that those reducing their usage of stamps or cutting back on essentials to afford stamps tended to be younger⁷¹, housebound and/or low income households⁷².

Expenditure on postal services

- 5.12 ONS data on household expenditure⁷³ suggests that expenditure on postal services has remained relatively low amongst all households since 2012/13. In 2018/19, households on average spent around £0.60 per week on postal services.
- 5.13 We have also examined the level and share of total expenditure across specific groups. We find that spending on post amongst consumers aged 65 or over tends to be higher than average. However, despite the slight fluctuations in spending over time, post remains a small share of total household expenditure amongst these groups.

Figure 5.2: Household expenditure on post (£ per week) and share of total expenditure (%)



Source: Ofcom calculations based on data from the ONS Living Costs and Food Survey. Adjusted for CPI using 2018/19 prices.

⁷⁰ Ofcom, 2020. [Residential Postal Tracker Q3 2019-Q2 2020](#), QF1.

⁷¹ Aged 16-34.

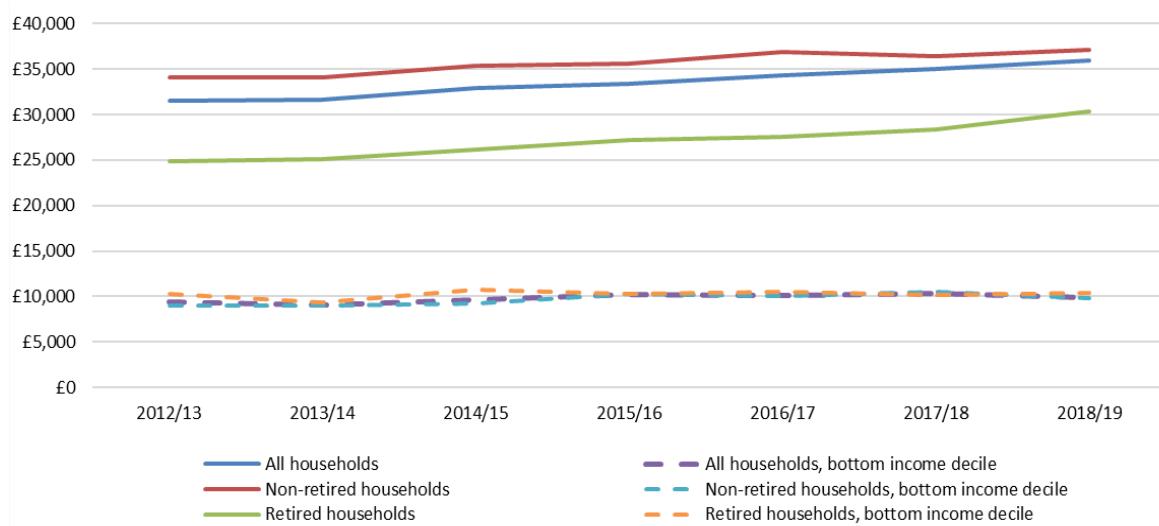
⁷² Earning under £11,500 per year.

⁷³ ONS, 2021. [Tables in reports on the Living Costs and Food Survey, financial year ending 2001 to financial year ending 2019](#), Table 3.1E: Detailed household expenditure by equivalised disposable income decile group (OECD-modified scale)(cont.) and Table A11: Detailed household expenditure by age of household reference person (cont.) [accessed 8 January 2021].

Real disposable incomes

- 5.14 Based on data from the ONS,⁷⁴ we also estimate that real disposable incomes have increased across all households in the UK by around 14% between 2012/13 and 2018/19. Over that period, we also estimate that growth in real disposable incomes for retired households has been stronger than non-retired households (22% compared to 9%).

Figure 5.3: Real disposable household incomes by groups



Source: Ofcom calculations based on data from the ONS Living Costs and Food Survey. Adjusted for CPI using 2018/19 prices.

- 5.15 However, our calculations suggest that low income households (bottom income decile), who may be more likely to be vulnerable, have experienced a slower rate of income growth over time. We also estimate that real disposable incomes fell between 2016/17 and 2018/19 by around 1% to 3% for low income households (retired and non-retired households).

The current universal service rules

- 5.16 The USO requires the designated universal service provider, Royal Mail, to deliver a range of postal services to homes and businesses. There are three ‘building blocks’ which make up the universal service, which we summarise briefly below.
- 5.17 Further details on the minimum requirements set by Parliament, the scope of the USO (including the extent to which it goes beyond the minimum requirements), and Royal Mail’s specific obligations under the designated universal service provider conditions (“**DUSP Conditions**”) are set out in Annex 5.

⁷⁴ ONS 2021. [Effects of taxes and benefits on household income, financial year ending 2019](#), Tables 2, 2a, 3, 3a, 4 and 4a: Average household incomes, taxes and benefits [accessed 8 January 2021].

Minimum requirements

- 5.18 Section 31 of the PSA 2011 sets out the key characteristics which must be included, as a minimum, in the universal postal service in the UK. These include requirements on Royal Mail to deliver letters six days a week, at an affordable and geographically uniform price to every address in the UK. These minimum requirements can only be altered by Government and Parliament.⁷⁵

Universal Postal Service Order

- 5.19 Ofcom is required by section 30 of the PSA 2011 to set out a description of the services that it considers should be provided in the UK as a universal postal service, and the standards with which those services are to comply. Ofcom did this in 2012, when it made the Postal Services (Universal Postal Service) Order 2012 (“**the Universal Service Order**”).⁷⁶
- 5.20 Whilst the PSA 2011 sets out various minimum requirements, the Universal Service Order can go beyond this to take into account the needs of users. The current Universal Service Order includes features going beyond the minimum requirements of the PSA 2011, such as the requirement to provide First and Second Class services. Ofcom can only amend those features of the universal service that go beyond the minimum requirements following an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services. Further details on the features of the universal service are included in Annex 5.

DUSP conditions⁷⁷

- 5.21 Ofcom can impose DUSP Conditions on a universal service provider pursuant to section 36 of the PSA 2011. These can include, amongst other things, a requirement for a universal service provider to provide a universal postal service (or part of such a service) throughout or in a specified part of the UK. Ofcom can also make provision as to the tariffs to be used for determining the prices of universal service products, as well as performance targets.
- 5.22 To date, Ofcom has imposed three DUSP conditions on Royal Mail.
- DUSP Condition 1 requires Royal Mail to provide those services set out in the Universal Service Order throughout the UK. It also includes performance targets that Royal Mail must meet in respect of some of the universal services, as well as obligations to notify and publish certain information;
 - DUSP Condition 2 imposes a safeguard cap on stamps for Second Class letters; and

⁷⁵ In 2020, Ofcom published research into whether the minimum requirements reflect the reasonable needs of the users of postal services in the United Kingdom. Ofcom, 2020. [Review of postal users' needs](#).

⁷⁶ [Universal Service Order](#).

⁷⁷ Ofcom, 2021. [Designated universal service provider \(DUSP\) conditions](#) [accessed 8 March 2021].

- c) DUSP Condition 3 imposes a safeguard cap on stamps for Second Class large letters and parcels up to and including 2kg.

Scope of our review

- 5.23 As part of this review, we are considering the scope of the Universal Service Order and the extent to which the universal service obligations imposed on Royal Mail, by that Universal Service Order and the DUSP Conditions, will remain appropriate going forward (taking account of the reasonable needs of postal users and the extent to which the market is meeting those needs). In the next section we set out specific areas where we are particularly interested in stakeholder input and additional evidence although, subject to the below, we welcome stakeholders' views on all elements of the Universal Service Order and DUSP Conditions.
- 5.24 We will not be looking at the minimum requirements set by Parliament, such as minimum letter delivery frequency, as part of this review. These were considered in detail in our Review of User Needs published in November 2020. It is now for the Government to determine whether any changes are needed to the minimum requirements and to bring any proposals before Parliament.
- 5.25 Furthermore, while we will of course take account of stakeholders' views regarding the requirement for Royal Mail to provide a First Class (D+1) service and a Second Class (D+3) service, we do not currently anticipate making any changes to this requirement as part of this review.⁷⁸

Main areas for stakeholder input

- 5.26 This section sets out the main areas where we would like to receive further stakeholder views and supporting evidence.

Safeguard Cap

- 5.27 Our 2012 Review provided Royal Mail with considerable commercial and operational flexibility, including by removing general price regulation of Royal Mail's postal services.⁷⁹ However, this was conditional upon a number of safeguarding measures: competition in the mail market, monitoring of Royal Mail, and the imposition of certain safeguard caps.

⁷⁸ In our Review of User Needs we explored replacing these services with a single class service (D+2 or D+3) and found that, while this would only have a small impact on residential users, it would have a greater impact on SME users. We also found that it would only result in modest cost savings for Royal Mail, and that it could also result in lost volumes and users switching away from mail (with potentially negative effects from the point of view of the financial sustainability and efficiency of the universal service). See: Ofcom, 2020. [Review of postal users' needs](#), paragraph 6.16.

⁷⁹ Whilst we did remove most price controls on Royal Mail in 2012, the Universal Service Order and DUSP Conditions do contain more general requirements regarding the pricing of Royal Mail's universal service products. In particular, and as summarised in Annex 5, Royal Mail is required to provide end-to-end universal service products "*at affordable prices*" and to provide certain universal services (such as poste restante) free of charge.

- 5.28 Our ‘safeguard cap’ regime imposes limits on the extent to which Royal Mail can raise prices on a group of basic retail post products, up to a ceiling price set by Ofcom. In particular, we imposed the following safeguard caps on Royal Mail’s retail prices:
- a Second Class standard letter safeguard cap; and
 - a ‘basket’ cap⁸⁰, comprising Second Class large letters and small and medium parcels weighing up to and including 2kg.
- 5.29 Our safeguard caps regime was designed to ensure that a basic, affordable, universal postal service is available to consumers and small businesses, and that users of postal services, especially vulnerable consumers, are protected from ongoing price increases.
- 5.30 In setting the level of the cap, however, we explained that Royal Mail should be able to earn a reasonable commercial rate of return on safeguarded products, and that the effect of the safeguard caps on Royal Mail’s pricing freedom should be minimised to avoid a material adverse effect on the financial sustainability of the universal service. This was determined by assessing whether setting the caps at the level indicated by the affordability evidence would still give Royal Mail enough commercial flexibility to make a reasonable commercial rate of return.
- 5.31 The current safeguard caps expire on 31 March 2024⁸¹ having been reviewed in 2019. In our 2019 Review of Second Class stamp safeguard caps Statement⁸² (‘the 2019 Review’) we concluded that the safeguard caps were still required due to Royal Mail’s near-monopoly position in the single piece letters market, and high market share of the small and medium-sized single piece parcel market.
- 5.32 We concluded that Royal Mail retained considerable pricing flexibility under the Second Class basket cap on large letters and parcels up to 2kg cap, so it was not necessary to increase the cap level further. However, we also concluded that Second Class standard letters would remain affordable for either consumers in general, or most of those who are potentially vulnerable, if the cap was increased by 5% in real terms. This would also give Royal Mail sufficient commercial flexibility to make a reasonable commercial rate of return, which we considered necessary to avoid a material effect on the universal service. The potential for harm to some vulnerable consumers, and evidence of changes since 2013, indicated that a larger increase than 5% would be unaffordable for some people at that time.
- 5.33 Our decision meant that Royal Mail could price Second Class standard letters up to a maximum of 65p from 1 April 2019 to 31 March 2020. The cap would then continue to increase by CPI⁸³ each year on 1 April until 31 March 2024. The cap in 2020/21 was 66.4p and 2021/22 is 66.7p.

⁸⁰ The basket cap gives Royal Mail flexibility to set the structure of individual prices subject to a cap on the maximum overall price increase for Second Class stamp large letters and packet products up to 2kg.

⁸¹ However, we can review safeguard caps prior to March 2024 if we believe it to be necessary.

⁸² Ofcom, 2019. [Review of the Second Class Safeguard Cap](#).

⁸³ ‘CPI’ refers to the [Consumer Price Index](#). We apply the change in CPI from the period of 12 months ending on 30 September immediately before the beginning of the relevant year.

- 5.34 In December 2020, Royal Mail announced that it would raise its Second Class standard letter price to £0.66 as of 1 January 2021.⁸⁴ It is now therefore pricing its Second Class standard letter up to the safeguard cap and will not, under the current framework, be able to increase this before April 2022.
- 5.35 As at 2020/21, Royal Mail still had around 22% headroom on the basket cap for large letters and parcels up to 2kg.

Approach to safeguarding users

- 5.36 Recent research undertaken to inform our Review of User Needs suggested that both residential and SME postal users continue to rate affordability of postal services, including USO products subject to the safeguard caps, as highly important.⁸⁵
- 5.37 In addition, some stakeholders have expressed concern about the affordability of post, including USO and safeguard products. For example, consumer groups have raised concerns about affordability for consumers in vulnerable circumstances, or users who are particularly reliant on postal services, including some elderly users.
- 5.38 It could potentially be considered more appropriate and proportionate to focus the safeguard cap on consumers who are particularly vulnerable, for example people in receipt of certain benefits. However, we are mindful of the risk that such a cap may be operationally unmanageable, given the wide variety of channels that stamps are purchased through, and the complexities of providing proof of eligibility at point of purchase.
- 5.39 While the current price cap is due to remain in place until March 2024 in its existing form, we are interested in stakeholders' views and evidence on whether our approach to the safeguard cap and affordability is likely to remain appropriate in future. This includes views on the precise form and level of the safeguard cap, and whether more should be done to ensure affordable universal postal services for all.

Consultation question

Question 5.1: Do you consider Ofcom's approach to the safeguard cap and ensuring affordability will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Redirections

- 5.40 People and businesses can purchase a redirection service from Royal Mail to redirect all mail addressed to a particular recipient from one address to another address for a specified period of

⁸⁴ Royal Mail, 2020. [Our prices. Valid from 1 January 2021](#). [accessed 2 March 2021]

⁸⁵ Ofcom. 2020. [Review of postal users' needs](#), Figures 15 and 16.

time. People tend to use this service when they have just moved to a new home. Royal Mail is the only supplier of this service.

- 5.41 We currently consider that the redirection service remains an important part of the USO.⁸⁶
- 5.42 According to Royal Mail's data, there were more than a million residential redirection services undertaken in 2019/20. Whilst this indicates that this service is used by a minority of consumers overall, our Review of User Needs suggests that among the residential consumers that moved property in the last three years 38% had used the redirection service.⁸⁷ Among SMEs, 44% of those moving premises in the last 3 years had used the redirection service.
- 5.43 According to Citizens Advice, there may be serious consequences of not redirecting mail when you move. These include missing important letters (such as medical letters, letters from government or banks) and an increased risk of identification fraud.⁸⁸

Affordability of redirections

- 5.44 Royal Mail is currently required to provide redirection services at affordable, uniform prices. As explained below, our research and stakeholder engagement suggest that the affordability of redirections warrants further exploration. We therefore currently expect to consider the affordability of redirections as part of our review.
- 5.45 The prices of residential and business redirections as of March 2021 are listed below.

Table 5.4: Prices of residential and business redirections

Time period	Residential redirection	Business redirection
3 months	£33.99 + £8.00 per extra person	£216
6 months	£47.99 + £9.00 per extra person	£321
12 months	£68.99 + £10.00 per extra person	£519

Sources: Royal Mail, [Redirection](#). Royal Mail [Business Redirection](#).

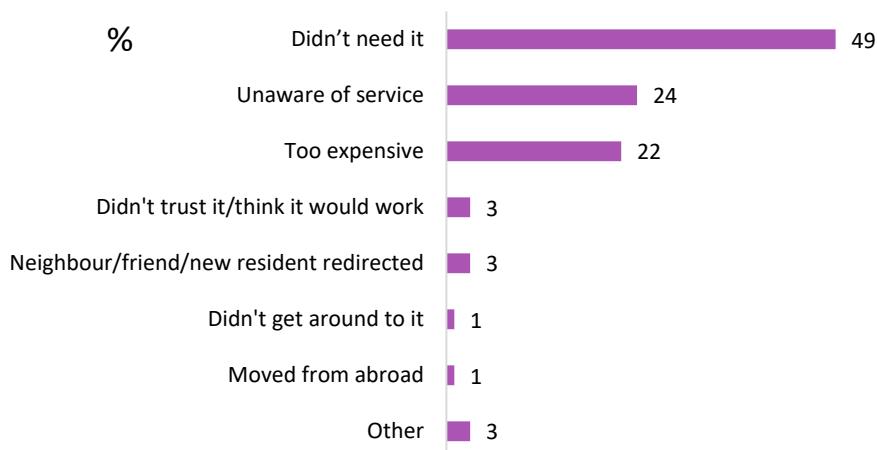
⁸⁶ Ofcom, 2020. [Review of postal users' needs](#), paragraph 6.53.

⁸⁷ In our quantitative research 408 residential consumers and 61 SMEs used redirections.

⁸⁸ Citizens Advice, 2018. [A new redirection?](#), page 5. [accessed 2 March 2021].

- 5.46 We note that the price of residential redirections has increased significantly in recent years. Between 2013-14 and 2019-20, we estimate that prices for the basic 3-month and 6-month package have increased for individuals by around 62% and 45%, respectively.⁸⁹
- 5.47 Our Review of User Needs tested consumer views on the affordability and pricing of this service, revealing mixed opinions.⁹⁰
- 5.48 Our quantitative research provides insights on why residential consumers moving to a new address within the past 3 years decided not to use the redirection service, as shown in Figure 5.5 below. While the main reason for not using the service among these consumers was the perceived lack of need (49%), a significant proportion (22%) of these residential consumers decided not to use the service because they considered it was too expensive.⁹¹ Qualitative research indicates that the pricing of redirections felt expensive for larger households, those on low incomes and those who moved regularly.⁹²

Figure 5.5: Reason for not using Royal Mail redirection service – residential consumers that moved house within the past 3 years without using the redirections service



Source: Jigsaw Market Research.

⁸⁹ Ofcom analysis based on Royal Mail's redirection prices. As noted above, Royal Mail changed the pricing structure of redirections in 2019. The data used is for the basic package on a per surname basis prior to 2019 and for the lead applicant post 2019.

⁹⁰ Ofcom, 2020. [Review of postal users' needs](#), paragraph 6.53.

⁹¹ Ofcom, 2020. [Review of postal users' needs](#), paragraph 6.55.

⁹² Ofcom, 2020. [Review of postal users' needs](#), paragraph 6.53.

- 5.49 Given the nature of this service, we consider that those moving regularly, including young people and families on lower incomes who may rent their homes,⁹³ are most likely to be affected by the pricing of the redirection service.
- 5.50 Citizens Advice (England & Wales) has in recent years raised concerns around the affordability of redirections. It has underlined that the prices of residential redirections have increased significantly since 2012, and at a greater rate than other USO services.⁹⁴ Citizens Advice also indicates that the cost of a 3-month redirection package is equal to a weekly food budget for the most vulnerable families.⁹⁵
- 5.51 We recognise that Royal Mail has in recent years introduced measures to change the pricing structure and to improve the affordability of redirections for low income households. In 2019, in response to concerns raised by consumer bodies, Royal Mail changed the pricing structure of its residential redirection service. The price is no longer calculated on a ‘per surname basis’ and instead depends on the number of people covered, with a fee for the lead applicant and a smaller extra charge for each additional applicant (as set out in Table 5.4). Royal Mail also introduced a 20% discount on the price of the 3-month and 6-month residential redirections service for those who receive either Jobseekers’ Allowance or Pension Credits and who rent their homes.
- 5.52 Some stakeholders have also raised concerns around the affordability of business redirections. According to our quantitative research into postal users’ needs, among those businesses that moved premises within the past 3 years and did not use redirections, 14% considered it too expensive.⁹⁶ According to our qualitative research, SMEs, particularly small businesses, were more likely to consider the pricing of redirections as prohibitive. In particular, smaller businesses indicated that the pricing structure does not take into account the size of a business or mail volumes.⁹⁷

⁹³ Younger households (aged 16-34) are more likely to live in privately rented properties when compared to other age groups. In 2019-20, the private rented sector was subject to the greatest number of household moves. See: Ministry of Housing, Communities and Local Government, 2020. [English Housing Survey](#) [accessed 2 March 2021].

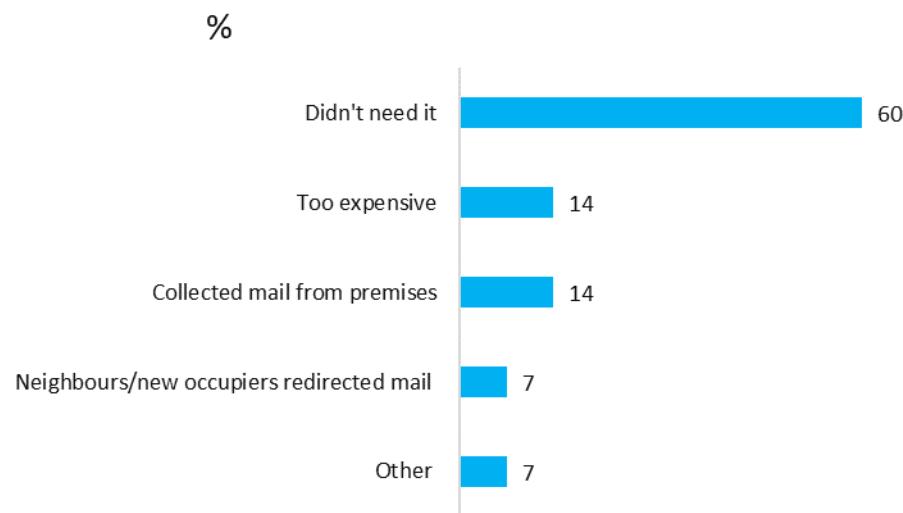
⁹⁴ Citizens Advice, 2018. [A new redirection?](#), page 2.

⁹⁵ Tom Gower, 25 March 2019. [Royal Mail has made redirection fairer – but they shouldn’t have redirected the cost?](#) [accessed 2 March 2021].

⁹⁶ Ofcom, 2020. [Review of postal users’ needs](#), paragraph 6.57.

⁹⁷ Ofcom, 2020. [Review of postal users’ needs](#), paragraph 6.54.

Figure 5.6: Reason for not using Royal Mail redirection service – SMEs that moved premises within the past three years without using the redirections service⁹⁸



Source: Jigsaw Market Research.

Quality of the redirections service

- 5.53 In addition to considering the affordability of redirections, we note that there are mixed views on the quality of this service. Complaints data published annually by Royal Mail indicates that redirections attracted over 8% of all complaints relating to USO products submitted in 2019/20.⁹⁹ Our qualitative research into user needs also suggests that consumers experienced some problems with redirections.¹⁰⁰

Consultation question

Question 5.2: Do you consider Ofcom's approach to the regulation of residential and business redirection services will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

⁹⁸ Caution: the base of all SMEs who moved in the past 3 years and did not use the service was low, n=44.

⁹⁹ Royal Mail, 2020. *Annual Report – Complaints and Compensation*.

¹⁰⁰ Ofcom, 2020. *Review of postal users' needs*, paragraph 6.53. Some of the problems experienced by consumers using the redirection service include delays, some items not being redirected or gone missing, difficulty getting help via customer services. See: Jigsaw, 2020. *UK Postal User Needs: Qualitative Research Report*, page 29.

Quality of service

- 5.54 Royal Mail is required by Ofcom to achieve certain performance targets in the delivery of particular USO products. These aim to ensure that users of key USO services benefit from a reliable service, and that mail sent will arrive when promised. Royal Mail is required to monitor its performance against these targets and publish, for each quarter and for each financial year, its performance against the targets. If Royal Mail fails to meet the targets, Ofcom can take enforcement action against Royal Mail.¹⁰¹
- 5.55 In particular, DUSP condition 1.9.1 requires Royal Mail to meet certain performance targets, including:
- a) Deliveries: Royal Mail to complete at least 99.9% of all delivery routes, each day on which a delivery is required;
 - b) Collections: Royal Mail to serve at least 99.9% of public access points, each day on which a collection is required;
 - c) First Class: Royal Mail to deliver at least 93% of First Class items within one working day of collection on a national (UK) basis;
 - d) First Class: to make sure that local areas receive an adequate level of service over time, Royal Mail is also subject to a separate postcode area¹⁰² target which requires it to deliver 91.5% of First Class mail within one working day of collection in each postcode area in the UK apart from HS, KW and ZE (118 of 121 postcode areas in the UK);¹⁰³
 - e) Second Class: Royal Mail to deliver at least 98.5% of Second Class items within 3 working days of collection on a national (UK) basis; and
 - f) Special Delivery Next Day Guaranteed by 1pm: Royal Mail to deliver at least 99% of Special Delivery items the next working day by 1pm on a UK basis.
- 5.56 Royal Mail has been subject to comparable regulatory obligations since 2001, including the First Class national (UK) performance targets and postcode area performance targets. The levels of the standards were initially based on Royal Mail's then internal quality of service targets.
- 5.57 The Covid-19 pandemic has materially affected Royal Mail's ability to meet its quality of service requirements. We appreciate that many people and businesses have experienced delays to their post recently. In April 2020, we acknowledged that the pandemic and associated restrictions

¹⁰¹ For example, following our investigation, in July 2020, we fined Royal Mail £1.5m for failing to meet its First Class delivery target in 2018/19. See: Ofcom, 2020. [Royal Mail fined £1.5m for missing 2018/19 delivery target](#) [accessed 5 February 2021].

¹⁰² Postcode Areas are geographic segments of the UK. Each segment has a name and a code made up of one or two letters. These codes are used as the beginning letters of every UK postcode. There are 121 postcode areas in the UK.

¹⁰³ The following postcode areas are exempt from quality of service targets for First Class mail because of their remoteness: HS, the Outer Hebrides postcode area which covers the islands making up the Outer Hebrides Island archipelago; KW, the Kirkwall postcode area, which covers certain areas in the North of Scotland, including the Orkney Islands; and ZE, the Lerwick postcode area, which covers the Shetland Islands in Scotland.

constituted a regulatory emergency period under DUSP Condition 1.¹⁰⁴ Royal Mail has provided evidence to us that social distancing requirements, elevated absence and self-isolation rates have had a significant impact on its operational capacity and service levels. It is important that the impact on consumers is kept to a minimum. We are engaging closely with Royal Mail on its performance to ensure that normal service levels are restored, and the regulatory emergency period is ended, as quickly as possible.¹⁰⁵

- 5.58 For clarity, the focus of this review is on the performance targets which apply during normal times (and which will resume when the emergency period is over). Reflecting on the evidence we have on quality of service, our Review of User Needs found that a high degree of certainty that an item will arrive by the promised date and reliability were important for postal users over and above speed. This is consistent with high quality of service standards, which give users a corresponding high degree of certainty as to when an item of mail will arrive.¹⁰⁶ Our analysis also found that relatively limited cost savings would be achieved by Royal Mail from reducing quality of service levels.¹⁰⁷

Consultation question

Question 5.3: Do you consider Ofcom's approach to regulating quality of service for key USO services remains appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Ensuring users can access USO services

- 5.59 It is important that people and businesses can access postal services, and can send and receive USO letters and parcels regularly.
- 5.60 In accordance with obligations set by Ofcom regarding access to post boxes and other access points, Royal Mail is required to have an extensive network of access points for the universal service.¹⁰⁸ Royal Mail is also required to have a statement of arrangements to ensure that those in remote areas whose premises are not within 10km of an access point are provided with reasonable access to such facilities.¹⁰⁹ Overall, there are around 115,000 post boxes across the UK, and users can also access USO services at 11,600 post offices. This means that, in practice, the vast majority of users have a range of access points available to them.

¹⁰⁴ See [DUSP Condition 1.3.4 \(a\)](#) and 29 April 2020 Ofcom, [Statement on temporary reduction of letter delivery](#).

¹⁰⁵ Ofcom, 2020. [Annual Monitoring Update on Postal Services, Financial Year 2019-2020](#), page 78.

¹⁰⁶ Ofcom, 2020. [Review of postal users' needs](#), page 38.

¹⁰⁷ Ofcom, 2020. [Review of postal users' needs](#), pages 69-73.

¹⁰⁸ DUSP 1.8.2 (a) requires Royal Mail to ensure that in the UK as a whole, there is a letter box within half a mile of the premises of not less than 98% of users of postal services. DUSP 1.8.2 (c) (i) requires Royal Mail to ensure that in the UK as a whole the premises of not less than 95% of users of postal services are within 5 kilometres of an access point capable of receiving the largest postal packets and registered items. DUSP 1.8.2 (c) (ii) requires Royal Mail to ensure that in all postcode areas the premises of not less than 95% of users of postal services are within 10 kilometres of an access point capable of receiving the largest postal packets and registered items.

¹⁰⁹ DUSP Condition 1.8.3; and see [Royal Mail's statement of arrangements for customers in remote areas](#).

5.61 Ofcom is, however, also mindful of the needs of vulnerable people and those who may be more reliant on postal services. For this reason, Royal Mail is currently required to:

- a) offer the Articles for the blind service, which is a free First Class service for qualifying items which is available to blind and partially sighted people (and which is a minimum requirement in the PSA 2011);¹¹⁰ and
- b) to have, and review annually, a statement of arrangements to ensure that users who are blind, partially sighted, infirm through age, chronically sick or disabled are able to post letters and parcels regularly, and as far as possible without significant cost to those users attributable to their difficulties.¹¹¹ In its August 2020 statement of arrangements, Royal Mail explains that, in relation to access points (e.g. post boxes), it takes great care when installing or relocating a post box to ensure that a location is reasonably accessible for those users.¹¹² In relation to collection, it sets out that its operational managers will endeavour to respond sympathetically to customers who have special needs and deal flexibly with their requirements wherever possible. It also notes that all customers in rural areas can give hand-stamped, letterboxable-sized mail to delivery staff when their delivery is being made (without leaving home).

5.62 Following a report from Citizens Advice (England & Wales) in 2018, Royal Mail trialled allowing homeless people to collect their mail free of charge from its delivery offices. This trial recognised that, to access postal services, people also need an address where they can receive mail; an issue explored by Citizens Advice in detail by reference to specific groups, including those who are homeless and in unsafe living situations.¹¹³ In its two most recent reports, Citizens Advice has called for the Government to fund a service where people in unsafe or untraditional living situations, including those who are homeless, could collect their mail free of charge from post offices.¹¹⁴ We recognise that this is an important issue and continue to monitor developments.

5.63 For our ongoing review, we are particularly interested in stakeholders' views and evidence on the accessibility of USO postal services, particularly for vulnerable people, and those who may be more reliant on postal services.

Special Delivery and Signed For services

5.64 Part of the minimum requirements of the universal postal service includes a requirement for the provision of registered items and an insured items service.¹¹⁵ The DUSP Condition imposed on Royal Mail by Ofcom requires this service to have a target routing time of next day by 1pm, and for

¹¹⁰ A free Articles for the blind service is a minimum requirement of the universal postal service set by the PSA 2011. Ofcom's Universal Service Order requires this service to be First Class and specifies the items which are eligible for the service.

¹¹¹ See DUSP Condition 1.8.4.

¹¹² Royal Mail, 2020. *Condition DUSP 1.8.4 - Royal Mail statement on the arrangements for users of postal services who are blind, partially sighted, infirm through age, chronically sick, or disabled.*

¹¹³ Citizens Advice, 2020. *Millions without mail*; Citizens Advice, 2020. *On the receiving end: how post can enable domestic abuse*; Citizens Advice, 2018. *The postal paradox: how having no address keeps people homeless.*

¹¹⁴ See Citizens Advice reports *Millions without mail* and *On the receiving end: how post can enable domestic abuse*.

¹¹⁵ See PSA 2011, section 31, requirements 4 and 5.

it to include tracking and offer proof of delivery for items up to 10kg.¹¹⁶ This is Royal Mail's Special Delivery Guaranteed by 1pm service.¹¹⁷

- 5.65 The DUSP Condition also requires Royal Mail to offer an add-on to its First Class and Second Class services which includes provision of proof of delivery on application by the sender.¹¹⁸ This is Royal Mail's Signed For service.
- 5.66 Our Review of User Needs found that neither of these services were used frequently by participants, but when they are required they were seen as essential. Special Delivery was used when participants needed to guarantee next day delivery and/or were sending items of high value (e.g. parcels/passports). However, many were unclear about all of the service's features, typically using it for the guarantee of next day delivery, rather than the 1pm delivery deadline, insurance or tracking components of the service.¹¹⁹
- 5.67 Signed For services were used by participants in our research for important and urgent items. Some participants felt that Signed For was essential because it could be recommended when sending legal or government documents, so that there was a record of an item having been received. Requiring a signature on delivery was also felt by participants to raise the importance of a letter in the eyes of the recipient. We found that many participants were unclear about the differences between Signed For and Special Delivery, and in particular whether the Signed For service would result in guaranteed delivery next day (which it does not).
- 5.68 As we found that some of the key features of these services were not well understood by users, we welcome stakeholders' views on whether the features of Special Delivery and Signed For services (beyond the minimum requirement for a registered items service and an insured items service) set in the DUSP condition remain appropriate.

Meter mail (franking)

- 5.69 Metered (franked) mail is an in-house postage and payment option that allows businesses and other organisations (such as charities or local authorities) to buy or lease franking machines that print the post mark directly on to letters. Royal Mail offers metered services at discounted prices relative to regular stamped services.
- 5.70 The wider postal market does offer services that are comparable and sometimes positioned as a substitute for metered services (via franking machines). For example, some access operators provide unsorted bulk mail services, which tend to be targeted at businesses that can commit to a minimum volume of at least 250 items per collection, per day.
- 5.71 In previous regulatory reviews some access operators have argued that meter mail should be removed from the universal service. Their argument was that meter mail does not meet the

¹¹⁶ See DUSP Condition 1.6.1(d).

¹¹⁷ Royal Mail also offers a Special Delivery Guaranteed by 9am service. It offers this on a commercial basis. It is outside the USO specification.

¹¹⁸ See DUSP Condition 1.6.1 (a)(d); and DUSP Condition 1.6.1(b)(d).

¹¹⁹ Ofcom, 2020. *Review of postal users' needs*, page. 75-76.

characteristics of a universal service product as it is a payment option aimed only at businesses. They also suggested that the removal of metered mail from the USO would allow for more competition between Royal Mail and bulk access operators.

- 5.72 Our quantitative user needs research found that while most SMEs use stamps when sending letters, 14% of SMEs use metered/franked mail. This compares to only 3% of SMEs that use the bulk mail services offered by Royal Mail, and 2% that use bulk mail services provided by other postal operators. Among SMEs that use metered/franked mail, 85% considered this method of sending mail to be ‘important’ or ‘very important’ to their business.
- 5.73 Our qualitative user needs research found that there is still a need for metered services amongst some SMEs. These SMEs seem to value the flexibility in applying postal markings to letters at discounted rates, and without committing to the minimum volume requirements that bulk mail operators specify.
- 5.74 More recently, Royal Mail and some access operators have begun offering ‘hybrid’ (or digital) mail services to businesses and organisations with lower volume needs. This involves electronic copies of mailings being sent by the sender to the operator, to be printed, produced and enveloped at a common print facility.
- 5.75 Bulk mail and hybrid mail services may be considered as an alternative for some SMEs using franking machines. However, as set out above, our Review of User Needs suggests that there is still a continuing need for metered services amongst some SMEs.

Consultation question

Question 5.4: Do you consider Ofcom’s approach to regulating USO services, including access requirements, Special Delivery Guaranteed by 1pm, Signed For and Meter mail will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

6. Parcels regulation

Summary

The parcels market has expanded in recent years and is increasingly important for consumers in the UK.

In the fast growing business-to-consumer (B2C) market segment, parcel operators compete to provide delivery services to online retailer businesses. We are seeking views on whether the market is working well for online shoppers receiving their deliveries and whether existing regulation offers sufficient protection when any issues arise.

Royal Mail remains the dominant provider of consumer-to-business/consumer (C2X) services, but there is some competition developing in parts of this segment, such as in the provision of delivery services to individual marketplace sellers. We are considering the most appropriate scope of the universal service for parcels in the years ahead, in particular whether First and Second Class parcels services within the USO should be allowed to include a tracking facility.

Context and market dynamics

Market context

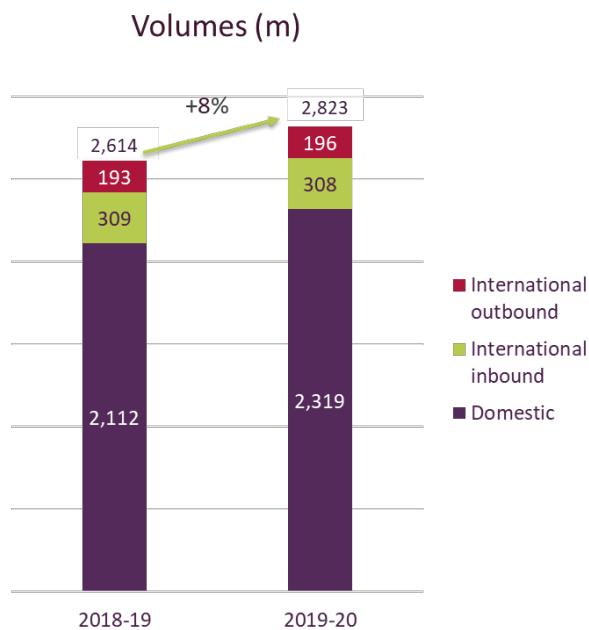
- 6.1 Parcels are becoming more important to the lives of UK citizens and consumers. Before Covid-19, parcels volumes had been growing year on year, driven by increases in online shopping. The ONS reported that internet sales made up 19.2% of total UK retail sales in 2019, up from 18.0% in 2018 and 16.3% in 2017.¹²⁰ In turn, total parcel volumes increased by 8% year-on-year in 2019/20, reaching 2.8 billion items, as illustrated in Figure 6.1.
- 6.2 Covid-19 has accelerated volume growth further, driven by the increase in online shopping linked to the restrictions on physical retailers during 2020/21. For example, in Q2 of 2020 internet sales amounted to 31.4% of total retail sales, up from 18.4% in the same period the year prior.¹²¹ The ongoing functioning and expansion of the parcels market during Covid-19 restrictions has enabled people to stay at home and prevent the spread of the virus, while providing a valuable service to both consumers and retailers. Residential users expect the volume of parcels they receive to stay the same or increase in future.¹²²

¹²⁰ Office for National Statistics, 23 October 2020. [Internet sales as a percentage of total retail sales \(ratio\) \(%\)](#) [accessed 20 January 2021].

¹²¹ Office for National Statistics, 23 October 2020. [Internet sales as a percentage of total retail sales \(ratio\) \(%\)](#).

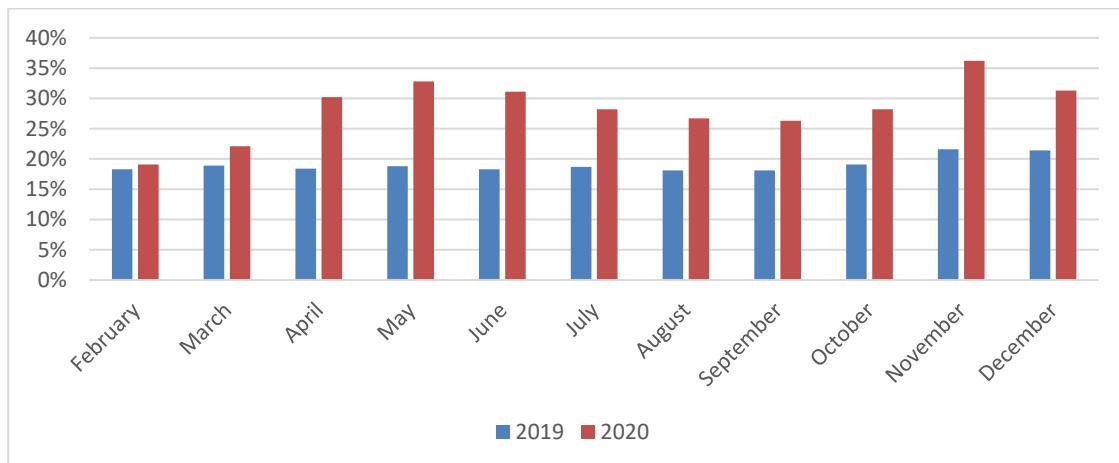
¹²² Ofcom, 2020. [Review of postal users' needs](#), paragraph 4.28. Also see Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 45.

Figure 6.1: Total measured parcel volumes



Source: Operator returns / Ofcom estimates. Access volumes included in domestic.¹²³

Figure 6.2: Internet sales as a proportion of total retail sales



Source: Office for National Statistics, 23 October 2020. Internet sales as a percentage of total retail sales (ratio) (%).

- 6.3 Even during months where the retail restrictions were relatively lighter, internet sales as a proportion of total retail sales, along with parcels volumes, remained markedly higher than the previous year.¹²⁴ Figure 6.2 shows that internet sales as a proportion of total retail sales were higher for each month between February and December 2020 compared to the same month in

¹²³ Ofcom, 2020. *Annual Monitoring Update on Postal Services. Financial Year 2019-2020*, Figure 3.1.

¹²⁴ Office for National Statistics, 23 October 2020. *Internet sales as a percentage of total retail sales (ratio) (%)*.

2019. Therefore, while the extent to which this trend will be sustained beyond Covid-19 is unclear, parcel volumes are likely to remain significant as shopping habits change.

6.4 The UK parcels market is made up of the following segments:

- a) **Consumer-to-business/consumer (C2X):** these are largely single-piece items sent by individual consumers or SMEs to another person or business (e.g. a person sending a birthday present to a relative, a consumer returning an item purchased from an online retailer,¹²⁵ or an online marketplace seller fulfilling orders);
- b) **Business-to-consumer (B2C):** deliveries of items to end consumers made as part of bulk contracts agreed between businesses and parcel operators (e.g. an online retailer sending multiple items bought online by consumers); and
- c) **Business-to-business (B2B):** bulk deliveries of parcels between businesses (e.g. a clothes manufacturer receiving fabric from a supplier, or a publisher receiving paper and ink in bulk).¹²⁶

6.5 In contrast to letters, there is end-to-end competition in the provision of parcels in the UK, with multiple parcel operators competing for customers. In addition, some operators with a relatively limited geographic network, or without a last mile network of their own, also provide parcel services via access agreements (in which they collect, sort and inject parcels into the network of another operator, normally but not exclusively, Royal Mail). Other operators specialise in last mile delivery in particular geographies, for example in urban centres or remote areas, on behalf of other operators.

6.6 High-level analysis suggests that B2C is by far the largest segment in the parcels market. In 2019/20, we estimate that B2C accounted for 65% or more of total parcels volumes across operators,¹²⁷ driven by the increase in online shopping. In contrast, the C2X market segment is relatively small, accounting for approximately 10-15% of parcels volumes across operators and growth is more limited.

Regulation of the parcels market

Overall approach

6.7 Regulation in the parcels market is currently largely focused on Royal Mail and the products within the scope of the universal service, in line with our duties to secure a universal postal service.

¹²⁵ Where the postage charge is covered by the online retailer, we would treat the return of items as B2C deliveries.

¹²⁶ We do not propose to assess the B2B segment in this Review. We instead focus on the consumer facing segments (C2X and B2C), where issues may directly result in consumer detriment. Furthermore, the B2B segment faces limited regulation and appears to be working well, with several parcel operators offering competing B2B services.

¹²⁷ Ofcom illustrative estimate using 2019/20 parcels market data published at aggregate level in our 2020 Annual Monitoring Update. We use single-piece and bulk parcel volumes as a proxy for C2X and combined B2C/B2B volumes, respectively. To estimate the proportion of bulk parcels that are B2C, we have applied assumptions to the data based on our understanding of each parcel operator's operations.

6.8 We recognise the benefits that competition can bring to users of parcel services (both senders and receivers). This includes innovation, which has improved customer experience in the parcels market while helping parcel operators keep costs low (see paragraph 6.21). As set out in Section 3, we aim to continue to support competition and innovation in the parcels market while protecting users and ensuring that users have access to services that meet their needs.

Summary of the existing regulation

- 6.9 Further to the minimum requirements set out in the legislation, the universal service must include at least one delivery and collection of single piece parcels every Monday to Friday, at affordable and geographically uniform prices (except for parcels exceeding 20kg). Royal Mail provides First Class and Second Class services to satisfy the requirements set out in the Universal Service Order (on Priority and Standard services). It also provides Special Delivery Guaranteed services for parcels weighing no more than 10kg. We also imposed an obligation on Royal Mail to provide access points for its universal services.¹²⁸ Further details of the USO are set out in Annex 5.
- 6.10 As noted in Annex 5, Ofcom can impose consumer protection conditions (CPs) on all postal operators. CP 3, introduced in 2012 and modified in 2017, deals with complaints handling and redress.
- 6.11 CP 3.2 requires all postal operators to establish, make available and comply with transparent, simple and inexpensive procedures for dealing with complaints of consumers of postal services, which facilitate the fair and prompt settlement of disputes. This requirement applies to all postal operators (as defined in the PSA 2011).¹²⁹ For the purpose of CP 3.2, a ‘consumer’ is any person who uses postal services either as a sender or an addressee.¹³⁰
- 6.12 In addition to CP 3.2, Royal Mail is subject to more specific requirements under CP 3.3 in relation to complaints from consumers of ‘relevant postal services’. This is defined as the services that Royal Mail is required to provide as the universal service provider. The requirements set out under CP 3.3 include, amongst other things:
- A requirement to establish, make available and comply with a complaints handling procedure which complies with certain detailed conditions;
 - Record keeping requirements;
 - Requirements to give complainants certain information about the complaint process and their rights;
 - A requirement relating specifically to vulnerable consumers;
 - A requirement to publish the complaints handling procedure in a certain manner;

¹²⁸ Royal Mail meets aspects of this obligation through its agreement with Post Office Limited to provide access to its services at post offices across the UK. Royal Mail, 17 December 2020, [Royal Mail and Post Office Limited agree new long-term commercial agreement](#) [accessed 22 February 2021].

¹²⁹ For the purpose of CP 3.2 a ‘postal operator’ is defined by reference to s.27(3) of the PSA 2011: a person who provides (a) the service of conveying postal packets from one place to another by post, or (b) any of the incidental services of receiving, collecting, sorting and delivering postal packets.

¹³⁰ CP 3.1.2(g).

- Annual reporting requirements;
- A requirement to publish and submit to Ofcom and the Consumer Advocacy Bodies quarterly reports on complaints volumes; and
- A requirement to be a member of a ‘qualifying redress scheme’.

C2X market segment

- 6.13 Compared to B2C, the C2X market segment is relatively small and growth is more limited. Our research indicates that most residential users are low senders of parcels.¹³¹ However, people are sending and receiving more parcels than previously as a result of the increase in online shopping, which drives sales through online marketplaces and returns of unwanted goods, both of which require C2X services.¹³²
- 6.14 Royal Mail is by far the main provider in the C2X segment and faces more limited competition, particularly for lower weight parcels.¹³³ Its product offering is heavily shaped by the USO, as set out in ‘Regulation of the parcels market’ above.
- 6.15 We characterise C2X senders as including:
- a) **Residential users:** people sending parcels to family and friends for example. Often these users will use post offices when sending these parcels.
 - b) **SMEs:** This category includes SMEs that rely on single piece parcel services to send occasional parcels (rather than bulk contracts) to customers or other businesses.
 - c) **Returns (non pre-paid):** A consumer returning an item purchased from an online retailer. We regard the C2X segment as including returns that are selected and arranged by the customer (whereas we generally consider returns that are pre-paid by the retailer as B2C). Of those that sent post (including both letters and parcels), returning items ordered online was the most common purpose for senders, with 47% of residential users stating that as a reason for sending items.¹³⁴
 - d) **Online marketplace sellers:** Online marketplaces often act as a platform for individuals (as well as businesses), allowing them to sell newly made items (e.g. jewellery) or resell used or unwanted items. Online marketplace sellers cover a broad spectrum of users. Some are occasional sellers, while others rely on the marketplaces for a source of income and are frequent senders of parcels. Generally, online marketplace sellers are likely to rely on single piece parcel services until they reach significant volume, at which point they will likely rely on bulk services. They may have different needs from other C2X users (e.g. product specification, access points). Our Review of User Needs found that 68% of residential users participated in

¹³¹ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), paragraph 4.1.

¹³² Ofcom, 2020. [Review of postal users' needs](#), paragraph 4.28.

¹³³ Ofcom, 2019. [Review of the Second Class Safeguard Caps 2019](#), paragraphs 3.63-3.79.

¹³⁴ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 9.

selling items via online marketplaces, with eBay being the most used platform (used by 57%).¹³⁵

- 6.16 The diversity of C2X senders may create increasing scope for pockets of competition to develop in the C2X segment in some locations. Indeed, our Review of User Needs found that there is a growing awareness and tendency by customers to use parcel operators other than Royal Mail.¹³⁶ These tend to be relatively large volume customers and do so mainly for pricing reasons.¹³⁷ This may suggest that customers who send parcels more frequently, such as online marketplace senders, are more willing to shop around and thus may end up using alternative parcel operators offering competitive prices.
- 6.17 Furthermore, alternative operators could also become more attractive to C2X customers as operators expand the number of access points in their networks.¹³⁸ As described in Section 2, some pick up/ drop off (PUDO) networks provide additional C2X delivery services, facilitating consumers to drop parcels off to return to retailers, or send parcels directly to other recipients. In addition, some operators including Royal Mail, DPD and Hermes offer home parcel collection services whereby they will collect parcels from consumer properties to deliver elsewhere, or back to retailers in the case of returns.
- 6.18 Websites offering price comparisons and access to parcel services, such as Parcels2Go, also have an impact on competition in C2X, by making it easier for customers who want to shop around to identify alternatives to Royal Mail.
- 6.19 Despite market developments in the C2X segment, Royal Mail remains the most commonly used supplier¹³⁹ and the only operator offering a universal service. While greater competition could develop in some areas over time, we note there are currently some restrictions in the offerings of alternative operators around features such as universality,¹⁴⁰ which our Review of User Needs suggests are important to users.¹⁴¹

B2C market segment

- 6.20 The business-to-consumer (B2C) segment is the largest and fastest growing segment of the parcels sector, linked closely to the growth in online shopping.
- 6.21 The B2C market is more competitive than the C2X segment, as there are multiple end-to-end parcel delivery networks competing for retail customers. Furthermore, product innovation is fast

¹³⁵ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 136.

¹³⁶ Ofcom, 2020. [Review of postal users' needs](#), paragraph 4.28.

¹³⁷ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 12: "When asked why they sometimes used other providers [...] cost as a reason was higher amongst [...] heavy parcel senders (55%)."

¹³⁸ Collect+ operate a network of 10,000 stores and since May 2020 has expanded to process parcels on behalf of a range of parcel operators including Yodel, DPD, FedEx and Amazon. Hermes operates a network of 5,000 ParcelShops including 900 lockers which are accessible 24/7. Collect+, May 2020. [About Collect+](#). Hermes, 2020. [ParcelShops: Your local Hermes parcel store](#).

¹³⁹ Jigsaw, 2020. [UK Postal User Research: Quantitative Research Report](#), Figure 9.

¹⁴⁰ Ofcom, 2020. [Review of postal users' needs](#), paragraphs 3.25-3.34.

¹⁴¹ Ofcom, 2020. [Review of postal users' needs](#), paragraphs 4.43-4.46.

paced, with new service features such as sophisticated tracking tools, nominated delivery windows, customer mobile applications and inflight diversion options increasingly being provided.¹⁴²

Geographic variations in B2C services

- 6.22 Stakeholders have previously identified geographic variations in pricing for delivery of retail goods bought online as a concern. In our recent Annual Monitoring Update for post, we set out our findings on the extent to which the B2C delivery services provided to retail businesses vary on the basis of the geographic location of the recipient. In summary:¹⁴³
- There are several providers offering B2C services across the UK.¹⁴⁴
 - Operators take different approaches to the pricing of parcel delivery based on geographic location. The approach taken can depend on the extent to which B2C is a core part of their business model. Negotiations with retailers will impact upon actual prices agreed.
 - Some operators differentiate their delivery charging on the basis of geographic location to some extent. This is most likely to affect deliveries to the Scottish Highlands and Islands, and Northern Ireland. Operators provided some reasons why they may incur additional cost of delivering to these locations, such as lower volumes/drop density and higher transport costs.
 - We found that retailers always have a choice of at least two operators that do not vary their prices on the basis of geography. The retailer also determines whether to pass on any differential charges incurred to the end customer.
- 6.23 As set out in our Annual Monitoring Update, it is retail businesses that ultimately set the charges for delivery to consumers. Although Ofcom does not have regulatory powers in relation to these charges (as they are set by retailers), we will continue to provide information on our recent findings to interested stakeholders, to help inform the wider debate about market dynamics and consumer outcomes.

Market dynamics

- 6.24 The market dynamics in the B2C segment are more complex than in the C2X segment, due to the number of parties involved and how they interact with each other. There are at least three parties involved when a consumer purchases a retail good for delivery to their home address – the retailer, the parcel operator and the consumer:¹⁴⁵

¹⁴² However, as we noted in Section 7, we are exploring whether competition is working well for all types of retailers (e.g. retailers that send ‘lightweight’ parcels, or retailers seeking lower-volume contracts who may have less choice of parcel operators than larger retailers).

¹⁴³ Ofcom, 2020. *Annual Monitoring Update on Postal Services. Financial Year 2019-2020*, paragraphs 3.32-3.40.

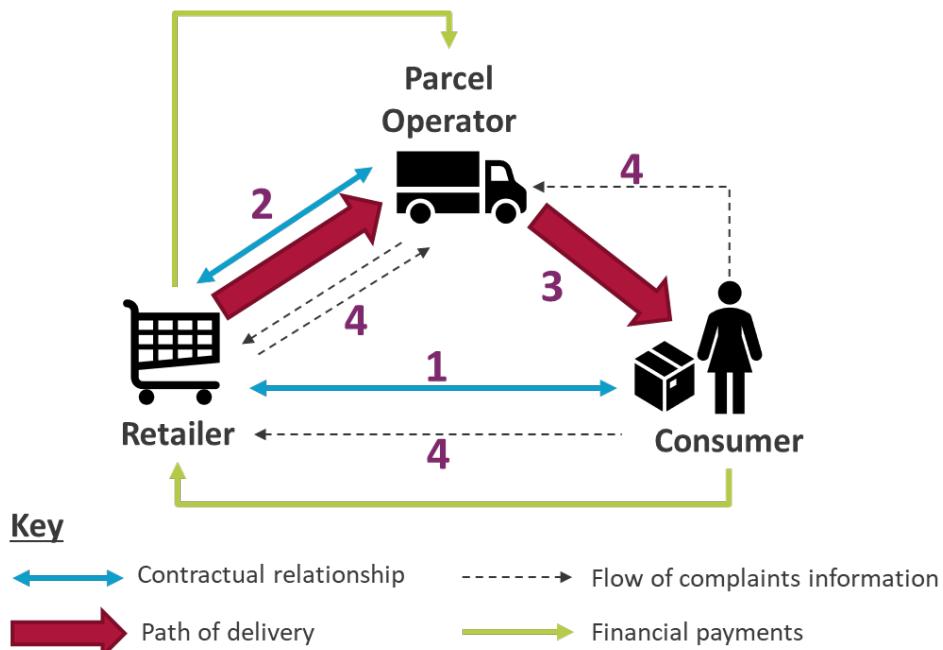
¹⁴⁴ While these operators will sometimes use third-party ‘last mile’ delivery services for delivery to locations in the Scottish Highlands and Islands, we found that that they have a choice of at least two third parties they can use. In addition, Royal Mail has an end-to-end post network across the whole of the UK.

¹⁴⁵ Other important players in the B2C segment include online shopping platforms that bring consumers and retailers together (such as Amazon Marketplace, AliExpress and notonthehighstreet.com), and last mile carriers that provide last mile delivery services to parcel operators, mainly in the Scottish Highlands and Islands.

- **Retailer (sender)** – The retailer will engage with a single or multiple parcel operators to agree terms for delivery of products to its customers.
- **Parcel operator** – Based on the delivery profile of the retailer, the parcel operator will offer different services (usually bulk) and agree a price for delivery.
- **Consumer (recipient)** – The consumer will be given a price for delivery at the point of sale, once the delivery destination and target delivery date are set. Depending on the item being purchased and the retailer, the consumer may have little choice about the delivery provider/charges (which may impact the consumer's experience for specific deliveries).

6.25 Figure 6.3 illustrates the interplay between retailer, parcel operator and consumer.

Figure 6.3: Market dynamics in the B2C segment



Source: Ofcom's analysis.

6.26 With reference to the numbering in Figure 6.3, we summarise the market dynamics and how the relationships between the three main parties interplay together:

1. Consumers purchase goods from retailers, usually with limited knowledge or influence over the parcel operator used by the retailer. The retailer and consumer enter into a contractual relationship whereby the purchased item(s) must be delivered to the consumer.
2. Retailers contract with parcel operators based on a number of factors, including price, speed of delivery and quality of service. These contracts will usually be large volume bulk contracts.
3. Parcel operators deliver parcels to consumers. There is no direct contractual relationship between the consumer recipient and the parcel operator.

4. If consumers have a query or complaint with the delivery, they may seek to contact the retailer, the parcel operator or both.¹⁴⁶

Consumer experience in the parcels market

- 6.27 As noted above, the parcels market has been growing for some years now, with the rise in online shopping. Parcel operators have played a particularly important role in serving consumers and delivering goods to peoples' homes over the last year, while Covid-19 restrictions have been applied to retailers.
- 6.28 Overall, our research suggests a high degree of consumer satisfaction with postal services.¹⁴⁷ However, given that the parcels market is growing, and becoming increasingly important to consumers, we want to have a better understanding of consumers' experience, including vulnerable consumers. This includes the types of issues they experience, as well as how those issues are resolved, to help ensure the regulatory approach remains relevant and fit for purpose in the future. As part of this, we are interested in exploring the level of protection currently granted by CP 3, and how it fits with other relevant rules.
- 6.29 Below, we set out the areas that we are likely to explore and welcome stakeholder views on whether we should consider any other aspects of the parcels market.

Potential consumer issues in the parcels market

- 6.30 Our Residential Postal Tracker provides some information on consumers' experiences of dealing with Royal Mail and other postal operators.¹⁴⁸
- 6.31 In relation to Royal Mail's postal services, consumers report high satisfaction, with 82% being satisfied or very satisfied. However, they also report experiencing problems, with the most common including mis-delivered mail (37%), receiving 'you were out' card (24%) and delayed mail (23%). 11% of survey participants thought that they had cause to complain to Royal Mail about its services – among them 89% complained, but 11% decided not to complain.¹⁴⁹

¹⁴⁶ Consumer protection legislation is relevant to the B2C market segment. Where the parcel company is delivering an online order, it is the retailer that enters into a direct contractual relationship with the consumer and it is the retailer's contractual responsibility to make sure the item is delivered to the consumer. Depending on the particular circumstances, consumers may therefore be able to rely on provisions of consumer protection legislation, for instance the Consumer Rights Act 2015, to seek redress directly from retailers, for instance if items are lost or damaged. A Citizens Advice publication, *If something you ordered hasn't arrived*, contains guidance for consumers in these instances. Consumer protection legislation with regard to retail sales is determined by Parliament and is beyond Ofcom's remit.

¹⁴⁷ Citizens Advice 2017 report indicates that 94% of consumers report a satisfactory or high quality of parcel delivery services. See: Citizens Advice, 2017. *Parcel Delivery. Delivery services in the online shopping market*, page 4. [accessed 1 March 2021]. According to Ofcom's Residential Postal Tracker, 84% of users of postal services are satisfied or very satisfied with postal services. See: Ofcom 2020, *Residential Postal Tracker Q3 2019-Q2 2020*.

¹⁴⁸ Ofcom 2020. *Residential Postal Tracker Q3 2019-Q2 2020*.

¹⁴⁹ The Postal Tracker also provides further details on consumer experience with Royal Mail. We asked for the reasons why consumers decided not to complain to Royal Mail. 58% considered that complaining was not worth the hassle, 33% thought that it would not change anything anyway, 20% did not know who to complain to. We also asked about satisfaction with the way that the complaint was resolved. 30% of those complaining to Royal Mail were dissatisfied with the resolution of their complaint.

- 6.32 With respect to other operators, the Residential Postal Tracker also provides some information on the incidence of problems and how often consumers make complaints. Hermes users reported the highest incidence of problems (21%), with lower figures for other parcel operators' users, including Collect+ (13%), DHL (9%), DPD (8%) and Parcelforce (7%).¹⁵⁰ The data suggest that generally around a half of consumers experiencing problems complain to the parcel operator.¹⁵¹
- 6.33 Citizens Advice and other Consumer Advocacy Bodies have argued in recent years that recipients of parcels experience a range of problems, at various steps of the consumer journey.¹⁵² Research conducted by Citizens Advice in 2019 suggests that 6 in 10 online shoppers experienced a problem with a delivery in the previous 12 months. The most common issues concerned parcels arriving late and consumers receiving 'sorry you were out' slips although someone was at home.¹⁵³ It also indicates that consumers may encounter additional issues when taking action to resolve their parcel delivery problems, resulting in financial loss, time loss and stress.¹⁵⁴
- 6.34 At that stage, we are seeking views and evidence from stakeholders in order to gain a better understanding of the potential issues that consumers may face in the parcels market. We are also conducting additional research into that market to better understand consumers' experience. This will inform our review of the regulatory framework for the parcels market.

Disabled consumers

- 6.35 Some disabled consumers are particularly reliant on online shopping, as they may be less able to access stores or make long journeys to purchase goods. We would like to understand further whether these customers are particularly affected by the potential issues with deliveries, and/or whether there are any additional problems we need to consider.
- 6.36 Citizens Advice has provided evidence suggesting that the parcels market does not always work well for disabled customers.¹⁵⁵ According to its research, 1 in 3 disabled customers have missed a delivery because they were not given enough time to get to the door, and 1 in 4 feels rushed, anxious or irritated when signing for a delivery. It noted that these problems are often a result of an information gap, for example if the customer does not receive sufficient information regarding their delivery and/or the courier does not have sufficient information regarding the specific needs of the customer.
- 6.37 We are interested in receiving stakeholder input on the experiences of disabled consumers. We also acknowledge that some other consumers, such as customers in vulnerable circumstances, may be facing similar issues.

¹⁵⁰ The comparison excludes Royal Mail. Complaints data for Royal Mail is aggregated for letters and parcels.

¹⁵¹ Among people experiencing problems with a given operator, the following proportion complained to the parcel operator: Hermes (53%), Collect+ (53%), DHL (52%), DPD (51%), Parcelforce (36%).

¹⁵² See for instance: Citizens Advice, 2019. [The market which isn't delivering](#) [accessed 2 March 2021].

¹⁵³ Citizens Advice, 2019. [The market which isn't delivering](#), page 9.

¹⁵⁴ Citizens Advice, 2019. [The market which isn't delivering](#), page 10.

¹⁵⁵ Citizens Advice, 2019. [The missing link: Why parcel companies must deliver for disabled people](#) [accessed 2 March 2021].

Requirements on complaints handling in relation to C2X segment

- 6.38 As set out above, Royal Mail is the main supplier in the C2X segment and has to comply with additional complaints handling requirements in relation to its USO products. In the past, we decided to impose these more prescriptive requirements because universal service products are offered to users under a Scheme¹⁵⁶ (rather than a contract) and therefore, users have no access to contractual remedies.¹⁵⁷ We also noted that Royal Mail was more likely to be relied upon by vulnerable consumers.¹⁵⁸
- 6.39 One of these additional requirements in relation to complaints handling, requires Royal Mail to offer access to an independent redress scheme for users of products within the universal service, if the complaint is not resolved through Royal Mail's complaints procedure. Moreover, Royal Mail is required to publish its data on complaints handling in relation to the USO products, which may provide users of postal services with a better understanding of the quality of service offered.
- 6.40 Royal Mail continues to be the main provider of C2X services, but there are some developing pockets of competition in parts of this segment. Some of the C2X services offered by other parcel operators may be similar to the services provided by Royal Mail under the USO. However, consumers using other operators may have different protection compared to if they use Royal Mail, as these operators are subject to CP 3.2 rather than CP 3.3.

Implications of the B2C market dynamics

- 6.41 All postal operators, including providers of B2C parcel services, must comply with CP 3.2 (on complaints handling). In addition, consumer protection legislation is relevant to the B2C market, as retailers enter into direct contractual relationships with consumers, which gives them rights in relation to deliveries of goods they buy online.
- 6.42 As noted above, the B2C market has complex dynamics and contractual relationships that will define consumers' experiences, and could potentially result in some consumer issues even if competition is generally working effectively. This may be the case, for instance, when it comes to complaints handling and redress when things go wrong. Consumers may not be sure if contacting the retailer or the parcel operator would be the best way to resolve a delivery issue.¹⁵⁹ Also, consumers tend to have no choice over the parcel operator delivering their goods – this is the retailer's choice, who may have different preferences and priorities than the ultimate recipients of goods.

¹⁵⁶ A 'Scheme' is a document where a postal operator publicly sets out the charges, terms and conditions it has for its products and services. These allow customers to purchase services under specific terms without the need for individual contracts. Ofcom, 2016. [Review of the Regulation of Royal Mail: Consultation](#), paragraph 7.82.

¹⁵⁷ Ofcom, 2016. [Review of the Regulation of Royal Mail: Consultation](#), paragraph 7.82.

¹⁵⁸ Ofcom, 2017. [Review of the Regulation of Royal Mail: Statement](#), paragraph 6.68 [accessed 22 Dec 2020].

¹⁵⁹ Citizens Advice have also reported on how the B2C market structure may be impacting consumers more generally. See: Citizens Advice, 2019. [The market which isn't delivering](#).

- 6.43 The market may be able to address some of these potential issues itself. For example, we note that retailers are likely to have incentives to try and ensure that the delivery service meets the majority of customer needs. If there are significant problems with the delivery (e.g. loss or damage of the good), consumers may seek redress directly from retailers (under consumer protection legislation), and many retailers will also often be keen to attract repeat custom. In addition, there are additional regulatory protections, as all postal operators, including providers of B2C parcel services, must comply with CP 3.2 (on complaints handling).
- 6.44 We are interested in better understanding consumer experiences in B2C parcel deliveries, including the type and frequency of issues that consumers may experience as well as the extent to which existing regulation provides sufficient protection. While Ofcom does not have a regulatory remit over retailers, we do have a role in relation to the consumer experience as users of parcel services when receiving goods bought online.

Consultation questions

Question 6.1: Do you think the parcels market is working well for all senders and receivers of parcels (such as online shoppers, marketplace sellers and/or small retailers)? If not, please explain what changes you think should be made, with supporting evidence.

Question 6.2: What is the nature and extent of detriment (if any) that consumers may suffer in the C2X or B2C segments of the parcels market? Please provide your views with supporting evidence.

Question 6.3: How effective are the existing consumer protection measures for users of parcel services, in particular CP 3? Is a change in regulation needed to protect users of postal services (as senders and recipients) and if so, what measures? Please provide your views with supporting evidence.

USO for parcels

- 6.45 As discussed above, Royal Mail is required to provide specified C2X or 'single piece' parcel services. This is a core part of postal services regulation, ensuring that all consumers have access to services that meet their needs as senders and recipients of parcels.
- 6.46 While we invite stakeholder evidence and views on the most appropriate scope of the universal service for parcels in the years ahead, there are three specific areas we want to raise as part of this CFI: delivery days, tracking and weight limits.

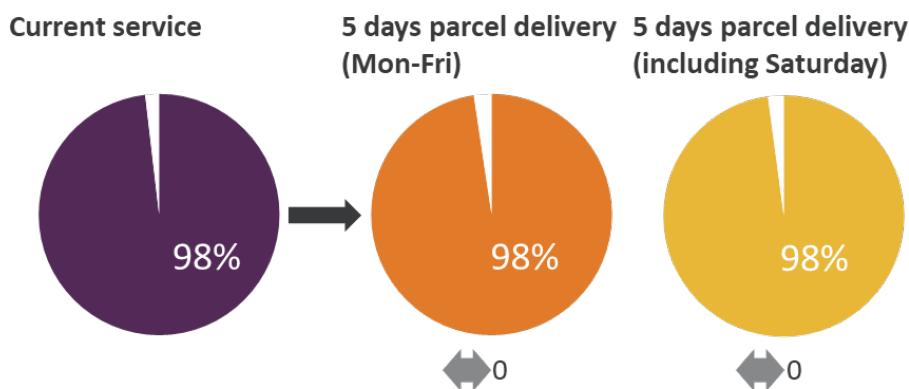
Delivery days for USO parcels

- 6.47 The minimum requirements set out in section 31 of the PSA 2011 require Royal Mail to deliver specified parcel services five days a week (Monday to Friday) to every address across the UK. When

making the Universal Service Order in March 2012, Ofcom did not add to these delivery requirements.¹⁶⁰

- 6.48 Royal Mail has stated that the “best way to ensure the Universal Service continues to meet our customers’ needs is to rebalance our service model more towards parcels”.¹⁶¹ In practice, Royal Mail already delivers parcels on Saturdays, so it offers this service six days a week.¹⁶² This may partly be a consequence of the synergies arising from Royal Mail meeting the requirement to deliver letters on Saturdays. It may also reflect the need to respond to competition in the parcels market due to the growth in online shopping, with other parcel operators offering a six (or, in some cases, seven) day delivery service. We note, however, that the focus of other parcel operators is usually on providing parcel services to online retail businesses (rather than on the C2X services met by the USO), and there are some differences in the services offered when delivering to some geographical locations.
- 6.49 Our research, set out in our recent Review of User Needs, suggests high levels of user satisfaction with the current six day parcel delivery service provided by Royal Mail.¹⁶³ It also suggests that satisfaction would remain at these high levels in the event of Royal Mail withdrawing its Saturday delivery service (in line with current minimum requirements set out in legislation), as shown in Figure 6.4.¹⁶⁴

Figure 6.4: Proportion of residential users that would consider their needs met by five days a week parcel delivery service



Source: Jigsaw Market Research.

¹⁶⁰ Section 30(3) of the PSA 2011 specifies that before modifying the universal postal service order, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services.

¹⁶¹ Royal Mail, 19 November 2020. [Royal Mail plc results for the half year ended 27 September 2020](#) [accessed 2 March 2021].

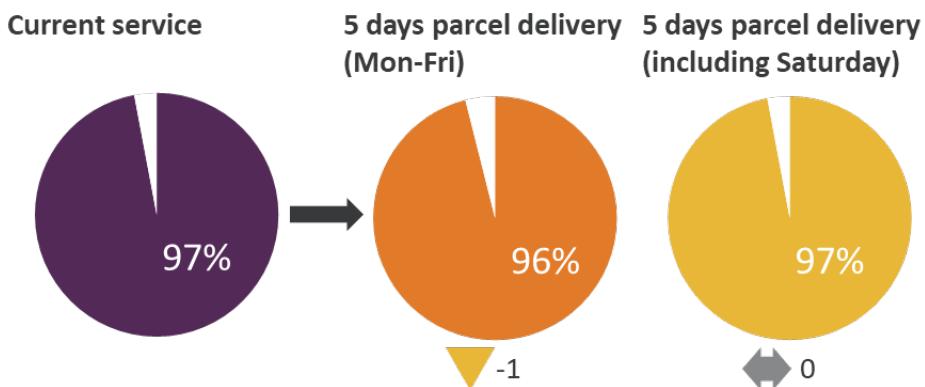
¹⁶² Royal Mail has indicated that it is exploring the opportunity for more frequent deliveries throughout the week as it develops its parcels network. Royal Mail, 22 December 2020. [Royal Mail plc: Framework Agreement reached with CWU and Trading Update](#) [accessed 2 March 2021].

¹⁶³ Ofcom, 2020. [Review of postal users' needs](#), pages 61-63.

¹⁶⁴ This may reflect the relative infrequency of parcel deliveries to residential users, meaning that they may consider a five-day delivery frequency sufficient. It may also reflect consumers that consider parcel deliveries by other operators separate from the “postal service”.

- 6.50 Our research also suggests a very small reduction (around 1 percentage point) in acceptability for SME users for a Monday-Friday parcel delivery service, as shown in Figure 6.5.¹⁶⁵
- 6.51 Our qualitative market research suggested that Saturday parcel deliveries were important for some residential users, as they were less likely to be working that day.¹⁶⁶
- 6.52 If we were to consider adding Saturday parcel deliveries to the USO requirements, by modifying the Universal Services Order, we would need to take account of the reasonable needs of postal users, and the extent to which the market is meeting these needs.

Figure 6.5: Proportion of SME users that would consider their needs met by five days a week parcel delivery service



Source: Jigsaw Market Research.

Tracking

- 6.53 While our USO regulations specify that Royal Mail's Special Delivery Guaranteed product should include a tracking facility, they also state that First and Second Class USO services should not include provision of a tracking facility.¹⁶⁷
- 6.54 The C2X services provided by other parcel operators usually include tracking as part of their offer. Similarly, tracking facilities for senders and receivers are now a core feature of the parcel services provided by parcel operators in the B2C segment of the market. Royal Mail offers Tracked 24/48 parcel services to retailers and other business account customers. These 'non-USO' products can also be bought online by individuals or SMEs on a 'single-piece' basis. But they are not made available at post offices and are priced at a higher level than 'non-tracked' First and Second Class

¹⁶⁵ In general, many SMEs tend to operate Monday-Friday, so have no requirement to receive parcels on Saturdays. There may be some SMEs that value being able to send parcels that are delivered to consumers on Saturday, hence the slight preference for Saturday deliveries indicated here.

¹⁶⁶ Jigsaw, 2020. *UK Postal User Needs: Qualitative Research Report*, page 33.

¹⁶⁷ In line with the Universal Service Order, Royal Mail is required to include a tracking facility as part of registered and insured services (items up to 10kg). DUSP 1 states that priority and standard services should not include provision of a tracking facility. Royal Mail can – and does – provide 'non-USO' C2X services that include tracking facilities.

services. Royal Mail also offers a ‘Signed For’ option as a paid-for, ‘add-on’ to its First and Second Class services, which allows senders to be notified when the parcel is received.

- 6.55 The C2X (and B2C) services provided by other parcel operators usually include tracking as part of their offer. While most senders of C2X services currently choose Royal Mail’s ‘non-tracked’ First and Second Class services (rather than opting for the alternative products offered by the market (including Royal Mail) which include tracking), this could change in the future as consumer expectations and experiences of sending and receiving parcels develop.
- 6.56 Our Review of User Needs found that users regard tracking facilities as important, both as senders and receivers of parcels. However, tracking was not regarded as a priority issue when it comes to deciding which parcel operator to use. In considering whether we should require – or permit – tracking to be incorporated within First and Second Class services, we welcome input and evidence on the extent to which there is a user need for tracking as the parcels market and services evolve, and whether the market is, or is not, meeting the needs of users in this regard.

Weight limit for USO

- 6.57 The USO requirements on Royal Mail do not apply to parcels whose weight exceeds 20kg. There is some evidence suggesting that the market is offering C2X services for larger/heavier parcels that may meet the needs of individual or SME users.¹⁶⁸ In particular, there are a number of operators who offer C2X parcel services for heavier parcels at prices that are lower than Royal Mail prices. There may therefore be a case for exploring existing weight limits for parcels covered by the USO, if there is compelling evidence that the market is meeting user needs below the current weight limit.¹⁶⁹ We would, however, need to be satisfied that the market is meeting the needs of users for collection and delivery services to, and from, all addresses across the UK. We would welcome stakeholder input on the extent of competition and consumer access in this part of the parcels market.

Consultation questions

Question 6.4: Are there any changes to the universal service obligations required for parcels, such as including tracking for First/Second Class services? If so, please provide your views with supporting evidence.

Question 6.5: Do you have any other comments on Ofcom’s approach to regulating parcels? If so, please provide your views with supporting evidence.

¹⁶⁸ Ofcom, 2020. *Review of postal users' needs*, pages 17-18.

¹⁶⁹ Our safeguard cap for 2nd class services only applies to parcels weighing up to 2kg, so we would be interested in views as to whether the weight limit for the USO should be reduced to this level, for example.

7. Access regulation

Summary

The provision of bulk mail is characterised by senders of large volumes of letters and parcels. Competition for bulk letters is facilitated by access regulation, which requires Royal Mail to provide wholesale access to its postal network for the provision of certain types of bulk mail (i.e. D+2 letters and large letters and D+5 letters).

Although bulk letter volumes continue to decline (mainly driven by e-substitution), they still amounted to just under 8.4 billion items in 2019/20 and are expected to remain a core postal services for the next regulatory review period. In addition, access-based competition has remained strong, with access operators' share of addressed letter volumes sitting above 60%. This has brought benefits to bulk mail users who have benefited from low retail margins and increased innovation in the retail segment of the market. We expect there to be a continued role for access-based competition in bulk mail – supported by regulation where necessary – for the next review period.

While there is evidence that the current regime is working well, some stakeholders have raised potential issues which may warrant further consideration. For example, some have raised concerns about increases in Royal Mail's access charges, and about the lack of development of new access services in recent years. Others have also requested that Ofcom extend mandated access to additional services such as lightweight bulk parcels. We therefore welcome stakeholders' views on whether our current approach to access regulation remains appropriate, or whether changes are required in order to better promote efficiency and effective competition and benefit postal users.

Overview of bulk mail services

Bulk mail

- 7.1 Bulk mail refers to those services provided to senders of larger volumes of letters and parcels, usually businesses and organisations such as banks, charities and e-commerce retailers. It is therefore distinct from single-piece (including USO) services, which are the focus of Section 5 and also covered in Section 6 of this document.
- 7.2 Access operators and bulk mailers contract with Royal Mail for the delivery to end customers based on standardised terms and conditions. However, access charges may vary depending on the price plan adopted by the access operator.¹⁷⁰

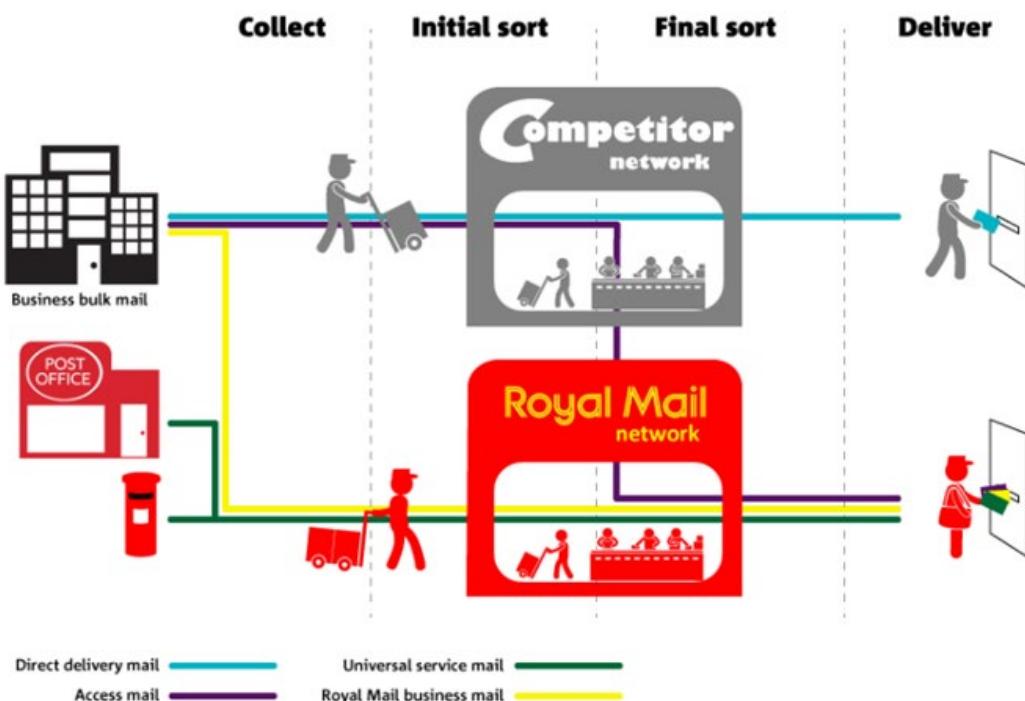
¹⁷⁰ There are two pricing categories for access postings based on delivery coverage (which Royal Mail offer across four price plans) – National Access and Zonal/Regional Access. National Access pricing provides uniform price points according to item format and weight. Zonal Access pricing provides price points across four price zones - according to the area to which an item is to be delivered and the item format and weight.

- 7.3 Bulk mail products are usually priced at a significant discount to standard single-piece stamp products, with discounts reflecting not only volumes, but also factors such as the way mail has been presented (such as fonts used, prepared in trays, etc.), machine barcodes (i.e. Mailmark), and the level of sortation (i.e. unsorted, low sort and high sort).¹⁷¹
- 7.4 Examples of bulk mail include advertising mail (also known as direct mail), publishing mail (such as magazines and newsletters), transactional mail (such as bank statements and invoices) and fulfilment mail (a segment of direct mail where printed materials are prepared and converted into mailable items).

Access for bulk mail

- 7.5 Access is where a party other than Royal Mail provides retail postal services by collecting and sorting mail (also known as ‘upstream’ activities), before handing it over to Royal Mail for final delivery. This could be an access operator, or the customer itself, depending on the specific agreement in place.¹⁷² Figure 7.1 below provides a diagrammatic overview of the different types of postal competition in the UK, including how access competition works.

Figure 7.1: Forms of competition in the UK postal market



¹⁷¹ Prices for access/bulk mail products can vary by a number of factors: dimensions, weight, class (delivery day – first class, second class or economy class), level of automation, level of sortation, containers, content (e.g. fulfilment/e-commerce) and environmental sustainability criteria.

¹⁷² There are a variety of ways access mail can be processed and handed over to Royal Mail for delivery – namely, via access operators, via agency agreements or via Customer Direct Access (CDA) arrangements.

Source: Ofcom.

- 7.6 Access to Royal Mail's network enables other (access) postal operators to compete against Royal Mail Retail (Royal Mail's own retail division) in the provision of retail postal services, where barriers to entry in developing a delivery network might otherwise limit the extent of end-to-end competition. We have also recognised that access to Royal Mail's network could play a key role in facilitating end-to-end competition.
- 7.7 As explained in the scope of mandated access below, Royal Mail currently offers access to its network on a commercial basis in respect of parcels and D+1 services.¹⁷³ Ofcom has however chosen to mandate access in respect of D+2 Letters and Large Letters and D+5 Letters.

Competition in bulk mail markets

- 7.8 Royal Mail is currently the only operator with a nationwide letter delivery network across the UK.¹⁷⁴ Competition for bulk letters customers is therefore limited to upstream activities, facilitated by access competition. Although Whistl began to roll out a second letters delivery network and compete against Royal Mail for end-to-end bulk letters customers, it ceased its end-to-end mail delivery services in 2015 and reverted back to operating as an access-based operator. Given the declining trend in letters volumes, we noted in 2017 that it was highly unlikely that nationwide end-to-end competition in the bulk letters market would emerge in the near future¹⁷⁵, and no national end-to-end competition has emerged since.
- 7.9 The situation for bulk parcels is different. There are multiple end-to-end delivery networks competing for bulk parcels customers in both the B2C and B2B segments of the market. In addition, there are access operators which also compete for retail parcel customers by collecting and sorting parcels, and then handing these over to parcel carriers, such as Royal Mail, Hermes and Yodel, for final delivery.

Current regulatory framework

- 7.10 Under the PSA 2011, Ofcom has the power to impose the following two types of access conditions:
- A USP access condition, pursuant to section 38 and Schedule 3 of the PSA 2011, which enables other postal operators or users to access the network of the universal service provider (i.e., Royal Mail) and to require the universal service provider to maintain separate accounts so that costs of access can be accurately calculated. Ofcom may not impose a USP access condition unless it appears to Ofcom that it is appropriate to promote efficiency, effective competition and to confer significant benefits on the users of postal services.

¹⁷³ 'D+X' (e.g. D+1, D+2, D+5) means the total time between the sender sending the postal packet, and it being delivered to the recipient. For example, D+2 refers to the customer (sending the letter) to be injected into Royal Mail's network for it to then be delivered 2 days later i.e. on D+2.

¹⁷⁴ The number of letters delivered by end-to-end operators other than Royal Mail in 2019-20 is c.0.1% of total letters volumes.

¹⁷⁵ Ofcom, 2017. *Review of the Regulation of Royal Mail: Statement*, paragraph 3.105.

- b) A general access condition, pursuant to section 50 and Schedule 3 of the PSA 2011, which enables other postal operators or users to access the network of another postal operator (not necessarily Royal Mail) and to maintain accounting separation relating to this access. Ofcom may not impose a general access condition unless it appears to Ofcom that it is necessary to protect the interests of the users of postal services and/or to promote effective competition.
- 7.11 In both cases, Ofcom's power to impose an access condition is subject to Ofcom's duty to carry out its postal service functions in a way that it considers will secure the provision of a universal postal service.

Scope of mandated access

- 7.12 Ofcom has imposed a universal service provider access ("USPA") condition on Royal Mail for certain bulk mail services. Ofcom has not imposed a general access condition on any other postal operator to date.
- 7.13 In particular, the USPA condition requires Royal Mail to offer access, on reasonable request, to its postal network for:
- a) D+2 and later than D+2 Letter and Large Letter services ('D+2'); and
 - b) D+5 Letter services ('D+5'). We have only very recently extended the USPA condition to cover this new D+5 service.¹⁷⁶
- 7.14 There is currently no requirement on Royal Mail to offer access to its network for the purposes of providing D+1 services or parcel services. Such access is instead provided by Royal Mail on a commercial basis.
- 7.15 In the case of both D+2 and D+5, Royal Mail is required to provide access to its network at its Inward Mail Centres (IMCs), the point at which access operators inject their mail for Royal Mail to deliver. There is currently no requirement for Royal Mail to provide access to other parts of its postal network (e.g. delivery offices) or infrastructure (e.g. post boxes).
- 7.16 For the purposes of transparency, Royal Mail is required to have a reasonable statement of the processes that will apply to requests for D+2 or D+5 access, or variations to existing mandated access contracts, commonly referred to as the Statement of Process.¹⁷⁷ Under this condition, Royal Mail is required to set out how such requests should be made, the basic information required from an access operator to progress such a request (and how it should provide such information) and the timescales within which Royal Mail will consider such requests.

¹⁷⁶ Ofcom, 2021. [Modifications of the USP Access Condition for regulating access to Royal Mail's postal network: Regulation of new D+5 Letters access services, Statement](#) [accessed 8 March 2021].

¹⁷⁷ The latest Statement of Process can be found here: Royal Mail, 2019. [Decision on changes to the Access Service Request Process](#).

Terms and conditions of mandated access

- 7.17 To date, Ofcom has considered it appropriate that Royal Mail has commercial and operational flexibility to set the terms, conditions and charges of its access products subject to ensuring that these are fair, reasonable and not unduly discriminatory.¹⁷⁸ The main rationale for this is to not stifle industry negotiations and innovation. Our view has been that commercial negotiations between Royal Mail and access operators should provide the basis for agreeing the terms of access.
- 7.18 However, we have published guidance on a number of aspects¹⁷⁹, including how Ofcom would assess what fair and reasonable would constitute in regard to specific issues such as surcharging¹⁸⁰, zonal¹⁸¹ access¹⁸² and alternative dispute resolution mechanisms.¹⁸³
- 7.19 Royal Mail is required to publish a copy of its standard terms and conditions. Further, it is required to provide (unless otherwise specifically agreed)¹⁸⁴:
- ten weeks' prior publication and notification of standard price changes;
 - ten weeks' prior publication of standard non-price changes that require the prior consent of the access operator; and
 - a transparent process for the prior notification of those non-price changes that do not require the prior consent of the access operator (with notice periods sufficient to manage the impact of such changes).

Access pricing

- 7.20 There is currently a price control, via a margin squeeze condition, in force on Royal Mail's D+2 and D+5 access services.¹⁸⁵ This applies in relation to a specified set of D+5 Letter services, and a wider range of D+2 Letter and Large Letter services (and for any similar, successor retail services), and is monitored via a margin squeeze basket ('basket test') and price point control ('contract test'). In particular:

¹⁷⁸ See, in particular, USPA Conditions 3 and 5 which, respectively, impose a requirement on Royal Mail to provide access on fair and reasonable terms, conditions and charges, and to not unduly discriminate and restrict the use of information obtained in connection with giving access.

¹⁷⁹ We note that in the 2017 Review of Royal Mail Regulation, we considered that issuing a broader guidance on all aspects of fair and reasonable was no longer appropriate, and that issuing guidance was for exceptions and specific cases.

¹⁸⁰ Ofcom, 2014. *Royal Mail Access Pricing Review: Consultation*, paragraph 3.29.

¹⁸¹ Zonal access, and the accompanying zonal charges, refers to a type of posting provided by Royal Mail for access operators who are unable to meet the mailing profile requirement of national access and charges. The key difference between the two is that whereas under a national access arrangement, Royal Mail charges one price for sending an item, under a zonal access arrangement, Royal Mail charges different prices depending on where the item is being sent to.

¹⁸² Ofcom, 2017. *Review of the Regulation of Royal Mail: Statement*, paragraph 5.23.

¹⁸³ Ofcom, 2012. *Securing the Universal Postal Service: Statement*, paragraphs 10.177 to 10.194.

¹⁸⁴ In this regard, we note access arrangements and contracts have longer time/period notifications.

¹⁸⁵ See, in particular, USPA Condition 6.

- a) on the basket test, Royal Mail is required to have a reasonable expectation that, at the time of setting new prices, the total upstream revenues of all services in the basket will be equal to or greater than the total upstream costs of those services (such costs being based on Royal Mail's upstream fully allocated costs (FAC)). This is used to demonstrate that an efficient competitor would be able to make sufficient margin to compete with Royal Mail in the provision of these services; and
- b) on the contract test, Royal Mail is required to have a reasonable expectation that, at the time of setting new prices (including the time of offering prices for each new individual contract), the total upstream revenues of the relevant services in the contract are equal to or greater than 50% of the total upstream costs of those services.¹⁸⁶ This is used to demonstrate that Royal Mail is not pricing individual contracts at such a low level and, as a result, making such a loss that it could be an indication of predatory pricing.

7.21 Royal Mail is required to demonstrate its compliance with the margin squeeze condition by providing forecasts of a period's costs, volumes and revenues, on both a quarterly and annual basis. Compliance is measured on an annual basis.

Additional requirements in the USPA condition

- 7.22 There is a requirement on Royal Mail to provide access users with quality of service information for its downstream access services from the point of entry at the IMC based on a fair and reasonable system of monitoring. To date, and consistent with our non-prescriptive approach to setting the terms and conditions of access (and allowing industry to agree on these), we have not considered it appropriate to set any quality of service targets in respect of Royal Mail's access products.
- 7.23 There is also a requirement on Royal Mail not to unduly discriminate, and to restrict its use of information obtained in connection with, and giving access to, access operators.

Main changes in the bulk letters market since our 2017 review

Letter volumes

- 7.24 The structural volume decline in bulk letters continues. The number of bulk letters delivered in the UK declined from 10.1 billion items in 2015/16 to 8.4 billion items in 2019/20.¹⁸⁷ This represents an average yearly decline of c.5% over this period.¹⁸⁸ The structural volume decline is linked to the

¹⁸⁶ The 50% threshold was set to approximate the long-run incremental costs (LRIC) of the relevant services. Although we have considered LRIC to be the most appropriate cost standard for assessing the price point control in the longer-term, robust LRIC information has not been available and therefore we have used the 50% threshold as an approximation. Ofcom, 2018. [Amendments to the Universal Service Provider Access Condition in relation to the margin squeeze control: Statement](#), paragraphs 3.7 and 3.8.

¹⁸⁷ Royal Mail's financial reporting (financial year 2019/20) to Ofcom. Note these volumes also include bulk access parcels, though they account for less than 1% of total volumes.

¹⁸⁸ Royal Mail's financial reporting (financial year 2019/20) to Ofcom. This reflects the compounded growth rate of access operators' and Royal Mail's retail bulk mail volumes between 2015/16 and 2018/19. This data includes bulk access parcels, though bulk parcels make up less than 1% of the volumes.

migration of bulk letters customers to online forms of communication. We expect this trend to continue for the foreseeable future.

- 7.25 The decline in bulk letter volumes has not been uniform across all mail providers. Between 2015/16 and 2019/20, access operators' annual letter volumes declined by c.3%. By contrast, Royal Mail's end-to-end bulk letter volumes declined by a faster rate of [X]%.¹⁸⁹ This means that Royal Mail's share of retail bulk letters dropped from [X]% to [X]% during this period.¹⁹⁰
- 7.26 There has been a shift in the composition of access operators' letter volumes. Since 2014, Royal Mail has encouraged the adoption of Mailmark,¹⁹¹ which is a variant of the access products which allows more efficient processing through the higher quality identification of addresses/information and involves adding a barcode to each item for its unique identification and tracking through the network. Since then, the proportion of access volumes that are Mailmark has grown to around 90% for letters and nearly [X]% for large letters.¹⁹² Our expectation is that this proportion will continue to grow in the near future.

Consolidation and market competition

- 7.27 In addition to Royal Mail, there are more than 10 access operators¹⁹³ competing for retail bulk mail customers. As mentioned above, access operators have gained market share in the bulk letters market over recent years. However, this market share tends to be concentrated amongst a few access operators. Currently [X] access operators account for over 90% of total access volumes.
- 7.28 Consolidation in the industry continues, both between access operators and across the postal sector more generally. Since 2016, there have been a number of mergers/acquisitions, including the following: DHL acquired UK Mail, The Delivery Group (owners of end-to-end letter operator CMS and access operator Secured Mail) acquired OnePost, Paragon Group acquired Northern Mail and Critiqom was acquired by Opus Trust.¹⁹⁴
- 7.29 In 2018, Ofcom concluded an investigation into Whistl's complaint against Royal Mail's changes to its wholesale access contracts. This complaint was submitted in 2014, prior to Whistl's exit from the end-to-end letters market. As a result of our investigation, we found that Royal Mail had abused its dominant position in the market for bulk letters delivery services in the UK by seeking to

¹⁸⁹ Royal Mail's financial reporting (financial year 2019/20) to Ofcom. This data includes bulk parcels, though bulk access parcels make up less than 1% of the volumes.

¹⁹⁰ Royal Mail's financial reporting (financial year 2019/20) to Ofcom.

¹⁹¹ Mailmark is a barcode system used by Royal Mail on certain letter and large letter products. Royal Mail defines Mailmark as an option for making letters and large letters machine-readable, involving the addition of a Mailmark barcode to each item to make that item uniquely identifiable. Further information can be found in Royal Mail's [Mailmark Customer Presentation](#).

¹⁹² Ofcom/Royal Mail meeting, November 2020, [X].

¹⁹³ Based on the 2019/20 data for the Annual Monitoring Report.

¹⁹⁴ Ofcom, 2019. [Annual Monitoring Update on the postal market 2018-19](#), paragraphs 4.27 to 4.28; Ofcom, 2020. [Annual monitoring Update on postal services 2019-20](#), paragraph 3.66.

introduce discriminatory prices, and that this breached competition law.¹⁹⁵ This resulted in a £50 million fine for Royal Mail.¹⁹⁶

Retail and access prices

- 7.30 Bulk letter retail prices continue to rise, mainly driven by higher access charges. Although access charges have risen every year, the most notable price rises have been in 2019 and 2021, as illustrated in the figure below. In January 2019, business mail access charges increased by 6.8% in real terms, while these charges increased by 11.3%¹⁹⁷ in January 2021.¹⁹⁸
- 7.31 Access charges have not increased evenly across all access services. As can be seen in Figure 7.2, access charges for advertising mail have remained relatively flat, compared to access charges for business mail, which have increased on average by 5.9% (in real terms) during the period from January 2016 to January 2021.¹⁹⁹
- 7.32 By contrast, the net revenue per unit earned by access operators (i.e., the differential between the retail price offered by access operators and Royal Mail's access charge) grew by less than 1% per annum (in real terms)²⁰⁰, suggesting that the upstream margin has remained relatively flat over the period from January 2016 to January 2019.

¹⁹⁵ Ofcom, 2018. [Decision of the Office of Communications, Article 102 Treaty on the Functioning of the European Union and Section 18 of the Competition Act 1998: Discriminatory pricing in relation to the supply of bulk mail delivery services in the UK.](#)

¹⁹⁶ This decision was later upheld by the Competition Appeal Tribunal in November 2019 (1299/1/3/18 Royal Mail plc v Office of Communications). [Competition Appeal Tribunal, 2019. Judgment 1299/1/3/18 Royal Mail plc v Office of Communications.](#) We note this Judgment is under appeal before the Court of Appeal.

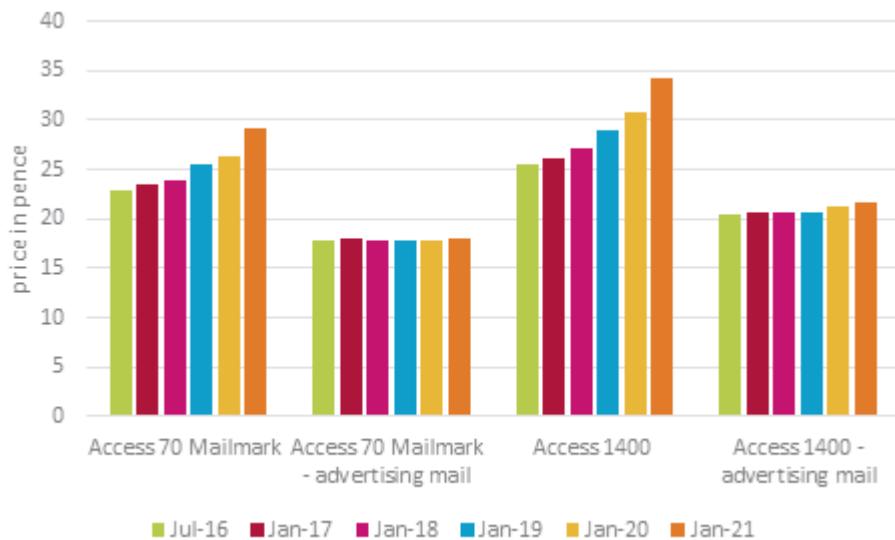
¹⁹⁷ At the time of writing CPI for 2021 was not officially published, therefore we used the forecast data for 2021 from the Office for Budget Responsibility. Office for Budget Responsibility, 2020. [Economic and fiscal outlook - November 2020.](#)

¹⁹⁸ Nominal prices are found on Royal Mail's [wholesale price list](#). The price rise is based on the increases in the Mailmark 70, Access 1400 and Access 70 OCR products. CPI was used to calculate the real price increase.

¹⁹⁹ Ofcom calculations based on Royal Mail [wholesale price list](#). The figure is the average real compound growth rate (between 2016-2021) in price for 3 main business mail products (Mailmark 70, Access 1400 and Access 70 OCR). Not all products had the same rate of real growth rate. Mailmark 70 had a price growth rate of 5.01%, compared to 6.17% for access 1400 and 6.56% for Access 70 OCR. Note that the real prices for 2021 were calculated based on forecast data from the office of Budget responsibilities.

²⁰⁰ Royal Mail's financial reporting (financial year 2019/20) to Ofcom.

Figure 7.2: Access charges for a selection of access products (real prices as of 2020), July 2016 to January 2021



Source: Royal Mail data. Access charges have been adjusted to reflect real prices as at March 2020. Real prices for 2021 are based on forecast data from the Office of Budget Responsibility.

New products and services

- 7.33 A major change since our last review in 2017 is the introduction of D+5 Letters access services by Royal Mail (which, as explained above, are now mandated by the USPA condition imposed by Ofcom on Royal Mail). This new service aims to offer a cheaper but slower service to access customers, with the aim of allowing Royal Mail to achieve cost savings in the delivery of mail by enabling it to consolidate mail at the IMC and reducing the frequency at which it needs to visit each address. Given the lower price of the service,²⁰¹ we expect that a material proportion of existing bulk letters customers will migrate to the new D+5 service in the coming years. However, we still expect bulk letters users to require D+2 services for the near future, as suggested by our large users of mail research.²⁰²

Areas for further consideration

- 7.34 In this section we focus on the three main areas for which we received the most input from stakeholders since 2017. These are:

- a) Scope of access regulation;

²⁰¹ As set out in our decision on mandating D+5 access letter services, the price differential (excluding VAT; as of January 2021) between comparable D+2 access and D+5 access services is roughly 3%.

²⁰² Between April and September 2020, we conducted a series of interviews and questionnaires with large users of bulk mail to understand, amongst other things, their current and future needs of the universal postal service. A number of respondents stated they continued to expect to use D+2 access services.

- b) Approach to access price regulation; and
 - c) Regulation of the non-price terms and conditions of access.
- 7.35 Stakeholders are invited to provide comments and evidence on these areas or on any other areas of access regulation which they may consider important for this review.

Scope of access regulation

- 7.36 The PSA 2011 enables Ofcom to impose a USPA condition on Royal Mail if we consider it appropriate for the purposes of promoting efficiency, effective competition and conferring significant benefits on the users of postal services.²⁰³
- 7.37 As stated above, we have recently concluded on extending the scope of the current USPA condition to also require Royal Mail to provide a D+5 Letters access service. Stakeholders, on the whole, including Royal Mail, expressed significant support for requiring Royal Mail to provide such an access service under the USPA condition. Our expectation is that D+5 Letters access services will be needed alongside the existing D+2 access services for the next regulatory period, given that both services are expected to make up the majority of access volumes.
- 7.38 Stakeholders have recently reiterated their interest for additional services to be included within the USPA condition, including bulk parcels (i.e. B2C parcels) and D+1 bulk letters.²⁰⁴ We discuss each of these briefly in turn below.²⁰⁵
- 7.39 In relation to parcels, some access operators have suggested that Royal Mail should be required by Ofcom to provide a lightweight parcels access service given its market position in the lightweight segment of the bulk parcels market.²⁰⁶ They argue that mandating such a service would also help support the wider universal postal service by providing additional, guaranteed revenues to Royal Mail. Parcel operators, on the other hand, have largely rejected such calls, noting the damage that a mandated parcels access service could have on end-to-end competition in the sector and the price advantage it might give to Royal Mail depending on how it is regulated (which some access

²⁰³ We also note that, in deciding what obligations to impose in a USPA condition in a particular case, we must (in addition to taking into account anything relevant for the purpose of performing our duty under section 29) take into account, in particular, the following factors: (i) the technical and economic viability, having regard to the state of market development, of installing and using facilities that would make the proposed access unnecessary; (ii) the feasibility of giving the proposed access; (iii) the investment made by the universal service provider concerned in relation to the matters in respect of which access is proposed; (iv) the need to secure effective competition in the long term; and (v) any rights to intellectual property that are relevant to the proposal. Ofcom can also impose a general access condition on other postal operators. To date, however, we have not imposed such a condition, nor have we received any requests from stakeholders to do so.

²⁰⁴ Either in preparatory meetings for this consultation, via the bulk mail workshop Ofcom conducted in 2019 or via questionnaires we sent to large mail users regarding their needs and the specification of the current universal service conducted in 2020.

²⁰⁵ As a general point, we note that – in order to consider requests by stakeholders for further mandated access – we would need to consider (and welcome) the following evidence: (i) the access seeker's business case for the proposed form of access; (ii) a description of the perceived operational requirements of the proposed form of access; (iii) an assessment of how the form of access meets the tests set out in the PSA 2011; and (iv) an assessment of how the form of access will be consistent with Ofcom's primary duty to secure the provision of the universal postal service.

²⁰⁶ We note operators have expressed differing definitions of what constitutes lightweight – for instance, letter-boxable parcels, sub 1kg parcels and sub 2kg parcels.

operators may benefit from).²⁰⁷ Some stakeholders have also suggested that it may hinder investment in end-to-end parcel networks, which, in turn, may damage innovation in the parcels sector.

- 7.40 We are mindful of these potentially harmful effects that a mandated parcels access service could have on competition and innovation in the parcels market. We note that, in Ofcom's 2012 and 2017 reviews of the postal regulatory framework, we concluded that there was insufficient evidence to support the view that it would be appropriate to mandate parcels access.²⁰⁸ Unlike the bulk letters market, there is end-to-end competition in the bulk parcels market, with multiple parcel operators competing for customers (as described in Section 6), and Royal Mail continues to offer a parcels access service on a commercial basis. Unless we find clear evidence suggesting that it is appropriate to mandate a parcels access service in order to promote efficiency, promote effective competition, and confer significant benefits on postal users, we are not currently minded to intervene in the parcels market. However, we would be particularly interested in any stakeholder evidence which supports or opposes the mandation of a lightweight access parcels service.
- 7.41 On D+1 bulk letters services, we note that Royal Mail already offers an access service on a commercial basis. Further, the proportion of bulk mail volumes which are D+1 is small (circa 5%²⁰⁹ as at 2019/20)²¹⁰ and overall volumes are declining. On this basis, our provisional view is that the benefits of extending access regulation to D+1 letters, in terms of promoting efficiency and effective competition as well as conferring significant benefits on end-users, are likely to be small (as we found back in 2012) and therefore extending regulation to this service is unlikely to be proportionate. For this reason, we are currently not minded to extend access regulation to D+1 letters. However, we remain open to receiving any new evidence that might support mandated D+1 letters access.

²⁰⁷ Specifically, the potential damage to competition arising from this is based on a scenario where, if Ofcom were to mandate parcels access to Royal Mail's network and also impose a form of price control on such a mandation, then the product would be VAT exempt and therefore it would give Royal Mail a cost advantage relative to end-to-end parcel operators who would continue to have to levy VAT.

²⁰⁸ Ofcom, 2012. *Securing the Universal Postal Service: Statement*, paragraph 10.216.

Ofcom, 2017. *Review of the Regulation of Royal Mail: Statement*, paragraph 3.128.

²⁰⁹ In 2019/20 [X<]% of volumes were first class products (Business mail first class, publishing mail first class, advertising mail first class, sustainable advertising mail first class) and response service first class) and they make up [X<]% of total bulk mail revenues.

²¹⁰ The remainder of the volumes are D+2 or later than D+2 bulk mail services, which are currently the focus of our regulations.

Consultation question

Question 7.1: Does the current scope of access regulation remain appropriate or should this be changed and, if so, how and why? Please provide your views with supporting evidence.

Regulation of access pricing

- 7.42 Under the PSA 2011, Ofcom has the power to impose *ex ante* controls on access pricing, but may only do so where it appears to us that Royal Mail (as the access provider) might otherwise set excessive prices or engage in a price squeeze between retail and access prices, with adverse consequences for users of postal services.
- 7.43 In 2012, we decided to remove price cap regulation on access services and impose a margin squeeze control on the mandated D+2 access services. The purpose of this was to provide further pricing flexibility to Royal Mail to allow it to address the challenges posed by the structural decline in the letters market and its effect on the financial sustainability of the universal postal service, while still protecting access-based competition from the risk of Royal Mail engaging in a price squeeze.
- 7.44 Since then, access operators have gained retail market share over Royal Mail, suggesting that our approach to price regulation has worked well in supporting access-based competition. We believe that this has brought benefits to bulk letter users. First, as mentioned above, the margin between bulk letter retail prices (offered by access operators) and access charges has remained tight over the years, indicating that users of bulk letter services have benefited from low upstream prices. Second, evidence suggests that access-based competition has encouraged innovation in the industry, with access operators introducing new innovative services such as improved and dedicated performance reporting for customers and mail handling capabilities (e.g. more flexible windows for accepting mail from senders of bulk mail).
- 7.45 Access charges have increased in recent years, sometimes by significant levels – see above. This could reflect in part the increasing costs driven by the structural decline in letter volumes. It could also reflect Royal Mail's decision on how to best recover the fixed costs of its postal network.²¹¹ However, access operators and users of bulk mail have raised concerns that Royal Mail could be increasing access charges to compensate for its wider efficiency challenges. They are of the view that introducing a price cap/ceiling could help encourage Royal Mail to become more efficient and protect access operators (and, by extension, postal users) from excessively high prices. We discuss our approach to Royal Mail's efficiency in Section 4.
- 7.46 Ofcom could consider imposing a different form of price control, such as a cost-based charge control or a safeguard cap, as an alternative to, or in addition to the current margin squeeze

²¹¹ In industries with high fixed costs, the pattern of how those costs are recovered across different products and services can lead to different outcomes. Higher access charges could be an efficient way of recovering fixed costs depending on how the demand price elasticity of access services compares to that of other postal services. This is also known as 'Ramsey' pricing.

control, on mandated access services to address excessive pricing concerns. The concern of excessive pricing, however, would need to be considered alongside our duty to secure a universal postal service which is financially sustainable. We also note that, given the significant market changes occurring (including letter volume decline), a cost-based charge control could carry a risk of regulatory failure.²¹²

- 7.47 In light of the above, we welcome stakeholders' views and evidence on how well our approach to access price regulation is working in supporting access-based competition and whether there are any changes that we should make and why. In particular, we welcome views on whether the existing margin squeeze control should be changed and in what way and/or whether a safeguard cap on Royal Mail's access charges should be introduced.²¹³

Consultation question

Question 7.2: How well is our approach to access price regulation working in supporting access-based competition? Are there any improvements or changes that we should make? If so, please provide your views with supporting evidence.

Regulation of the non-price terms of access

- 7.48 As explained above, the current regulatory framework adopts a relatively high-level approach to regulating the terms and conditions under which the mandated access services ought to be offered, allowing industry to determine these through commercial negotiations, albeit subject to some regulatory safeguards.
- 7.49 These safeguards include certain requirements on Royal Mail to provide access under terms, conditions and charges which are fair and reasonable, and to not unduly discriminate. We also note that Royal Mail is subject to ex-post competition law.
- 7.50 We have recognised in the past that, while this less prescriptive approach to regulation of non-price terms provides flexibility to Royal Mail to set the terms of access, it also reduces the risk of regulation inadvertently hindering Royal Mail and access operators from responding to changing market conditions in an efficient and timely way. This is particularly important in the context of a declining market such as letters.

²¹² A cost-based charge control has the advantage of being more directly linked to costs and therefore could provide stronger incentives for Royal Mail to become more cost efficient (as any cost savings beyond those assumed in the charge control would be kept by Royal Mail). The drawback of this approach though is that it relies on a reasonable forecast of Royal Mail's costs and volumes over the charge control period. As mentioned above, letter volumes are declining, and Royal Mail is undergoing a transformation programme which could lead to a significant shift in Royal Mail's cost base. A cost-based approach to regulating Royal Mail's access charges could thus carry the risk of regulatory failure if Ofcom is unable to forecast letter volumes and the underlying service costs with a reasonable degree of accuracy.

²¹³ Separately, stakeholders have commented that Royal Mail's pricing system, as a result of its multiple products and combinations, is very complex and difficult to follow. We understand Royal Mail Wholesale are currently considering changes to its access product ranges in an effort to simplify its access product choices and, therefore, its range of price points.

- 7.51 Recently, however, access operators have expressed concerns about the effectiveness of this approach in supporting the development of new services. For example, they have suggested that Royal Mail has in the past disputed what a new service request is or has acted unreasonably when responding to requests.
- 7.52 Furthermore, in the past, access operators have raised concerns about the way Royal Mail approaches the recovery of development costs for new services (such as 'confirmation on delivery') which have been requested by access operators. They have suggested that Royal Mail has unreasonably asked access operators to pay for these costs and have called for Ofcom to provide further guidance on how development costs should be allocated, and/or to impose rules for allocating these costs.
- 7.53 Ofcom is able to provide guidance on issues such as these, but access operators have not raised a dispute on this particular matter with Ofcom, particularly since Royal Mail has updated its process and principles for determining how costs for new access services should be recovered.²¹⁴ As letter volumes decline, the scope for further investment and innovation in the market will likely diminish over time and therefore any regulation in this area would need to be proportionate.

Consultation question

Question 7.3: Is our current approach to access regulation working well in delivering fair, reasonable and not unduly discriminatory terms of access, and are there any changes we should make? If so, please provide your views with supporting evidence.

²¹⁴ Royal Mail, 2019. [Decision on changes to the Access Service Request Process](#).

A1. Responding to this consultation

How to respond

- A1.1 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on Thursday 20 May 2021.
- A1.2 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-1/postal-regulation-review>. You can return this by email to the address provided in the response form.
- A1.3 If your response is a large file, or has supporting charts, tables or other data, please email it to postalreview@ofcom.org.uk, as an attachment in Microsoft Word format, together with the [cover sheet](#) (also available in Annex 3). This email address is for this consultation only and will not be valid after 5pm, Thursday 20 May 2021.
- A1.4 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, “.wmv” or QuickTime files. Or
 - Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.5 We will publish a transcript of any audio or video responses we receive (unless your response is confidential)
- A1.6 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.
- A1.7 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.8 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, with relevant supporting evidence.
- A1.9 If you want to discuss the issues and questions raised in this consultation, please contact Sinead Lee by email to sinead.lee@ofcom.org.uk.

Confidentiality

- A1.10 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents’ views, we usually publish all responses on [the Ofcom website](#) as soon as we receive them.

- A1.11 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.12 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.13 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our [Terms of Use](#).

Next steps

- A1.14 Following this consultation period, Ofcom plans to publish a consultation later in 2021.
- A1.15 If you wish, you can [register to receive mail updates](#) alerting you to new Ofcom publications.

Ofcom's consultation processes

- A1.16 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 2.
- A1.17 If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.18 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

Corporation Secretary
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

Ofcom has seven principles that it follows for every public written consultation:

Before the consultation

- A2.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

During the consultation

- A2.2 We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3 We will make the consultation document as short and simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for people to give us a written response. If the consultation is complicated, we may provide a short Plain English / Cymraeg Clir guide, to help smaller organisations or individuals who would not otherwise be able to spare the time to share their views.
- A2.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6 If we are not able to follow any of these seven principles, we will explain why.

After the consultation

- A2.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish all the responses on our website as soon as we receive them. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

A3. Consultation coversheet

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

- | | |
|--------------------------------|--------------------------|
| Nothing | <input type="checkbox"/> |
| Name/contact details/job title | <input type="checkbox"/> |
| Organisation | <input type="checkbox"/> |
| Whole response | <input type="checkbox"/> |
| Part of the response | <input type="checkbox"/> |

If there is no separate annex, which parts?

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)? **Y/N**

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

A4. Consultation questions

Section 3: Approach to regulation

Question 3.1: Do you consider that Ofcom's overall regulatory approach remains appropriate for regulating postal services over the 5-year period (2022-2027)? If not, please explain the areas where you think changes should be made, with supporting evidence.

Section 4: Financial sustainability and efficiency

Question 4.1: Do you consider that Ofcom's current approach to financial sustainability and efficiency of the universal postal service will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Section 5: Universal service obligations

Question 5.1: Do you consider Ofcom's approach to the safeguard cap and ensuring affordability will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Question 5.2: Do you consider Ofcom's approach to the regulation of residential and business redirections services will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Question 5.3: Do you consider Ofcom's approach to regulating quality of service for key USO services remains appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Question 5.4: Do you consider Ofcom's approach to regulating USO services, including access requirements, Special Delivery Guaranteed by 1pm, Signed For and Meter mail will remain appropriate going forward? If not, please explain what changes you think should be made, with supporting evidence.

Section 6: Parcels regulation

Question 6.1: Do you think the parcels market is working well for all senders and receivers of parcels (such as online shoppers, marketplace sellers and/or small retailers)? If not, please explain what changes you think should be made, with supporting evidence.

Question 6.2: What is the nature and extent of detriment (if any) that consumers may suffer in the C2X or B2C segments of the parcels market? Please provide your views with supporting evidence.

Question 6.3: How effective are the existing consumer protection measures for users of parcel services, in particular CP 3? Is a change in regulation needed to protect users of postal services (as senders and recipients) and if so, what measures? Please provide your views with supporting evidence.

Question 6.4: Are there any changes to the universal service obligations required for parcels, such as including tracking for First/Second Class services? If so, please provide your views with supporting evidence.

Question 6.5: Do you have any other comments on Ofcom's approach to regulating parcels? If so, please provide your views with supporting evidence.

Section 7: Access regulation

Question 7.1: Does the current scope of access regulation remain appropriate or should this be changed and, if so, how and why? Please provide your views with supporting evidence.

Question 7.2: How well is our approach to access price regulation working in supporting access-based competition? Are there any improvements or changes that we should make? If so, please provide your views with supporting evidence.

Question 7.3: Is our current approach to access regulation working well in delivering fair, reasonable and not unduly discriminatory terms of access, and are there any changes we should make? If so, please provide your views with supporting evidence.

A5. Overview of the relevant legal framework

- A5.1 This annex seeks to provide readers with a high-level overview of both the statutory framework underpinning Ofcom's regulation of postal services, and the regulatory framework that Ofcom has adopted to date in line with that statutory framework.
- A5.2 The overarching statutory framework, as laid out in the legislation, sets out the key elements central to the legal regime applicable to postal services. That statutory framework, as set out in the legislation, and the regulatory framework adopted by Ofcom must be considered together to understand the overall legal framework applicable to postal services.
- A5.3 The overview set out below does not intend to provide for an exhaustive summary of the legal regime currently in force; readers should refer to the specific statutory provisions and regulatory conditions for greater detail. A copy of all of the regulatory conditions imposed on postal operators is available on Ofcom's website.²¹⁵

Ofcom's statutory duties

Securing the provision of a universal postal service

- A5.4 Section 29(1) of the Postal Services Act 2011 (the "PSA 2011")²¹⁶ requires Ofcom to carry out its postal functions in a way that it considers will secure the provision of a universal postal service.
- A5.5 Section 29(3) of the PSA 2011 provides that, in performing its duty under section 29(1), Ofcom must have regard to the need for the provision of a universal postal service to be:
- a) financially sustainable; and
 - b) efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.
- A5.6 Section 29 of the PSA 2011 does not require that Ofcom give more weight to one of those considerations over the other. Ofcom must take them both into account in arriving at a judgment as to how it ought to carry out its functions, including when considering imposing or modifying regulatory conditions.
- A5.7 Section 29(4) of the PSA 2011 confirms that the reference to 'financially sustainable' includes the need for a reasonable commercial rate of return for any universal postal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service.
- A5.8 Section 29(6) of the PSA 2011 also provides that Ofcom must carry out its postal functions in a way that it considers will secure the provision of sufficient access points to meet the reasonable needs of users of the universal postal service.

²¹⁵ Ofcom, 2019. [Conditions imposed on postal operators](#).

²¹⁶ Official UK database of legislation. [Postal Services Act 2011](#).

Ofcom's general duties

- A5.9 Section 3(1) of the Communications Act 2003 (the “CA 2003”)²¹⁷ sets out Ofcom’s general duties. These are to further the interests of citizens in relation to communications matters, and further the interests of consumers in relevant markets, where appropriate by promoting competition.
- A5.10 In performing its general duties, Ofcom must have regard to a range of other considerations where relevant²¹⁸, including, amongst other things:
- the desirability of promoting competition in relevant markets;
 - the desirability of encouraging investment and innovation in relevant markets;
 - the needs of persons with disabilities, of the elderly and of those on low incomes;
 - the opinions of consumers in relevant markets and of the public generally;
 - the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
 - the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.
- A5.11 Section 3(5) CA 2003 provides that in performing its duty to further the interests of consumers²¹⁹, Ofcom must have regard in particular to the interests of those consumers in respect of choice, price, quality of service and value for money.
- A5.12 Section 3(6A) CA 2003 confirms that where it appears to Ofcom, in relation to the carrying out of any of its functions in relation to postal services, that any of its general duties conflict with its duty under section 29 of the PSA 2011 to secure the provision of a universal postal service, priority must be given to the latter.
- A5.13 In performing its general duties, Ofcom must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and any other principles appearing to Ofcom to represent the best regulatory practice.²²⁰

The universal postal service

- A5.14 We explain below the three ‘building blocks’ which make up Royal Mail’s universal postal service obligations. In particular:
- the minimum requirements set by Parliament in the PSA 2011;
 - the universal postal service order (“Universal Service Order”) set by Ofcom; and

²¹⁷ Official UK database of legislation. [Communications Act 2003](#).

²¹⁸ Section 3(4) CA 2003.

²¹⁹ Under s.405(5A) CA 2003 as amended, references to consumers in a market for a service include, where the service is a postal service, addressees.

²²⁰ Section 3(3)(a) and (b) CA 2003. Ofcom’s regulatory principles are also outlined here: [Policies and Guidelines](#).

c) the designated universal service provider (“**DUSP**”) conditions set by Ofcom.

A5.15 Table A5.1 below, at the end of this Annex, sets out the services which must currently be provided by Royal Mail as part of the universal postal service.

The minimum requirements

A5.16 Section 31 of the PSA 2011 sets out the services that must, as a minimum, be included in a universal postal service. These are determined by Parliament and cannot be modified by Ofcom. Ofcom can, however, and did recently, conduct a review of the extent to which the minimum requirements meet the reasonable needs of postal users in the UK.²²¹

A5.17 In summary, the minimum requirements comprise:

- a) at least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday;
- b) at least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
- c) a service of conveying postal packets from one place to another by post at affordable, geographically uniform prices through the UK;
- d) a registered items service at affordable, geographically uniform prices through the UK;
- e) an insured items service at affordable, geographically uniform prices through the UK;
- f) the provision of certain free services to the blind/partially sighted; and
- g) the free conveyance of certain legislative petitions and addresses.

A5.18 Section 33 of the PSA 2011 sets out exceptions to the minimum requirements. It specifies that the minimum requirements outlined in section 31 do not apply to letters (or other postal packets) whose weight exceeds 20kg or whose dimensions fall outside the minimum and maximum dimensions laid down by the Universal Postal Union (UPU).²²²

A5.19 Section 33 further sets out that the minimum requirements in respect of delivery or collection of letters or other postal packets do not need to be met in such geographical conditions or other circumstances as Ofcom consider to be exceptional, and that nothing in the minimum requirements is to be read as requiring a service to continue without interruption, suspension or restriction in an emergency.²²³

The universal postal service order

A5.20 Ofcom is required (by section 30(1) of the PSA 2011) to make an order setting out:

²²¹ Ofcom, 2020. *Review of postal users' needs*.

²²² Section 33(1) of the PSA 2011.

²²³ Section 33(2)(b) and (3)(a) of the PSA 2011. In April 2020, Ofcom acknowledged that the Covid-19 pandemic created an emergency situation, which is still impacting Royal Mail's delivery network. Further information can be found on the Ofcom website: [Royal Mail delivery changes](#).

- a) a description of the services that it considers should be provided in the UK as a universal postal service, and
 - b) the standards with which those services are to comply.
- A5.21 The first order was made by Ofcom in 2012 (the *Postal Services (Universal Postal Service) Order 2012* (the “Universal Service Order”)).²²⁴ Whilst the Universal Service Order must include, as a minimum, each of the services listed in the minimum requirements (as set out in section 31 of the PSA 2011)²²⁵, it can go beyond these.
- A5.22 Before making or modifying a universal postal service order, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services.²²⁶
- A5.23 The current Universal Service Order includes features going beyond the minimum requirements of the PSA 2011. Table A5.1 at the end of this Annex shows how Ofcom has given effect to the minimum requirements in the Universal Service Order, and the extent to which it has gone beyond them.

DUSP conditions²²⁷

- A5.24 Ofcom can impose DUSP conditions on a universal service provider pursuant to section 36 of the PSA 2011.²²⁸ These can include, amongst other things, a requirement for a universal service provider to provide a universal postal service (or part of such a service) throughout or in a specified part of the UK.²²⁹
- A5.25 A DUSP condition can also make provision as to the tariffs to be used for determining the prices in accordance with which a universal postal service is provided.²³⁰ In exercising this power, Ofcom must seek to ensure that the prices: are affordable, take account of the costs of providing the service or part of a service and provide efficiency incentives.²³¹ A DUSP condition may also impose performance targets.²³²
- A5.26 To date, Ofcom has imposed three DUSP conditions on Royal Mail, which specify in greater detail the services that must be provided as part of the universal postal service:
- a) DUSP Condition 1 requires Royal Mail to provide those services set out in the Universal Service Order throughout the UK. It also includes performance targets that Royal Mail must meet in respect of some of the universal services, as well as obligations to notify and publish certain information;
 - b) DUSP Condition 2 imposes a safeguard cap on stamps for Second Class letters; and

²²⁴ A copy of the Universal Service Order is available on Ofcom’s website here: [The Postal Services \(Universal Postal Service\) Order 2012](#).

²²⁵ Section 30(2) of the PSA 2011.

²²⁶ Section 30(3) of the PSA 2011.

²²⁷ The latest version of Ofcom’s DUSP conditions is available at: [Conditions imposed on postal operators](#).

²²⁸ Royal Mail was designated as the universal service provider on 29 September 2011.

²²⁹ In accordance with the standards set out in the Universal Service Order; Section 36(2)(a) of the PSA 2011.

²³⁰ Section 36(4) of the PSA 2011.

²³¹ Section 36(5) of the PSA 2011.

²³² Section 36(6) of the PSA 2011.

- c) DUSP Condition 3 imposes a safeguard cap on stamps for Second Class large letters and parcels up to 2kg.

Other regulatory conditions

- A5.27 In addition to imposing DUSP conditions, Ofcom has the power under the PSA 2011 to impose a number of other regulatory conditions.²³³ These are:
- a) a USP access condition;
 - b) a USP accounting condition;
 - c) a notification condition;
 - d) a general universal service condition;
 - e) an essential condition;
 - f) a general access condition; and
 - g) a consumer protection condition.
- A5.28 Schedule 6 of the PSA 2011 contains general provisions about the imposition, modification or revocation of regulatory conditions.²³⁴ In particular, it specifies that Ofcom may impose or modify a regulatory condition only if it is satisfied that the condition or modification:
- a) is objectively justifiable;
 - b) does not discriminate unduly against particular persons (or a particular description of persons);
 - c) is proportionate to what it is intended to achieve; and
 - d) is transparent (in relation to what it is intended to achieve).
- A5.29 Further, Ofcom's power to impose access or other regulatory conditions is subject to its duty under section 29(1) of the PSA 2011 to secure the provision of a universal postal service.²³⁵

Access Conditions

- A5.30 Ofcom is entitled to impose two types of access conditions under the PSA 2011. In particular:
- a) a universal service provider access ("USPA") condition; and
 - b) a general access condition.

USPA condition

- A5.31 Section 38(2) of the PSA 2011 provides that Ofcom may impose a USPA condition, requiring the universal service provider to give other postal operators or users access to its postal network, and/or to maintain a separation for accounting purposes between such different matters

²³³ As listed in section 28(2) of the PSA 2011.

²³⁴ Section 53 of the PSA 2011.

²³⁵ Section 29(2) of the PSA 2011.

relating to access (including proposed or potential access) to its postal network as Ofcom may direct.

- A5.32 A USPA condition may not be imposed unless Ofcom considers it is appropriate to promote efficiency, promote effective competition and to confer significant benefits on the users of postal services.²³⁶
- A5.33 Section 38(5) of the PSA 2011 provides that Ofcom may not impose any price controls on a universal service provider in a USPA condition unless it appears to them that the provider concerned:
- might otherwise fix and maintain some or all of its prices at an excessively high level with adverse consequences for users of postal services, or
 - might otherwise impose a price squeeze with adverse consequences for users of postal services.
- A5.34 When imposing price controls in a USPA condition in connection with the giving of access to a universal service provider's postal network or to part of that network, section 38(6) of the PSA 2011 requires Ofcom to have regard to the costs incurred in providing that network, or part of that network, as it considers appropriate.
- A5.35 In imposing price controls in a USPA condition, Ofcom may:
- have regard to the prices at which services are available in comparable competitive markets, and
 - determine what they consider to represent efficiency by using cost accounting methods.²³⁷
- A5.36 Further, section 38(8) of the PSA 2011 provides that, in deciding what obligations to impose in a USPA condition in a particular case, Ofcom must (in addition to taking into account anything relevant for the purpose of performing its duty under section 29) take into account, in particular, the following factors:
- the technical and economic viability, having regard to the state of market development, of installing and using facilities that would make the proposed access unnecessary,
 - the feasibility of giving the proposed access,
 - the investment made by the universal service provider concerned in relation to the matters in respect of which access is proposed,
 - the need to secure effective competition in the long term, and
 - any rights to intellectual property that are relevant to the proposal.
- A5.37 Ofcom imposed a USPA condition on Royal Mail in 2012 requiring it to offer access to its Inward Mail Centres to other postal operators for the purposes of providing “D+2 and later than D+2

²³⁶ Section 38(4) of the PSA 2011.

²³⁷ Section 38(7) of the PSA 2011.

Letter and Large Letter services".²³⁸ This USPA condition has recently been extended to cover a new D+5 Letter service too.²³⁹

General access condition

- A5.38 Section 50 and Schedule 3 of the PSA 2011 also grant Ofcom the power to impose a general access condition, which permits other postal operators or users to access the postal infrastructure of a particular postal operator (not necessarily Royal Mail) and to maintain accounting separation relating to this access.
- A5.39 A general access condition may not be imposed unless Ofcom considers it is necessary to protect the interests of the users of postal services and/or to promote effective competition.²⁴⁰
- A5.40 Ofcom has not imposed any general access conditions to date.

USP Accounting Conditions

- A5.41 Under section 39 of the PSA 2011, Ofcom is entitled to impose a USP accounting condition on the universal service provider. This type of condition requires the provider to do one or more of the following:
- a) to maintain a separation for accounting purposes between different matters as directed by Ofcom;
 - b) to comply with cost identification and orientation rules made by Ofcom;
 - c) to comply with rules made by Ofcom about the use of cost accounting systems; and
 - d) to secure that its compliance with those systems is audited annually by a qualified independent auditor (including meeting the costs of the audit).
- A5.42 In 2012, Ofcom imposed USP accounting conditions on Royal Mail.²⁴¹ These include requirements in relation to accounting separation, costing methodologies and reporting. Alongside these conditions, Ofcom imposed Regulatory Accounting Guidelines on Royal Mail which set out directions relating to the preparation, auditing, reporting and publication of regulatory financial statements and other regulatory financial reports.²⁴²

Notification Conditions

- A5.43 Section 41 of the PSA 2011 empowers Ofcom to impose a notification condition on any postal operator who is providing, or intending to provide, a service within the scope of the universal postal service. Such a condition requires operators to give Ofcom advance notice of their intention to commence or expand letter delivery operations.

²³⁸ 'D+X' (e.g D+1, D+2, D+5) means the total time between the sender sending the postal packet, and it being delivered to the recipient. For example, D+2 refers to the customer (sending the letter) to be injected into Royal Mail's network for it to then be delivered 2 days later i.e. on D+2.

²³⁹ Ofcom, 2021. [Modification of the USP Access \[D+5\] Condition for regulating access to Royal Mail's postal network: Statement](#) [accessed 8 March 2021]

²⁴⁰ Section 50(4) of the PSA 2011.

²⁴¹ Ofcom, 2012. [Consolidated USP Accounting Condition](#).

²⁴² Ofcom, 2012. [Consolidated Regulatory Accounting Guidelines](#).

- A5.44 Following a direction from the Secretary of State in 2012, Ofcom imposed a notification condition²⁴³ on postal operators requiring them to notify it three months in advance if they are planning to enter or expand letter delivery operations in the UK. This condition is confined to operators intending to provide new or additional letter delivery services of a certain scale; namely 2.5 million items per quarter.

General Universal Service Conditions

- A5.45 Under section 42 of the PSA 2011, Ofcom has the power to impose a general universal service condition (“GUSC”) on all postal operators that provide services within the scope of the universal postal service (or to operators of a specified description – for example, those that provide a certain type of service).
- A5.46 A GUSC may contain obligations that Ofcom considers are necessary to impose for, or in connection with, securing the provision of a universal postal service. A GUSC may also, in certain circumstances, require postal operators to make contributions for meeting the financial burden of providing a universal postal service.²⁴⁴
- A5.47 Finally, a GUSC cannot replicate the requirements of the universal service – meaning that it may not require a person to:
- deliver or collect letters six days per week (or other postal packets five days per week);
 - provide a service throughout the UK; or
 - provide a service at an affordable, geographically uniform price throughout the UK.²⁴⁵
- A5.48 Ofcom has not imposed any GUSCs to date.

Essential Conditions

- A5.49 Section 49(1) of the PSA 2011 provides that Ofcom may impose an essential condition on every postal operator, or every postal operator of a description specified in the condition. An essential condition is defined²⁴⁶ as one which contains such obligations as Ofcom considers necessary to impose for, or in connection with, any one or more of the following purposes:
- safeguarding confidentiality in connection with the sending, conveyance and delivery of letters;
 - safeguarding security where dangerous goods are transported;
 - safeguarding the confidentiality of information conveyed;
 - guarding against the theft or loss of or damage to postal packets; and
 - securing the delivery of postal packets to the intended addressees.

²⁴³ Ofcom, 2012. [Consolidated Notification Condition 1](#).

²⁴⁴ Section 42(2) of the PSA 2011.

²⁴⁵ Section 42(4) of the PSA 2011.

²⁴⁶ Section 49(2) of the PSA 2011.

A5.50 In March 2012, Ofcom imposed an essential condition²⁴⁷ on all regulated postal operators (“RPOs”), requiring them to comply with the Mail Integrity Code of Practice (“MICOP”). The MICOP places an obligation on RPOs to take all reasonable steps to minimise the potential for postal packets to be subject to loss, theft, damage and/or interference.

Consumer Protection Conditions

A5.51 Sections 51 and 52 of the PSA 2011 also empower Ofcom to impose Consumer Protection Conditions on every postal operator, or postal operators of a specified description.

A5.52 Section 51(2) of the PSA 2011 defines a Consumer Protection Condition as a condition that requires the operator to do one or more of the following:

- a) to assume liability in respect of loss of (or damage to) postal packets;
- b) to establish and maintain procedures, standards and policies with respect to “consumer protection matters”, that is:
 - i) the handling of complaints;
 - ii) the resolution of disputes;
 - iii) the provision of remedies and redress related to such complaints or disputes;
 - iv) the information about service standards and users’ rights; as well as
 - v) “anything else appearing to Ofcom to be necessary to secure effective protection for those users”.²⁴⁸

A5.53 In March 2012 Ofcom imposed a number of Consumer Protection Conditions, some of which have been updated since. This includes:

- a) Consumer Protection Condition 1²⁴⁹ governs payments relating to qualifying consumer expenses of the National Consumer Council, Citizens Advice or Citizens Advice Scotland;
- b) Consumer Protection Condition 2²⁵⁰ sets out the postal common operational procedures (including the code); and
- c) Consumer Protection Condition 4²⁵¹, which applies only to the universal service provider, outlines obligations in relation to compensation, notification and reporting requirements.

A5.54 Consumer Protection Condition 3 (CP3)²⁵², covers complaints handling and redress:

- CP 3.2 imposes minimum obligations on *all postal operators*. It requires them to establish, make available and comply with transparent, simple and inexpensive procedures for

²⁴⁷ Ofcom, 2017. [Essential Condition 1](#).

²⁴⁸ A Consumer Protection Condition may also impose requirements regarding the payments of expenses of consumer advocacy bodies and of the Secretary of State (s.51(2)(c)-(d) PSA 2011).

²⁴⁹ Ofcom, 2019. [Consumer Protection Condition 1](#) (CP 1.1.1 outlines which postal operators this Consumer Protection Condition applies to).

²⁵⁰ Ofcom, 2017. [Consumer Protection Condition 2](#).

²⁵¹ Ofcom, 2013. [Consumer Protection Condition 4](#).

²⁵² Ofcom, 2017. [Consumer Protection Condition 3](#).

dealing with complaints of consumers of postal services, which facilitate the fair and prompt settlement of disputes.

- CP 3.3 only applies to the universal service provider and imposes more detailed obligations.

A5.55 CP 3.3.1 requires the universal service provider to establish, make available and comply with a complaints handling procedure in accordance with:

- CP 3.2 (as set out above); and
- further obligations detailed in CP 3.3.2. These further obligations apply to complaints relating to services that the universal service provider is required to provide under a DUSP condition.

A5.56 These further obligations are listed in CP 3.3.2(a) to (j) and include, amongst other things:

- ensuring a complaints handling procedure is in plain and intelligible language;
- providing consumers with contact details, information about the investigation process, likely timescales and the complainant's right to refer a consumer complaint to a qualifying redress scheme; and
- providing for an internal review of any existing complaints where a consumer is dissatisfied with the way their complaint was handled.

A5.57 The remaining further obligations imposed on the universal service provider are set out in CP 3.3.3 to CP 3.3.17. These include, amongst other things, obligations relating to:

- the review of the complaints handling procedure (CP 3.3.3);
- the records to be made by the universal service provider (e.g. upon receipt of a complaint, of any subsequent contact with complainant(s) or when a complaint becomes completed²⁵³) as well as the steps to be taken when a complaint is recorded as a "*completed complaint*" but subsequent contact is received from the complainant disputing this decision (CP 3.3.3 to CP 3.3.6);
- the written notices to be sent to complainant(s) (e.g. when the universal service provider becomes aware that a complaint cannot be completed to the complainant's satisfaction or when the "*specified time period*" has expired)²⁵⁴ (CP 3.3.7 to CP 3.3.8);
- the level of resources (as may reasonably be required) to enable the universal service provider to receive, handle and process consumer complaints in an efficient and timely manner (CP 3.3.9);
- the arrangements to handle complaints received from / on behalf of vulnerable consumers and the additional steps which must be taken to assist these users (CP 3.3.10);
- the publication of the complaints handling procedure (in a manner which ensures reasonable publicity for it) and provision of free copies (CP 3.3.11 to CP 3.3.13);
- the publication, in the manner set out in CP 3.3.14, of an annual consumer complaints report containing the information described in CP 3.3.15; and

²⁵³ Under CP 3.1.2(f) a "*completed complaint*" means a consumer complaint in respect of which there remains no outstanding action to be taken by the postal operator in accordance with its complaint handling procedure.

²⁵⁴ Under CP 3.1.2(o) the "*specified time period*" is the maximum period that the universal service provider has to complete a consumer complaint (as outlined in its complaint handling procedure or otherwise agreed with the consumer) before it becomes entitled to refer that complaint to a qualifying redress scheme.

- the submission to Ofcom and to the Consumer Advocacy Bodies, and publication of quarterly reports detailing the number of consumer complaints received and completed (in the manner specified in CP 3.3.16).

A5.58 CP 3.3.17 further requires the universal service provider to be a member of a “qualifying redress scheme” in relation to consumer complaints about the provision of a relevant postal service.²⁵⁵

²⁵⁵ Under CP 3.1.2(l) a “*qualifying redress scheme*” means a redress scheme which is approved by Ofcom in accordance with Schedule 5 of the PSA 2011.

Table A5.1: High-level overview of the current universal service framework

Minimum requirement in PSA 2011	High-level requirement in Ofcom's current Universal Service Order	Main characteristics of the service, as specified by Ofcom (beyond any minimum requirement)	Relevant DUSP condition	Royal Mail Group's name for service (where different to Universal Service Order name)
Delivery Services				
Minimum Requirement 1 At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday (excluding public holidays) to every address in the UK	Articles 5(1)(a) and 6 of the Universal Service Order: Mirrors the minimum requirement	N/A	DUSP 1.4	N/A
Collection Services				
Minimum Requirement 2 At least one collection of Letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday (excluding public holidays) to every address in the UK	Articles 5(1)(b) and 7 of the Universal Service Order: Mirrors the minimum requirement	N/A	DUSP 1.5	N/A
End to end services at affordable prices				
Minimum requirement 3 A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK. This includes conveying postal packets outside the UK	Article 5(1)(c) and Paragraph 2 of Schedule 1 of the Universal Service Order: Priority service	<ul style="list-style-type: none"> · Domestic service with a D+1 end-to-end routing time · Capable of purchase by stamp, meter and other reasonable methods · Free of charge Certificate of Postage available for packets deposited at Post Office available · Proof of delivery included on application by sender · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(a)	Royal Mail 1 st Class

		<ul style="list-style-type: none"> · Does not include registered or insured items 		Royal Mail Signed For® 1 st Class
	Article 5(1)(c) and Paragraph 3 of Schedule 1 of the Universal Service Order: Standard service	<ul style="list-style-type: none"> · Domestic service with a D+3 end-to-end routing time · Capable of purchase by stamp, meter and other reasonable methods · Free of charge Certificate of Postage available for packets deposited at Post Office · Proof of delivery included on application by sender · Provided on fair and reasonable terms, and on every day on which a collection is required · Does not include registered or insured items 	DUSP 1.6.1(b)	Royal Mail 2 nd Class Royal Mail Signed For® 2 nd Class
	Article 5(1)(c) and Paragraph 5 of Schedule 1 of the Universal Service Order: Return to sender service	<ul style="list-style-type: none"> · Domestic service of conveying back to the sender within a reasonable period where delivery to addressee was not effected · Service paid for by reasonable methods · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(c)	
	Article 5(1)(c) and Paragraph 6 of Schedule 1 of the Universal Service Order: Fast outgoing EU services	<ul style="list-style-type: none"> · Conveyance to EU offices of exchange within reasonable period, and period compatible with end-to-end D+3 routing time (for 85% of packets) and D+5 routing time (for 97% of packets) · Capable of purchase by stamp or other reasonable methods · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(f) ²⁵⁶	

²⁵⁶ Note that DUSP 1.6.1(f) requires Royal Mail to offer such services in relation to the conveyance of (i) registered items, (ii) insured items, and (iii) items that are neither registered nor insured. This is the same in respect of DUSP 1.6.1(f)A, (g), (h), (i) and (j).

		<ul style="list-style-type: none"> · Free of charge Certificate of Posting available for packets deposited at Post Office 		
	Article 5(1)(c) and Paragraph 6A of Schedule 1 of the Universal Service Order: Slow outgoing EU services	<ul style="list-style-type: none"> · Conveyance to EU offices of exchange within reasonable period, and period compatible with end-to-end D+30 routing time · Capable of purchase by stamp or other reasonable methods · Provided on fair and reasonable terms, and on every day on which a collection is required · Free of charge Certificate of Posting available for packets deposited at Post Office 	DUSP 1.6.1(f)A	
	Article 5(1)(c) and Paragraph 7 of Schedule 1 of the Universal Service Order: Fast outgoing RoW services	<ul style="list-style-type: none"> · Conveyance to RoW offices of exchange (other than EU) within reasonable period, and period compatible with end-to-end D+7 routing time · Capable of purchase by stamp or other reasonable methods · Provided on fair and reasonable terms, and on every day on which a collection is required · Free of charge Certificate of Posting available for packets deposited at Post Office 	DUSP 1.6.1(g)	
	Article 5(1)(c) and Paragraph 7A of Schedule 1 of the Universal Service Order: Slow outgoing RoW services	<ul style="list-style-type: none"> · Conveyance to RoW offices of exchange (other than EU) within reasonable period, and period compatible with end-to-end D+72 routing time · Capable of purchase by stamp or other reasonable methods · Provided on fair and reasonable terms, and on every day on which a collection is required · Free of charge Certificate of Posting available for packets deposited at Post Office 	DUSP 1.6.1(h)	

	Article 5(1)(c) and Paragraph 8 of Schedule 1 of the Universal Service Order: Incoming EU services	<ul style="list-style-type: none"> · Conveyance and delivery within the United Kingdom of postal packets collected from EU offices of exchange, within period that is reasonable and compatible with end-to-end D+3 routing time · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(i)	
	Article 5(1)(c) and Paragraph 9 of Schedule 1 of the Universal Service Order: Incoming RoW services	<ul style="list-style-type: none"> · Conveyance and delivery within the United Kingdom of postal packets collected from RoW offices of exchange (other than EU) within period that is reasonable · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(j)	
Minimum requirements 4 and 5 A registered items service and an insured items service, both at affordable, geographically uniform prices throughout the UK	Article 5 and Paragraph 4 of Schedule 1 of the Universal Service Order: Domestic registered and insured services, up to 10kg	<ul style="list-style-type: none"> · D+1 routing timing, and delivery by 1pm (except where not reasonably possible) · Tracking facility · Proof of delivery on application of sender · Paid for in advance · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(d)	Special Delivery Guaranteed by 1pm® [Royal Mail Special Delivery Guaranteed by 9am®; Royal Mail Tracked 24®, Royal Mail Tracked 48®]
	Article 5 and Paragraph 4 of Schedule 1 of the Universal Service Order: Domestic registered and insured services, exceeding 10kg	<ul style="list-style-type: none"> · Delivery within a reasonable period · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.1(e)	
Free end-to-end services				
Minimum requirement 6 The provision of certain free services to the blind or partially sighted	Article 5(1)(d) and Paragraph 2 of the Universal Service Order: Domestic services for the conveyance of eligible items to blind and visually impaired people	<ul style="list-style-type: none"> · D+1 end-to-end routing time for domestic services · Covers eligible items of up to 7kg in aggregate (but does not include the conveyance of registered or insured items) · Available if the sender or recipient is blind/visually impaired/ or if the sender is an organisation representing blind people or offering a service for blind or visually impaired people 	DUSP 1.6.3(b)	Articles for the Blind: Free 1st Class

		<ul style="list-style-type: none"> · Free of charge Certificate of Postage for packets deposited at post office available · Provided on fair and reasonable terms, and on every day on which a collection is required 		
	Article 5(1)(d) and Paragraph (4) of the Universal Service Order: International services for the conveyance of eligible items to blind and visually impaired people	<ul style="list-style-type: none"> · International services for conveying eligible items of up to 7kg in aggregate (excluding registered or insured items) · Conveyance within a reasonable period, which is consistent with 7-day end-to-end routing time · Free of charge Certificate of Postage for packets deposited at post office available · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.3(c) and (e)	Articles for the Blind: Free International Standard
Minimum requirement 7 Free conveyance of certain legislative petitions and addresses	Article 5(1)(d) and Paragraph 1 of Schedule 2 of the Universal Service Order: Mirrors the minimum requirement	<ul style="list-style-type: none"> · Conveyance to be within a reasonable period · Provided on fair and reasonable terms, and on every day on which a collection is required 	DUSP 1.6.3(a)	Postal Voting
Addressee services				
N/A	Article 5(e) and Paragraph 1 of Schedule 3 of the Universal Service Order: Redirection Services	<ul style="list-style-type: none"> · Service(s) providing that all postal packets addressed to a named individual that are to be delivered by the USP should be conveyed to a postal address other than that marked on the postal packet · Delivery within a reasonable period, and service lasting for a specified reasonable period · Provided on fair and reasonable terms, and on every day on which a collection is required, at affordable prices determined in accordance with a public tariff which is uniform throughout the UK 	DUSP 1.7.1(a)	

Call for inputs: Review of postal regulation

N/A	Article 5(e) and Paragraph 2 of Schedule 3 of the Universal Service Order: Poste Restante Services	<ul style="list-style-type: none"> · Service(s) for addressees which provide for: (a) the address of any specified Post Office in the UK to be used as an addressee's postal address for a reasonable period, and (ii) postal packets for that addressee to be held at that Post Office for a reasonable period for collection by the addressee · Must be reasonable, in relation to any Post Office, for it to be used to provide the service · Provided on fair and reasonable terms, and on every day on which a collection is required · Free of charge 	DUSP 1.7.1(b)	
N/A	Article 5(e) and Paragraph 3 of Schedule 3 of the Universal Service Order: Retention Services	<ul style="list-style-type: none"> · One or more services for addressees which provide for a delay, for a specified reasonable period, to the target delivery date otherwise applicable to any postal packets · Provided on fair and reasonable terms, and on every day on which a collection is required, at affordable prices determined in accordance with a public tariff which is uniform throughout the UK 	DUSP 1.7.1(c)	

A6. Glossary and defined terms

A6.1 This glossary is a non-exhaustive list of defined terms and acronyms used throughout this call for inputs. It is designed to help readers understand the terms and acronyms we have used in order to help them better understand the document.

Term	Definition
Access	Allowing access operators, or other companies operating in the postal market, to use Royal Mail's postal network for the provision of a postal service (through final mile delivery). Access to Royal Mail's postal network could in principle be at any point in the pipeline, though in our regulations we require access at the IMC (inward mail centre) only, and for a specified set of services (D+2 Access and D+5 Access).
Access Operator	A postal operator or a user of postal services which has or seeks access to Royal Mail's postal network.
Addressed Mail or Addressed Letters	Mail or letters with a named recipient.
Advertising Mail	Mail for marketing and advertising purposes, sent by businesses to consumers. Also known as 'direct mail'.
Articles for the blind	A USO service which enables blind and partially sighted people to send certain items First Class through the post free of charge.
Bulk mail	Large volumes of letters and/or parcels subject to discounts relating to volume, format and pre-sortation. Bulk mail is a separate service from single-piece mail (definition below).
Business-to-business (B2B)	Letters or parcels sent from a business to another business.
Business-to-consumer (B2C)	Letters or parcels sent from a business to a consumer.
Consumer Advocacy Bodies (CABs)	This refers to the three consumer bodies - Citizens Advice, Citizens Advice Scotland and The Consumer Council, Northern Ireland
Consumer-to-business/consumer (C2X)	Letters or parcels sent from a consumer to another entity, which could for example, be a business or another consumer.
CA 2003	The Communications Act 2003
CFI	Call for Inputs

Consumer Protection Condition (CP)	A condition which Ofcom may impose under section 51 of the PSA 2011 on every postal operator or postal operators of a specified description relating to consumer protection matters. Further information about CP Conditions can be found in the Annex 5.
CPI	Consumer Price Index
CWU	Communications Workers Union
D+1, D+2, or D+5	A postal service that aims to deliver one (D+1), two (D+2), or five (D+5) working days after collection from the sender.
D+2 Access	Access to Royal Mail's postal network at the IMC (inward mailing centre) for the purposes of providing D+2 and later than D+2 Letters and Large Letters services.
D+5 Access	Access to Royal Mail's postal network at the IMC for the purposes of providing D+5 and later than D+5 Letters services for delivery by the universal service provider on a working day that is later than the next working day after the Letters were handed over by the D+5 Access Operator at the IMC, but which day is no later than the fourth working day after such a handover.
Direct Mail	Mail for marketing and advertising purposes, sent by businesses to consumers. Also known as 'advertising mail'.
Downstream access	Access to Royal Mail's postal network at the point of entry to an Inward Mail Centre or at any point in the postal chain after that.
DUSP Condition	Designated Universal Service Provider condition. A condition Ofcom may impose on the designated universal service provider under section 36 of the PSA 2011. Further information about DUSP Conditions can be found in the Annex 5.
EBIT	Earnings Before Interest and Tax.
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation.
EBITDA/Interest	The EBITDA-to-interest ratio is a financial ratio that is used to assess the ease with which a company can pay the interest on its outstanding debt
End-to-end	A service which comprises all parts of the postal service chain: collection, sortation, transportation upstream and delivery of mail to its final destination.
End-to-end operators	Operators, including Royal Mail, that provide an end-to-end postal service from collection to delivery (this may be only be provided in some parts of the country by operators other than Royal Mail).

Essential Condition	A condition Ofcom may impose under section 49 of the PSA 2011 on every postal operator or every postal operator of a specified description specified in the condition containing such obligations as Ofcom considers necessary for the purposes of safeguarding confidentiality in connection with the sending, conveyance and delivery of letters, safeguarding security where dangerous goods are transported, safeguarding the confidentiality of information conveyed, guarding against the theft or loss of or damage to postal packets and securing the delivery of postal packets to the intended addressee. Further information about the Essential Conditions can be found in the Annex 5.
Fully Allocated Costs (FAC)	An accounting approach under which all the costs of the firm are distributed between its various services. The fully allocated cost of a product may therefore include some common costs that are not directly attributable to the service.
Financeability EBIT	EBIT of the Reported Business used for assessing financeability of the universal service. We consider earnings before interest and tax (EBIT), calculated to include transformation costs and with pension costs restated on a cash basis.
First Class	The USO priority service for letters and parcels, provided by Royal Mail, which has a routing time ('speed of delivery') from collection to delivery of D+1.
FFO	Funds from Operations
FFO/ Net Debt	The FFO to net debt ratio measures the ability of a company to pay off its debt using net operating income alone. Net Debt is a measure of a company's liabilities at a certain point in time which nets off the company's cash and other liquid assets against its debts. FFO (Funds from Operations) is a measure of the net cash flows generated by a company's operations in a financial period, typically one year.
IMC (Inward Mail Centre)	The operations of a Royal Mail mail centre in which the activities related to the processes of final sorting for delivery (in that mail centre's catchment area) of mail received from the upstream part of Royal Mail's network, or from other postal operators etc., to the final addresses take place. IMCs also act as OMCs (Outward Mail Centres) in the upstream part of the network.
Large Letter	A large letter is any item larger than a Letter and up to 353mm in length, 250mm in width and 25mm in thickness, with a maximum weight of 750g.

Letter	A Letter is any item up to 240mm in length, 165mm in width and 5mm in thickness, weighing no more than 100g.
Mailmark	Mailmark is a barcode system used by Royal Mail. This makes letters and large letters machine-readable, which allows for the tracking of items within the Royal Mail network.
Margin Squeeze	Margin squeeze is a type of exclusionary conduct that can occur if a vertically-integrated firm, in this case Royal Mail, holds a dominant position in one part of the supply chain of a product, and uses this position to prevent non-vertically integrated competitors from achieving an economically viable price-cost margin on another part of the supply chain of that product.
Meter	A method of payment or payment channel for Royal Mail services where customers (typically SMEs) pre-pay for postage and apply an impression to the envelope, label or wrapper using a franking machine licensed by Royal Mail. This method of payment
MICOP	Mail Integrity Code of Practice
Minimum requirements	The services set out in section 31 of the PSA 2011 that must, as a minimum, be included in a universal postal service. Further information about the minimum requirements can be found in the Annex 5
Net Debt/EBITDA	The net debt-to-EBITDA ratio is a measurement of leverage, helping to assess a company's ability to repay its debts using its operating profits (measured before non-cash elements of depreciation and amortization)
ONS	Office of National Statistics
Parcel	Unless specified otherwise, usually refers to a postal packet that is not a Letter or a Large Letter
Pipeline	Stages involved in the production and distribution process of goods or services from the initiation of the process to the delivery of the final product. In postal services the pipeline refers to the stages from collection to delivery of a postal item.
Postal infrastructure	Both physical infrastructure (such as post boxes) and infrastructure in non-physical form (such as information relating to postcodes or addresses or arrangements made with others for the provision of any service).
Postal operator	Defined in section 27(3) of the PSA 2011 as meaning a person who provides the service of conveying postal packets (definition below)

from one place to another by post, or any of the incidental services of receiving, collecting, sorting and delivering postal packets.

Postal service	Defined in section 27(1) of the PSA 2011 as meaning the service of conveying postal packets (definition below) from one place to another by post, the incidental services of receiving, collecting, sorting and delivering postal packets, and any other service which relates to, and is provided in conjunction with, any of those services.
Postal network	Defined in section 38(3) of the PSA 2011 as meaning the systems and all the resources used by Royal Mail for the purpose of complying with its universal service obligations (and, accordingly, includes arrangements made with others for the provision of any service).
Postal Packet	Defined in section 27(2) of the PSA 2011 as a letter, parcel, packet or other article transmissible by post.
Poste restante	A USO service which allows users to have mail delivered and held at a post office for a reasonable period. The address of the post office is used as the customer's postal address. It is required to be free of charge.
Price Plans	The respective national and zonal pricing options which Royal Mail offers in relation to its agreements with other persons for access services. It includes the price plans known as National Price Plan One (SSCs), Average/National Price Plan Two (Zones) and Zonal Price Plan and Regional Price Plan (Zones).
PSA 2011	The Postal Services Act 2011
Publishing Mail	Mail consisting of periodical items such as magazines and newspapers
Quality of Service (QoS)	A requirement (set out in DUSP condition 1.9.1) requiring Royal Mail to meet certain quality of service standards and performance targets.
Redirection	The USO service of redirection of all mail addressed to a particular recipient from one address to another for a specified period of time.
Regulatory Accounting Guidelines (RAG)	A document setting out such requirements as Ofcom may direct from time to time relating to the preparation, auditing, reporting and publication, of regulatory financial statements and other regulatory financial reports to be prepared and maintained by Royal Mail under the USPAC Condition.
Regulatory financial reports	The financial reports produced for Ofcom by Royal Mail in relation to the RAG; they include both the regulatory financial statements and

	additional financial reports produced by Royal Mail as per the guidance in the RAG.
Regulatory financial statements	The income statements, balance sheet statements and cash flow statements produced by Royal Mail as per the RAG.
Relevant Group	Royal Mail PLC and the group of companies it collectively holds.
Reported Business	The part of Royal Mail's parcels, international and letters (UKPIL) business that undertakes activities for the purpose of, or in connection with, the provision of universal service and non-universal service products, excluding the activities and products of Parcelforce International and Royal Mail Estates Limited. For the avoidance of doubt, the activities and products of the Reported Business include all the activities and products which fall within the scope of Royal Mail's National Costing Methodology as documented in the Costing Manual from time to time.
Review of User Needs	Ofcom's Review of postal users' needs dated 26 November 2020, which contains our assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of users of postal services in the UK.
Royal Mail	Royal Mail Group Limited, whose registered company number in England and Wales is 04138203.
Royal Mail Wholesale	A business unit within Royal Mail Group Limited that deals with access to Royal Mail Group Limited's postal network.
Safeguard cap	In 2012 Ofcom introduced a safeguard cap on Second Class stamped items up to 2kg, with one price for letters, and a separate basket price for stamped parcels and Large Letters.
Second Class	The USO standard service for letters and parcels, provided by Royal Mail, which has a routing time ('speed of delivery') from collection to delivery of 3 days (a D+3 service).
Signed for	A USO service which is an add-on to First Class and Second Class and requires signature on delivery. It includes standard compensation for loss and damage.
Single Piece end-to-end services	Single piece is defined in the Universal Service Order as a postal service for the conveyance of an individual postal packet to the addressee, for which the price per postal packet is not subject to any discounts related to (a) the number of postal packets sent in connection with the person who paid for the service; (b) the positioning or formatting of text on the postal packet; (c) the use of markings which facilitate the use of machines to sort postal packets;

	(d) pre-sORTATION into geographical areas for delivery; or (e) the purchase of any other conveyance of the same or any other postal packet. Single-piece mail is a separate service from bulk-mail (please refer to definition above).
Small and Medium Sized Enterprise (SME)	A company with fewer than 250 employees.
Sorted	Describes mail that has been sorted into geographical areas prior to being collected by the postal operator. Some postal operators call this type of mail 'pre-sorted'.
Special Delivery Guaranteed	A USO service which offers registered, tracked service which guarantees delivery of mail by 1pm the next working day, includes insurance and requires a signature on delivery. Senders have the option of buying additional levels of insurance cover.
Statement of Process	A Royal Mail document that outlines the process for postal operators and users of postal services to make requests for access contracts or to make variations to existing contracts
Transactional Mail	Mail generated by business which is conducting a financial transaction with consumers (such as bank statements and invoices).
Universal Service Obligation (USO)	The requirements to provide postal services which are contained in DUSP conditions imposed on the universal service provider by Ofcom under section 36 of the PSA 2011.
Universal Service Order	This refers to the Postal Services (Universal Postal Service) Order 2012 (as amended by the Postal Services (Universal Postal Service) (Amendment) Order 2013), which defines the scope of a universal service setting out a description of services that should be provided in the UK as a universal postal service, including a set of required characteristics of those services.
Universal Service Provider (USP)	Any postal operator for the time being designated by Ofcom as the universal service provider under the PSA 2011.
Unsorted	Describes mailing items handed to an operator which are not pre-sorted.
Upstream	The activities of collection, outward sortation (where necessary – pre-sorted mail may not require further outward sortation) and trunking.
User	Defined in section 65(1) of the PSA 2011 as including addressees and potential users

USP access condition (USPA Condition)	A condition that Ofcom may impose under section 38 of the PSA 2011 that requires Royal Mail, as the universal service provider, to give access to its postal network to other postal operators or users of postal services and/or requires the universal service provider to maintain accounting separation.
Zones	The geographical zones into which Royal Mail divides the United Kingdom based on the density of delivery points and the proportion of business delivery points of postcode sectors, currently known as Zone A (Urban), Zone B (Suburban), Zone C (Rural) and Zone D (London).
Zonal access	A type of posting provided by Royal Mail for access operators who are unable to meet the mailing profile requirement of national access and charges.