

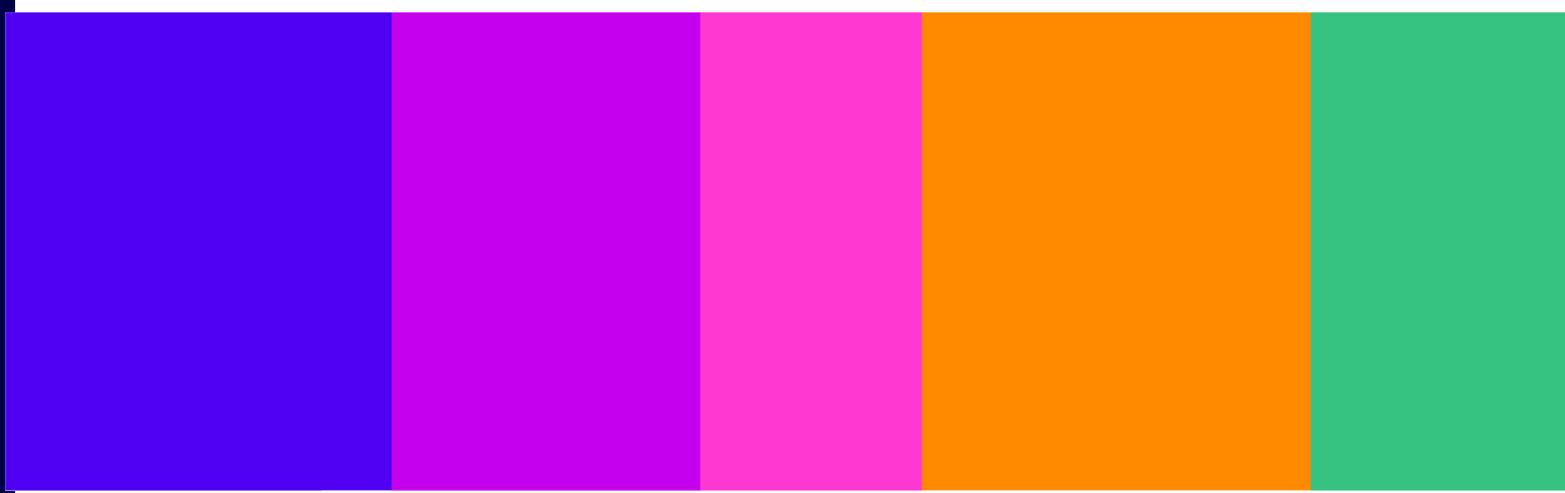
# Review of Second Class safeguard caps 2024

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Decision on safeguard price caps for  
Second Class universal services

**Statement**

Published 24 January 2024



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# 1. Overview

This document sets out Ofcom’s decisions regarding retail price caps on Royal Mail’s universal postal services to apply from 1 April 2024. The main aim of our proposals is to ensure that universal postal services remain affordable for consumers. In making our decisions, we have also taken into account the impact of any caps on the financial sustainability of the universal service.

Postal services continue to play a vitally important role in our society. They are used by almost everyone in the UK on a regular basis, from online shopping deliveries, to receiving important medical correspondence, to sending cards to friends and relatives.

The universal service obligation (USO) requires Royal Mail to deliver and collect letters six days a week, and parcels five days a week, at an affordable and uniform price throughout the UK. Since 2012 Ofcom has imposed caps on Second Class USO letters and small parcels in order to ensure that postal services are affordable for consumers. We last reviewed these caps in 2018-19 and the current caps will expire on 31 March 2024.

We consider that there continues to be a need to maintain a safeguard cap on Second Class letters to ensure that consumers retain access to affordable postal services. We have also concluded that we are able to remove the cap on Second Class parcels given the competitive pressure on Royal Mail which will ensure that parcel prices remain affordable.

## Our decisions – in brief

- Remove the safeguard cap from parcels. We consider that a safeguard cap on Royal Mail’s parcel services is no longer appropriate. Competition in this market is effectively constraining Royal Mail’s ability to raise prices both for online and in person purchases (i.e. at the Post Office), therefore ensuring that they remain affordable. Even in those parts of the UK where parcel competition is less intense, consumers will continue to benefit as Royal Mail will continue to be required to set a single uniform price for these services nationally.
- Retain a safeguard cap on Second Class standard and large letters. Royal Mail continues to be a near-monopolist in the provision of letters and we cannot rely on competition to ensure that prices remain affordable without a cap on these services.
- Create a single basket cap for Second Class standard and large letters. This will give Royal Mail slightly more commercial flexibility in setting prices between standard and large letters as long as the basket price (a weighted average) rises no faster than the cap set by Ofcom.
- Allow the safeguard cap on letters to rise with inflation (CPI), but no higher. Our evidence indicates that current prices are affordable for most consumers, but that real-terms increases are likely to risk making them unaffordable for more consumers, including some vulnerable consumers.
- Continue to limit the safeguard caps to Second Class letter services. We have not identified an affordability concern with respect to other USO services given the nature of their use and the alternative access provided by Second Class services.
- Impose a cap for three years rather than five, as proposed. This is in recognition of the evidence that our proposed cap could, from financial year 2027-28, begin to

materially affect Royal Mail's commercial flexibility for some of its other services and therefore could have a greater impact on the financial sustainability of the USO than previously considered. During the three year period, we intend to engage with Royal Mail to consider alternative approaches to ensuring affordability – for example, a targeted discount scheme for vulnerable consumers. We have also published alongside this document a call for input on the future of the universal postal service, which sets out our view that the evidence suggests the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future.<sup>1</sup> It is therefore possible that interventions to address affordability concerns will need to be revised to reflect any such changes. In any event, we will consider our future approach to pricing before 2027-28, if necessary drawing on our direction power to cap prices.

The overview section in this document is a simplified high-level summary only. The decisions we have taken, and our reasoning are set out in the full document.

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<sup>1</sup> Ofcom, 2023. [Call for Input: The future of the universal postal service.](#)

## 2. Background

- 2.1 In this section, we set out our powers and duties in relation to postal services and imposing safeguard caps on Royal Mail, our approach to postal regulation, and the background on the current safeguard caps. We also set out how the prices of the safeguarded services have changed since the start of the current cap period (2019), a summary of key developments since then, and finally, our impact assessment, equality impact assessment, and Welsh language assessment.

### Powers and duties

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#### Ofcom's statutory duties in relation to postal services

- 2.2 Our principal duty under the Communications Act 2003 (the CA 2003) is to further the interests of consumers and citizens across all of our different functions, including post, where appropriate by promoting competition.
- 2.3 In relation to post, section 29(1) of the Postal Services Act 2011 (the PSA 2011) says that we must carry out our functions in a way that we consider will secure the provision of a universal postal service. The provision of a universal postal service includes the provision of a number of end-to-end services at affordable prices. We must also have regard to the need for the universal postal service to be financially sustainable (which includes the need to make a reasonable commercial rate of return) and efficient before the end of a reasonable period and to continue to be efficient at all subsequent times.
- 2.4 In performing our principal duty under the CA 2003, we must also have regard to the interests of consumers and citizens in respect of choice, price, quality of service and value for money. In all cases, we must additionally have regard to the principles that 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.
- 2.5 Where it appears to be relevant, we must also have regard to the considerations listed in section 3(4) of the CA 2003, including (but not limited to) the needs of persons with disabilities, of the elderly and of those on low incomes.
- 2.6 Where possible we must treat our duties under the CA 2003 and PSA 2011 equally, with the latter taking priority if there is a conflict between them. More generally, there will often be tension between certain of the factors that we must consider pursuant to our duties (for example the need for the universal service to be affordable and our obligation to have regard to financial sustainability). Where such tension exists, we must use our regulatory judgement to strike the most appropriate balance between the different factors at play.

#### Regulatory framework

- 2.7 We designated Royal Mail Group Limited ("Royal Mail") as the universal service provider in 2012. As the universal service provider, we imposed upon Royal Mail designated universal service provider ("DUSP") conditions using our powers under section 36 of the PSA 2011.

- 2.8 It is by the DUSP conditions that we require Royal Mail to provide the universal service. The universal service must include at least the services contained in an Order made by us under section 30 of the PSA 2011, setting out a description of the services we consider should be provided as part of the universal postal service, as well as the standards with which those services are to comply. These include, amongst other things, a six day a week letter service and a five day a week parcel service. Consumers must be able to send letters and parcels by a priority (First Class) or standard (Second Class) service and those services must be offered at affordable, uniform prices.
- 2.9 We may also impose DUSP conditions in order to set tariffs to be used for determining the prices of the universal postal service or a part of it. We have used this power to impose the current safeguard caps on Royal Mail. When setting such tariffs, we must seek to ensure that the price of the relevant universal postal service:
- a) is affordable;
  - b) takes account of the costs of providing the service; and
  - c) provides incentives to provide the service efficiently.<sup>2</sup>
- 2.10 In order to impose, modify or revoke a regulatory condition, including the DUSP conditions, we must be satisfied that the imposition, modification or revocation in question:
- 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.<sup>3</sup>
- 2.11 In order to impose, modify or revoke a condition, we must publish a notification setting out our proposal.<sup>4</sup> Such a notification was published at Annex 5 to our June 2023 consultation. We must then consider every representation made to us about the proposal before we publish a final notification setting out the imposed, modified or revoked condition.<sup>5</sup> We consider the representations made to us throughout this statement, and have published at Annex 1 the notification setting out the modifications to DUSP Condition 3 and revocation of DUSP Condition 2 that we have decided to carry out.<sup>6</sup>
- 2.12 Our power to impose, modify or revoke a regulatory condition is also subject to our specific postal duty in section 29(1) of the PSA 2011.
- 2.13 We explain in section 7 how we have met the above legal tests and duties when reaching the decisions set out in this document. The legal and regulatory framework relevant to this review is set out more fully in Annex 4.

## Approach to postal regulation

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- 2.14 While we prescribe the services that must be provided as part of the universal postal service, our overall regulatory framework affords Royal Mail commercial flexibility (in pricing and operational terms) as to how these services are provided. We established this regulatory

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<sup>2</sup> Section 36(5) of the PSA 2011.

<sup>3</sup> Paragraph 1 of schedule 6 to the PSA 2011.

<sup>4</sup> Paragraph 3(3) of schedule 6 to the PSA 2011.

<sup>5</sup> Paragraph 3(5) of schedule 6 to the PSA 2011.

<sup>6</sup> Paragraph 3(1) and (2) of schedule 6 to the PSA 2011.

framework upon assuming our role as the post regulator and have carried out periodic reviews since then, the most recent of which concluded in July 2022 ('the 2022 review').<sup>7</sup>

- 2.15 Our approach ensures that Royal Mail can make its own commercial decisions based on the issues it faces, supporting the provision of a financially sustainable and efficient universal postal service.
- 2.16 This framework is underpinned by a number of safeguards. These include:
- a) our active monitoring regime to understand the changing needs of users, the changing market dynamics and the financial sustainability and efficiency of the universal service, and any risks to these;
  - b) quality of service standards on certain universal services, including delivery targets on First and Second Class mail; and
  - c) to ensure affordability, we undertook in the 2022 review to review the safeguard caps on Second Class letters and parcels up to 2kg – the outcome of that review is set out in this document.
- 2.17 As set out above, one of our duties is to support competition in the postal market as this helps ensure good consumer outcomes. We therefore promote competition by reducing regulation on the universal service provider in those sectors of the postal market facing increasing competition.
- 2.18 Consistent with Ofcom's general regulatory principles, our approach to postal regulation is to intervene in the postal market only when appropriate, for example, where there is a risk that a user need is not being met by the market, or a concern about consumer harm more generally. While we operate with a bias against intervention, we are prepared to intervene promptly and effectively where required.

## Services subject to a safeguard cap

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- 2.19 The safeguard caps were introduced in 2012. Our objectives for these caps were to: seek to ensure a basic universal service is available to all at affordable prices; and ensure that users of postal services, especially vulnerable consumers, are protected from significant price increases. We first decided to impose an upper bound safeguard cap on Second Class standard letters set at 55p for 2012-13. This offered significant flexibility for Royal Mail which at that time priced standard Second Class letters at 36p (2011-12 prices). The cap was to apply for seven years and was subject to annual indexation at CPI. We considered that capping Second Class alone (i.e. not also on First Class) was sufficient to ensure access to an affordable postal service. Royal Mail did not raise prices as high as the maximum for the cap during that period.
- 2.20 We decided in July 2012 to extend the scope of the safeguard caps to create an additional, separate basket cap comprising Second Class large letters and small and medium parcels up to 2kg. We set the level of this basket cap to allow for up to a 53% increase in the overall price of services within the cap. Thereafter, the basket cap increased each year by CPI, in line with the level of annual additional price increase allowed for under the standard letter cap.
- 2.21 Following a review in 2018-19, we decided to raise the level of the Second Class standard letter cap by 5% in real terms, which took the upper limit of the cap from 60p to 65p. This

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<sup>7</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#).

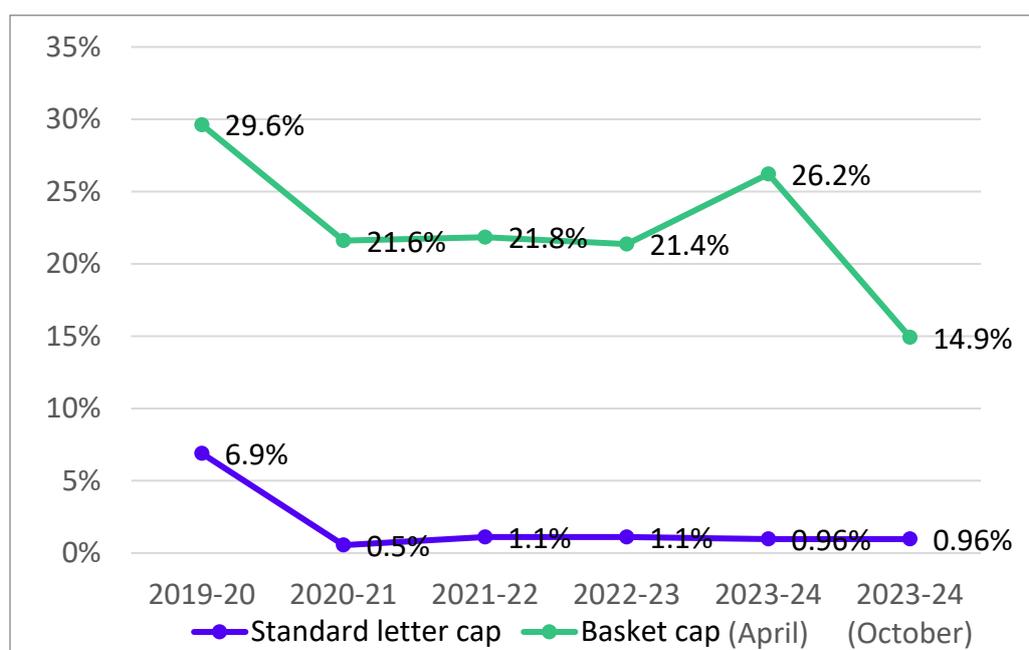
meant that Royal Mail could price Second Class standard letters up to a maximum of 65p from 1 April 2019 to 31 March 2020. The cap has continued to increase by CPI each year on 1 April and this price cap regime is in place until 31 March 2024.

- 2.22 We also decided not to adjust the level of the cap for Second Class large letters and parcels up to 2kg, which has continued to increase each year by CPI on 1 April. Royal Mail had considerable pricing flexibility of approximately 29% under this cap at the time of our statement in January 2019, so we decided not to increase the cap level further.
- 2.23 Consequently, several Royal Mail services are currently subject to a safeguard cap. Second Class standard letters are subject to a single cap, as set out above. The basket cap is imposed on Second Class large letters (of which there are four weight steps) and parcels up to 2kg. Under the current basket cap, the total weighted average price for these large letter and parcel services is allowed to rise by 29.4% from 2018-19 weighted average prices plus the cumulative increase in inflation since 2018-19.
- 2.24 Prices of services within the basket range from £1.55 for the lightest large letter to £5.49 for a medium parcel purchased offline.<sup>8</sup> The caps apply to all stamped services, whether they are purchased online or offline.

## Royal Mail’s pricing behaviour since 2019

- 2.25 Royal Mail has priced Second Class standard letters at the safeguard cap since April 2021. In contrast, it has generally priced Second Class large letters and parcels within the basket cap considerably lower than the cap. In October 2023, Royal Mail applied price increases to large letters, which significantly decreased its headroom within the basket cap, although material headroom remains, as shown in the chart below.

**Figure 1: Percentage headroom under the standard letter cap and basket cap, 2019-20 – 2023-24**



<sup>8</sup> Royal Mail defines small parcels as those with a maximum length of 45cm, maximum width of 35cm and maximum depth of 16cm. Medium parcels have a maximum length of 61cm, maximum width of 46cm and maximum depth of 46cm.

Source: Second Class safeguard cap compliance submissions as part of Royal Mail Regulatory Financial Reporting Information.

2.26 Royal Mail has increased the price of a Second Class standard letter over the past four years, from £0.61 in 2019-20 to £0.75 in 2023-24 (see Figure 2 below).

**Figure 2: Nominal price of Royal Mail Second Class stamped standard letters, 2019-20 – 2023-24**

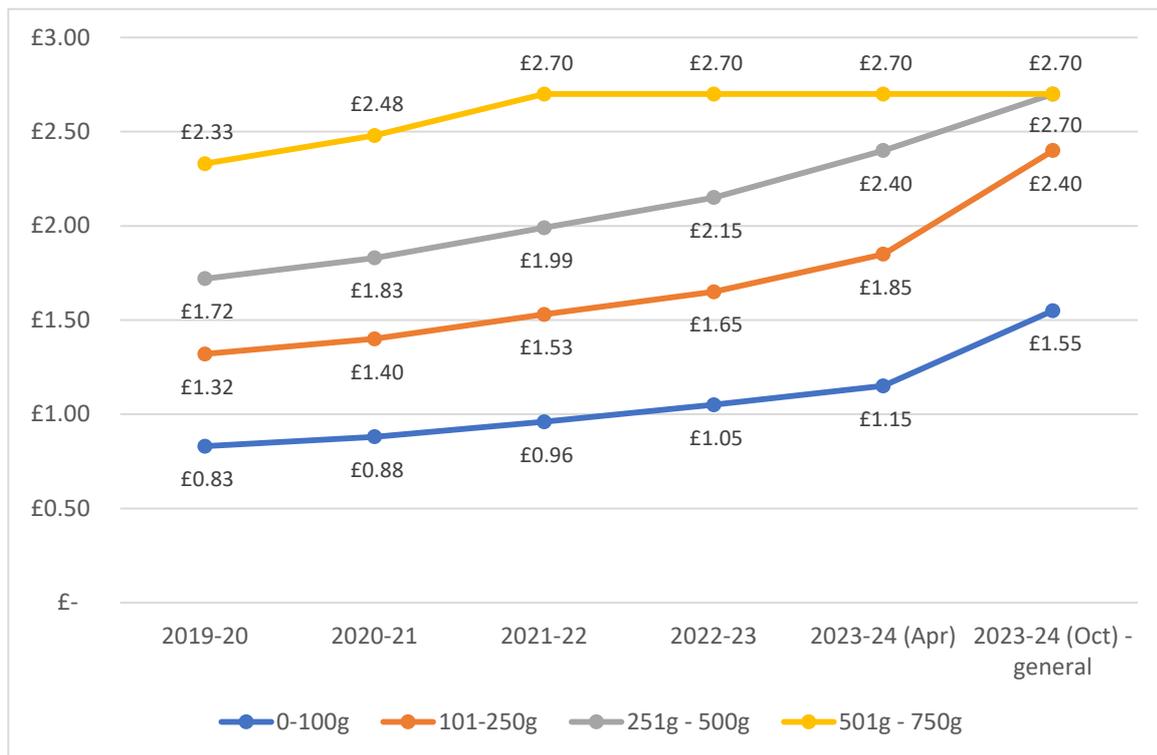


Source: Royal Mail Price Guides

2.27 Nominal prices of Second Class large letters within the basket cap rose steadily throughout the cap period, with the exception of the 501g-750g service which has remained constant since 2021, as shown in Figure 3 below. We note that in 2023 Royal Mail increased prices twice for most large letters - in April and again in October. In real terms, between April 2019 and April 2023, large letter prices increased by around 20%.

2.28 In October 2023, Royal Mail introduced online/offline differentials for large letters for the first time. With the exception of those weighing 0-100g, all Second Class large letters are now cheaper (by £0.10) when purchased online compared to over the counter at a Post Office.

**Figure 3: Nominal prices of Second Class stamped large letters, 2019-20 – 2023-24**

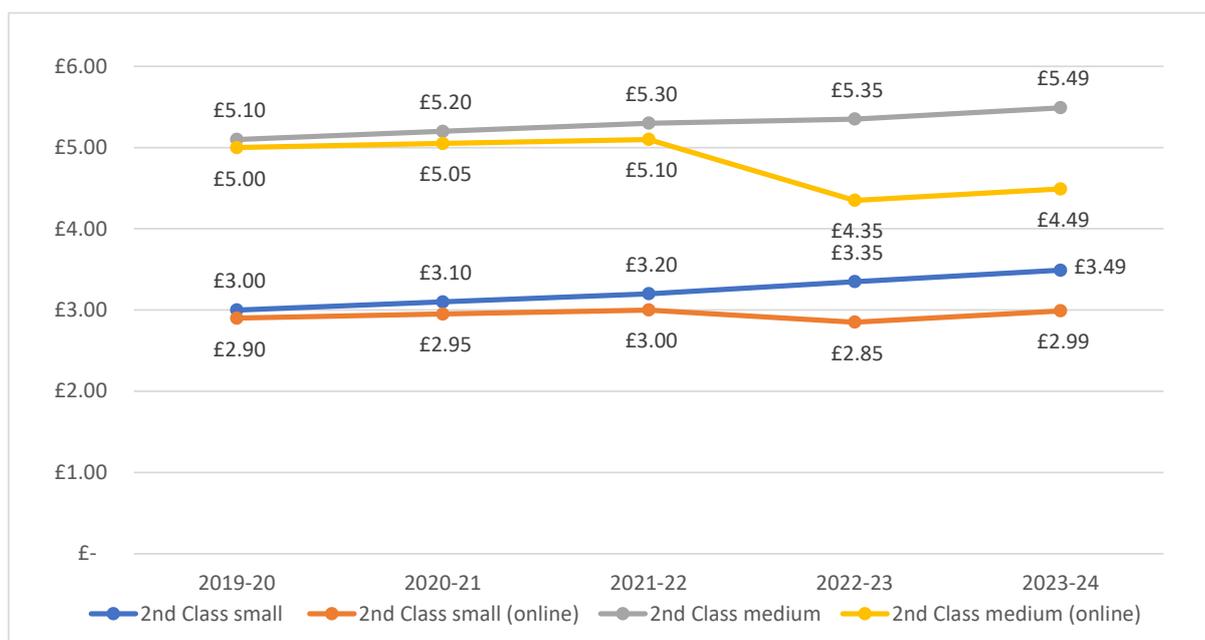


Source: Royal Mail Price Guides

*NB: For October 2023, this chart shows the general (offline) price only. As noted above, as of October 2023, large letters weighing 101-250g, 251-500g, 501-750g are £0.10 cheaper when purchased online.*

2.29 While there have been nominal price increases for Second Class parcels within the basket (see Figure 4) in real terms, prices have decreased since 2019. The price decreases have been greater for online purchases than at a Post Office (by -12% for small and -23% for medium for those purchased online, compared to -1% for small and -8% for medium for those purchased at a Post Office). Royal Mail did not increase the prices of Second Class parcels up to 2kg in October 2023 (unlike large letters).

**Figure 4: Nominal prices of Second Class parcels up to 2kg, 2019-20 – 2023-24**



Source: Royal Mail Price Guides

## Key developments since 2018-19 review

### Covid-19 pandemic

- 2.30 The Covid-19 pandemic had a significant impact on the postal sector. Royal Mail, like other postal operators, had to deal with elevated absence rates as a result of sickness, shielding and self-isolation, and social distancing requirements – all of which had a detrimental effect on its ability to provide services and meet its quality of service targets.
- 2.31 In addition, there was a significant change in the mix of traffic through Royal Mail’s network. The closure of non-essential physical retail locations and self-isolation meant that online shopping boomed, and letter volumes decreased. However, we observe that the impacts of the pandemic have now largely been reversed.

### Royal Mail’s current financial position

- 2.32 On 16 November 2023, International Distributions Services (IDS) published its results for the half year ended 24 September 2023 which included an adjusted operating loss for Royal Mail of £319m, up from an adjusted operating loss of £219m for the same period in 2022.<sup>9</sup> It reported that this performance was in line with expectations against a challenging economic backdrop and cited recent short-term actions taken to stabilise the business, improve its grip on quality and win back customers.
- 2.33 It explained that, having taken these short-term actions, Royal Mail was now driving a modernisation agenda, and was making good progress with the implementation of its Business Recovery, Transformation and Growth Agreement with the CWU. However, it

<sup>9</sup> International Distributions Services plc, November 2023. [Results for the half year ended 24 September 2023](#).

repeated calls for urgent USO reform to create a sustainable USO that better reflects customers' changing needs.

## Royal Mail's Quality of Service

- 2.34 Royal Mail has experienced ongoing issues with its QoS performance throughout 2022-23 which has caused significant disruption to mail users across the UK. In May 2023, Royal Mail published its annual results for 2022-23, which showed it had failed to meet all but one of its eight targets (the percentage of items deemed correctly delivered). Its results were significantly below target for First Class (73.7% against the target of 93%) and Second Class (90.7% against the target of 98.5%).<sup>10</sup> In light of this, we immediately opened an investigation.
- 2.35 We issued our decision in November, finding that even after adjusting Royal Mail's performance to take into account certain exceptional events, Royal Mail still failed to meet its targets by a significant and unexplained margin. We also decided that it was proportionate and appropriate to impose a financial penalty of £5.6 million on Royal Mail for its failure to meet the First Class and Second Class national performance targets. Full details are available in our non-confidential decision document.<sup>11</sup>
- 2.36 Royal Mail's more recent QoS performance continues to be significantly below target. Its Q2 2023-24 results show its First Class performance was only 74.1%.<sup>12</sup> Royal Mail has noted that high levels of staff absence and vacancies were contributing factors to these results.
- 2.37 We are very concerned about Royal Mail's continued under performance and recognise the negative impact that postal delays are having on mail users across the UK. We are continuing to engage closely with Royal Mail to scrutinise its results and understand the actions it is taking to improve its performance. While it has been putting in place several initiatives aimed at addressing the current issues, we are disappointed that it has yet to provide us with a clear plan setting out when those initiatives will lead to improved QoS performance. We will continue to hold Royal Mail to account, including taking further enforcement action next year if appropriate.

## Cost of living

- 2.38 The last two years have seen levels of inflation not seen in the UK since 1990. Although CPI inflation in the UK remains high, it is easing. December 2023's rate of 4% represents a significant drop from the peak of 11.1% in October 2022. Energy prices fell in the year to November 2023, but remain high in historic terms. Prices of food and non-alcoholic beverages rose by 8% in the year to December 2023.<sup>13</sup>
- 2.39 However, even with inflation slowing, prices remain high and increasing and UK households remain under financial strain as a result of the cost of living crisis. The ONS found in October 2023 that more than six in ten adults (63%) are spending less on non-essential items in response to the rising cost of living. However, it also found that, while 49% of people in November 2023 said that their costs of living have increased in the past month, this is lower

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<sup>10</sup> See Ofcom, 2023. [Annual Post Monitoring Report: Interactive data](#) (Royal Mail regulatory compliance).

<sup>11</sup> See Ofcom, 2024. [Investigation into Royal Mail's quality-of-service performance in 2022/23.](#)

<sup>12</sup> Royal Mail, November 2023. [Quality of Service and Complaints Report Quarter 2 2023/24.](#)

<sup>13</sup> Office for National Statistics, [Consumer price inflation tables](#)

than the level of 70% of people holding this view in a similar period in the previous year.<sup>14</sup> This suggests that the pressures on cost-of-living have become somewhat less acute.

## Impact assessment

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### Our consultation position

- 2.40 In our consultation, we set out that, in line with our draft impact assessment guidance,<sup>15</sup> we had considered the impact of our proposals on:
- a) consumers in the UK, in particular vulnerable consumers; and
  - b) Royal Mail.
- 2.41 We further set out that the key components of our impact assessment were therefore in section 5 (assessment of affordability) and section 6 (financial sustainability) of our consultation, as well as our proposals in the round, taking into account the impact both on consumers and Royal Mail, in section 7.

### Stakeholder responses

- 2.42 Royal Mail argued that our impact assessment guidelines do not allow for a determination of whether our proposals are the best way of achieving our intended objectives, and that we had therefore not done this for our proposed changes to the safeguard cap. Specifically, Royal Mail argued that we should consider alternative ways to achieve our intended objectives, and an assessment of the impact of each possible approach. It also suggested that we have ‘significant scope’ to achieve our objectives more effectively, which we understand to mean a targeted discount scheme for vulnerable consumers.<sup>16</sup>
- 2.43 Further, it argued that the proposed safeguard cap is a very blunt way of achieving our objectives as:
- a) only a ‘very small putative’ group of consumers may be negatively affected by an increase in the price of a Second Class stamp, but our consultation did not provide evidence as to the existence of such customers; and
  - b) it places a significant cost on Royal Mail, particularly at a time of significant financial difficulty for the company.<sup>17</sup>
- 2.44 We did not receive any other comments on our impact assessment.

### Our assessment

- 2.45 Impact assessments provide a valuable way of assessing different options for regulation and show why the preferred option was chosen. They form part of best practice policymaking. This is reflected in section 7 of the CA 2003, which means that generally we must carry out impact assessments where our proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in our activities. However,

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<sup>14</sup> Office for National Statistics, [Cost of living latest insights](#), December 2023.

<sup>15</sup> Ofcom, 2023. [Consultation: Impact assessment guidance](#). We have now published the final version of this guidance – see footnote 19.

<sup>16</sup> Royal Mail, [response to consultation](#), paragraphs 28-29.

<sup>17</sup> Royal Mail, [response to consultation](#), paragraph 29.

as a matter of policy, we are committed to carrying out and publishing impact assessments in relation to the vast majority of our policy decisions.

- 2.46 Specifically, pursuant to section 7, an impact assessment must set out how, in our opinion, the performance of our general duties (within the meaning of section 3 of the CA 2003) is secured or furthered by, or in relation to, what we propose.
- 2.47 In March 2023, we consulted on changes to our impact assessment guidance to align it with new legal obligations as well as best practice.<sup>18</sup> The changes included maintaining our bias against intervention while clarifying that the law may require us to intervene, updating how we present our impact assessments to stakeholders, and an increased recognition that qualitative impacts are an important part of assessing some policy decisions. We confirmed this guidance in July and have taken account of it in our assessment of the impact of our proposals.<sup>19</sup>
- 2.48 With respect to Royal Mail's general argument that our impact assessment guidance does not allow for the consideration of whether a different approach would be more appropriate, we consider that to be out of scope of this review. Further, we note that we recently consulted on and subsequently updated our guidance on how we conduct impact assessments. In any case, we disagree with Royal Mail that we did not consider alternative approaches or that we had 'significant scope' to achieve our objectives in a different way.
- 2.49 We understand this 'significant scope' to refer to the implementation of a targeted scheme that would protect consumers with affordability issues. We agree that in theory such a scheme may be able to better achieve our objectives, as it may provide better support to consumers who experience significant affordability issues while also enabling Royal Mail greater commercial freedom, thereby supporting the financial sustainability of the USO.
- 2.50 However, there are a number of practical issues to consider, including the mechanism of the scheme (i.e. how eligible consumers would access the discount), eligibility criteria, and how the scheme would be promoted. We do not consider we are in a position to design such a scheme ourselves without a clear set of options from Royal Mail. Accordingly, we would like to continue engaging with Royal Mail so that we may work through these issues and get a clearer idea of how such a scheme could work in practice, as we noted in the consultation. However, at the time of publication Royal Mail had not provided us with a developed proposal for such a scheme. Accordingly, we could not take account of a potential scheme in the consultation.
- 2.51 Our review therefore focused on whether a safeguard cap or caps continued to be appropriate to ensure affordability. Following our market analysis, we provisionally concluded that a cap on parcel services is no longer appropriate due to increasing competition for these services, but that it remained appropriate for letters. We went on to consider whether alternative options for the letters cap (for example, on the structure or the level) could achieve our objectives, but ultimately decided the approach which would best fulfil them was a basket cap on standard and large letters, set at current prices plus annual increases of CPI.
- 2.52 We also disagree with Royal Mail's assertion that we did not provide evidence that there are consumers that would struggle to afford letters if prices increased beyond CPI. We set this

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<sup>18</sup> Ofcom, 2023. [Consultation: Impact assessment guidance](#).

<sup>19</sup> Ofcom, 2023. [Impact assessment guidance](#).

out in our consultation and consider this again in more detail in section 5 in light of the consultation responses. We further note that research by consumer bodies on affordability is broadly consistent with, and supports, our findings and decisions.

- 2.53 Finally, in this statement we have taken account of the information Royal Mail provided in its consultation response regarding the impact of our proposals on its ability to maintain desired price differentials for business mail, and therefore the likely cost to Royal Mail of our proposals if they were to be implemented in the form they were consulted on. This wider impact has been a key element in our decision to reduce the duration of the cap to three years. We set out more detail on this decision and the evidence underpinning it in sections 6 and 7.

## Equality Impact Assessment

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### Our consultation position

- 2.54 Section 149 of the Equality Act 2010 (the “EA 2010”) imposes a duty on Ofcom, when carrying out our functions, to have due regard to the need to eliminate discrimination, harassment, victimisation, and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation.
- 2.55 The EA 2010 also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share a protected characteristic and those who do not.
- 2.56 Section 75 of the Northern Ireland Act 1998 (the “NIA 1998”) also imposes a duty on Ofcom, when carrying out our functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and regard to the desirability of promoting good relations across a range of categories outlined in the NIA 1998. Ofcom’s Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the NIA 1998.
- 2.57 To help us comply with our duties under the EA 2010 and the NIA 1998, we assess the impact of our proposals on persons sharing protected characteristics and, in particular, whether they may discriminate against such persons or impact on equality of opportunity or good relations.
- 2.58 Our view in the consultation was that the evidence suggested that a retention of a safeguard cap on letters would continue to benefit many of the protected groups. However, there was no specific evidence that these groups have a different set of affordability concerns from consumers in general, given the results of the qualitative research that provided additional context to the quantitative survey.
- 2.59 Therefore, we provisionally concluded that our proposals would not discriminate against any groups with protected characteristics.

### Stakeholder responses

- 2.60 Post Office submitted that we should consider further the impact of our proposals on groups with protected characteristics who are more likely than average to be offline – specifically, older consumers but also disabled consumers, consumers in social grades DE, consumers

who are not working and those in a rural area.<sup>20</sup> With respect to older consumers, Post Office made two arguments:

- a) that we had not sufficiently broken down this group in our assessment (i.e. into those aged 65+ and 75+), and that, if we did so, affordability issues would likely be higher than we provisionally concluded; and
- b) that we should more closely examine affordability of current prices for older consumers (and disabled consumers) who are offline.

- 2.61 Without this analysis, Post Office argued, there is a risk that we have under-reported affordability issues and that affordability (and thus the safeguard cap) is not set at an appropriate level.<sup>21</sup>
- 2.62 Consumer Scotland argued that our assessment should give further consideration to the impact of our proposals on disabled consumers and older consumers. This is because disabled consumers typically face higher costs than those who are not disabled, are more reliant on postal services and are more likely to report postal affordability issues than average. It also said that its research had found that older consumers are more likely than average to consider letters to be expensive.<sup>22</sup> Similarly, CCNI presented evidence that disabled consumers are more likely to experience affordability issues and therefore could be particularly negatively affected by price increases.<sup>23</sup>
- 2.63 Citizens Advice argued that our assessment was ‘light touch’, particularly in regard to the parcels market, and was concerned that our proposal to remove the safeguard cap could lead to those who purchase services offline being charged more, including for those with multiple vulnerabilities (for example, offline consumers living in rural areas or people of colour who are offline), which could particularly affect those with protected characteristics.<sup>24</sup> Consumer Scotland similarly suggested that we should further assess the impact of our proposals on consumers with multiple vulnerabilities.<sup>25</sup>
- 2.64 Citizens Advice was also concerned that our proposal to impose a basket cap on standard and large letters could lead to above-inflation price increases on standard letters, which could particularly affect consumers with protected characteristics, if they are particularly likely to rely on standard letters.<sup>26</sup>
- 2.65 CCNI said that it was not clear how we had conducted our equality impact assessment for consumers in Northern Ireland specifically. It also noted that we should consider four key vulnerable groups in our assessment – those who are disabled, of pensionable age, on low incomes, or who live in rural areas.<sup>27</sup>
- 2.66 Finally, several stakeholders commented on the impact of a targeted discount scheme on those with protected characteristics. Citizens Advice was concerned that such a scheme could discriminate against people with protected characteristics if it meant that the general

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<sup>20</sup> Post Office, [response to consultation](#), pp. 2-3.

<sup>21</sup> Post Office, [response to consultation](#), p. 3.

<sup>22</sup> Consumer Scotland, [response to consultation](#), pp. 2-6.

<sup>23</sup> CCNI, [response to consultation](#), pp. 7-8.

<sup>24</sup> Citizens Advice, [response to consultation](#), paragraphs 1-2.

<sup>25</sup> Consumer Scotland, [response to consultation](#), pp. 5-6.

<sup>26</sup> Citizens Advice, [response to consultation](#), paragraph 53.

<sup>27</sup> CCNI, [response to consultation](#), p. 7.

price increased as a result.<sup>28</sup> Conversely, Royal Mail argued that a targeted discount scheme could provide more focused protection to the most vulnerable consumers.<sup>29</sup>

## Our assessment

### Assessment of affordability for people with protected characteristics

- 2.67 In this section we set out the result of our assessment of the impact of our decisions on equality impact assessment, which is underpinned by the more detailed evidence set out in section 5. We draw on the key points of evidence here to draw our conclusions.
- 2.68 We consider that there are three main groups with protected characteristics who are more likely to struggle to afford postal services: older people (those aged 55+); people in ethnic minority groups; and people with disabilities. While our decisions will not *directly* discriminate against any of these groups (as Royal Mail charges the same price across the UK), we have nevertheless considered whether there is a risk of any of our decisions particularly negatively affecting certain groups with protected characteristics because they already experience affordability issues with postal services or because they are particularly heavy users of postal services.
- 2.69 We carried out our equality impact assessment for the whole of the UK, as Ofcom is the UK regulator for communications and our duties apply to consumers and citizens across the entire UK. In response to CCNI, this necessarily included considering whether our decisions could particularly affect people with protected characteristics in Northern Ireland (as well as in the other UK nations), for example through our consumer research.
- 2.70 We note CCNI's argument that our assessment should consider those on low incomes and those who live in rural areas, and similarly Post Office's arguments about those in the DE social grades and those who are non-working (as such groups are also more likely to be offline). Income, rurality and working status are not themselves protected characteristics and so are not considered in our equality impact assessment specifically. However, when performing our general duty under the Communications Act 2003, we must, where relevant, have regard to the different interests of people living in rural and urban areas.<sup>30</sup> We consider consumers in rural areas and those on a low income to be more vulnerable in relation to the cost of post. We have accordingly set out our assessment of affordability for these groups in section 5 and have taken into account the impact of our proposals on the affordability of post for these groups in reaching our final decision.
- 2.71 Further, we agree with stakeholders that people with certain combinations of vulnerable characteristics (for example, being disabled and on a low income) may be particularly likely to experience postal affordability issues. While it is difficult for us to consider the impact of our proposals on every such group, we have considered the evidence set out in the consultation responses that older consumers are more likely to be offline and that disabled consumers in general have higher costs than non-disabled consumers, and are more likely to be offline. As noted in section 5, offline consumers are more likely to be vulnerable in relation to the cost of post as some alternative methods of communication are not available to them.

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<sup>28</sup> Citizens Advice, [response to consultation](#), paragraph 2.

<sup>29</sup> Royal Mail, [response to consultation](#), p. 28.

<sup>30</sup> Section 3(4)(l) of the Communications Act 2003.

- 2.72 Older people (aged 55+) spend more than average on postal services and therefore may be particularly affected by any increase in the price of these services. However, our quantitative research shows that oldest aged groups are significantly less likely than average to report affordability issues, and this is the case for those aged 65+ and 75+. Similarly, the research conducted by consumer bodies did not identify particular affordability issues for this group. We have not been able to assess this specifically for older consumers who are offline, given the small and therefore unreliable sample sizes reached through our research. Nevertheless, it seems unlikely that this group would disproportionately experience affordability issues given that older consumers in general are much less likely to do so. We have therefore concluded that this group would not be particularly affected by our decision.
- 2.73 However, our research did identify that people with disabilities are more likely to report postal affordability issues than average, which was corroborated by research conducted by consumer bodies. Similarly, as submitted by Consumer Scotland, we note that such consumers typically have higher day-to-day costs than non-disabled consumers and are more likely to use the post to send important documents. While we do not have specific evidence with regard to offline disabled consumers, we consider it reasonable to assume that such consumers are more likely than those who are online to rely on post and therefore to spend more on it.
- 2.74 As noted in the consultation, our Residential Postal Tracker shows that ethnic minorities are more likely than average to report affordability issues. Further evidence submitted by Citizens Advice shows that people of colour are particularly likely to report having sent at least one important document in the post in the past six months.
- 2.75 Our further examination of affordability issues in the qualitative research indicated that concerns about affordability related to the wider economic environment rather than relating specifically to post, although in practice we accept that the former inevitably affects perceptions of the affordability of the latter. While this research did suggest that post prices at current levels did not generally have a significant impact on these households' costs, it highlighted the sensitivity of these groups to price rises and the need to ensure postal prices remain affordable.

### Decision to impose a basket safeguard cap on letters

- 2.76 With regard to Citizens Advice's concern about above-inflation price increases to standard letters occurring within the basket cap and the impact of this on vulnerable consumers, we do not have evidence to suggest that groups with protected characteristics are particularly likely to use, or rely on, standard letters (compared to large letters). Instead, we consider it reasonable to assume that consumers typically use standard and large letters in the same proportion as volumes of each product. This means that consumers' *overall* use of letters (both standard and large) should remain affordable.
- 2.77 In any case, Royal Mail will not be able to introduce significantly above inflation price increases for standard letters, as standard letters make up the large majority of volumes of products in the basket. With regard to large letters, the letters basket cap will benefit consumers by more tightly restricting large letter price increases than currently.<sup>31</sup>
- 2.78 Following Royal Mail's decision to introduce online/offline differentials for large letters, we have made it clear in the design of the basket cap that it applies to the offline price only.

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<sup>31</sup> We discuss the different competitive conditions for large letters and parcels in section 4.

Given online pricing are offered at a discount to offline prices we have no affordability concern with respect to online prices provided offline prices are affordable. Were we to allow online prices to be weighted in the basket, this would offer Royal Mail greater scope to offset decreases in online prices with increases in offline which we consider would not be in the interest of consumers unable to easily access online services.

- 2.79 We acknowledge that disabled consumers and ethnic minorities are more likely to experience affordability issues and that a safeguard cap allowing the price of letters to rise by CPI will no redress this.
- 2.80 However, we consider that we have set the cap at an appropriate level, taking into account both the need to ensure affordability but also to minimise the impact of the cap on the financial sustainability of the universal service. We set out our conclusions on how we have balanced these two factors in section 7.
- 2.81 We disagree with Citizens Advice that a targeted scheme for letters could discriminate against those with protected characteristics. Indeed, and as argued by Royal Mail, we consider that a well-targeted scheme could better protect those with protected characteristics (and other vulnerable consumers) who experience affordability issues than the current cap, especially given our conclusion that even with the current safeguard cap, there remain occasions when some disabled consumers and those in an ethnic minority experience affordability issues. We have set out our view on this in section 7.

### Decision to remove the safeguard cap from parcels

- 2.82 We disagree that our proposal to remove the safeguard cap on parcels could negatively affect those with protected characteristics. Based on the evidence, removing the parcels cap should ensure that prices continue to be affordable for the vast majority of consumers, including those with protected characteristics. This is because of the increasing competitive constraints on Royal Mail's parcel prices, which have been evident for a number of years.
- 2.83 The uniform pricing requirement on Royal Mail, which will remain in place, will ensure that consumers (including those with protected characteristics) who do not or cannot access alternative providers will similarly benefit from this competition. As noted in section 4, the evidence suggests that the constraint applies to both online and offline parcel pricing.

## Welsh language impact assessment

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### Our consultation position

- 2.84 We provisionally concluded that the implementation of our proposed approach would help to ensure that there would be no adverse effects, but instead some likely positive effects, on the use and treatment of the Welsh language.

### Stakeholder responses

- 2.85 No stakeholders commented on our Welsh language impact assessment.

### Our assessment

- 2.86 We considered our proposals on safeguard caps for universal postal services under the Welsh Language Policy Making Standards. The Welsh Language Policy Making Standards require Ofcom to assess (a) opportunities for persons to use the Welsh language, and (b)

treating the Welsh language no less favourably than the English language, when formulating a new policy or reviewing or revising an existing policy, including conducting research to support our policymaking.

- 2.87 Our revisions to the policy on safeguard caps for postal services are aimed at ensuring that post will remain affordable and therefore accessible to all consumers across the UK. In our view, the implementation of our approach will help to ensure that there would be no adverse effects, but instead some likely positive effects, on the use and treatment of the Welsh language.
- 2.88 This is because our policy seeks to ensure that consumers across the UK can continue using post as a form of communication, which is likely to have positive effects on the Welsh speakers who wish to communicate in Welsh through this form.

## Structure of this document

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- 2.89 The remainder of this document is structured as follows:
- Section 3 sets out the review objectives and approach;
  - Section 4 contains an analysis of the market context and constraints on Royal Mail's pricing for the services to which safeguard caps currently apply. This analysis contributes to our decisions on the services on which a safeguard cap is likely to be appropriate.
  - Section 5 sets out our approach to assessing the affordability of postal services, which informs how we seek to meet our duty to ensure the provision of universal postal services at affordable prices. We apply this approach to those services currently subject to safeguard caps and also set out an assessment of whether safeguard caps on any other universal postal services are needed to ensure they are affordable.
  - Section 6 examines the impact of the capped services on the financial sustainability of the universal service, as well as considering Royal Mail's costs and efficiency incentives.
  - Section 7 sets out our decisions on the safeguard caps that will apply from 1 April 2024, and how we consider that our decisions achieve our policy objectives.
- 2.90 Finally, Annex 1 sets out the DUSP condition imposing the safeguard caps we have decided to impose on Royal Mail from 1 April 2024.

# 3. Our review objectives and approach

## Our consultation proposal

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- 3.1 In our consultation we proposed to amend the objectives we used in our 2018-19 review and in our original decision on safeguard caps in 2012. We made these changes to ensure that our objectives continue to be relevant and effective in light of our duties and make clear our approach to determining the scope of the safeguard caps and their level in the current market context.
- 3.2 Our proposed objectives for the review were to:
- Ensure universal services are affordable, particularly for vulnerable consumers;
  - Provide protection to consumers where such protection is unlikely to be provided by competitive markets;
  - Ensure any safeguard cap takes into account the costs of providing the capped service(s); and
  - Minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently.
- 3.3 We also set out that our approach to affordability for small and medium sized enterprises ('SMEs') is that, if postal prices are affordable for residential consumers, then they are likely also to be affordable for SMEs.

## Stakeholder responses

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### Policy objectives

- 3.4 Comments from stakeholders on our proposed objectives generally fell into two categories – those on whether our objectives are in line with our duties (including the hierarchy between the objectives), and those on whether our proposals achieve the stated objectives. We summarise and respond to comments in the former category below, while we summarise and respond to comments in the latter category in the relevant sections of this statement.
- 3.5 Royal Mail argued that the affordability and consumer protection objectives were inappropriately given more weight than our financial sustainability objective. Specifically, it suggested that the phrasing of the financial sustainability objective (in particular, the use of the term 'minimise the impact') did not sufficiently reflect our duty to have regard to the need for the provision of the universal postal service to be financially sustainable.<sup>32</sup> It also argued that the placement of the affordability and consumer protection initiatives above the financial sustainability objective in the consultation suggested the latter was of less importance.<sup>33</sup>

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<sup>32</sup> And efficient before the end of a reasonable period and to continue to be efficient at all subsequent times.

<sup>33</sup> Royal Mail, [response to consultation](#), paragraph 15.

- 3.6 While recognising the tension in our statutory duties, Post Office said that we must prioritise affordability over financial sustainability. Its rationale for this was that affordability is one of the core requirements of the universal service, while our duty in relation to financial sustainability is to ‘have regard’ to the need for the provision of the universal service to be sustainable.<sup>34</sup> Relatedly, CCNI argued that we should reword the financial sustainability objective as the current wording suggests that its primary purpose is to reduce the protection for consumers.<sup>35</sup>
- 3.7 Further, Post Office argued that there was a conflict between our duty to ensure the provision of the universal service at affordable prices and our recognition that postal services may be affordable for some only at a significantly lower price.<sup>36</sup>
- 3.8 Citizens Advice and Consumer Scotland broadly agreed with our objectives, but encouraged us to make the hierarchy between them clearer. Like Post Office, they considered that our focus should be on ensuring the affordability of universal services, particularly for vulnerable consumers, and providing protection to consumers where such protection is unlikely to be provided by competitive markets.<sup>37</sup> CCNI suggested that, in our affordability objective, we explicitly state that we seek to ensure that postal services are affordable for consumers in each nation of the UK.<sup>38</sup>
- 3.9 With regard to the costs and financial sustainability objectives, CCNI said that we should take into account that Royal Mail enjoys significant pricing flexibility as only a small proportion of its services are subject to price caps. It also suggested that we should better balance the need for Royal Mail to have incentives to become more efficient rather than rely on price increases within the objective.<sup>39</sup>
- 3.10 Post Office noted the difficulty of setting a price based on efficiently incurred costs, stating a risk of the cap being set too high given Royal Mail’s acknowledgement that its people costs are above the market norm, or the cap being set too low and Royal Mail being forced to price below cost.<sup>40</sup>

## SMEs

- 3.11 Post Office was the only stakeholder to comment on our approach to assessing affordability for SMEs, specifically in relation to marketplace sellers.<sup>41</sup> It argued that we should consider the effect of our proposals on this group because they post significantly more items than individual consumers, and they usually operate with low margins, which means increases in parcel prices can have a material effect on them.<sup>42</sup>

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<sup>34</sup> Post Office, [response to consultation](#), pp. 6-7.

<sup>35</sup> CCNI, [response to consultation](#), p. 10.

<sup>36</sup> Post Office, [response to consultation](#), p. 8.

<sup>37</sup> Responses to consultation from: [Consumer Scotland](#), p. 6, and [Citizens Advice](#), paragraph 4.

<sup>38</sup> CCNI, [response to consultation](#), p. 9.

<sup>39</sup> CCNI, [response to consultation](#), p. 10.

<sup>40</sup> Post Office, [response to consultation](#), p. 6.

<sup>41</sup> Marketplace sellers are consumers who run an online business selling items through platforms such as eBay, Amazon or Vinted.

<sup>42</sup> Post Office, [response to consultation](#), pp. 5-6.

## Online discounts for USO services

- 3.12 A number of stakeholders (Citizens Advice, Consumer Scotland, CCNI and Post Office) raised concerns around offline and online price differentials for USO services. Citizens Advice argued that this could lead to a '2-tier' USO service where more digitally literate consumers can purchase postage more cheaply than those who are not digitally literate (and also more likely to be vulnerable), while Consumer Scotland expressed a similar concern. CCNI's concern was rooted in the fact that the vast majority of NI consumers report purchasing postage at a Post Office.<sup>43</sup>
- 3.13 Post Office argued that consumers who are offline already experience affordability issues, and that increases in the offline/online differential would worsen these. As a result, it urged us to require Royal Mail to make all universal services available at the same price, regardless of how they are purchased.<sup>44</sup>

## Our assessment

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### Policy objectives

#### Ensure universal services are affordable, particularly for vulnerable consumers

- 3.14 This objective reflects our duty to perform our functions in a way that we consider will secure the provision of a universal postal service, which includes the provision of a number of services (known as 'universal postal services') at affordable prices. When exercising our power to set price caps for any universal services, we must seek to ensure that the prices are affordable.
- 3.15 We have explicitly highlighted the need to ensure affordability for vulnerable consumers, reflecting our duty in section 3(4) of the CA 2003 to have consideration to the needs of vulnerable people (specifically, the needs of people with disabilities, of the elderly and of those on low incomes). In general, we consider that it is in respect of the needs of vulnerable groups that questions of affordability are most acute. We discuss which groups of consumers are more likely to be vulnerable in relation to the cost of post in section 5.
- 3.16 More generally, we consider that, as in our previous review, if a universal service is affordable for vulnerable consumers then it will be affordable for the wider set of postal users (both residential consumers and small and medium businesses ("SMEs")). We set out our rationale for this approach in paragraphs 3.40-3.41 below.
- 3.17 We do not consider that it is necessary (as proposed by CCNI) to explicitly refer to ensuring affordability for all consumers in all nations of the UK in this objective, as Ofcom is the UK regulator for communications and our duties apply to consumers and citizens across the entire UK. It is therefore inherent in referring to "consumers" in this objective that we are seeking to secure positive outcomes for consumers in all nations of the UK.
- 3.18 We disagree with Post Office that our recognition that postal services may be affordable for some only at a significantly lower price is inconsistent with our duty to ensure affordability. We note that there may always be a small subset of consumers who find a certain price

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<sup>43</sup> Responses to consultation from: [Citizens Advice](#), paragraphs 8, 15-16, 38-39; [Consumer Scotland](#), p. 3 and 7; [CCNI](#), p. 27.

<sup>44</sup> Post Office, [response to consultation](#), p. 7.

unaffordable. It follows that the only way to be certain that postal services were affordable for *all* consumers would be through requiring that they were provided free of charge.

- 3.19 However, and as reflected in our other objectives, we must strike an appropriate balance between a number of competing considerations when deciding how best to fulfil our statutory duties. This means that, in addition to ensuring affordability, we must have regard to the financial sustainability of the USO and, specifically when imposing a cap, we must consider the costs to Royal Mail of providing the capped services.
- 3.20 As explained below, this generally means that a cap should not lead to the capped service being provided below efficiently incurred costs. Affordability must therefore be assessed with that in mind and any conclusion we reach must be a balance between these competing factors.

### Provide protection to consumers where such protection is unlikely to be provided by competitive markets

- 3.21 This objective aims to provide a clear and transparent way for stakeholders to understand how we decide which services are more likely to be subject to a safeguard cap. This is because, where Royal Mail's prices are not constrained by competition, it is more likely that it will raise prices to the extent that they become unaffordable. In particular, our approach makes explicit the assumption that effective competition:
- a) protects consumers from the high prices which a monopoly provider might otherwise impose; and
  - b) in general, delivers as affordable a price as the cost of delivery of a service allows.
- 3.22 More generally, it also highlights that price caps are not the only means of ensuring that prices are affordable, and that effective competition can instead ensure this.
- 3.23 However, the objective also acknowledges that the presence of some degree of competition alone is not necessarily sufficient to constrain prices and ensure affordability, and that further protection (e.g. a safeguard cap) may therefore be necessary in some instances.
- 3.24 In developing this objective, we took into account our duty to further the interests of citizens and consumers, where appropriate by promoting competition, and our general approach to regulation to operate with a bias against intervention. This objective also aligns with our regulatory objectives for the postal sector, set in our 2022 Review of Postal Regulation, which include supporting effective competition in postal services for the benefit of consumers.<sup>45</sup>
- 3.25 This objective also ensures a degree of consistency in our previous approach to reviewing the safeguard caps. We have previously considered both the existing and potential demand- and supply-side constraints on Royal Mail's pricing, and have previously chosen to impose a safeguard cap where we consider that the competitive constraints are insufficient to stop Royal Mail from pricing its universal services at an unaffordable level.<sup>46</sup> This is also the approach we took in this review.

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<sup>45</sup> See Ofcom, 2022. [Statement: Review of Postal Regulation](#), paragraph 2.38.

<sup>46</sup> See, for example, Ofcom, 2019. [Statement: Review of the Second Class Safeguard Caps 2019](#), paragraph 3.3.

## Ensure any safeguard cap takes into account the costs of providing the capped service

- 3.26 This objective reflects our duty, when setting price caps, to ensure that they take account of the costs of providing the service. It is also consistent with our duty to act in such ways as we consider will secure the provision of a universal postal service. An important element of this is having regard to the financial sustainability of the universal postal service.
- 3.27 We note that this objective necessarily interacts with our objective of ensuring affordability. Whilst we may impose a safeguard cap to ensure that Royal Mail does not exploit its retail market power such that prices become unaffordable, we consider the requirement that the universal service be affordable does not mean that prices should be set below efficiently-incurred incremental costs, in particular as this could cause market distortion. Consumers have a number of options to choose from for their communications services, of which post is one. If prices are set below Royal Mail's costs, then this could incentivise consumers to choose to send an item by post where they otherwise would have chosen a different, lower-cost method.
- 3.28 Similarly, in a competitive market in equilibrium, prices will reflect costs, such that a fully competitive market should lead to the best possible outcome for consumers. Therefore, having regard to the cost of the provision of the service in setting a safeguard cap means that our intervention can approximate the consumer benefits of a competitive market.<sup>47</sup>
- 3.29 We agree with Post Office that setting a price cap based on efficiently incurred costs is challenging. However, the primary aim of safeguard caps is to protect consumers, rather than (as noted below) to provide efficiency incentives to Royal Mail. This is why this objective refers to 'tak[ing] into account' the costs of providing the capped services.

## Minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently

- 3.30 This objective reflects the fact that we must have regard to the need for the universal service to be financially sustainable (including the need to make a reasonable commercial rate of return) and efficient, when carrying out our general duty to secure the provision of a universal postal service.
- 3.31 It also reflects our duty to ensure that any price cap we set provides Royal Mail with efficiency incentives. While the flexibility to set higher prices might have a positive impact on financial sustainability, they may also reduce the incentive for Royal Mail to operate efficiently by enabling it to charge customers more in order to compensate for costs caused by inefficiencies. This objective therefore acknowledges that we must also take account of this factor when reaching a decision on any regulatory intervention.
- 3.32 As noted above, this objective also recognises the fact that a price cap will reduce Royal Mail's commercial flexibility and could therefore adversely affect the financial sustainability of the universal service. Consequently, we aim to impose safeguard caps only to the extent appropriate to protect consumers and ensure affordability, thereby minimising the impact on the financial sustainability of the universal service. We consider that this objective is

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<sup>47</sup> We have taken a similar position in telecoms – we deregulated the retail telephony market in 2009 once it was clear that the market was effectively competitive, and have regularly withdrawn charge controls from wholesale markets as competition has increased to the point of constraints on charges – see treatment of Wholesale Broadband Markets under Ofcom since 2005.

consistent with the fact that our regulatory framework affords Royal Mail significant pricing freedom, as pointed out by CCNI.

- 3.33 With regard to efficiency, and in response to CCNI, the safeguard caps are not intended in and of themselves to provide efficiency incentives to Royal Mail.<sup>48</sup> Our view is that Royal Mail remains incentivised to pursue efficiency improvements given the wider commercial pressures that it faces, and in light of the shareholder discipline to which it is subject as a privatised company.

### Interaction between the affordability and financial sustainability objectives

- 3.34 There is a degree of inherent tension when fulfilling our role; we must give effect to our statutory duty to carry out our postal functions in a way that we consider will secure a universal postal service, which must include the provision of certain specified services at affordable prices, while having regard to the financial sustainability and efficiency of the service (where financial sustainability includes making a reasonable commercial rate of return).
- 3.35 The tension arises in the context of imposing a safeguard cap when ensuring affordability means capping the prices that Royal Mail can charge at a lower level than it would charge in the absence of regulation. In those circumstances, imposing a safeguard cap in order to secure affordability may negatively affect the revenue supporting the financial sustainability of the universal service, by not allowing Royal Mail to fully exploit its market position in the delivery of letters to raise prices for these services.
- 3.36 However, there are many other factors which impact financial performance other than price caps. The relationship between financial performance and financial sustainability is a complex one and it is not possible to draw a simple correlation between restrictions on pricing of a small number of products within a large portfolio of services and the overall sustainability of that portfolio.
- 3.37 Nevertheless we have sought to acknowledge and reflect the potential tension in our policy objectives, the order of which does not (as argued by Royal Mail) reflect the importance assigned to each of them – rather, they are considered together, and help us consider all of our underlying duties. In section 3 of our consultation, we specifically recognised the difficulty of ensuring that postal services remain affordable in the context of the challenges to the long term financial sustainability of the universal service, and said that we would therefore have to exercise our regulatory judgement in order to reach a decision that strikes the most appropriate balance between the competing considerations at play, none of which take priority.
- 3.38 As such, we disagree with Royal Mail that our policy objectives inappropriately prioritised affordability. Further, for these reasons we disagree with Post Office that affordability must simply take precedence over financial sustainability – rather, as we have explained, there is a balance that must be achieved exercising our regulatory judgement and expertise.
- 3.39 Our view is that this balance will be most appropriately achieved where any regulatory intervention has the lowest possible impact on financial sustainability overall, whilst still achieving the goal of postal services being affordable. This is why we used the phrase “minimising the impact” of any cap on financial sustainability. It acknowledges that capping

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<sup>48</sup> See, for example, Ofcom, 2019. [Statement: Review of the Second Class Safeguard Caps 2019](#), paragraph 6.41.

the price of postal services at such a level that financial sustainability would be disproportionately affected would not be the right outcome if affordability could still be achieved by setting a higher cap. It equally acknowledges that prioritising financial sustainability to the extent that postal services become unaffordable would not be the right outcome either.

## SMEs

- 3.40 We consider that, if postal prices are affordable for residential consumers, then they are likely also to be affordable for small and medium sized enterprises ('SMEs').<sup>49</sup> This is because SMEs, unlike residential consumers, are able to absorb at least some of their postage costs as they can pass them on to customers. We recognise that absorbing increased postage costs is likely to be more difficult for smaller SMEs than larger SMEs, because (for example) smaller SMEs are less able to benefit from economies of scale in negotiation with alternative postal operators. But we consider that small SMEs are effectively, therefore, more closely aligned to consumers. Therefore, the approach we have taken in this review is to focus our analysis in particular on vulnerable residential consumers rather than SMEs.
- 3.41 Further, while we agree with Post Office that marketplace sellers post more items on average than individual consumers,<sup>50</sup> they are, like individuals, able to access a competitive range of alternative parcel providers. In fact, our research shows that, for parcels, SMEs are significantly more likely to use non-USO services and non-Royal Mail providers than residential users.<sup>51</sup> We also note that marketplaces (for example, eBay and Vinted) are increasingly providing a range of postage options from multiple parcel operators.

## Online discounts for USO services

- 3.42 We note concerns raised by Post Office, Citizens Advice, CCNI and Consumer Scotland about the growing differential between online and offline prices for USO services, including their concern that our proposals could lead to this differential increasing. While the practice of online discounts for USO services is not in scope of this review, we have briefly set out our view on it below. We respond to concerns raised by stakeholders about the possibility for our proposals to increase the differential and negatively affect affordability for offline consumers in sections 4 and 7.
- 3.43 Royal Mail has been offering discounts for some of its online USO services since 2016, although has only very recently begun doing so for large letters.<sup>52</sup> We set out in our 2022 Review of Postal Regulation statement that we do not consider that offering discounts for USO services purchased online raises enforcement concerns. We also recognised that Royal Mail's costs are likely to be higher for services sold through the Post Office compared to

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<sup>49</sup> This approach is in line with that taken in our previous review of safeguard caps. See Ofcom, 2019. Statement: [Review of the Second Class Safeguard Caps 2019](#), paragraph 4.63.

<sup>50</sup> See, for example, Residential Postal Tracker 2022-23, QG1. Marketplace sellers report having sent, on average, 3.4 parcels in the past month, compared to 0.9 by non-marketplace sellers.

<sup>51</sup> See, for example, Residential Postal Tracker 2022-23, QJ1. Two thirds of marketplace sellers (66%) report having used a non-Royal Mail provider in the past 12 months to send a parcel, compared to a third of non-marketplace sellers (33%).

<sup>52</sup> As of October 2023.

those sold online, as Royal Mail is charged commission fees by the Post Office.<sup>53</sup> This continues to be our view.

- 3.44 There are also consumer benefits to online discounts for USO services. The vast majority of British adults (95%) use the internet and can therefore take advantage of the lower prices if they purchase postage online.<sup>54</sup> We note that Royal Mail has, since August 2022, offered home collection at no extra cost, including for those who cannot print their postage labels at home, to those who purchase online postage.<sup>55</sup>
- 3.45 However, we note that consumers who do not or cannot access the internet are not able to benefit from lower online prices for USO services, and, as noted by our own research and several stakeholders in their responses to the consultation, such consumers are more likely to be vulnerable (for example, older or on a low income).<sup>56</sup> As offline consumers are more likely to be vulnerable, we would be concerned if Royal Mail were able to use its pricing freedom to increase the offline prices beyond affordable levels. However, we do not in principle have a concern about online prices being lower than offline prices, for the reasons set out above.
- 3.46 Therefore, we have considered whether, if the safeguard cap on parcels is lifted, Royal Mail will have either the incentive or ability to significantly raise offline prices. We set out in more detail in sections 4 and 7 our view that there is sufficient (and increasing) competition for parcels sold offline as well as online, and that this, alongside Royal Mail's national pricing obligations, should protect consumers who cannot access online services.
- 3.47 As Royal Mail introduced online/offline differentials for large letters for the first time in October 2023, we have also considered whether the letters basket cap would enable Royal Mail to significantly raise offline prices to the extent that they become unaffordable, given competition for these services is less intense than for parcels. We set out this evidence and our approach in sections 4 and 7.

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<sup>53</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#), paragraphs 5.247-5.250.

<sup>54</sup> Ofcom, 2023. [Technology Tracker 2023](#), Table 66. We note that not all adults who use the internet may feel confident doing so or be able to perform a wide range of tasks.

<sup>55</sup> See Royal Mail, [Parcel Collect](#). [accessed 04/01/2024]

<sup>56</sup> For example – 16% of adults aged 65+ and 13% of those in social grades DE do not use the internet (Technology Tracker 2023, Table 66).

## 4. Market analysis

- 4.1 This section sets out our final assessment of the market context and constraints on Royal Mail's pricing for the services to which safeguard caps currently apply, specifically Second Class standard letters, large letters and parcels weighing up to 2kg. We particularly consider the extent to which the market context and competitive constraints have changed since our 2019 review. In reaching our conclusions we take account of the views of respondents to our consultation.
- 4.2 We note that, in exercising our powers under section 36 of the PSA 2011 to impose or modify the safeguard caps under the DUSP conditions, we are not required to carry out a market analysis or to assess market power in accordance with the principles of competition law. We have, however, undertaken an assessment of market conditions as this enables us to identify whether or not a service is subject to market conditions which might sufficiently constrain pricing such that a safeguard cap is not required to ensure affordability.
- 4.3 More specifically, our approach consists of investigating whether Royal Mail's prices for Second Class standard letters, large letters and small and medium parcels weighing up to 2kg, are currently sufficiently constrained by competitive alternatives, such that a cap would be unnecessary. As part of our market assessment, we consider demand side constraints i.e., how consumers would respond to price increases (e.g., switching to alternative products or modes of communication) as well as supply side constraints i.e., how alternative operators would respond.
- 4.4 We first consider standard letters, followed by large letters, and then parcels up to 2kg.<sup>57</sup> For each of these services we assess the demand- and supply-side constraints on Royal Mail's pricing. Our conclusions are that:
- a) Royal Mail retains a near monopoly in standard and large letter services and has very limited competitive constraints on its pricing; and
  - b) Royal Mail parcel services are delivered within a competitive environment that constrains its freedom to increase prices profitably above the competitive level both in online sales and in person (i.e. at the Post Office).

### Standard letters

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#### Our consultation position

- 4.5 In our consultation, we stated that Royal Mail remains a near-monopolist in the provision of single piece standard letters.<sup>58</sup> Moreover, although we acknowledged that the risk of accelerating e-substitution may have caused Royal Mail to be cautious in implementing larger price increases, we considered that e-substitution does not exert a meaningful constraint on Royal Mail's ability to profitably raise prices for single piece Second Class stamped letters. In addition, we stated that, according to the evidence we reviewed, the

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<sup>57</sup> Unless otherwise stated, throughout this consultation we use the terms standard letters, large letters and parcels to refer to USO services purchased using stamps.

<sup>58</sup> Royal Mail defines standard letters as letters which do not exceed 24.5cm in length, 16.5cm in width, 0.5cm in thickness and 100g in weight.

constraint exerted by alternative services is not meaningful as these services either do not present appropriate alternatives for the majority of consumers (e.g., metered mail) or are not constrained by alternatives that do not involve Royal Mail at retail or wholesale levels (e.g., First Class stamped), or both.

- 4.6 We therefore provisionally concluded that we cannot rely on competition alone to protect consumers from significant price increases in Second Class stamps for standard letters and, as a result, a cap is still required as a means to ensure that prices remain affordable.

## Stakeholder responses

- 4.7 In general, consumer bodies and other stakeholders agreed with our position that competitive constraints were insufficient to prevent Royal Mail from raising prices for standard letters.<sup>59</sup>
- 4.8 Royal Mail disagreed with our market analysis and argued that the letters market is significantly more competitive than we suggested in the consultation. More specifically, it submitted that, for standard letters, significant e-substitution and the risk of price increases triggering 'tipping points' towards greater e-substitution poses a material constraint that Royal Mail carefully considers when setting prices, as demonstrated in its internal pricing documents.<sup>60</sup>

## Our assessment

### Context

- 4.9 Royal Mail provides a range of USO letter services (e.g., First Class, Second Class, Redirections and Special Delivery Guaranteed). Customers can pay for universal postal services in two main ways: stamp and meter.<sup>61</sup> We focus our assessment on stamped letters that consumers or SMEs send via post boxes and Post Offices (e.g., birthday cards or invoices), which are collected and delivered by Royal Mail. Stamped letters accounted for around half ([X]%) of all standard letter volumes in 2022-23.<sup>62</sup> Paying by meter (e.g., via a franking machine) allows customers to access cheaper prices but is usually suitable only for relatively high-volume users (e.g., businesses) as they require an initial investment.<sup>63</sup> As noted in paragraph 2.24, Second Class standard letters purchased using a stamp are subject to the safeguard cap.<sup>64</sup>
- 4.10 Overall, letter volumes have been in decline for several years. This includes stamped letter volumes, which have been in decline since our last review of the safeguard caps. Figure 5 summarises how Royal Mail's end-to-end letter volumes have evolved since our last review.<sup>65</sup>

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<sup>59</sup> Responses to consultation from: [Citizens Advice](#), paragraph 5; [CCNJ](#), pp. 11-12; [Post Office](#), p. 7.

<sup>60</sup> Royal Mail, [response to consultation](#), p. 28.

<sup>61</sup> Some universal postal services can also be purchased via an account.

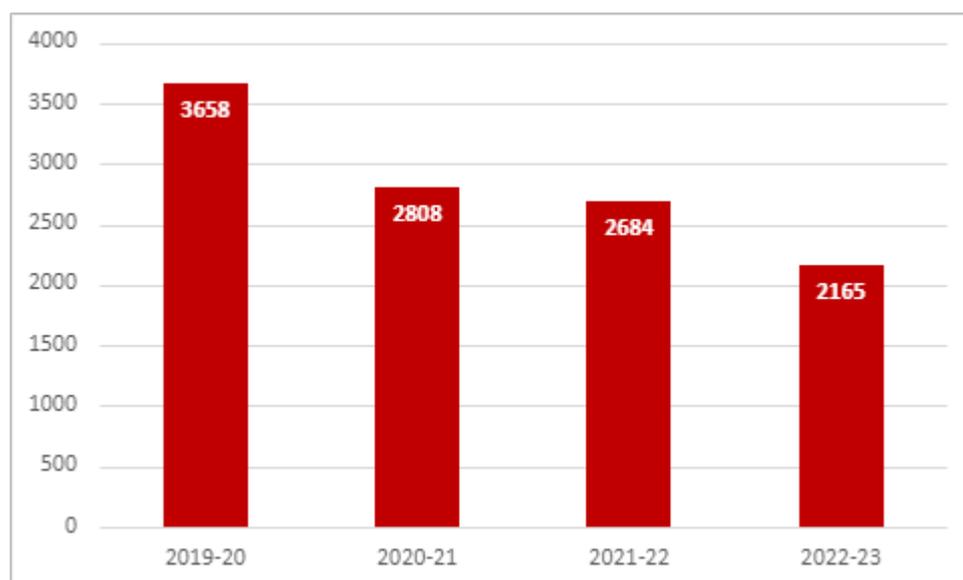
<sup>62</sup> Royal Mail Regulatory Financial Reporting Information.

<sup>63</sup> For meter customers an investment in a franking machine is required whereas on account customers have to incur the costs of setting up a business account with Royal Mail.

<sup>64</sup> We expect that the stamp price cap will act as an indirect cap on discounted services like metered mail and account.

<sup>65</sup> End-to-end letter volumes declined by 27% between 2019-20 and 2021-22. Total addressed letter volumes i.e., end-to-end and access volumes, declined by 23% over the same period.

**Figure 5: Royal Mail’s end-to-end letter volumes by financial year, millions, 2019-20 – 2022-23**



Source: Ofcom/Royal Mail data. Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excluding access. Figures exclude international.

4.11 The decline in letter volumes largely reflects the replacement of communications previously sent by mail with electronic alternatives (i.e., e-substitution). This is a structural change in consumer behaviour that has occurred as technology has enabled alternative means of communicating. We expect this trend to continue.<sup>66</sup>

### Demand-side constraints

4.12 A consumer or SME considering sending a letter of standard dimensions using a Second Class stamp has, in theory, the following mail or non-mail alternatives:

- a) sending the item using a different Royal Mail service (e.g., First Class stamp, signed for, tracked, or Second Class meter if sending sufficient volumes or Royal Mail or third party access provider etc);
- b) sending by courier/parcel delivery company/local end-to-end provider; and/or
- c) not sending the item by mail, instead sending it using an alternative electronic form of communication.

### Sending the item using a different Royal Mail service

4.13 As of October 2023, the price for a standard letter Second Class stamp is £0.75, which is the cheapest mail option available. For example, the price for a First Class stamp is £1.25, and the price of the Second Class Signed For service is £2.25. The constraint exerted by these and other Royal Mail services is therefore likely to be weak as, in most circumstances, consumers would be unlikely to respond to a price increase in Second Class stamps by switching to a more expensive alternative.

4.14 The other Royal Mail letter delivery services available provide additional quality attributes relative to a Second Class delivery service, including being delivered faster or with more

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<sup>66</sup> For example, we note the finding in the 2022 Residential Postal Tracker that the proportion of residential participants saying that they are sending less than two years ago was higher than the proportion reporting that they are sending more, for all types of mail tested (see paragraph 5.20). This trend has been ongoing for some years (see previous [Annual Post Monitoring Reports](#), section 4).

information about when a service is delivered or assurance that it has been delivered, which is reflected in their higher prices. However, if a user would have been content with the Second Class service that does not offer these additional attributes, then the price differential to these other services means that they are less likely to provide attractive alternatives.

- 4.15 Moreover, given that Royal Mail's other letter delivery services are not constrained by alternatives not involving Royal Mail (i.e., Royal Mail is also the only provider of these services),<sup>67</sup> they are unlikely to exert an effective competitive constraint on Royal Mail's Second Class stamp price.
- 4.16 Metered Second Class letters are cheaper than stamped Second Class letters. However, as set out earlier, alternative payment methods would only be a viable alternative for relatively high volume users due to the initial investment required. In addition, they are only offered by Royal Mail such that the prices of these alternative payment methods are not effectively constrained by competition.<sup>68</sup> Hence, alternative payment methods are also unlikely to exert a meaningful competitive constraint on Second Class standard letter stamp prices.

#### Sending the item by courier, parcel delivery company or local end-to-end provider

- 4.17 Royal Mail is currently the only national scale provider of end-to-end delivery of single piece standard letters. Though local partnerships may offer comparable services for some consumers in some geographic areas, these are unlikely to exert a meaningful competitive constraint on Royal Mail given their limited scale.
- 4.18 A consumer may also consider using a courier or a parcel delivery company for sending a standard letter. However, given the significantly higher cost of such services they would likely only present a viable alternative in certain circumstances. The constraint exerted by these services is therefore likely to be weak as consumers would in general be unlikely to respond to a price increase in Second Class stamps by switching to a significantly more expensive alternative.

#### E-substitution

- 4.19 E-substitution refers to the replacement of communications previously sent by mail with electronic alternatives (e.g. emails or electronic file transfers). It is a structural change in consumer behaviour that has occurred as technology has enabled alternative means of communicating. As we concluded in our previous review, e-substitution is one of the factors responsible for the observed decline in single piece standard letter volumes, including Second Class stamps.
- 4.20 E-substitution could act as a constraint on Royal Mail's pricing behaviour if higher stamp prices made post a less attractive option and triggered further e-substitution, such that Royal Mail would have to keep prices low (or even reduce them) in order to prevent further losses to e-substitution. However, we consider that, to a large extent, the e-substitution trend is not driven by changes in the price of letters but rather reflects changes in consumer preferences in response to changes in communications technology and the willingness and capability of individuals and businesses to adopt electronic communications methods.

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<sup>67</sup> Except in very limited cases of smaller scale end-to-end operators delivering in specific geographic areas.

<sup>68</sup> For higher volume users, Royal Mail's meter services may face some competition from operators using access services. However, this indirect constraint is not likely to be strong as only a small subset of customers would send sufficient volumes of mail to make them attractive to a competing access provider.

- 4.21 Once in place, electronic alternatives have a substantially lower cost per item to users than post.<sup>69</sup> Further moderate price increases in post would therefore be unlikely to trigger substantial additional switching for those customers that have electronic alternatives in place, as there is already a significant differential between post and electronic alternatives. As only 7% of UK adults do not have home internet access, this is likely to be the case for the majority of consumers.<sup>70</sup>
- 4.22 This is further substantiated by the fact that, despite Royal Mail’s internal documents on its pricing decisions in relation to business mail demonstrating a consideration that larger price increases may have a greater risk of triggering extra e-substitution, relatively moderate price increases are seen as profitable.<sup>71</sup> We therefore consider that the impact of relatively small stamp price increases in triggering material e-substitution is relatively contained.
- 4.23 In addition, there may be several factors that affect the likelihood of e-substitution for certain customers or mail types. For example:
- a) Many users have a revealed preference for using physical post over electronic communications for those items they continue to send via post, despite the substantial differences in the relative per unit costs of each. This may go beyond preference in the case of a user with a physical or other disability, which impacts on the use of electronic services.
  - b) A lack of access to broadband or issues with respect to digital literacy could be a barrier to some consumers or SMEs using electronic alternatives (though this is relevant for a very small and diminishing proportion of customers).<sup>72</sup>
  - c) Additionally, it is likely that there will remain a proportion of letters for which digital alternatives are not a good alternative (e.g. due to Government and regulatory requirements for certain types of paper correspondence). We also note that Royal Mail has estimated that e-substitution rates are higher for transactional and advertising mail than for social mail,<sup>73</sup> suggesting that e-substitution is more likely for certain letter types.

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<sup>69</sup> Switching to a digital alternative may have upfront costs for some consumers – for example buying a smart phone or putting in place an electronic customer communications platform (such as a business investing in new systems). However, for consumers who already have the means of using an electronic alternative, the incremental cost is very low and would be substantially cheaper than using postal services.

<sup>70</sup> [Technology Tracker 2023](#), QE1. Relatedly, Table 66 of the Technology Tracker shows that only 5% of consumers never use the internet (either at home or elsewhere). In response to our consultation, Citizens Advice submitted that the proportion of digitally excluded population is significantly higher as even people with access to the internet may lack the digital skills required to access electronic alternatives. Citizens Advice supported their argument by citing a report by the House of Lords Digital Committee that found that 10.2 million UK adults can’t complete a set of 8 basic digital tasks. We note that for these people online alternatives to letters are not an option and hence for this subgroup the threat of substituting letters with electronic forms of communication is absent. Nonetheless, there is no evidence to indicate that these citizens would respond to material price rises by Royal Mail by substituting strongly away from Second Class letter products. Therefore, the threat of reaching a tipping point with respect to these citizens appears unlikely to place a significant constraint on Royal Mail’s prices.

<sup>71</sup> See, for example documents cited in paragraph 4.28.

<sup>72</sup> In its consultation response, Citizens Advice disagreed that e-literacy is an issue for a ‘diminishing’ number of people and argued that low e-literacy will remain a problem throughout the proposed cap period. We agree that low e-literacy will continue to constrain certain consumers from accessing online alternatives, which is consistent with our view that e-substitution does not exert a meaningful constraint.

<sup>73</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [X].

4.24 Based on the above, we disagree with Royal Mail’s position that prices for standard letters are significantly constrained by e-substitution and the risk of triggering ‘tipping points’. There is limited evidence that e-substitution represents a meaningful constraint on Royal Mail’s pricing absent very significant price increases.

### Price sensitivity

4.25 To the extent that consumers are so sensitive to price increases that it would be unprofitable for Royal Mail to increase its Second Class stamp price, this could act as a constraint on Royal Mail’s pricing behaviour. We have therefore considered the available evidence on whether consumers would respond to stamp price increases by materially reducing their use of Second Class letters, such as to make the price increase unprofitable. Consumers may respond to the price increase by switching to a different service, by substituting to electronic communications, or may alternatively respond by choosing not to send any communication.

4.26 We have primarily considered Royal Mail’s own estimates of price sensitivity (i.e., the price elasticity of demand).<sup>74</sup> Royal Mail’s own price elasticity estimates suggest that social and transactional mail are price inelastic, meaning that, for example, a 5% increase in price would reduce this source of demand for mail by less than 5%, which suggests that such a price increase would increase revenues and is likely to be profitable.<sup>75 76</sup>

4.27 This suggests that Royal Mail’s prices are not constrained due to consumers’ price sensitivity. However, these estimates do not specifically assess Second Class mail. They are also based on data from 2019, and Second Class stamp prices have increased since then, while letter volumes have fallen further. Therefore, they may not accurately indicate current pricing constraints on Royal Mail’s Second Class stamp prices.

4.28 Nevertheless, the fact that Royal Mail has increased its Second Class standard letter prices over time (prices have increased in nominal terms by 23% since 2019) indicates that these price increases have been profitable. Indeed, according to Royal Mail’s internal documents, price increases for standard letters are generally expected to be profitable. For example:

- a) [REDACTED].
- b) [REDACTED].<sup>77</sup>

### Supply-side constraints

4.29 Given declining volumes and structural changes in consumer behaviour with respect to sending letters, we consider it unlikely that there will be another end-to-end entrant of sufficient scale and scope to provide a significant competitive constraint to Royal Mail in the foreseeable future. Following Whistl’s exit in 2015, there has not been any material entry to end-to-end delivery of standard letters at a national scale.

## Conclusion on standard letters

4.30 We have concluded that Royal Mail remains a monopolist in the provision of end-to-end services for single piece standard letters. It continues to be our view that this will not change

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<sup>74</sup> This is defined as the ratio of the percentage change in volume to a percentage change in price.

<sup>75</sup> [REDACTED].

<sup>76</sup> [REDACTED].

<sup>77</sup> Royal Mail response dated 23 January 2023 to s.55 Notice, [REDACTED].

in the foreseeable future as there is no evidence that there would be another end-to-end entrant of sufficient scale and scope to provide a competitive constraint to Royal Mail.

- 4.31 Moreover, we remain of the view that Royal Mail continues to face limited competitive constraints on its pricing of standard letters as the constraints posed by alternative services as well as e-substitution are not meaningful in this context.
- 4.32 We therefore continue to consider that we cannot rely on competition alone to protect consumers from significant price increases in Second Class stamps for standard letters, such that there is a risk that prices could become unaffordable.

## Large letters

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### Our consultation position

- 4.33 In our consultation, we stated that Royal Mail remains a near-monopolist in the provision of end-to-end services for single piece large letters and that despite some evidence of nascent competition, Royal Mail's pricing of stamped Second Class large letters continues to be unconstrained by current competitive forces or the threat of future entry and expansion.

### Stakeholder responses

- 4.34 Overall, consumer bodies and other stakeholders (apart from Royal Mail) agreed with our position that Royal Mail faces limited competitive constraints on its ability to profitably raise prices for Second Class, single piece large letters. More specifically, in response to our consultation:
- a) Post Office supported our finding that there are no obvious or effective competitive constraints on Royal Mail's Second Class large letter pricing.<sup>78</sup>
  - b) The Greeting Card Association (GCA) supported Ofcom's view that Royal Mail maintains a monopoly in the large letters market and expressed concerns over the recent significant price increases.<sup>79</sup>
  - c) Citizens Advice stated that Royal Mail holds significant market power, especially in the lower weight steps for which consumers do not have any alternatives and rely, almost entirely, on Royal Mail. It argued that the fact that the October 2023 large letter price changes were concentrated at the lowest weight steps demonstrates Royal Mail's significant market power over these services. Moreover, Citizens Advice expressed concerns over the online/offline price differential (introduced in October 2023 for the heaviest large letters) and the implications for digitally excluded consumers who, according to estimates by the Lords Communications and Digital Committee, will amount to around 5 million people by 2030.<sup>80</sup>
- 4.35 Royal Mail submitted that our assessment underestimates the extent of competition in the large letter segment of the market, where many of the letters are used for "fulfilment", i.e., to fulfil online orders<sup>81</sup> for products with weight and dimensions allowing the sender to use

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<sup>78</sup> Post Office, [response to consultation](#), p. 7.

<sup>79</sup> GCA, [response to consultation](#), p. 5.

<sup>80</sup> Citizens Advice, [response to consultation](#), paragraph 5, and paragraphs 11-12 of addendum to response.

<sup>81</sup> For example, orders from marketplace sellers.

a large letter rather than a small parcel.<sup>82</sup> More specifically, Royal Mail argued that large letters used for fulfilment:

- a) face similar demand characteristics and levels of competition as small parcels;
- b) tend to be thicker than paper-based large letters (e.g. >10mm thick) and are not typically sorted through Royal Mail’s large letter sorting machines to ensure efficient throughput; and
- c) are treated differently by end-customers, who may be more inclined to request tracking.<sup>83</sup>

## Our assessment

### Context

- 4.36 The term ‘large letter’ refers to Royal Mail letter services weighing no more than 750g and with maximum dimensions not exceeding 35.3cm in length, 25cm in width, and 2.5cm in thickness. As well as being used to deliver larger paper items, large letters are also used for sending other lightweight, flat items (e.g. books).
- 4.37 Services within the large letter sector mirror those set out above for standard letters, i.e., there are stamped (First and Second Class), meter and online variants. Large letters accounted for a relatively small proportion (around  $\frac{1}{10}$ ) of total letter volumes in 2022-23.<sup>84</sup>
- 4.38 Among large letter products, only Second Class stamped large letters are currently subject to the safeguard cap. However, Second Class large letters are currently part of a basket cap along with Second Class small parcels up to 2kg, unlike Second Class stamped standard letters (which are subject to a cap that applies only to them).
- 4.39 The prices of large letter services vary by weight step, as shown in Table 1.

**Table 1: Prices for Second Class large letters by weight step, 2023-24**

Weight	Price (£) – Post Office and online			
		First Class (standard)	Second Class (standard)	Second Class (Signed For)
0-100g	Post Office and online	£1.95 (+£0.35)	£1.55 (+£0.40)	£3.05 (+£0.40)
	101-250g	£2.70 (+£0.45)	£2.40 (£0.55)	£3.90 (£0.55)
	Online	£2.60 (+£0.35)	(£2.30) (£0.45)	(£3.80) (£0.45)

<sup>82</sup> Royal Mail, [response to consultation](#), paragraphs 36-38. Royal Mail also argued that the definition of large letters is outdated, reiterating points previously submitted in response to the 2022 Review of Postal Regulation. We note however that any points raised in relation to the definition for large letters are outside the scope of this review.

<sup>83</sup> Royal Mail, [response to consultation](#), paragraphs 36-38.

<sup>84</sup> Total standard and large letter volumes (stamped and meter). Royal Mail Regulatory Financial Reporting Information.

Weight	Price (£) – Post Office and online			
		First Class (standard)	Second Class (standard)	Second Class (Signed For)
251-500g	Post Office	£3.30 (+£0.35)	£2.70 (+£0.30)	£4.20 (+£0.30)
	Online	£3.20 (+£0.25)	£2.60 (+£0.20)	£4.10 (+£0.20)
501-750g	Post Office	£3.30 (+£0.00)	£2.70 (+£0.00)	£4.20 (£0.00)
	Online	£3.20 (-£0.10)*	£2.60 (-£0.10)*	£4.10 (-£0.10)

Source: Royal Mail online and Post Office Price Guides, effective from 2 October 2023. Change between April 2023 and October 2023 prices are in parentheses.

\*Price change is between April 2023 Post Office price and October 2023 online price (as Royal Mail did not previously differentiate between Post Office and online prices)

- 4.40 We note that Royal Mail’s prices for large letters have increased since we published our consultation across all weight steps up to and including 500g for Second Class postage (standard and signed), as well as for First Class. In addition, Royal Mail has introduced a £0.10 differential between Post Office and online prices for large letters weighing over 100g.
- 4.41 Royal Mail submitted that it increased Second Class large letter prices by c.30% in October 2023, a higher increase than usual (it has typically raised large letter prices by c.10% in the past couple of years). It argued that it had been compelled to do so in response to our consultation proposal “to strip away the existing headroom” above CPI on large letters.
- 4.42 Royal Mail remains a near-monopolist in Second Class stamped large letters, with an estimated volume share of over 90% ([X]%) in end-to-end delivery (in 2022-23). Since 2019-20, large letter volumes have been relatively volatile. They peaked in 2020-2021, likely caused by the increase in online commerce during the pandemic but are now lower than in 2019-20.<sup>85</sup>
- 4.43 Volumes of large letters are significantly higher for the lower weight steps (up to 250g) than the higher weight steps ([X]).<sup>86</sup>

### Demand-side constraints

- 4.44 A consumer or business considering sending a Second Class large letter using a stamp has, in theory, the following main alternative options:
- sending the item using a different Royal Mail service (e.g., First Class stamp, signed for, tracked, or Second Class meter/on account if sufficient volumes);
  - reformatting the item so that it can be sent as a standard letter;
  - sending by courier / alternative parcel operator; and/or

<sup>85</sup> Large letters are used to send documents as well as physical services that fit the specified dimensions and weight limits.

<sup>86</sup> Across both First and Second Class. Royal Mail Regulatory Financial Reporting Information.

- not sending the item by mail, for example instead sending it by an alternative electronic form of communication.

### Sending the item using a different Royal Mail service

4.45 As for standard letters, the First Class stamp, “signed for” and tracking alternatives are more expensive for all weight steps (see above) and are thus likely to exert a weak constraint on Second Class stamped prices for large letters. Alternative Royal Mail payment methods for Second Class large letters (such as metered mail) are only suitable for customers with higher volume mail needs. In any case, and as for standard letters, all these alternative services are provided by Royal Mail, rather than other postal operators. They would therefore not be expected to place an effective competitive constraint on Royal Mail’s Second Class stamped large letter pricing.

### Reformatting the item

4.46 Consumers sending a large letter-sized item may be able to reformat the item so that it could be sent as a cheaper standard letter. Standard letter prices may therefore, to some extent, constrain the prices for large letters. It should be noted, however, that this lower cost alternative is only a suitable option for some items sent by large letter (and would not be suitable for, say, A4 official or legal documents which should not be folded). Moreover, this option would only be an alternative for documents or objects not exceeding 100g in weight (i.e. the maximum weight of a standard letter). We accordingly consider that reformatting presents an alternative on very limited occasions.

4.47 As of October 2023, the cost of a Second Class stamp for a large letter weighing up to and including 100g is more than twice that of a Second Class stamp for a standard letter. Large letter volumes have shown some increase during this time despite a widening price differential (although, as noted above, are now lower than in 2019-20), such that people sending large letters appear to prefer that service even though it has become proportionately more expensive than a standard letter. We would therefore expect that further moderate widening of the price differential between these service sets is unlikely to trigger significant additional reformatting. We accordingly consider the constraint on large letter pricing from standard letters is likely to be weak.

4.48 In addition, standard letters are provided by Royal Mail rather than other postal operators, and so (as above) would not be expected to place an effective competitive constraint on Royal Mail’s Second Class large letter stamp pricing.

### Sending the item using an alternative operator

4.49 Consumers sending a large letter sized item could instead use an alternative parcel delivery service provided by an alternative operator. These services are typically more expensive than Royal Mail’s large letter services (see Table 3 below) and are therefore unlikely to act as a constraint in the majority of cases.

4.50 Evri now offers a ‘postable’ parcel delivery service, which it describes as being able to be used for “anything that could fit through a letterbox”.<sup>87</sup> Evri has confirmed that one of the reasons for introducing the ‘postable’ service was to compete with Royal Mail.<sup>88</sup>

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<sup>87</sup> See Evri, [Sending a large letter](#). [accessed 04/01/2024].

<sup>88</sup> Evri response dated 16 May 2023 to s.55 Notice. We also note that, on its website (Evri, [Sending a large letter](#)), Evri directly compares the prices for its postable service against Royal Mail large letter prices.

- 4.51 The maximum dimensions of Evri's postable service are similar to Royal Mail's,<sup>89</sup> but it has a higher weight limit (1kg) and a tracking facility. Evri's service is currently priced at £2.70, which is the same as the price Royal Mail charges for a Second Class stamp purchased at the Post Office for the two highest large letter weight steps (251g-500g and 501g-750g).<sup>90</sup> This service is also available for a discount, at £2.62, if the item is delivered to an Evri pick up point rather than the recipient's address.<sup>91</sup> However, Evri does not offer lower-priced versions of this service for smaller sizes or lower weight steps and is therefore unlikely to act as a significant constraint on Royal Mail's pricing in relation to its smaller and lighter large letter services.
- 4.52 There is some evidence from Royal Mail's internal documents that alternative operators act as a constraint on Royal Mail's pricing of large letters, in particular for the heavier weight steps. For example, in one internal document Royal Mail makes a direct comparison between its large letter prices and similar offerings provided by alternative parcel operators.<sup>92</sup> We note that this is further substantiated by the fact that, in October 2023, Royal Mail took advantage of the headroom under the large letters and parcels basket cap and materially increased prices for large letters for all weight steps except for the highest one (i.e., 501-750g). In fact, for the highest weight step, Royal Mail has decreased its online price while maintaining the offline price at its April 2023 level.

## E-substitution

- 4.53 As discussed in the context of standard letters, e-substitution could act as a constraint on Royal Mail's pricing behaviour if higher stamp prices could make post a less attractive option, thus triggering further e-substitution. Although we expect that the trend of letter users migrating to online alternatives also affects large letters to some extent, we believe that the constraint from e-substitution is likely to be even weaker for large letters than for standard letters. This is because consumers and businesses are more likely to use large letters to send documents that have to be sent via post (e.g., formal documents they do not wish to fold) or to post small, flat physical items. Likewise, marketplace sellers are likely to use large letters to post items purchased online.
- 4.54 Absent very large price increases, it is not clear that Royal Mail's prices have a significant impact on the rate of e-substitution for large letters. Indeed, the significant increases in stamped large letter prices (around 40% in nominal terms for the three weight steps up to 500g between 2019 and October 2023) do not yet appear to have led to a marked increase in e-substitution such as to make these price increases unprofitable.<sup>93</sup>

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<sup>89</sup> For Evri, maximum width is 23cm (vs 25cm for Royal Mail); maximum length is 35cm (vs 35.3cm for Royal Mail) and; maximum thickness is 3cm (vs 2.5cm for Royal Mail).

<sup>90</sup> Price correct as of January 2024. See Evri, [Sending a large letter](#). [accessed 04/01/2024].

<sup>91</sup> Evri's network of PUDO points has been expanding but still falls behind that of Royal Mail's (see Table 4). Evri has recently entered a partnership with the Post Office which allows consumers to both drop off and pick up Evri parcels from selected Post Office branches (see paragraph 4.100).

<sup>92</sup> Royal Mail response to s.55 Notice, dated 23 January 2023, [[X](#)].

<sup>93</sup> Taking into account the most recent price increases (in effect from 2 October 2023), nominal prices for large letters have increased by more than 80% for the two weight steps up to 250g and by 57% for the 251-500g weight step since 2019. As sufficient time has not passed since these increases, we cannot conclude on the effect these may have on consumer behaviour in relation to seeking electronic alternatives to sending large letters.

## Price sensitivity

- 4.55 Market research suggests that many residential customers are not particularly price sensitive. Royal Mail elasticity estimates are also low (see paragraph 4.26 above). This suggests that Royal Mail could implement further price increases without having a significant impact on volumes.
- 4.56 Figure 3 in section 2 summarises how Royal Mail’s nominal prices for large letters have evolved over the past five years. As that chart demonstrates, prices have increased significantly compared to 2019 across all weight steps, which suggests that these price increases have been profitable.
- 4.57 Further, Royal Mail’s internal documents suggest that, as for standard letters, price increases for large letters are generally expected to be profitable. For example:
- a) [REDACTED].
  - b) [REDACTED].<sup>94</sup>
  - c) [REDACTED].<sup>95</sup>

## Supply-side constraints

- 4.58 Despite some evidence of nascent competition in the large letters segment (notably Evri’s expansion into this segment with its postable service and similar pricing to Royal Mail’s heaviest large letter service), Royal Mail remains (in 2022-23) a near-monopolist in Second Class stamped large letters with an estimated volume share of over 90% ([REDACTED]%) in end-to-end delivery.
- 4.59 As discussed in paragraphs 4.50-4.51 above, Evri’s postable service represents the main alternative to Royal Mail (especially for the highest large letter weight steps) and in 2022-2023, accounted for over 5% ([REDACTED]%) of volumes in the large letters segment.
- 4.60 Other providers do not offer similarly priced services to Royal Mail’s lower size/weight step large letter services, despite significant price increases by Royal Mail since 2019.
- 4.61 We therefore consider that Royal Mail’s pricing of stamped Second Class large letters is not currently sufficiently constrained by existing competitors nor by the threat of future entry. We acknowledge that Evri’s presence in the large letters market segment is likely to continue to grow. However, we have no evidence that Evri will grow to the point of constraining Royal Mail’s large letter pricing in the short term, particularly across the lower weight steps.

## Large letters used for fulfilment

- 4.62 We have further considered Royal Mail’s submission and, in particular, whether large letters used for fulfilment constitute a separate segment of the large letters market that is subject to different competitive conditions.
- 4.63 We note that the only parameter Royal Mail takes into account in setting its large letter prices is weight.<sup>96</sup> Royal Mail does not price differently according to the content of large letters,<sup>97</sup> neither does it price according to dimensions, i.e., according to whether a large

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<sup>94</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

<sup>95</sup> Royal Mail’s response to s.55 Notice dated 16 November 2023, [REDACTED].

<sup>96</sup> The same is true for Evri’s postable service.

<sup>97</sup> Even if content based pricing would be difficult to implement in practice, Royal Mail could still use dimensions to distinguish large letters used for fulfilment. As per Royal Mail’s submission, large letters used for fulfilment are typically thicker (>10mm) and as a result are handled differently in their network.

letter needs to be handled differently in the distribution network. As a result, we have no evidence that Royal Mail itself treats large letters used for fulfilment as different products or that it faces different constraints on its pricing.

- 4.64 Moreover, to the extent that customers who use large letters for fulfilment require a tracking service (as suggested in Royal Mail's response to our consultation), the distinction between large letters used for fulfilment and paper-based large letters is beyond the scope of this review as tracked services are not subject to a safeguard cap. Rather, this review assesses the competitive constraints on Second Class stamped single-piece large letters, which are not tracked and are subject to a safeguard cap.
- 4.65 As discussed above, we acknowledge there is some evidence of nascent competition from Evri's postable service, particularly at the highest weight step, regardless of content. However, based on the above, we do not have sufficient evidence to conclude that Royal Mail faces different competitive constraints with respect to Second Class stamped large letters used for fulfilment.<sup>98</sup> We therefore disagree with Royal Mail that we have underestimated the extent of competition in this segment of the market.

### Online/offline price differentials for large letters

- 4.66 Royal Mail made a number of changes to its prices in October 2023. These changes included offering discounted prices for large letters weighing over 100g when postage is purchased online.
- 4.67 As set out in paragraphs 3.12-3.13, in response to our consultation, some consumer bodies raised concerns that a widening differential between Royal Mail's Post Office and online prices would disadvantage consumers who rely on the Post Office, because they cannot or do not use online alternatives, as they would pay more than those who purchase postage online. There was a particular concern about digitally excluded consumers in this respect.<sup>99</sup>
- 4.68 Based on the evidence we have reviewed; our view is that Royal Mail faces limited competition in large letters regardless of the payment channel. Whereas the emerging competition from Evri's postable product (especially in the higher weight steps) exerts some constraint on Royal Mail's pricing both online and at the Post Office,<sup>100</sup> our view is that we cannot rely on competition alone to ensure affordability for consumers using large letters.
- 4.69 Acknowledging that Royal Mail may face even weaker constraints in relation to setting offline prices, the design of the letters cap is based on using offline prices so as to make sure that the risk of offline prices becoming unaffordable is minimised. We set this out in more detail in section 7 (paragraphs 7.45-7.46).

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<sup>98</sup> Royal Mail did not provide any further evidence to substantiate their arguments.

<sup>99</sup> In their consultation responses, some consumer bodies such as Citizens Advice, and CCNI (as well as Post Office) argued that this would be especially the case for vulnerable and digitally excluded customers, who are more likely to purchase postage for large letters and parcels in-person at a Post Office branch. Besides Citizens Advice, who submitted an addendum to its response following Royal Mail's announcement of new prices for large letters, the other stakeholders named above have raised this point only in relation to the online price differential for parcels as at the time Royal Mail's large letter online and in-person prices were the same. However, the arguments discussed hold for online/offline price differentials for both large letters and parcels. In an addendum to its original submission, Citizens Advice also raised this point in relation to large letters.

<sup>100</sup> We note however that Evri's postable service can only be purchased online and is not available to purchase in branch at the Post Office. However, the evidence we have reviewed does not suggest that Royal Mail treats the emerging competition from Evri's postable service differently in relation to setting online and in-branch prices.

## Conclusion on large letters

- 4.70 Royal Mail remains a near-monopolist in the provision of end-to-end services for single piece large letters. Despite some evidence of nascent competition, particularly at the highest weight step, we consider that Royal Mail's pricing of stamped Second Class large letters continues to be unconstrained by current competitive forces or the threat of future entry and expansion.
- 4.71 As discussed above, alternative services or e-substitution are unlikely to pose a meaningful constraint on Royal Mail's pricing of large letters. Moreover, the evidence we have reviewed does not suggest that Royal Mail faces stronger competition with regard to fulfilment large letters. In addition, while Royal Mail faces limited competition in large letters regardless of the payment channel we acknowledge that it may face even weaker constraints in relation to setting its offline prices and have reflected that in the basket cap design.
- 4.72 Overall, our conclusion remains the same as in the consultation. We consider that we cannot rely on competition alone to protect consumers from significant price increases for large letters. We consider, therefore, that there is a risk that prices could become unaffordable without a safeguard cap. We assess affordability of postal prices in Section 5 below.

## Parcels

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### Our consultation position

- 4.73 In our consultation, we provisionally concluded that, although Royal Mail retains a strong position in the segment of the market related to parcels up to 2kg, facilitated by its widespread access network and strong brand recognition, the relevance of competing operators, including Evri, DHL, Yodel and DPD, has materially grown since our 2018-19 review.
- 4.74 The evidence we have reviewed shows that alternative operators have materially expanded their PUDO (Pick Up & Drop Off) networks and have increased their brand awareness and recognition with consumers, which has ultimately translated into an increase in their volume shares.
- 4.75 We therefore consider that this segment of the market has become more competitive since our 2018-19 review and we expect that competition will continue to grow, thus ensuring that prices remain affordable for the majority of consumers. Royal Mail's pricing behaviour over the past four years supports this.

### Stakeholder responses

- 4.76 A number of stakeholders (Royal Mail, Evri, the GCA, Quadiant and the National Federation of SubPostmasters (NFSP)) agreed with our assessment that competitive constraints on Royal Mail have materially grown since the 2018-19 review and with our conclusion that competition in this segment of the market is sufficient to ensure affordability in the absence of the safeguard cap.<sup>101</sup>

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<sup>101</sup> Responses to consultation from: [Royal Mail](#), paragraphs 30-35; [Evri](#), p. 1; [GCA](#), p. 3; [Quadiant](#), p. 3; and [NFSP](#), p.2.

- 4.77 Royal Mail noted in particular the expansion by its competitors (including Evri, Yodel and DPD) of PUDO points which allows them to offer competitively priced parcel services. It also noted that the Post Office and Collect+ networks are no longer exclusive to Royal Mail and Yodel respectively, meaning that it is easier for competitors to expand their presence quickly.<sup>102</sup> Evri similarly noted that it has increased its number of PUDO points and that its services are available in an increasing number of Post Offices and Tesco branches. It also said it has ‘a clear plan’ for continued investment and expansion in the C2X market.<sup>103</sup>
- 4.78 However, some stakeholders challenged our analysis. We summarise the arguments stakeholders made in response to our consultation below.
- a) Some stakeholders argued that consumers in rural and remote areas are more exposed to the risk of unaffordable price increases as they have limited alternatives to Royal Mail and in particular, limited access to online alternatives. More specifically:
- i) Consumer Scotland argued that consumers in rural or more remote areas may be more reliant on purchasing postage at the Post Office because they are not online (either because decent telecoms services are not available to them, or because they do not have access to the internet). It also argued Post Office branches in these areas are more likely to have limited opening hours and offer a narrower range of services than branches in more urban areas. Thus, it argued, competition in the C2X parcels market will not benefit those in rural areas.
- ii) Citizens Advice argued that there is ‘little to no other competition’ in remote areas (and that alternative operators often impose a surcharge. It also argued that consumers in such areas are more likely to face digital exclusion and therefore be unable to purchase postage online. Similar to Consumer Scotland, it argued that consumers in these areas would therefore not benefit from increased competition.<sup>104 105</sup>
- iii) Similarly, CCP-ACOD argued that, while there are alternative providers in the parcels market, they may not be as easily accessible to consumers across the country. It further pointed out the special relationship consumers in rural and remote areas (as well as vulnerable consumers) have with Royal Mail due to the strong reputation that Royal Mail has built over time and that therefore these consumers would be less likely to use alternative providers.<sup>106</sup>
- b) As discussed in paragraphs 3.12-3.13, a number of stakeholders (Citizens Advice, Consumer Scotland, CCNI and Post Office) raised concerns around online/offline price differentials for USO parcel services and in particular, their implications for vulnerable consumers who may be more likely to purchase postage offline.
- c) Post Office and CCNI challenged the overall conclusion of our market assessment. More specifically, Post Office submitted that consumers don’t receive the benefits of a competitive market.<sup>107</sup> CCNI challenged our finding that growing competition in the

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<sup>102</sup> Royal Mail, [response to consultation](#), paragraphs 30-31.

<sup>103</sup> Evri, [response to consultation](#), p. 1.

<sup>104</sup> Citizens Advice, [response to consultation](#), paragraph 15.

<sup>105</sup> Consumer Scotland, [response to consultation](#), pp. 8-9.

<sup>106</sup> CCP-ACOD, [response to consultation](#), p. 2.

<sup>107</sup> See Post Office, [response to consultation](#), pp. 8-11. To illustrate the point that consumers do not enjoy the benefits of competition, Post Office made reference to how, due to the online-offline price differential, it is cheaper for consumers to purchase online Royal Mail’s Tracked 48 small parcel service for items weighing up

parcels market exerts a sufficient constraint on Royal Mail's pricing, especially for consumers in Northern Ireland.<sup>108</sup>

## Our assessment

### Context

4.79 The parcels market can be split into three segments:<sup>109</sup>

- **Consumer to business/consumer (C2X)** – these are largely single piece items from consumer to consumer (C2C), or consumer to business (C2B). The C2C segment covers parcel delivery services that can be used for sending an individual parcel and are available for purchase by individual consumers.<sup>110</sup> For example, a person sending a birthday present to a relative or an individual online marketplace seller sending an item to a buyer.<sup>111</sup>
- **Business to consumer (B2C)** – these are deliveries from business to consumer, for example an online retailer sending items bought by online customers. These are generally deliveries that are part of bulk contracts between a business and a parcel operator.
- **Business to business (B2B)** – these are generally bulk deliveries from a business to other businesses, for example a clothes manufacturer receiving fabric from a supplier, or a publisher receiving paper and ink in bulk.

4.80 The parcels market has been fast-growing, and the main focus of competition continues to be found in the B2C segment, reflecting the growth in online shopping. As we concluded in our 2022 Review of Postal Regulation, the B2C segment is broadly competitive.

4.81 The C2X segment is relatively small compared to B2C, but still accounts for approximately 10% of total parcels volumes across operators and its share of total parcel volumes is

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to 2kg than to purchase in person at the Post Office Royal Mail's small parcel Second Class service which is an untracked service. We discuss the online-offline price differential in greater detail below and why we do not think this poses competition concerns in Section 3 and below.

<sup>108</sup> See CCNI, [response to consultation](#) pp. 14-19. More specifically, CCNI submitted that (i) Royal Mail remains the dominant parcel operator in Northern Ireland, where according to Ofcom's Residential Postal Tracker 92% of respondents answered that they used Royal Mail to send a parcel in the last month; (ii) alternative operators do not offer competitively priced alternatives for consumers in Northern Ireland either due to geographic charges or because they require consumers to have online access; (iii) Royal Mail's network coverage is materially better. Hence, CCNI submitted that there is no strong incentive for consumers in Northern Ireland to switch to another parcel operator and as a result the constraint competing operators exert on Royal Mail is limited.

<sup>109</sup> For the purposes of the data presented in this section, we have defined a parcel as an addressed postal item that is delivered end-to-end and: (a) is not a letter or a large letter; (b) weighs no more than 31.5kg; and (c) can be lifted by a single average individual without mechanical aids. Parcel services form part of a broad set of delivery services used by residential and business consumers in the UK, such as two-person and pallets delivery (for large and heavy items) and more generally the logistics services that are used for business supply chains. In contrast to parcel services, these other services do not involve postal items.

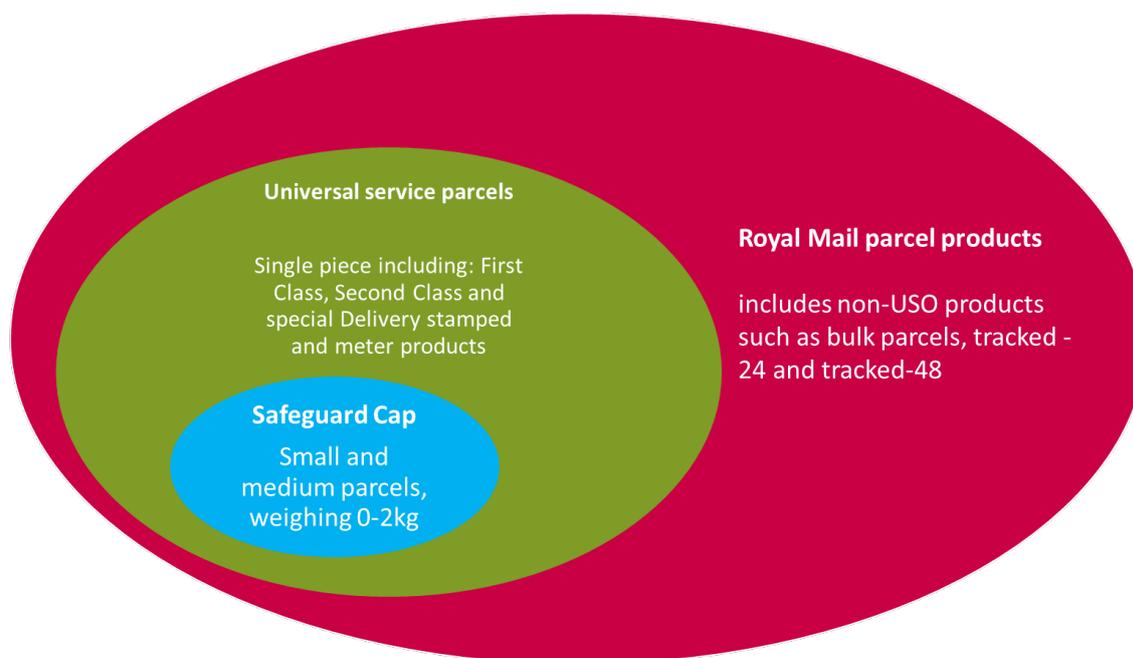
<sup>110</sup> This definition also includes services that are sold through parcel reseller websites, such as Parcels2Go, as well as parcels services that are resold to users at a discounted price through marketplace websites, such as eBay, Etsy or Vinted. This definition excludes items sold on Amazon Marketplace that are delivered by Amazon Logistics. This is because Amazon Logistics delivery services are only available to those selling services through the Amazon website and are also required to be purchased in combination with other Amazon services (such as warehousing).

<sup>111</sup> This definition also includes returns of items purchased online to the extent that these do not represent returns that are pre-paid by the retailer or marketplace seller, which are typically considered as B2C.

growing.<sup>112</sup> Royal Mail is required by the universal service obligations to provide a service for the collection and delivery of single piece parcels up to 20kg (and within specified maximum dimensions). Such parcels fall within the C2X segment (see 6 below for a summary of these services).

- 4.82 We noted in our 2022 Review of Postal Regulation statement that in the C2X segment, competition has grown in recent years, and we expect that it will continue to grow. While Royal Mail still retains significant competitive advantages, alternative operators have capitalised on the growth of smaller online and marketplace sellers to scale up their operations in C2X.<sup>113</sup>
- 4.83 In our 2018-19 review of safeguard caps, we concluded that Royal Mail enjoyed a significant degree of pricing power in small and medium parcels up to 2kg and, in particular, small and lightweight items that can fit through a letter box.<sup>114</sup> We concluded that, absent regulation, there were insufficient competitive constraints to prevent Royal Mail from materially raising prices. We therefore decided that single piece Second Class parcels up to 2kg should be subject to a safeguard cap.

**Figure 6: Royal Mail parcel services by category (not to scale)**



- 4.84 Since our 2018-19 review, competition in the C2X segment of the parcels market, and in particular in the lighter weight steps, has grown. As such, in our market assessment below, we have considered whether the presence of alternative operators has grown to a point where it may now exert a meaningful competitive constraint on Royal Mail and, if so, the potential impact of those constraints on Royal Mail’s pricing.

<sup>112</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#), paragraph 6.11

<sup>113</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#), paragraphs 6.38-6.46.

<sup>114</sup> Royal Mail segments its parcel offerings as small parcels (up to 2kg and with maximum dimensions 45cm x 35cm x 16cm) and medium parcels (up to 20kg with maximum dimensions 61cm x 46cm x 46cm). The safeguard cap applies to all single piece Second Class stamped small parcels and to medium parcels that weigh up to 2kg.

## Change in the relevance of alternative operators since our previous review

### Volume shares in the C2X lightweight parcels market

- 4.85 Royal Mail is the main provider of single piece parcel services serving the C2X segment, especially in relation to services weighing up to 2kg. Besides Royal Mail, operators including Evri, DHL, Yodel and DPD offer a range of C2X services across weight steps with varying delivery timescales, maximum dimensions and additional features, such as tracking facilities and proof of delivery.
- 4.86 However, while these alternative providers offer C2X services, it is not their key area of focus; they tend to focus more on B2C services. There is also variation between them in the extent to which they serve the C2X market, particularly for smaller parcels.
- 4.87 As of 2022-23, Royal Mail continues to account for a high (if declining), percentage (65-75%) ([redacted]%) of total volumes for single piece parcels weighing <2kg. Evri is Royal Mail's closest competitor in single piece C2X parcels (and, in particular, in relation to the types of parcels which are subject to the safeguard cap) and its presence in the market has materially increased since our last review. More specifically, as of 2022-23, Evri accounts for approximately 20-30% ([redacted]%) of volumes (i.e., its market share is almost three times higher compared to when we last assessed the market). All other operators have individual volume shares well below [redacted]%.

**Table 2: Volume shares of small and medium parcels <2kg by parcel operator, 2019-20 to 2022-23**

[redacted].

*Source: Ofcom analysis of volume and revenue data submitted by Royal Mail and other operators.*

### Use and awareness of alternative operators by consumers to send parcels

- 4.88 The increased competition in the C2X segment is also borne out in recent consumer research. According to the results of the most recent Residential Postal Tracker, 53% of postal users indicated having used Royal Mail to send a parcel in the past year while 38% of postal users report having used at least one alternative provider to send a parcel in the past year.<sup>115 116</sup>
- 4.89 Royal Mail has an incumbency advantage as the universal service provider, with alternative operators being relatively new to C2X parcels by comparison. Royal Mail has therefore had a longer period to build its brand and reputation in this area. Royal Mail's own market research shows that, [redacted].<sup>117</sup>
- 4.90 However, awareness of other operators has grown significantly in recent years, driven in part by increased interactions with other operators when purchasing services online. For example, the Residential Postal Tracker shows that the proportion of postal users who remember receiving a parcel or a letter delivered by an alternative operator to Royal Mail

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<sup>115</sup> Residential Postal Tracker, 2022-23, QJ1.

<sup>116</sup> Throughout this statement, when referring to the results of our Residential Postal Tracker, we use the term 'postal users'. This is because consumers who say they never use the postal service are excluded from the sample.

<sup>117</sup> Royal Mail, response to s55 Notice dated 16 January 2023, [redacted].

has increased since 2017-18, while the proportion who remember receiving a parcel or letter delivered by Royal Mail has decreased during the same time period.<sup>118</sup>

### Alternatives to Royal Mail available to consumers

4.91 Alternative operators have been able to respond to the emergence of more price-sensitive C2X senders (in particular online marketplace sellers) by offering comparable, competitively priced alternatives to Royal Mail at weight steps up to 2kg (as set out in 3 below).<sup>119</sup>

**Table 3: Cheapest delivery prices for comparable C2X parcel services<sup>120</sup>**

	Royal Mail Second Class small (2-3 days)	Royal Mail Second Class medium (2-3 days)	Evri (2-4 days, tracked)*	Yodel (within 2 days, tracked)	DPD Local (1-2 days, tracked)**	DHL Parcel UK (Next day, tracked)***
<b>0-1kg</b>	£2.99	£4.49	£2.99	£2.91	£7.67	£7.89
<b>1-2kg</b>	£2.99	£4.49	£4.44	£3.91	£7.67	£7.89

Source: Operators' websites (correct as of January 2024). Royal Mail prices shown are online prices. The respective prices for small and medium parcels purchased at the Post Office are £3.49 and £5.49.

\*Evri offers a cheaper option for these services (£2.78 for 0-1kg and £3.88 for 1-2kg) if the recipient collects the parcel from an Evri ParcelShop. As noted above, Evri also offers a cheaper 'postable' service for parcels weighing up to 1kg that will fit through a letterbox (£2.70 for delivery direct to the recipient's address, £2.62 for delivery to an Evri ParcelShop).

\*\* DPD Local offers a cheaper option (£4.79) if the recipient collects the parcel from a DPD pick-up point.

\*\*\*The weight limit for DHL parcels at this price is 15kg. DHL also offers cheaper options (ranging from £2.79 to £5.89) depending on where the parcel is dropped off or collected.

4.92 Similarly, operators have differentiated their services to attract different customer types, in particular marketplace sellers.<sup>121</sup> For example, the standard services offered by competing operators all include tracking, which is not available on Second Class parcel services subject to the safeguard cap. For reference, Royal Mail's prices for its tracked services are more expensive (£3.29 for small parcels up to 2kg and £4.79 for medium parcels up to 2kg) than the comparable Yodel and Evri services.<sup>122</sup>

4.93 Additionally, DPD, DHL and Yodel provide delivery services which have delivery speeds that are generally faster than Royal Mail's Second Class services, as shown in Table 3 above.

<sup>118</sup> Between 2017-18 and 2021-22, the proportion of postal users who remember having received a parcel or letter delivered by Evri (previously Hermes) increased from 45% to 59%. For DPD, the proportion increased from 35% to 44%, for DHL from 33% to 40%, and for Yodel from 35% to 39%. For Royal Mail, the proportion decreased from 84% to 72%. See Residential Postal Tracker (2017-18 and 2021-22), Q12.

<sup>119</sup> For example, an internal document of Evri's describes microshippers (i.e., users that are concentrated around hobbyists, small enterprises and side hustlers) as price sensitive. Another internal document sets out that Evri's current strategy is to target "microshippers" as opposed to those sending ad hoc gifts and occasional marketplace sales. Evri, response to s.55 Notice dated 16 May 2023.

<sup>120</sup> Royal Mail's prices for the services included in this table do not include VAT as they are VAT exempt. Listed prices for other operators include VAT.

<sup>121</sup> For example, an internal document of Evri's mentions that tracking is one of the service characteristics valued by "microshippers." Evri, response to s.55 Notice dated 16 May 2023.

<sup>122</sup> Online prices for Royal Mail's 'Tracked 48' service. These prices apply when using Click & Drop Parcel Collect, a delivery office, a parcel post-box or a post-box. If the user drops the parcel off at a Post Office branch, there is an additional charge of £0.16.

4.94 As such, depending on a consumer's preferences, the prices set out in Table 3 do not fully reflect the ways in which alternative providers may provide an increasing competitive constraint on Royal Mail for C2X parcels, including those up to 2kg. For example, for customers who value tracking, the availability of competitively priced tracked parcel delivery services from other providers significantly constrains Royal Mail's pricing of the Second Class service.

#### How the number of parcel access points has changed since our previous review

4.95 Royal Mail's network of access points, from which users can send single piece parcels, remains the most extensive. Users can send Second Class small- and medium-sized parcels up to 2kg through the Post Office, which has around 11,500 locations across the UK. In addition, parcels can be sent via a post-box if they fit and the user has been able to pay the correct postage, substantially increasing the number of Royal Mail's access points.<sup>123</sup> Royal Mail also allows for collection of parcels from delivery offices if they have not been successfully delivered to the delivery address.

4.96 In contrast, the networks of alternative providers are smaller than that of Royal Mail. In particular, alternative networks tend to have lower coverage in rural areas compared to urban areas and, as a result, Royal Mail is often likely to still be the most easily accessible option in many rural areas. Even outside of rural areas, consumers will often know the location of their local Post Office but may be less aware of the collection or delivery point for an alternative provider.<sup>124</sup>

4.97 Nevertheless, alternative parcel operators have been growing their network of access points substantially, as shown in Table 4 below. Indicatively, DPD's network of access points has more than doubled since 2019 and Evri's network has increased by more than 50% over the same time period.

4.98 In addition, the Post Office no longer has an exclusivity agreement with Royal Mail. The Post Office has entered agreements with other operators to offer 'click and collect' services in at least 5,000 branches across the UK.<sup>125</sup>

4.99 As of November 2023, following a trial period, a partnership between the Post Office and Evri is now in place, which means that over 2,000 Post Office branches have been added to Evri's network of access points.<sup>126</sup> Importantly, it is now possible for consumers to purchase Evri parcel postage in participating Post Office branches.<sup>127</sup> Evri's target is for its over-the-

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<sup>123</sup> Royal Mail's network also includes around 1,350 Parcel Postboxes that can be used for dropping off parcels with maximum dimensions of 44cm x 35cm x 16cm. See Royal Mail, [Easy, convenient parcel drop-off](#) [accessed 05/01/24]

<sup>124</sup> Evri's internally commissioned research on Royal Mail's advantages over Evri found that Evri's main advantage is brand reputation and reliability (Evri, response to s.55 Notice dated 16 May 2023).

<sup>125</sup> In August 2021, the Post Office signed an agreement with DPD to provide Click and Collect services in approximately 1,500 branches across the UK (see Post Office, 16 August 2021, [Post Office partners with DPD to roll-out 'Click and Collect' services](#) [accessed 05/01/2024]). As of November 2023, there are 3,975 Post Office branches that support DPD drop-off services (DPD's response to s.55 Notice dated 2 November 2023). In September 2021, the Post Office also has a partnership with Amazon to provide Click and Collect services (see: <https://www.postoffice.co.uk/help-support/posting/amazon>). In September 2022, the Post Office also partnered with DHL Express to provide Click and Collect services (see Post Office, 12 September 2022, [Introducing Carrier 3](#)).

<sup>126</sup> More specifically, Evri entered into a trial agreement with the Post Office in December 2022 to trial PO locations acting as an Evri ParcelShop. See Post Office, 12 June 2022. [Post Office secures new agreement with Evri](#) [accessed 05/01/2024].

<sup>127</sup> See Evri, [Our Evri Post Office parcel services](#) [accessed 03/01/2024].

counter and drop-off services to be available in around 2,400 Post Office branches by the end of 2023-24.<sup>128</sup>

- 4.100 Since November 2023, customers can also purchase postage over the counter for selected DPD parcel services (alongside Evri and Royal Mail) in certain Post Office branches.<sup>129</sup>
- 4.101 Furthermore, customers' sending behaviour is changing as they become more willing to purchase delivery services online, where Royal Mail's physical network advantages and long-established position of incumbency may play a reduced role. This would be consistent with increased consideration of alternative providers.
- 4.102 According to Royal Mail's own consumer research, the proportion of customers paying for postage at the Post Office declined between Q4 2020-21 and Q2 2022-23 (from [X] % to [X] %), while the proportion using Royal Mail's app or website to purchase postage has increased over the same time period (from [X] % to [X] %). Marketplace sellers are particularly likely to use Royal Mail's app or website to purchase postage ([X] % of them report doing so in Q2 2022-23).<sup>130</sup>

**Table 4: Number of access points (changes since 2019 in parentheses)**

	Parcel operator	# of access points	Access points location
<b>Post Office</b>	Royal Mail/ParcelForce, and some services from other operators in some branches	11,500 <sup>131</sup>	Post Office branches/outlets
<b>CollectPlus</b>	Yodel, DHL, DPD, FedEx, InPost	10,000 (+3,000)	Newsagents, convenience stores, supermarkets, petrol stations
<b>Evri ParcelShop</b>	Evri	7,000 (+2,500)	Convenience stores, lockers, Post Office
<b>DPD Pick Up</b>	DPD	6000 (+3,500)	Convenience stores, pharmacies, retail shops
<b>UPS Access Point</b>	UPS	2,800	Convenience stores, supermarkets, petrol stations
<b>InPost parcel lockers</b>	InPost, DHL, Evri	4,300 (+3,100)	Convenience stores, supermarkets, petrol stations

<sup>128</sup> Evri response to s.55 Notice dated 2 November 2023.

<sup>129</sup> See Post Office, 7 November 2023. Press release: [Post Office partners with DPD and Evri to launch new in-branch parcel delivery services](#) [accessed 05/01/2024].

<sup>130</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [X].

<sup>131</sup> People can also use postboxes and parcel postboxes to send parcels, provided that the parcel fits, they have purchased the appropriate postage, and are happy not to receive proof of postage. Postboxes are not included in the reported number. Several operators also offer home collection for parcels.

<b>DHL Parcel UK Service Points</b>	DHL Parcel UK	3,500	Convenience stores
<b>DHL Express Service Points</b>	DHL	1,300 (+100)	High street/retail outlets

Source: Parcel operator websites (correct as of November 2023).

## Strength of the competitive constraints

### Royal Mail's pricing behaviour for parcels up to 2kg

- 4.103 Figure 4 in Section 2 shows nominal prices of Second Class parcels (purchased online and at the Post Office) since 2019. This shows that increases in parcel prices have been relatively modest. This is particularly the case when comparing the price increases for parcels to those for standard letters and large letters. This is understandable as the volume of parcels has been growing, which supports economies of scale while the volume of letters has been falling. In addition, the pattern of pricing suggests growing competitive constraints.
- 4.104 Not only have price increases been relatively modest, but Royal Mail has decreased its prices for small and medium sized parcels when the consumer pays online for the service, rather than using stamps.<sup>132</sup> This is also consistent with lower costs of supply, and Royal Mail's internal documents suggest that it offers lower prices on its online platforms as its costs of providing services online are lower.<sup>133</sup> We also consider that lower online prices are indicative of a strengthening of the competitive constraints on Royal Mail in this area.
- 4.105 In addition, even though Royal Mail has increased large letter prices significantly, its prices for parcels up to 2kg have been such that the basket cap does not appear to have had any substantive impact on its pricing. Indeed, as shown in Figure 1, Royal Mail has had, and continues to have, significant headroom under the basket cap (around 15% as of January 2024) since the start of the current cap period.

### How competitive pressure affects Royal Mail's pricing behaviour

- 4.106 As discussed above, there is evidence that the position of competitors in the C2X market, and their ability to compete against Royal Mail, including in the lighter weight parcels segment, has improved. Royal Mail's internal documents show that the threat of consumers switching to competing providers is one of the factors considered by Royal Mail in setting its parcel prices.
- 4.107 For example, [REDACTED].<sup>134</sup>
- 4.108 [REDACTED].<sup>135</sup>
- 4.109 Royal Mail's internal documents also show that Royal Mail closely monitors the prospect of expansion of its competitors in the single piece parcels sector and how its prices compare to those of its competitors. For example, [REDACTED].<sup>136</sup> [REDACTED].<sup>137</sup>
- 4.110 This suggests that the competition Royal Mail faces in the market forces it to price so as not to lose customers to competing operators.

<sup>132</sup> The prices shown in the chart are nominal prices. Adjusting for CPI inflation, prices have fallen, for both small and medium parcels and whether paid for online or offline, since 2019.

<sup>133</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

<sup>134</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

<sup>135</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

<sup>136</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

<sup>137</sup> Royal Mail response to s.55 Notice dated 23 January 2023, [REDACTED].

## Other constraints

- 4.111 We have also considered whether alternative Royal Mail services (e.g., First Class, tracked or “Signed For” services) might pose a meaningful constraint on Royal Mail’s Second Class parcel services. Given that these services are typically more expensive and are also more expensive than the comparable services offered by competing providers (see Table 3 above), we consider that alternative Royal Mail services exert only a weak constraint.
- 4.112 Likewise, meter services are also likely to pose a weak constraint as they are an appropriate alternative only for high volume users due to the initial investment required.
- 4.113 Moreover, as parcels are typically used for sending physical services, substitution to electronic means of communication is unlikely to be a suitable option for the majority of users (except perhaps in certain circumstances where digital alternatives are available such as electronically transferring content as opposed to sharing content via a physical CD or DVD transmissible by post). As a result, the constraint posed by e-substitution is unlikely to be meaningful.

## Variation in competitive intensity across the UK

- 4.114 Although competing operators have materially expanded their network of access points, we acknowledge that, as raised by several respondents to our consultation, consumers in some rural and/or remote areas of the UK may nevertheless still have few if any alternatives to Royal Mail when sending parcels. We recognise that access point networks and PUDO services in general are likely to be more developed in urban areas, and that despite this overall expansion there will remain areas of the country in which access points of competing parcel operators will not be available to consumers.<sup>138</sup> In addition, even where alternatives are available, competing operators may impose geographical surcharges or offer restricted services in some areas.<sup>139</sup>
- 4.115 As a result, as discussed in paragraph 4.78, some stakeholders expressed concern that Royal Mail faces limited competitive constraints in these areas and therefore that these consumers will not feel the benefits of competition.
- 4.116 While it is the case that consumers in some areas may not have access to a full range of parcel services from other operators, we note that Royal Mail is required to charge the same price for universal service products across the entire UK, including in areas where consumers have less access to competitive provisioning or competitors apply surcharges. This means that consumers in remote and/or rural areas that are underserved by alternative operators will benefit from the broader competitive constraints placed on Royal Mail. In other words, because Royal Mail’s pricing is constrained in the areas where competition is stronger (which, as we explain above, we consider is currently the case), this will benefit postal users everywhere as they will be charged the same price as users in those more competitive areas.
- 4.117 Additionally, our Residential Postal Tracker did not find significant differences between consumers in urban and rural areas regarding use of alternative operators to send parcels,

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<sup>138</sup> Hence, we recognise that while Table 4 summarises the number of access points of different providers across the UK and how these have increased, it does not reveal discrepancies between UK regions or between urban and rural areas.

<sup>139</sup> For example, Evri imposes a surcharge for certain postcodes (not applicable when sending from within the same postcode). See Evri, [Location Charge Postcodes](#) [accessed 05/01/2024]. Yodel also applies a surcharge and notes that parcels delivered to some areas will incur additional transit time. See Yodel, [Remote areas and transit times](#) [accessed 05/01/2024].

suggesting that, broadly access to alternative providers is not limited to those in urban areas.<sup>140</sup>

- 4.118 Our view is therefore that we do not need to make any changes to conclusions as a result of the stakeholder concerns referred to above.

### Online/offline price differentials for parcels

- 4.119 In response to our consultation, several stakeholders expressed concerns over the difference between online and offline prices for parcel services. In particular, they expressed concerns about the fact that offline consumers, who may be more likely to be vulnerable, cannot access the lower online prices, but must instead purchase postage over the counter (i.e. at a Post Office).
- 4.120 As noted above (see section 3), we consider that online/offline differentials are not a concern per se, and that they offer benefits to consumers. However, if the competitive constraints on Royal Mail's offline pricing are weak and Royal Mail consequently enjoys greater flexibility to profitably increase offline prices, there is a concern that these prices could become unaffordable.
- 4.121 We have therefore further considered whether Royal Mail faces different competitive constraints when setting its online versus its offline prices and, if so, the implications for the safeguard caps regime.
- 4.122 The evidence suggests (as set out in paragraphs 4.85-4.114 above) that the competitive constraints on Royal Mail's pricing for parcels weighing up to 2kg have materially increased regardless of the payment channel.
- 4.123 As discussed in paragraphs 4.96-4.103, Royal Mail is no longer the only operator present at the Post Office and is increasingly facing in-branch competition from Evri and DPD. We note that Evri's Post Office prices for parcels weighing up to 1kg are currently cheaper than Royal Mail's Post Office prices.<sup>141</sup> This increasing competition is likely to constrain Royal Mail's prices as customers can respond to price increases by substituting to an alternative operator. Substitution by *all* customers currently purchasing offline services is not necessary in order for there to be a binding competitive constraint, because of the obligation on Royal Mail to provide uniform prices across the country.
- 4.124 We acknowledge that the presence of alternative operators in Post Office branches in rural and/or remote areas is likely to be less prevalent compared to London and other urban areas. However, for the reasons explained in paragraphs 4.115-4.119 above, the increasing

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<sup>140</sup> Residential Postal Tracker 2022-23, QJ1. In the past year, 18% of postal users in urban areas and 21% in rural areas indicated that they have used Evri to send a parcel, while the equivalent figures for DPD and Yodel are 8% and 8% and 8% and 6%.; 8% of respondents in urban and rural areas indicated that they have used DPD to send a parcel in the last year and 8% of respondents in urban areas and 6% of respondents in rural areas indicated that they have used Yodel to send a parcel in the last year.

<sup>141</sup> The Post Office price to send a parcel up to 1kg using Evri is £3.45 compared to £3.49 and £5.49 to send a small and medium parcel respectively using Royal Mail's Second Class. For parcels weighing between 1-2kg, the Evri Post Office price is £5.45, while the Royal Mail Second Class prices are the same as for parcels weighing up to 1kg (£3.49 and £5.49). Like Royal Mail, Evri's Post Office (and Parcel Shop) prices are higher than its online prices, reflecting the additional costs associated with in-branch services (i.e., commissions paid to Evri's partners for a sale in branch transaction or a higher handling fee for parcel services sold in store, as opposed to simply dropped off).

competition in urban centres confers protection to consumers across the UK as a result of the obligation on Royal Mail to provide uniform prices across the country.

- 4.125 Alternatively, many of those who currently purchase Royal Mail parcel postage at the Post Office could respond to an increase in Royal Mail's Post Office prices by choosing to pay for postage online using either Royal Mail or any other parcel operator. This is because our research evidence suggests that it is not only those who are offline and/or vulnerable who purchase parcel postage at the Post Office. According to Royal Mail's own consumer research<sup>142</sup> and our Residential Postal Tracker,<sup>143</sup> the majority of users of Royal Mail's services purchase parcel postage at the Post Office, although this share is declining. Royal Mail's consumer research also shows that the Post Office is also the most popular channel to drop off parcels sent via Royal Mail.<sup>144</sup>
- 4.126 Moreover, our Residential Postal Tracker does not suggest that vulnerable consumers in general are systematically more likely to send parcels at the Post Office using Royal Mail's or Parcelforce's over the counter services.<sup>145</sup>
- 4.127 As such, if prices for parcel postage purchased at the Post Office were to increase, then many of these customers could substitute towards making postage payments online, including to Royal Mail's competitors, which would exert a constraint on Royal Mail's in-branch prices. This constraint would then protect also against price increases for those customers who will not or cannot substitute to making payments online. The obligation on Royal Mail to provide uniform prices across the country also means that Royal Mail would not be able to increase prices to consumers in areas which may have a strong preference for paying offline for postage.
- 4.128 We acknowledge that competition for online parcel services may be particularly intense, which, in addition to the lower costs to Royal Mail in serving customers online, results in online/offline differentials for parcel services. However, we consider that the constraints on postage pricing paid for at the Post Office will be sufficient to ensure affordability of parcels for consumers who prefer, or need to pay for postage in-branch.
- 4.129 It is important to note that it would not be necessary for all customers who prefer to purchase parcels offline at a Post Office, or who cannot purchase parcels online, to respond to a price increase by switching to other parcel operators accepting in-branch payments or to online purchases of postage in order for Royal Mail's pricing to be constrained. Rather, it only requires a sufficient proportion of customers to switch in these ways to make a price increase for in-branch purchases to be unprofitable for Royal Mail.

## Conclusion on parcels weighing up to 2kg

- 4.130 The evidence we have reviewed suggests that, although Royal Mail retains a strong position in the segment of the market related to parcels up to 2kg, the relevance of competing

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<sup>142</sup> Royal Mail response to s.55 Notice dated 16 November 2023, [X].

<sup>143</sup> Residential Postal Tracker 2022-23, QH10.

<sup>144</sup> Royal Mail response to s.55 Notice dated 16 November 2023, [X].

<sup>145</sup> Residential Postal Tracker 202-23, QI3. Consumers aged 65+ who have sent a parcel in the past month are more likely to have used the Post Office to do so than those aged 16-34 (75% vs 58%). There is no significant difference between those in work and those not in work in terms of likeliness to have used the Post Office to send a parcel (69% vs 67% for those in work). We also find that: benefits recipients are less likely than those who do not receive benefits to have used the Post Office (63% vs 70%) and disabled consumers are less likely to have used the Post Office to send a parcel compared to those who are not disabled (62% vs 71%).

operators, notably Evri, has materially grown. This suggests that the market has become more competitive since our 2018-19 review and we expect that competition will continue to grow. Royal Mail's pricing behaviour for these services over the past four years supports this.

- 4.131 We therefore consider that competition in the market is sufficient to protect consumers from significant price increases, thus ensuring that prices remain affordable for the majority of consumers.

# 5. Assessment of affordability

- 5.1 In this section we present our final assessment of the affordability of postal services, with a focus on Second Class letters and parcels. In reaching this final assessment we draw on the comments of respondents to the consultation. Our assessment considers, in turn:
- a) Average expenditure on postal services by consumers;
  - b) How disposable incomes have changed since our previous review;
  - c) Market research on affordability – both quantitative and qualitative, and research conducted by consumer bodies including Citizens Advice, Consumer Scotland and CCNI.
- 5.2 Finally, we present our assessment, and stakeholders’ comments on this, of the affordability of other USO services, including First Class.

## Our consultation position

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### Approach to assessing affordability

- 5.3 We proposed to assess the affordability of postal services by considering whether current postal prices cause consumers significant detriment. This was the same test that we used in our 2013 review of postal affordability and the 2018-19 safeguard caps review.
- 5.4 However, we also noted that the application of this test in practice is challenging because of the long-term trend of declining letter volumes, and the recent significant increase in the cost of living. Taken together, these factors suggest that a reduction in expenditure on post or consumption sacrifice to send post may be weaker indicators of affordability than in the past.

### Assessment of affordability

- 5.5 We found that, in 2020-21, households continued to spend a very small proportion of their overall weekly expenditure on postal services – 0.19%. The proportion of consumers reporting potential affordability issues in our consumer research tracker has risen significantly since our previous review (10% to 32%), but our qualitative research suggests that this increase is likely driven by wider cost of living pressures rather than postal prices themselves.
- 5.6 Overall household incomes grew slightly in real terms (2.8%) between 2018-19 and 2021-22. However, they reduced significantly for more vulnerable groups, including those in the bottom income decile and those who are retired. We also noted that the recent period of high inflation means that incomes have potentially declined in real terms since then.
- 5.7 Our overall assessment, based on the evidence set out in the consultation, was that most consumers do not experience significant detriment as a result of postal prices, and therefore that current prices are affordable for most consumers, including those who are vulnerable. However, we were also of the view that real-terms increases (i.e., above CPI) in the prices of the capped services would likely lead to a larger proportion of consumers, in particular vulnerable consumers, experiencing incidences of significant detriment in relation to the cost of post more frequently.

## Stakeholder responses

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### Approach to assessing affordability

- 5.8 Royal Mail did not comment on our approach to assessing affordability of postal services, but it argued that (as set out in section 3) our review had inappropriately prioritised ensuring affordability over financial sustainability.<sup>146</sup>
- 5.9 Citizens Advice argued that our assessment of affordability was too general and high level. It also suggested that wider cost of living pressures could not be separated from affordability concerns, noting that ‘affordability is an assessment of external expenditure pressures and income constraints’.<sup>147</sup>
- 5.10 Citizens Advice further suggested that we should include postal services in our work on the affordability of communications services, so that common issues that consumers face across communications markets are considered in the round.<sup>148</sup>
- 5.11 Post Office argued that we should conduct more granular analysis on the affordability of postal services for consumers who cannot or do not access the internet (which we refer to as ‘offline consumers’ throughout this statement), as these consumers are more likely to be vulnerable (for example, older, in the social grades DE, or disabled).<sup>149</sup>
- 5.12 The GCA agreed with our approach but suggested that we should also consider seasonal affordability pinch points, for example Christmas, to further inform our assessment about whether current postal prices are affordable.<sup>150</sup>

### Assessment of affordability

- 5.13 Royal Mail disagreed with our affordability assessment for a number of reasons.<sup>151</sup> It argued that:
- a) there is no affordability issue with postal services, as even for those on low incomes, spend on postal services is very low when compared to other essential items such as gas and electricity or discretionary items such as alcohol and tobacco;
  - b) our qualitative research found that affordability challenges related to post did not result from postal prices themselves, but rather general cost of living challenges;
  - c) Second Class stamps in the UK are significantly below the European average; and
  - d) the Residential Postal Tracker shows that the majority of consumers consider that a Second Class stamp offers value for money and that on average they overestimate the price of a stamp. It concluded that this showed that an increase of 25p in the price of a stamp would not have a noticeable impact on consumers.
- 5.14 Consumer bodies emphasised the importance of postal services for many people, in particular for communicating with organisations and institutions and interacting with essential services:

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<sup>146</sup> Royal Mail, [response to consultation](#), paragraph 15.

<sup>147</sup> Citizens Advice, [response to consultation](#), pp. 13-14

<sup>148</sup> Citizens Advice, [response to consultation](#), p. 14

<sup>149</sup> Post Office, [response to consultation](#), pp. 2-4 and p. 8

<sup>150</sup> GCA, [response to consultation](#), pp. 3-4

<sup>151</sup> Royal Mail, [response to consultation](#), paragraphs 17-27.

- a) Citizens Advice<sup>152</sup> noted that its research shows that just under half of adults report having sent at least one important document in the post in the past six months;<sup>153</sup>
- b) Similarly, Consumer Scotland<sup>154</sup> cited the finding in our Residential Postal Tracker that a considerable minority of consumers have sent formal letters or paid a bill or invoice by post in the past month; and
- c) CCP-ACOD<sup>155</sup> noted the importance of postal services in strengthening connections between citizens and in enabling people who are not online to apply for jobs, submit legal paperwork or make a complaint or Freedom of Information request.

5.15 In the context of the continuing importance of post, Citizens Advice, Consumer Scotland, CCNI and Post Office raised concerns about the affordability of current prices for some consumers, particularly those who are vulnerable.

- a) Citizens Advice and Consumer Scotland cited their research which found that around one in five adults said that they would find it difficult to afford a book of Second Class stamps if they had to do so in the next week. This rose to more than one in three among consumers on a very low income.<sup>156</sup>
- b) Post Office suggested that offline consumers are more likely to experience affordability issues given such consumers are also more likely than average to be in vulnerable groups (such as being aged 65+, disabled or in the DE social grades).<sup>157</sup>
- c) Consumer Scotland argued that disabled consumers are more likely to experience affordability issues than average. It noted evidence from a range of sources that disabled consumers typically have higher costs than non-disabled consumers, including a recent Resolution Foundation report showing that disabled consumers are three times as likely to be materially deprived than the general population.<sup>158</sup>

5.16 Citizens Advice made a number of suggestions as to how we could improve the accuracy of our analysis of the affordability of postal services, in particular for those on the lowest incomes, specifically that we should:

- a) use the 2021-22 ONS expenditure data, as inflation was much higher in this period than 2020-21 (the period included in the consultation);
- b) take into account additional essential areas of spend such as council tax and communications when looking at spend on postal services as a proportion of income after essentials;
- c) consider spend on post by those who rely on it, so as not to under-represent those who most need affordable access to post; and

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<sup>152</sup> Citizens Advice, [response to consultation](#), pp. 10-11.

<sup>153</sup> Citizens Advice defined an 'important document' as: any benefit application forms (including local council benefits, charity or grant application forms), letters or forms to government department (HMRC, DWP, DVLA etc), cheque payments for utilities, rent or other essential bills, letters to a bank, mortgage company or building society, court forms or other legal documents, letters related to debt repayments or insolvency issues, passports, driving licences, other identity documents or job applications.

<sup>154</sup> Consumer Scotland, [response to consultation](#), p. 11.

<sup>155</sup> CCP-ACOD, [response to consultation](#), p. 2.

<sup>156</sup> Responses to consultation from: [Citizens Advice](#), p. 11, and [Consumer Scotland](#), p. 9.

<sup>157</sup> Post Office, [response to consultation](#), pp. 2-3.

<sup>158</sup> Consumer Scotland, [response to consultation](#), pp. 2-4.

- d) consider how consumers interact with postal markets in reality (for example, that many consumers will purchase stamps in books (which are more expensive) rather than individually).<sup>159</sup>
- 5.17 Finally, Citizens Advice also noted that the ONS disposable income data does not capture those living in institutional settings or those who are homeless, and therefore does not include those on the lowest incomes.<sup>160</sup>

## Our assessment

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### Approach to assessing affordability of postal services

- 5.18 As we have previously noted, there is no single approach to affordability that can be definitive about whether the price of a good or service is affordable or not.<sup>95</sup> This is, in part, because incomes and usage, and the extent to which consumers consider their usage to be essential, varies significantly between consumers.
- 5.19 When assessing the affordability of postal services, we must consider the specific features of postal services compared to other essential services. These include the fact that average spend on postal services is significantly lower than on other essential services (and other communications services). Average expenditure on post represents 0.13% of total expenditure, while expenditure on telephone services (landline and mobile) is 1.63% and on energy 4.86%.<sup>161</sup> Further, postal users are not signed up to long term contracts with standing charges and can purchase services as a single item.
- 5.20 We consider that our previous test, that post is unaffordable for someone if they suffer significant detriment as a result of current prices, continues to be the most appropriate way to assess affordability in postal services.
- 5.21 Further, we consider that understanding whether someone has reduced their spending on post because of the price of postal services, or has continued to purchase postal services but has had to cut back on other essential expenditure, remains an appropriate proxy for determining whether they have experienced significant detriment as a result of postal prices. We consider this allows us to take account of the fact that affordability will vary according to a consumer's individual circumstances and views, and that some consumers may be more vulnerable than others in relation to the affordability of postal services.
- 5.22 However, the application of this test in practice is increasingly challenging. For example, letter volumes have been declining year-on-year for a number of years and will likely continue to do so. This trend demonstrates that consumers are already substituting away from letters to other forms of communications such as email, even during periods where the cost of letters is more or less static. This means that a reduction in expenditure on post or willingness to send post may be a weaker indicator of affordability than in the past.
- 5.23 We also recognise that the application of this test is made more complex by the wider economic environment and the increase in the cost of living. While inflation appears to have peaked, it remains high and has led to a general increase in the cost of living, particularly for

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<sup>159</sup> Citizens Advice, [response to consultation](#), pp. 14-15 and p. 17.

<sup>160</sup> Citizens Advice, [response to consultation](#), p. 15.

<sup>161</sup> ONS, 2023. [Family spending in the UK](#).

essential items such as energy and food.<sup>162</sup> Average total pay has only recently begun to increase in real terms after lagging inflation for some time. Adjusting for CPIH inflation,<sup>163</sup> total real pay rose on the year by 1.3% in August to October 2023.<sup>164</sup>

- 5.24 When prices of essential items increase, people typically seek to cut down on their discretionary spending to absorb these increases. The ONS found in December 2023 that around six in ten adults (63%) said that they were spending less on non-essentials because of increases in the cost of living, and that around half of adults (49%) said that their overall cost of living had increased compared with a month ago.<sup>165</sup> We know that postal users consider at least some of their spend on post to be discretionary or non-essential,<sup>166</sup> and we would therefore expect at a time of high inflation to see consumers reducing their spend on it, along with other non-essential items.
- 5.25 An increase in the proportion of consumers reporting a reduction in their spend on postal services to afford essentials may therefore not indicate an increase in postal affordability issues, but rather broader financial concerns arising from the increased cost of living. Similarly, it is difficult to determine whether there is any connection between changes in consumption and increases in postal prices.
- 5.26 Any changes we make to the safeguard caps must be led by the impact of changes in postal prices on affordability and not by the impact of prices of other items or services on affordability of postal services. However, and as noted by Citizens Advice in its response to the consultation, we accept that it is in practice difficult to separate the two. Our qualitative research also identified that consumers typically think about their spending in the round rather than isolating specific areas of spend. It is therefore relevant for us to consider the impact of the wider economic environment and the increase in the cost of living on people's budgets and spending. This is consistent with the approach we have taken in previous reviews where we considered the impact of changes in disposable incomes on consumers' ability to afford postal services.
- 5.27 As explored in more detail below, on average, postal services represent both a very small proportion and a very small absolute amount of consumers' total expenditure; on average, 0.13% of weekly household expenditure.<sup>167</sup> This means that even a significant reduction of 30% to the standard letter safeguard cap would save a household that purchases on average six Second Class stamps per month around £16 per year.<sup>168</sup> In contrast, the energy price cap that applies from January to March 2024 means that the average household energy bill (for those on the energy price cap) is £1,928 per year.<sup>169</sup>

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<sup>162</sup> ONS, [Cost of living insights](#) [accessed 17/01/2024].

<sup>163</sup> Consumer Price Index including owner occupiers' housing costs.

<sup>164</sup> ONS, [Average weekly earnings in Great Britain: December 2023](#) [accessed 15/01/2024]

<sup>165</sup> ONS, [Cost of living insights: Spending](#) [accessed 17/01/2024]

<sup>166</sup> For example, 43% of postal users agree that they only use the post to send greetings cards (Residential Postal Tracker 2022-23, QC3). Our qualitative research also found that many participants did consider postal services important, but not essential for day-to-day communication (see Jigsaw, 2023. Residential Postal Affordability Research, section 3.1)

<sup>167</sup> ONS, 2023. [Family spending in the UK](#).

<sup>168</sup> This as an illustrative example, and is not intended to reflect the average number of stamps purchased by a household in a month.

<sup>169</sup> Department for Energy Security and Net Zero, September 2022 (updated January 2024). [Policy paper: Energy Price Guarantee](#) [accessed 05/01/24].

- 5.28 Given the above, it is clear that that postal prices at their current level are not a major determinant of consumers’ cost of living, and that it is not possible for an adjustment to postal prices to materially redress existing wider cost of living concerns. However, we are also conscious that real term increases (i.e. above CPI) in postal prices would likely further contribute to wider cost of living concerns.
- 5.29 As regards the aspect of our affordability test which asks whether consumers have cut back on essential items to afford postal services, this also presents some challenges to interpretation given the low average spend on post.
- 5.30 Notwithstanding the challenges discussed above, we conducted further consumer research to give us a deeper understanding of postal affordability issues consumers may be facing, and to provide us with context to the Residential Postal Tracker findings on affordability (which are quantitative rather than qualitative).
- 5.31 We agree with the GCA’s suggestion that we consider affordability ‘pinchpoints’, i.e. whether consumers face particular affordability challenges at certain points during the year. Indeed, as set out in paragraph 5.87 below, our qualitative research found that Christmas can be a time when more consumers may experience affordability challenges, given the increased number of letters and parcels being sent to friends and family around this time. These periods of high expenditure contribute to our overall view of the affordability of postal services.
- 5.32 We used the following sources of evidence to inform our assessment of affordability, updating the analysis where more recent data has become available since publication of our consultation:
- a) Our Residential Postal Tracker quantitative research. In particular, we use this to understand how, and how frequently, consumers use postal services, and to understand the proportion of consumers who may experience affordability issues in relation to post. In this statement, we use updated data from August 2022 – June 2023. We note that this now includes face-to-face interviewing which recommenced in January 2023.
  - b) Qualitative research (in-depth interviews with consumers, with a focus on those on lower incomes) to better understand any postal affordability issues consumers are facing. The research also provides additional context to the findings of the Residential Postal Tracker.<sup>170</sup>
  - c) Office for National Statistics (ONS) data on household disposable income and expenditure on postal services and other goods and services.<sup>171</sup> We use this to understand how much consumers spend on post as a proportion of their expenditure, how this differs by demographic group, and how incomes have changed since our previous review. In this statement we use updated data relating to the 2021-22 financial year.
- 5.33 In response to Citizens Advice, we set out in the following section where we have responded to its specific concerns around the granularity of our analysis.

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<sup>170</sup> We conducted 44 one-hour depth interviews (half online and half face-to-face) across the UK between March and May 2023. The sample included participants from a range of backgrounds but with a focus on those from lower incomes. We have published the qualitative research report alongside this consultation. See Jigsaw, 2023. [Residential Postal Affordability Research](#).

<sup>171</sup> ONS, 2023. [Family spending in the UK](#) (expenditure). ONS, 2023. [The effects of taxes and benefits on household income, disposable income estimate](#) (disposable income).

- 5.34 Noting the comments of consultation respondents, we consider that the following demographic groups are more likely to be vulnerable in relation to the cost of post, on the basis of either higher reliance on postal services and/or lower than average income:
- a) Older people;
  - b) People on low incomes;
  - c) People in rural areas;
  - d) People without internet access/or poor digital skills; and
  - e) People with disabilities.<sup>172</sup>
- 5.35 While we re-started face to face interviews in the Residential Postal Tracker in January, the sample size of offline consumers is not sufficient for us to draw robust conclusions about this group from our quantitative research. In the next section, we therefore also consider other sources of evidence, for example from our qualitative research. However, given the small size of these groups, it is difficult for us to draw firm conclusions about the affordability of postal services for sub-groups of offline consumers (for example, offline consumers aged 65+).

## Use of postal services

- 5.36 Our consumer research shows that consumers consider that they are sending fewer items in the post over time.<sup>173</sup> In our Residential Postal Tracker, participants were asked if they were sending more, less, or the same amount of mail as two years ago. For all of the types of mail asked about, the proportion of participants saying that they are sending less than they were two years ago was higher than the proportion reporting that they are sending more. The net difference in 2022-23 was particularly high for personal letters (-20), invitations/greetings cards/postcards (-17), formal letters (-18) and payments for bills/invoices/statements (-18). The net difference was smaller for parcels (-7 for both smaller and larger parcels).<sup>174</sup>
- 5.37 Consumers' perceived reduced use of postal services to send items is borne out by actual volumes from Royal Mail. Standard letter volumes decreased by [X]% per year on average between 2019-20 and 2022-23, while volumes of large letters and parcels weighing up to 2kg also decreased, but by a smaller amount ([X]% for both).<sup>175</sup>
- 5.38 Our qualitative research results reflected these findings. Participants generally agreed that their use of letters has declined in recent years, mainly driven by the use of alternatives such as email, messenger services and video calling, which are faster, more reliable and cheaper. The Covid-19 pandemic was generally considered to have accelerated this trend.<sup>176</sup>
- 5.39 However, while people consistently report sending fewer items in the post than they did previously, our quantitative research shows that most people have used the post to send an item in the past month. Around three quarters of people (73%) report doing so, with more

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<sup>172</sup> NB we did not include this group in the consultation but, following evidence submitted by consumer bodies, we have decided to include it in this statement.

<sup>173</sup> The findings are based on survey participants' own recollections, which are unlikely to be precisely accurate, so should be treated with some caution.

<sup>174</sup> Residential Postal Tracker 2022-23, QE2.

<sup>175</sup> Royal Mail Regulatory Financial Reporting Information. Figures relate to stamped volumes for both First and Second Class.

<sup>176</sup> See Jigsaw, 2023. [Residential Postal Affordability Research](#), section 3.1.

people reporting having sent a letter than a parcel (58% vs 39%).<sup>177</sup> The average number of postal items people report sending in the past month is just over 4.5,<sup>178</sup> while the reported average number of letters sent in the past month is 2.8.<sup>179</sup>

- 5.40 Compared to 2017, more consumers say they have not sent any post in the past month (27% in 2022-23 vs 14% in 2017),<sup>180</sup> and the average number of items consumers report having sent in the past month is lower than in 2017 (4.5 vs 6).<sup>181</sup> Consumers are most likely to send items that are social in nature, such as invitations, greetings cards and postcards; 42% of people report sending at least one of these in the past month.<sup>182</sup> More than two in five consumers agree that they *only* use the post to send greetings cards (43%).<sup>183</sup>
- 5.41 On a monthly basis, a smaller proportion of consumers send items in the post for more formal purposes; 20% report sending a formal letter in the past month and 14% a bill payment or invoice.<sup>184</sup> A considerable proportion of consumers appear to send items in the post only out of necessity. Around half (49%) agree that they only use post if there is no alternative, while around seven in ten (69%) agree that they prefer to send emails rather than letters whenever possible.<sup>185</sup>
- 5.42 However, notwithstanding the above, while use of post is declining, access to post remains very important to people and is particularly highly valued in some circumstances. For example, around four in five postal users (79%) agree that there will always be things they need to send by post, and nearly three in five (57%) say that they would feel cut off from society if they couldn't send or receive post.<sup>186</sup> Participants in the qualitative research cited the important role of sending and receiving physical cards for birthdays and other occasions, such as Christmas and Easter. It was also noted that it is a tangible way of keeping in touch with family and friends, particularly those who are less able to use, or feel less confident using, digital alternatives. For a minority of participants, sending cards was considered essential for emotional reasons.<sup>187</sup>
- 5.43 There was also an acknowledgment in our research that, while use of post for non-leisure purposes is declining, it is still sometimes necessary. Examples cited included needing to send supporting information or forms to an official body or provider, for example, about benefits. Citizens Advice's research shows that, in the past six months, just under half (46%) of consumers have sent an 'important document' in the past six months, which includes

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<sup>177</sup> Residential Postal Tracker 2022-23, QG1. In the Residential Postal Tracker, 'Letters' includes invitations/greetings cards/postcards, personal letters, formal letters to organisations or individuals, and payments for bills/invoices/statements.

<sup>178</sup> Average number of parcels and letters sent, including those who say they have not sent any.

<sup>179</sup> Residential Postal Tracker 2022-23, QG1. We note that people find it difficult to accurately estimate their usage of a service, therefore these findings should be interpreted with caution.

<sup>180</sup> Residential Postal Tracker 2022-23, QG1. We reported in the 2018 safeguard caps consultation that 28% of respondents reported sending no items of post in the past month in 2017. This was an error, and the correct figure for 2017 is 14%.

<sup>181</sup> These decreases are consistent with our market data, which shows that mail volumes declined during this period. However, the decline suggested by the survey results may also be partly explained by changes to the research questionnaire and methodology. For more information, see Ofcom, 2023. [Statistical release calendar 2023](#).

<sup>182</sup> Residential Postal Tracker 2022-23, QG1\_1.

<sup>183</sup> Residential Postal Tracker 2022-23, QC3\_6.

<sup>184</sup> Residential Postal Tracker 2022-23, QG1\_3 and QG1\_4.

<sup>185</sup> Residential Postal Tracker 2022-23, QC3\_4 and QC3\_2.

<sup>186</sup> Residential Postal Tracker 2022-23, QC3\_5.

<sup>187</sup> Jigsaw, 2023. [Residential Postal Affordability Research](#), section 3.1.

benefit application forms, cheque payments for utilities, and court forms or other legal documents.<sup>188</sup> Some participants in our qualitative research also noted the ‘reassurance’ that sending physical letters in the post for official purposes can provide.<sup>189</sup>

- 5.44 Use of the post for sending items to an official body or provider was mentioned in particular by qualitative research participants with lower digital literacy or low trust in digital services. CCP-ACOD emphasised this point in its response, noting in particular the importance of postal services for enabling people who are not online to engage with government or other public services.<sup>190</sup> Consumer Scotland also made a similar argument, noting that some consumers are unable to use online alternatives to postal services. It also raised a concern that the cost of living crisis and the increase in government spending as a result of covid-19 may have slowed investment in digitisation of services, which in turn may mean that some consumers may continue to be reliant on postal services for longer than they otherwise would have.<sup>191</sup>
- 5.45 Taken together, our findings suggest that many people do not have a frequent *need* to send letters in the post, as most banking, bill-paying and communicating with organisations can be done via other methods (e.g. online, by email, or by phone). However, there continue to be many occasions on which people do need to use it for non-leisure or essential purposes, and those who do not or cannot use the internet are more likely to need to do so.
- 5.46 We observe some differences in use of postal services by consumer group, specifically that:<sup>192</sup>
- a) While overall there are not significant differences by age group in terms of whether they have sent any items in the past month, older people aged 55+ are more likely to have sent a letter (64% vs 54%), and less likely to have sent any parcels (31% vs 46%) than younger people aged 16-34.<sup>193</sup> There are not significant differences by age group in terms of the average number of items reported to have been sent in the past month.
  - b) People on the lowest incomes (less than £11,500 per year) are more likely than average to have sent no items in the past month (37% vs 27%), although there are no significant differences across other income groups. Those in the social grade DE are also more likely than average to have sent no items in the past month (36% vs 27%), and to have sent fewer items overall (an average of 3.5 compared to 4.5).
  - c) Those in the most rural areas are slightly more likely than average to have sent items in the post in the past month (77% vs 73%), and report having sent more items than average (an average of around 5.3 vs 4.5).
- 5.47 The finding that people on lower incomes tend to send fewer items than average in the post, and that people living in rural areas send more, is in line with our findings in our 2018-19 safeguard caps review.<sup>194</sup> However, unlike the finding we set out in that review, younger

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<sup>188</sup> See footnote 153 for Citizens Advice’s definition of an important document.

<sup>189</sup> Jigsaw, 2023. [Residential Postal Affordability Research](#), section 3.2.

<sup>190</sup> CCP-ACOD, [response to consultation](#), p. 2.

<sup>191</sup> Consumer Scotland [response to consultation](#), p. 7.

<sup>192</sup> All figures cited in this paragraph are from Residential Postal Tracker 2022-23, QG1.

<sup>193</sup> As well as being more likely to have sent at least one letter in the past month, postal users aged 55+ report sending on average more letters than younger postal users (3.7 vs 2.4). Younger postal users (aged 16-34) report sending more parcels in the past month on average than older postal users (1.7 vs 0.9).

<sup>194</sup> Ofcom, 2019. Statement: [Review of the Second Class Safeguard Caps 2019](#), paragraph 4.37.

people are now as likely as older people to have sent at least one item in the post in the past month.

- 5.48 Citizens Advice and Consumer Scotland both submitted research evidence that certain consumer groups are particularly likely to send important or official documents in the post. For example, Citizens Advice noted that adults in receipt of Universal Credit, adults with a monthly income of less than £500, and adults with a monthly shortfall in their budget, were all more likely than average to have sent important documents in the post in the past six months.<sup>195</sup> Consumer Scotland’s research found that disabled consumers in Scotland are significantly more likely than non-disabled consumers to send letters to local authorities (30% vs 18%), government departments (47% vs 33%) and their GP or other healthcare professionals (17% vs 9%).<sup>196</sup>
- 5.49 Overall, our conclusion remains consistent with that drawn in our consultation, that while many people prefer to use online alternatives to post, use of postal services is still relatively widespread. Further, a considerable minority of consumers use it to communicate with official bodies or providers – for example, to pay bills, apply for benefits or grants, or send legal documents. The evidence submitted by consumer bodies suggests that vulnerable groups are particularly likely to use the post for such reasons, and it is reasonable to assume (and our qualitative research suggests) that offline consumers are also particularly likely to.

## Expenditure on postal services

### ONS data

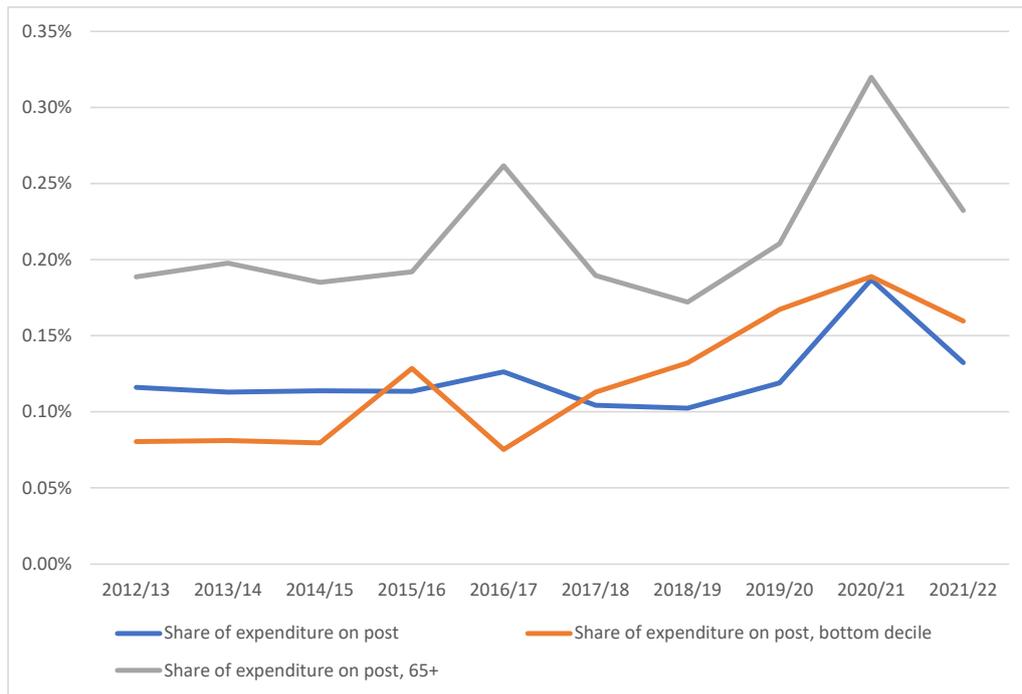
- 5.50 In both absolute terms and as a proportion of total household expenditure, expenditure on postal services remains low. According to the ONS, in 2021-22 the average household spent £0.70 per week on postal services (equivalent to just over £3.00 per month), representing 0.13% of total weekly expenditure (see Figure 7 and Figure 8 below). This is a decrease from the 2020-21 share (0.19%), but is broadly in line with the 2018-19 share (0.10%).
- 5.51 As noted in the consultation, the spike in the proportion of spend on postal services in 2020-21 may be explained by an overall decrease in spend on other items as a result of the covid-19 pandemic (for example, transport) and an increase in online shopping.
- 5.52 Expenditure on postal services by those aged 65+ remains higher than average. Absolute expenditure by households in the lowest income decile remains lower than average, but has increased significantly since 2016-17. As a proportion of their expenditure, households in the lowest income decile now spend more on postal services than average.
- 5.53 Postal expenditure data from the ONS includes spend on all postal services, and average weekly spend on the capped services will therefore be less than £0.70.
- 5.54 We note (as pointed out by Citizens Advice) that the ONS expenditure data does not include those living in institutional settings or those who are homeless. We are not aware of a data source which could provide reliable evidence on expenditure on postal services by these consumers.

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<sup>195</sup> Citizens Advice, [response to consultation](#), Figure 3.

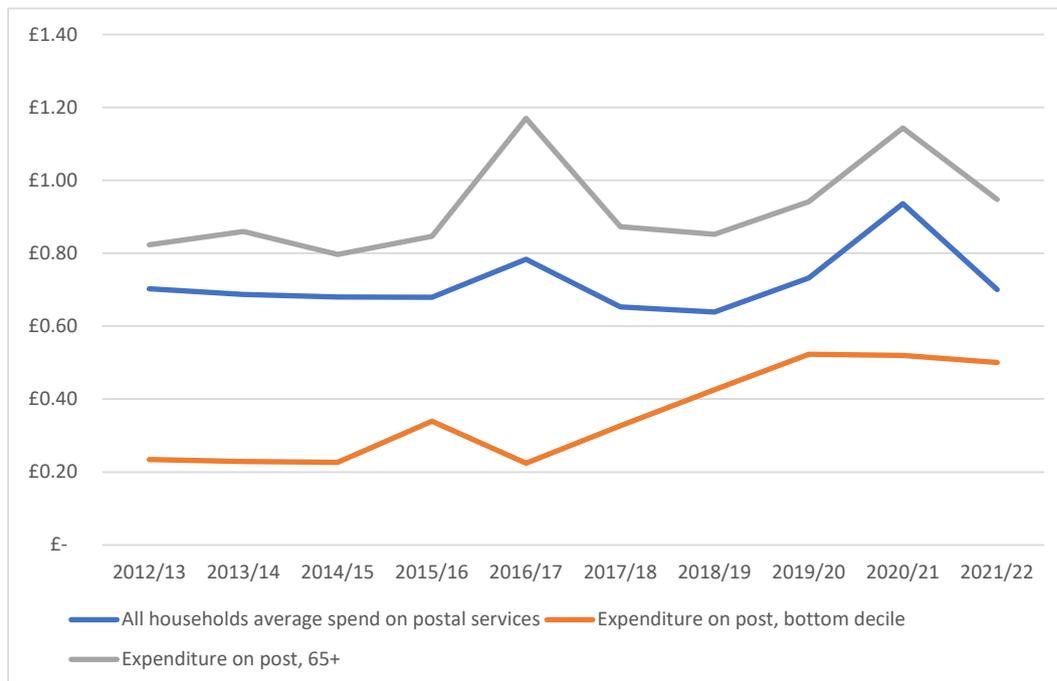
<sup>196</sup> Consumer Scotland, [response to consultation](#), p. 3.

**Figure 7: Weekly household expenditure on post as a share of total weekly household expenditure, by consumer group, 2012-13 to 2021-22**



Source: Ofcom analysis of ONS data (ONS: Family spending in the UK)

**Figure 8: Weekly household expenditure on post by consumer group, 2012-13 to 2021-22**



Source: Ofcom analysis of ONS data (ONS: Family spending in the UK), 2021-22 prices, adjusted using CPI

5.55 As we noted in the consultation, and as argued by Royal Mail, expenditure on postal services as a proportion of total expenditure remains low. However, we disagree with Royal Mail that this in itself shows that consumers do not experience affordability issues with postal services. Average expenditure data alone cannot tell us what the *impact* is on specific groups of consumers.

- 5.56 The additional analysis of the 2021-22 ONS data submitted by Citizens Advice highlights that average expenditure on postal services by households who spend money on postal services is considerably higher than the average expenditure by all households, at £4.75 compared to £0.70 per week.
- 5.57 We agree with Citizens Advice that this is a useful indicator to consider alongside the average spend by all households, focusing as it does on those who rely on postal services. Further, as noted above, there is evidence to suggest that certain vulnerable groups are more likely than average to rely on or use the post to send important documents.
- 5.58 Our evidence also shows that the average expenditure on postal services by households in the lowest income decile could be a significant burden. Below, we consider the proportion of households' income spent on postal services after essential items such as housing, energy, water and food. This provides a clearer picture of spend on post by those on lower incomes because people in lower income deciles spend a significantly higher proportion of their income than average on essential services such as housing and energy.

**Table 5: Spend on postal services as a proportion of monthly disposable income by each decile of income distribution, net of essential spending, 2021-22**

	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest
<b>Disposable income</b> <sup>197</sup>	£769	£1,434	£1,807	£2,152	£2,505	£2,899	£3,342	£3,919	£4,812	£9,136
<b>Housing</b> <sup>198</sup>	£-457	£-494	£-413	£-470	£-460	£-531	£-707	£-686	£-861	£-1,410
<b>Energy</b> <sup>199</sup>	£-100	£-104	£-101	£-111	£-109	£-106	£-115	£-111	£-117	£-140
<b>Water</b> <sup>200</sup>	£-36	£-40	£-39	£-44	£-42	£-43	£-43	£-48	£-53	£-60
<b>Food and drink</b> <sup>201</sup>	£-202	£-220	£-244	£-261	£-252	£-295	£-282	£-293	£-317	£-328
<b>Total remaining income</b>	£-27	£576	£1,008	£1,266	£1,642	£1,924	£2,195	£2,781	£3,465	£7,198
<b>Postal services</b>	£-2.17	£-2.17	£-3.03	£-2.60	£-2.60	£-3.90	£-3.47	£-3.03	£-4.33	£-5.63
<b>Spend on post as a % of remaining income</b>	-8.05%	0.38%	0.30%	0.21%	0.16%	0.20%	0.16%	0.11%	0.13%	0.08%

Source: Ofcom analysis of ONS data (ONS, 2023: Family spending in the UK and ONS, 2023: The effects of taxes and benefits on household income, disposable income estimate).

<sup>197</sup> This consists of all income, plus direct benefits, minus direct taxation. We have used equivalised income, therefore income adjusted for household composition.

<sup>198</sup> We have accounted for rent and mortgage payments, and spend associated with the purchase, maintenance, and repair of dwellings. We have excluded housing benefit and council tax, as they are accounted for already as a deduction from income to generate disposable income figures.

<sup>199</sup> Inclusive of spend on gas, electricity and other fuels.

<sup>200</sup> Inclusive of spend on water services to the premise and miscellaneous services relating to the dwelling.

<sup>201</sup> Inclusive of spend on food and drink, except for spend on alcoholic drinks.

- 5.59 This analysis shows that, in 2021-22, households in all income deciles, except the bottom decile, spent 0.38% or less of their disposable income net of essentials on postal services. However, households in the bottom income decile on average spend £27 more on housing, energy, water and food and drink than they receive in disposable income. While the samples are different, this figure is very similar to Citizens Advice’s data which shows that, on average, its debt clients spend £27.85 more on essential items than they receive in income.<sup>202</sup> Similarly, Citizens Advice’s analysis shows that average per person expenditure on essentials is higher than the average amount received by a single person on Universal Credit.<sup>203</sup>
- 5.60 Spend on postal services by households in the lowest income decile represents -8.05% of their remaining income after essentials have been deducted. In 2020-21, these households spent on average 1.57% of their disposable income after essentials on postal services. The change appears to be a result of these households spending significantly more on housing as a proportion of their disposable income than in 2020-21 (59% in 2021-22, compared to 38% in 2020-21).
- 5.61 Citizens Advice argued that including additional items that households typically must spend money on (for example, council tax and communications services) would provide a more nuanced picture of the income households have available to spend on postal services. It suggested that we use the relevant section of the FCA handbook<sup>204</sup> for this, in order to ensure a transparent and uniform approach to defining essential expenditure across sectors.
- 5.62 Firstly, we note that council tax (as set out in the consultation)<sup>205</sup> was not included as a separate category, but was accounted for in our analysis as a deduction from income to generate the disposable income figures.
- 5.63 More broadly, while accepting the concerns raised by Citizens Advice, we consider that the approach we used in the consultation for this analysis remains appropriate. This is because we are seeking to understand the specific financial burden that postal services may place on consumers and how this differs depending on their income.
- 5.64 Further, the areas of essential expenditure we take into account (housing, energy, water and food and drink) cover a large proportion of the types of essential goods and services households must typically purchase, and we are therefore confident that the analysis provides sufficient indication of the burden that postal services place on consumers in different income deciles.

### Expenditure data from consumer research

- 5.65 In response to Citizens Advice, we have also looked at consumer-reported expenditure on postal services using data from the Residential Postal Tracker. This is a useful addition to the expenditure data published by the ONS. However, caution is needed when interpreting the results, as consumers may struggle to recall specific amounts spent on certain services, especially when the absolute amounts are low and spend is irregular.
- 5.66 Among all postal users, the mean reported amount spent on letters and parcels in the past month was around £7.50, while the mean reported amount spent on sending letters and

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<sup>202</sup> Data refers to clients who accessed Citizens Advice’s debt advice services in Q1 of 2023-24.

<sup>203</sup> Citizens Advice, [response to consultation](#), Figure 6 and paragraph 32.

<sup>204</sup> Financial Conduct Authority, [Handbook](#).

<sup>205</sup> See footnote 128 of the consultation and footnote 198 of this statement.

cards was around £4.40.<sup>206</sup> We observe that these amounts are higher than the amount reported by the ONS.

- 5.67 Average reported spend is highest in November (around £12) and December (around £10.40), reflecting the seasonal peak when consumers are sending Christmas cards and presents to friends and family.<sup>207</sup> Those on the lowest incomes (under £11,500/year) report lower than average spend on letters and parcels (around £4.10), while those who live in rural areas report higher than average spend (around £9.50). Disabled consumers report slightly higher average spend on letters and parcels than non-disabled consumers (around £8.30 vs £7.40).

### How consumers purchase stamps

- 5.68 Citizens Advice also suggested that we consider how consumers interact with postal markets in reality, noting that our Residential Postal Tracker shows that a quarter of consumers who purchased stamps in the past year did so at a supermarket, and one in five at a convenience store. It is not usually possible to purchase a single stamp from these locations.
- 5.69 We agree with Citizens Advice that it can be difficult for consumers to plan and budget for their stamp purchases in advance, as it is not always possible to know when an item may need to be sent in the post. This means that, if a consumer does not already have stamps, and needs to send a letter, they may need to purchase a book of stamps in order to do so.
- 5.70 The Residential Postal Tracker shows that, while some consumers report purchasing stamps at supermarkets and convenience stores, the most common location at which consumers report having purchased stamps is the Post Office (66%), where it is possible to purchase a single stamp. Further, the Post Office has a very extensive network and is accessible to the vast majority of UK citizens.<sup>208</sup> Therefore, it is reasonable to assume that in the majority of circumstances, consumers who may struggle to afford a book of stamps can purchase an individual one.

## Summary

- 5.71 Overall, while for most consumers spending on post remains low, spending on post is significantly higher than average for consumers who rely particularly on post and is significant for consumers on the lowest incomes, especially once spend on essentials has been taken into account. With that in mind, the evidence suggests that there is a risk that these consumers will face affordability issues in relation to post.

## Household income

- 5.72 Household incomes increased by 2.8% in real terms between 2018-19 and 2021-22, but changes in real incomes varied considerably between different consumer groups. Incomes decreased on average for those in potentially vulnerable groups. For example, households in the lowest income decile and income quartile saw their incomes decrease in real terms (-12% and -5% respectively).

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<sup>206</sup> All reported spend figures in this section are from Residential Postal Tracker 2022-23, QH1/I2.

<sup>207</sup> The survey question asks participants about spend in the past month, so while these estimates were collected in December and January, they represent (approximately) reported expenditure in November and December respectively.

<sup>208</sup> Post Office data shows that in March 2022, 99% of the UK public live within three miles of a Post Office and 90% live within one mile. See Post Office, 2022. [Network Report 2022](#), p.6.

- 5.73 Incomes of retired households reduced on average by 5% in real terms, and retired households in the lowest income decile saw a particularly large drop in their income (-18%). As noted above, both older consumers and those on low incomes are more likely to be vulnerable in relation to the cost of post. In contrast, at the time of our previous review of safeguard caps (2018-19), we found that real incomes had increased in the period since we had previously set the caps, including for those in the lowest income decile.
- 5.74 This data covers the time period up to March 2022, as this is the most recent data on disposable incomes available from the ONS. CPI inflation has increased rapidly since then, leading to a significant increase in the cost of living. More recent data shows that, after lagging inflation (CPIH) since April 2022, average total pay has only recently begun to keep pace with inflation - in September to November 2023, it rose in real terms by 1.3% on the year.<sup>209</sup> While this data only covers those in employment, it indicates that consumers are continuing to feel the effects of high inflation, albeit with some signs of easing in recent months.
- 5.75 It is also worth noting that most benefits typically rise with inflation annually, while the State Pension typically rises by CPI, average earnings, or 2.5% (whichever is higher). Most recently, most benefits and the State Pension were increased by CPI (10.1%) in April 2023. This affects two potentially vulnerable groups in particular – people on low incomes, and older people. There has also been additional targeted support with the cost of living from the Government for people who are eligible for certain benefits or who receive a pension.

**Table 6: Cumulative growth in real disposable incomes by group, 2018-19 to 2021-22**

	Bottom decile	Bottom quintile	All incomes
All households	-12.3%	-5.3%	2.8%
Non-retired households	-10.8%	-2.6%	4.2%
Retired households	-18.1%	-12.5%	-4.7%

Source: Ofcom analysis of ONS data (ONS, 2023: *The effects of taxes and benefits on household income, disposable income estimate*). We use equivalized household incomes to control for the effect of changes in household size. 2021-22 prices, adjusted using CPI.

## Market research on affordability

- 5.76 While we note that our approach to affordability raises some practical challenges, as discussed above, we set out below the findings from our Residential Postal Tracker, research conducted by consumer bodies, and our qualitative research.
- 5.77 While the findings are not directly comparable with those reported in our previous review of safeguard caps, we observe an increase in postal users reporting potential affordability issues in our Residential Postal Tracker since our last review.<sup>210</sup> In 2017, 10% of users reported experiencing any post affordability issues, while in 2022-23, 30% reported experiencing any affordability issues with letters and cards or parcels, while 25% reported

<sup>209</sup> ONS, [Average weekly earnings in Great Britain: January 2024](#) [accessed 17/01/2024].

<sup>210</sup> We made some changes to the affordability questions on the Residential Postal Tracker in 2022. For more detail on these changes, see paragraph 5.45 of the consultation.

- experiencing any affordability issue with letters and cards. This increase appears to have levelled off since 2022, although it is likely too early to tell if this will continue.<sup>211</sup>
- 5.78 More specifically, in 2022-23, 22% said that they have had to reduce the number of letters and cards they send so that they can afford essentials. For parcels, this figure was similar (21%), and for First Class letter post it was just under a quarter (24%). In 2022-23, the proportion of postal users who reported cutting back on post to afford essentials is higher than the proportion who report cutting back on essentials to afford post (26% vs 20%).<sup>212</sup>
- 5.79 Our qualitative research provides additional insight into the increase in postal users reporting affordability issues observed in the Residential Postal Tracker.<sup>213</sup> This found that the increased cost of living was causing participants to take a wide range of actions to reduce their spending across the board (both essential and non-essential spending). Many participants were cutting back on their spend on postal services as part of spending reductions across all or most household spend categories, because other costs had increased. Post was considered just another area with potential for spend to be reduced.<sup>214</sup>
- 5.80 There was little evidence from the qualitative research to suggest that, where participants were cutting back on postal services, they frequently experienced significant detriment as a result. This was because most participants in the qualitative research did not see postal services as essential to their day-to-day communication, which meant that they found it easier to cut back on postal services than other things.<sup>215</sup> However, as noted above, a small number of participants did consider at least occasional use of post essential to them, because sending cards and letters was an important aspect of their social life.
- 5.81 The qualitative research identified that the extent to which a participant might consider post to be unaffordable depended on a combination of three factors – their own financial situation, their reliance on post in a given period, and (for a minority) an emotional connection with sending cards and letters.<sup>216</sup> With this in mind, when asked whether they considered post (and stamps in particular) affordable, few participants felt that sending the occasional letter or card was unaffordable to the extent that they could not send them.
- 5.82 Further, participants generally did not feel that cutting back on postal services would affect their overall ability to afford essentials and did not make a clear connection between cutting back on postal services and being better able to afford a specific essential item or bill. This is likely because average spend on post is very low and represents only a very small proportion of total household spending commitments.<sup>217</sup>
- 5.83 Royal Mail contended that these findings suggest that consumers do not experience affordability issues with postal services. We agree that the research found that consumers do not identify postal services as being particularly difficult to afford, over and above other items. This is likely to be because, similar to the above, postal services represent a much smaller proportion of household expenditure than for example energy or food, and so are not top of mind for many people.

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<sup>211</sup> Residential Postal Tracker 2022-23, QG2.

<sup>212</sup> Residential Postal Tracker 2022-23, QG2.

<sup>213</sup> Jigsaw, 2023. [Residential Postal Affordability Research](#).

<sup>214</sup> Jigsaw, 2023. Residential Postal Affordability Research, sections 3.5 and 4.1

<sup>215</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.3

<sup>216</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.1

<sup>217</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.1

- 5.84 Further, while few participants identified postal prices themselves as causing affordability issues, there was a link between the increased cost of living in general and difficulty in affording postal services. The research suggested that the current financial climate was causing people a significant worry and leading them to cut back on all discretionary spending, including postal services, where possible. This suggests that while postal prices are not themselves driving the financial difficulties many consumers are currently experiencing, they do contribute to them.
- 5.85 In line with other areas of spending, the research showed that participants were very conscious of their spending and were taking a range of actions to reduce their spend on postal services in order to save money or to be better able to afford essentials. The most common action taken within our sample was switching from First Class to Second Class. This was generally felt to have little or no impact on them in terms of meeting their needs, and generally amounted to inconvenience rather than detriment (for example, switching from First to Second Class and as a result needing to plan further ahead to ensure items arrived on time).
- 5.86 However, while we found that spending on postal services did not generally require sacrifices to be made, it identified that this may not be the case in two situations – if a consumer had cashflow pressures, and/or if they had an increased demand for postal services in a given period. With respect to cashflow pressures, some participants on a very low income reported needing to be very conscious of their spending at certain times of the month (for example, when bills were collected from their bank account, or at the end of the month just before being paid). This could mean that if they needed to send an item in the post during such a period, it could cause stress or lead the consumer to find an alternative way to send it (for example, borrowing money from friends or family), or delaying sending the item.
- 5.87 The Christmas period (a time when consumers typically spend more on postal services compared to the rest of the year) was also identified as a time when post could become unaffordable for some. Several participants said they had cut back on the number of Christmas cards they were sending, and most stated that those being sent were done so by Second Class rather than First Class post. Unlike other periods, participants did not feel they had a choice about the timing of sending Christmas cards and this could cause some detriment.<sup>218</sup>
- 5.88 At the most severe end, a very small number of participants recalled having had to make a trade-off between sending an important letter or card and purchasing essential food items or heating. The research also identified one person that had needed to ask friends or family for money when sending certain items of post (this seemed to be more common in relation to ‘Signed For’ items).
- 5.89 The research also identified that a minority of consumers appeared to struggle to afford current prices, particularly those with certain overlapping sets of circumstances, for example:
- a) Being on a low income and lacking digital skills or confidence;
  - b) Being on a low income and having an emotional attachment to sending greetings cards;
  - c) Having a condition that impacts their mobility and lacking digital skills or confidence; or

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<sup>218</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.2.

- d) Being on a low income and relying on selling low-value items online to boost income.<sup>219</sup>
- 5.90 As noted above, consumer groups have conducted quantitative research on affordability of postal services. We welcome this research as it provides further insight into the affordability of postal prices.<sup>220</sup> The findings pertaining to affordability specifically were as follows:
- a) Citizens Advice and Consumer Scotland both found that 19% of consumers said that they would struggle to afford a book of Second Class stamps if they had to buy one in the next week, while Citizens Advice found that 8% would struggle to afford a single stamp.<sup>221</sup>
  - b) Consumer Scotland found that 15% of Scottish consumers who send letters or parcels had struggled to afford postal services in the last year, and of those 28% had to forgo essentials to pay for postal services.<sup>222</sup>
  - c) 6% of NI consumers report going without essentials to pay for postage in order to send an item urgently.
  - d) One in seven (16%) NI consumers have affordability issues with a Second Class letter. For online parcels, this rises to 31%, and for parcels purchased at the Post Office, to 47%.<sup>223</sup>
  - e) One in five NI consumers (20%) are worried about the current cost of sending letters, while a similar proportion are worried about the future cost (21%).
  - f) In the past year, one in four (24%) NI consumers have paid the price of a letter or parcel even though it was too expensive considering their financial circumstances at the time.
  - g) 17% of NI consumers say that future Royal Mail price increases will mean that they have no choice but to pay the price being charged, while 48% say they will continue to use the service as before.
- 5.91 We note that Citizens Advice, Consumer Scotland and CCNI asked broader questions about affordability, although Consumer Scotland and CCNI also asked consumers whether they had forgone essentials to pay for postage. In both cases, the proportion of consumers agreeing with this question was significantly smaller than the proportion in our research. While the findings are not directly comparable,<sup>224</sup> they both suggest (as our qualitative research found) that the proportion of consumers who report an affordability issue on our tracker may be overstated.
- 5.92 However, taken in the round, both our findings and those submitted by the consumer groups suggest that around one in five consumers may experience affordability issues in relation to letters, and a smaller proportion may experience significant detriment as a result of postal prices.
- 5.93 Consumer Scotland and CCNI also asked consumers a range of other questions which provide insight into consumers' views of the current cost of postage:
- a) Around half of consumers in Scotland consider Second Class letters expensive or far too expensive (53%), while 45% think this for parcels purchased at the Post Office.<sup>225</sup> Three

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<sup>219</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.4.

<sup>220</sup> Consumer Scotland has also published a briefing containing more detail on the results of its research on its website. See Consumer Scotland, September 2023. [Briefing: The affordability of the Universal Postal Service.](#)

<sup>221</sup> Responses to consultation from: [Citizens Advice](#), paragraph 22, and [Consumer Scotland](#), p. 9.

<sup>222</sup> Consumer Scotland, [response to consultation](#), p. 8.

<sup>223</sup> Participants were asked 'How affordable do you find the current minimum cost of postage for...?'

<sup>224</sup> For example, Consumer Scotland asked only those who had already said that they have struggled to afford postal services in the past year, while CCNI asked about forgoing essentials to pay for 'urgent' postage.

<sup>225</sup> Consumer Scotland, 2023. Briefing: [The affordability of the Universal Postal Service](#), pp. 6-7.

- in ten consumers in Northern Ireland (29%) consider Second Class letters expensive, while 58% say the same of parcels purchased at the Post Office.<sup>226</sup>
- b) A third of consumers in Northern Ireland (33%) consider that at £0.80, a Second Class letter would be so expensive that they would consider not buying it at all – rising to 42% at £0.90 and 73% at £1.00.<sup>227</sup>
  - c) Around three quarters of NI consumers say that it is important that Second Class letter and parcel prices are affordable (77% and 72% respectively), but satisfaction with affordability is lower (60% and 44%).<sup>228</sup>
- 5.94 These findings, while helpful for understanding consumers’ views on the cost of postage, are not particularly useful in gauging affordability of postal services. This is because, in general, finding something expensive, or being dissatisfied with the cost, is not the same as finding something unaffordable. This is because it is possible to find something expensive, or to be dissatisfied with its cost, while also being able to afford it.
- 5.95 With regard to CCNI’s research seeking to understand at what price point consumers would consider not buying the service at all, we treat survey responses to hypothetical questions on pricing with a degree of caution as consumers may overstate their responsiveness to changes in price when they do not have to follow through with taking a given action. It is also difficult to rely on survey questions to a great degree of precision (i.e. the nearest pence).
- 5.96 Royal Mail used similar data to make the opposite point (that consumers find post affordable). For example, it noted the finding from the Residential Postal Tracker that most consumers consider a Second Class stamp value for money, and that they consistently overestimate the price of a stamp. We consider that these findings are helpful in understanding consumers’ attitudes towards current stamp prices, including how these have changed over time.
- 5.97 However, this information does not allow us to draw conclusions about whether standard letters are generally affordable. For example, it would be possible for someone to consider the current price is value for money in the abstract, while also finding it difficult to afford when they needed to purchase one. We also note that net satisfaction with the value for money of a Second Class stamp has gradually decreased since early 2021, from 62% in Q1 2021 to 52% in Q2 2023.<sup>229</sup>
- 5.98 Further, the most recent finding from our Residential Postal Tracker is that the average estimated cost of a Second Class stamp is £0.99, 32% higher than the current cost of £0.75.<sup>230</sup> The Residential Postal Tracker has found since at least 2016 that consumers overestimate the price of a stamp, but the percentage difference has increased in the past 4-5 years (from roughly 10% higher to roughly 30% higher).<sup>231</sup> Again, we do not consider the fact that consumers typically over-estimate the price of a stamp to be a reliable indicator of

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<sup>226</sup> CCNI, [response to consultation](#), Table 5 and p. 18. Please note that Consumer Scotland’s question wording was different from CCNI’s question wording and therefore the results are not directly comparable.

<sup>227</sup> CCNI, [response to consultation](#), Table 6.

<sup>228</sup> CCNI, [response to consultation](#), p. 20.

<sup>229</sup> Residential Postal Tracker 2022-23, QH6 (previously QF5).

<sup>230</sup> Royal Mail noted in its consultation response that the average estimate of the price of a Second Class stamp was £1.06 (41% higher than the actual price). That figure was based on data for 2022, but we report here on more recent data (Residential Postal Tracker 2022-23, QH4).

<sup>231</sup> Residential Postal Tracker 2022-23, QH4 (previously QF3).

the affordability of current or theoretical future prices. It is equally likely that consumers' perceptions of Second Class prices are influenced by the fact that they generally purchase stamps in books rather than individually, or because First Class stamp prices have risen particularly quickly in recent years, the perception of which may also affect Second Class prices.

### Findings by consumer group

5.99 Below, we consider our own research findings as well as relevant findings from the research conducted by Citizens Advice, CCNI and Consumer Scotland.

#### Older consumers

5.100 In 2022-23, older people (aged 55+) were significantly less likely than average to report any post affordability issues (18% vs 30%). Post Office suggested that splitting the 55+ age bracket into 65+ and 75+ would show that the oldest consumers are more likely than average to experience affordability issues. However, the tracker shows that these groups (65+ and 75+) are significantly less likely than average (16% for both) to report potential affordability issues.<sup>232</sup>

5.101 Consumer Scotland stated that older consumers aged 65+ are more likely than younger consumers aged 25-34 to consider letters 'far too expensive' (24% vs 10%).<sup>233</sup> However, as set out above, we do not consider that finding something expensive is the same as it being unaffordable.

#### Consumers on low incomes

5.102 Those on the lowest incomes (the lowest two brackets, with income under £11,500 per year and £11,500 - £17,499 per year) are more likely than average to report affordability issues (35% and 38% respectively) in our tracker, as are those who receive benefits (39%).<sup>234</sup>

5.103 Citizens Advice found that consumers on low incomes (36%),<sup>235</sup> Universal Credit claimants (35%) and those with a monthly shortfall in their budget (23%) were all more likely than average (19%) to say they would not be able to afford a book of Second Class stamps if they had to purchase one in the next week.<sup>236</sup>

#### Consumers in rural areas

5.104 Those in rural areas are no more likely than average to report affordability issues in our tracker, and the research conducted by other groups does not suggest that such consumers are more likely than average to experience affordability issues.<sup>237</sup>

#### Offline consumers

5.105 We have considered further the evidence on the affordability of postal services for offline consumers, as a result of concerns raised by Post Office. Post Office's concern about offline consumers was rooted in Ofcom research showing that offline consumers are particularly likely to be in a vulnerable group. For example, our research has shown that 26% of adults aged 75+, and 18% of those in the DE social grades, do not have internet access at home, compared to 7% of all adults).<sup>238</sup> Our research also shows that 15% of those with impacting

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<sup>232</sup> Residential Postal Tracker 2022-23, QG2.

<sup>233</sup> Consumer Scotland, [response to consultation](#), p. 5.

<sup>234</sup> Residential Postal Tracker 2022-23, QG2.

<sup>235</sup> Defined as having a monthly income of less than £500.

<sup>236</sup> Citizens Advice, [response to consultation](#), Figure 4.

<sup>237</sup> Residential Postal Tracker 2022-23, QG2.

<sup>238</sup> Ofcom, Technology Tracker 2023, QE1.

or limiting conditions do not use or have access to the internet.<sup>239</sup> Use of the internet is lower for those with multiple potentially vulnerable characteristics – for example, 40% of adults aged 70+ who have a limiting condition do not use or have access to the internet.<sup>240</sup>

- 5.106 Post Office suggested we conduct further analysis of the affordability of postal services for offline consumers but did not present its own evidence other than research from our digital exclusion review.<sup>241</sup>
- 5.107 As we have only recently re-started face-to-face interviewing, the sample size of offline consumers on the Residential Postal Tracker is currently too small for us to draw clear conclusions. Nevertheless, we note that among those who have the internet at home but do not use it, reported potential affordability issues are significantly higher than among those who have internet access (74% vs 30%).<sup>242</sup> However, we also note that those who responded to the survey online are four times as likely to report potential affordability issues than those who took part in a face-to-face interview (32% vs 8%).<sup>243</sup>
- 5.108 Secondly, while disabled consumers are more likely than average to report affordability concerns (36% vs 26%), other groups about which Post Office also expressed concern (older consumers, those in the DE social grade and those who are not working) are no more likely than average to report potential affordability issues. As set out above, older consumers (including those aged 65+ and 75+) are significantly *less* likely to do so. Those in the DE social grade are as likely as average to report affordability issues (30%), although those on low incomes are more likely than average. Non-working consumers are less likely to (21%).<sup>244</sup>
- 5.109 Our research therefore suggests that, on the face of it, overall the consumers who are more likely to be offline are generally not more likely than average to experience affordability issues (with the exception of disabled consumers and those on low incomes). That said, we recognise that Post Office’s concerns were particularly about consumers in those groups who are not online, which our survey cannot reliably identify. We therefore recognise that it is possible that consumers who fall into these groups and are also offline may be more likely to report affordability issues.
- 5.110 Thirdly, our qualitative research sample included offline consumers, and we set out our findings in the section below. While this research was qualitative and therefore does not necessarily allow us to generalise about offline consumers as a whole, it can provide useful insights into the affordability of postal services for this group.
- 5.111 The research found that participants lacking in digital skills or confidence who were also on a low income occasionally found it difficult to afford a letter without cutting back on other spend. Similarly, those without digital skills or confidence who also had a mobility condition were more likely to experience detriment. Such consumers did not have the option of using

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<sup>239</sup> Ofcom Technology Tracker 2023, QE1.

<sup>240</sup> Ofcom, Technology Tracker 2023.

<sup>241</sup> Ofcom, 2022. [Digital exclusion: A review of Ofcom’s research on digital exclusion among adults in the UK.](#)

<sup>242</sup> Residential Postal Tracker 2022-23, QG2.

<sup>243</sup> This may be explained by in-person participants being unwilling to disclose affordability issues to the interviewer. Equally (or in addition), it may be explained by online participants, who completed the survey without the presence of an interviewer being more likely to exaggerate or take more extreme positions than in-person participants.

<sup>244</sup> Residential Postal Tracker 2022-23, QG2.

alternatives such as online forms or email, while those on low incomes already had stretched finances and those with mobility issues struggled to use in-person alternatives.<sup>245</sup>

- 5.112 In conclusion, the evidence we have on the affordability of postal services for offline consumers is mixed but overall suggests that offline consumers may be more likely than online consumers to experience affordability issues, particularly when combined with another factor that increases the risk of financial vulnerability, such as being on a low income or having a disability. It is reasonable to assume that disabled consumers and those on low incomes who are also offline are particularly likely to rely on postal services and would therefore be more likely than those who are online to experience affordability issues.

### Disabled consumers

- 5.113 In the Residential Postal Tracker, disabled consumers are significantly more likely than non-disabled consumers to report potential affordability issues (36% vs 26%). Those who are unable to leave their home without help are also more likely to do so than those who are able to do so (37% vs 29%).<sup>246</sup>
- 5.114 Consumer Scotland also found that disabled consumers were more likely than non-disabled consumers to report affordability issues. Its research shows that 23% of disabled consumers said that they had struggled to afford postal services in the past 12 months, compared to 11% of non-disabled consumers. Among those who said they had struggled to afford postal services, 34% of disabled consumers said they had needed to forego essentials to pay for postal services, compared to 17% of non-disabled consumers.<sup>247</sup>

### International price comparisons

- 5.115 In response to Royal Mail's argument that Second Class prices are lower than the European average, this does not in itself tell us whether UK postal prices are affordable. This is because there are factors that differ widely between European countries, for example, use of postal services, levels of digitisation, particularly of essential or government services, and income. These factors make it difficult to use comparisons of UK prices to European prices to draw meaningful conclusions about affordability of postal services in the UK.

## Other USO services

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### Our consultation position

- 5.116 We assessed the affordability of other universal services which are not currently subject to a safeguard cap – First Class services, Special Delivery, international services, Redirections and Keepsafe. We provisionally concluded that these services remain affordable and that it would therefore not be appropriate to impose a safeguard cap on them.
- 5.117 This provisional conclusion was made on the basis of the choices available to consumers and the frequency of use of these services, and, in some cases (for example, Special Delivery and international parcel services), the constraint on Royal Mail's pricing posed by competing operators.

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<sup>245</sup> Jigsaw, 2023. Residential Postal Affordability Research, section 4.4.

<sup>246</sup> Residential Postal Tracker 2022-23, QG2.

<sup>247</sup> Consumer Scotland, [response to consultation](#), p. 3.

## Stakeholder responses

- 5.118 Citizens Advice and CCNI expressed concern about the affordability of First Class services. CCNI asked us to reconsider our approach to protecting consumers who use First Class services.<sup>248</sup> Both CCNI and Citizens Advice also emphasised that recent price increases to First Class services, and the increase in the differential between First and Second Class, have taken place against a backdrop of Royal Mail failing to meet its Quality of Service (QoS) targets for a number of years.<sup>249</sup>
- 5.119 CCNI disagreed with our provisional conclusion that other USO services are affordable, argued that we did not provide enough information to support our conclusion and that further work in this area is needed.<sup>250</sup>
- 5.120 With respect to Special Delivery, Citizens Advice argued that some consumers (particularly those in rural areas) do not have access to alternative providers and this can cause financial detriment to those who rely on it, or feel they have no choice but to use it.<sup>251</sup>
- 5.121 Consumer Scotland and Citizens Advice expressed concerns about the affordability of redirections services, with Consumer Scotland noting that nearly seven in ten Scottish consumers consider redirections expensive.<sup>252</sup> They also argued that we should publish more regular uptake data, and conduct further analysis, in order to check that the voluntary scheme is working.<sup>253</sup>

## Our assessment

### First Class services

- 5.122 Royal Mail is required to offer a priority letter service as part of the universal service which it does through its First Class standard letter, large letter and parcel services.<sup>254</sup> These services are offered with the same features as the standard letter service (Second Class) equivalents, but with a faster delivery time of within one working day of collection (known as 'D+1'), compared to within three working days of collection (known as 'D+3') for Second Class.
- 5.123 First Class standard letter prices have increased significantly since our previous review of safeguard caps (see Figure 9 below). As of April 2023, the price is 34% higher in real terms than in April 2019, and 57% higher in nominal terms. Between April 2019 and October 2023, the price of a First Class standard letter increased by 79% in nominal terms.

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<sup>248</sup> CCNI, [response to consultation](#), p. 25.

<sup>249</sup> Responses to consultation from: [CCNI](#), pp. 25-26, and [Citizens Advice](#), paragraph 37.

<sup>250</sup> CCNI, [response to consultation](#), p. 22.

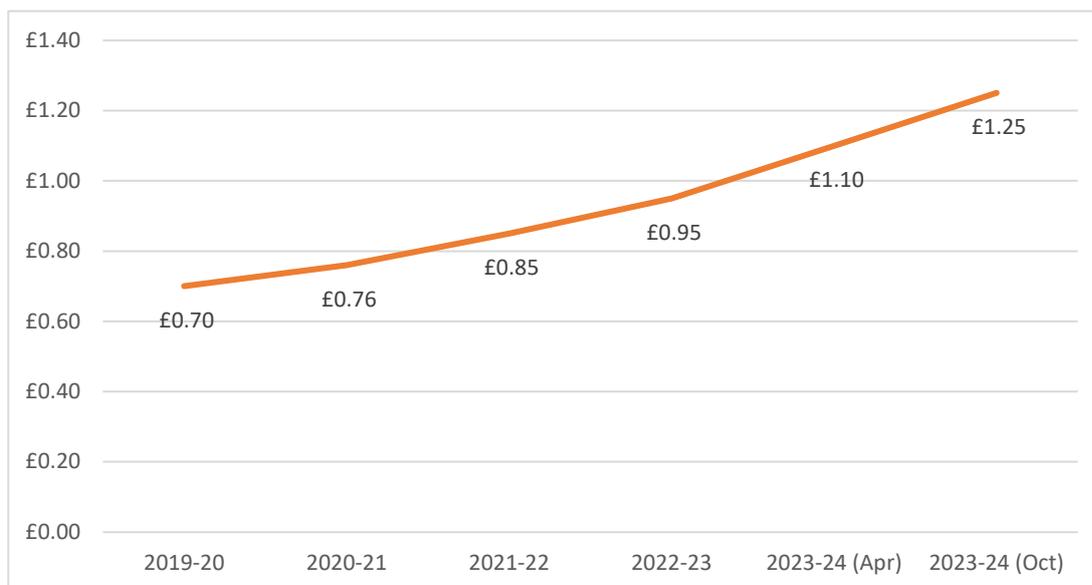
<sup>251</sup> Citizens Advice, [response to consultation](#), paragraph 41.

<sup>252</sup> Consumer Scotland, [response to consultation](#), pp. 10-11.

<sup>253</sup> Citizens Advice, [response to consultation](#), paragraph 40.

<sup>254</sup> DUSP 1.6.1(a).

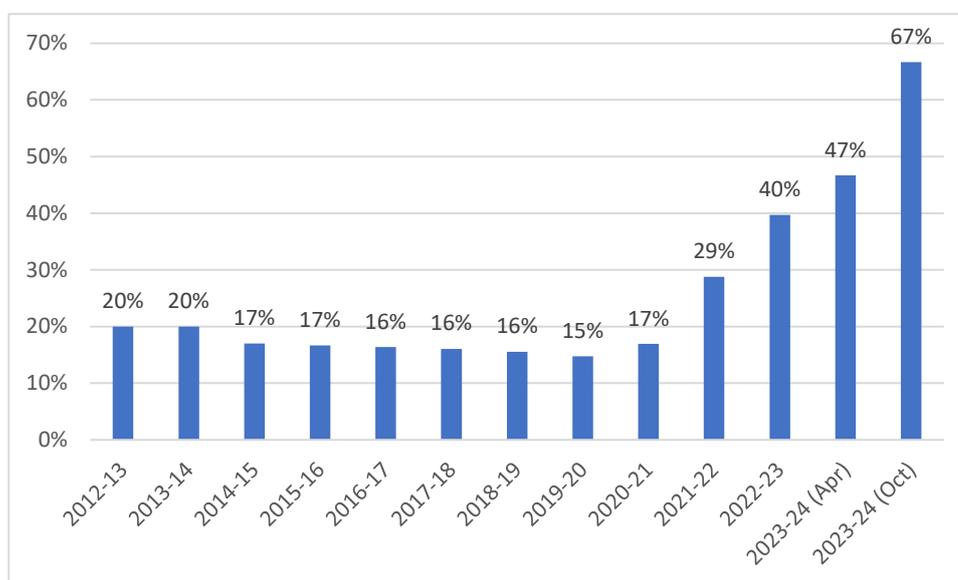
**Figure 9: Nominal price of Royal Mail First Class stamped standard letters, 2019-20 – 2023-24**



Source: Royal Mail Price Guides

5.124 First Class services, as the priority services, are naturally more expensive than Second Class. The price differential between First and Second Class standard letters was 15%-20% between 2012 and 2020, but since then has increased. In 2022, the differential was 40% and has increased to 67% as of October 2023 (see Figure 10).

**Figure 10: Differential between First Class and Second Class stamped standard letter prices, 2012-13 – 2023-24**



Source: Ofcom analysis of Royal Mail Price Guides

5.125 The higher price of First Class services relative to Second Class services reflects both the higher cost of providing the First Class service and the higher willingness to pay of those who choose to use First Class because of the faster speed.

5.126 We note that, in recognition that it is more challenging for Royal Mail to deliver items within a shorter timeframe, there are slightly lower Quality of Service targets for First Class than for

Second Class. Royal Mail is required to deliver at least 93% of First Class mail within one working day of collection, and to deliver at least 98.5% of Second Class mail within three working days of collection.

- 5.127 CCNI found that a greater proportion (21%) of consumers are dissatisfied with First Class letter prices being affordable compared to the proportion (10%) dissatisfied with Second Class prices being affordable.<sup>255</sup> We consider that this is likely to be a function of First Class letters being more expensive, and having increased more quickly, than Second Class letters. It does not necessarily suggest that First Class letters are unaffordable.
- 5.128 We note comments from Citizens Advice and CCNI about consumers experiencing both poor QoS and increasing First Class prices. We are very concerned about Royal Mail's continued underperformance and the negative impact this has on postal users. However, QoS is dealt with separately from pricing in our regulatory framework, meaning that it would not be appropriate to take into account QoS performance in our assessment of affordability or our decisions on the level of any safeguard cap. We recently announced a fine for Royal Mail after it breached the QoS targets in 2022-23.<sup>256</sup>
- 5.129 As explained above in this section, our test for affordability in postal services is whether current prices cause users significant detriment. This could be either because the prices cause users to cut back on essential items in order to afford post, or because they need to reduce their spend on post in order to afford essential items, and experience significant adverse consequences as a result.
- 5.130 Our consumer research indicates that many users of First Class services do not appear to require the priority of faster delivery than would be achieved through the standard Second Class service. Our 2019 quantitative Postal User Needs research tested the acceptability of a single class of delivery for both letters and parcels, delivered either slightly faster than Second Class (D+2), or at the same speed (D+3).<sup>257</sup> This research found that the vast majority (96%) of residential users would consider their needs met by a single D+2 service, while a slightly smaller proportion (but still the vast majority at 94%) would consider their needs met by a single D+3 service.
- 5.131 Further, our 2019 qualitative consumer research found a 'strong acknowledgment' that most letters are not urgent and, as such, speed of delivery was rarely critical. There were a small number of exceptions to this (for example, needing to send documentation for a house purchase or to renew a passport), but participants noted that First Class could not necessarily be relied on in such circumstances.<sup>258</sup>
- 5.132 We note that the most common reason cited by postal users who use First Class all or most of the time in our Q3 2022-Q2 2023 Residential Postal Tracker is the speed of delivery (60%). Citizens Advice's research showing that 56% of consumers find it important to be able to send items First Class is consistent with this. In our research, postal users also cited a perception that the item is less likely to be lost or that it will be treated better (18%),

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<sup>255</sup> CCNI, [response to consultation](#), p. 25.

<sup>256</sup> Ofcom, 2024. [Decision finding Royal Mail contravened its Quality of Service performance targets in 2022/23 and imposing a financial penalty.](#)

<sup>257</sup> Ofcom, 2020. [Review of Postal User Needs](#), figure 30. The research presented scenarios where the same speed and reliability of service applied to both letters and parcels, and so results presented here are on this basis.

<sup>258</sup> Jigsaw, 2020. [UK Postal User Needs: Qualitative Research Report](#), section 4.3.1. The research was conducted in 2019 and published in 2020.

security (16%), and ‘image’ related reasons (7% say they do not want people to think that they don’t use First Class). CCNI’s research found that around three quarters of consumers in Northern Ireland purchase First Class services because they believe the item gets delivered the next day. This appears to be simply a function of the fact that First Class is known to be a next-day delivery service, rather than suggesting that all consumers who use First Class *need* their items to arrive the next day.

- 5.133 Indeed, the evidence from our 2019 qualitative research, and from more recent research, conducted for our Future of USO work, suggests that much of the use of First Class is likely to be out of habit or preference for the speed, rather than need. The main reasons cited in that qualitative research as to why participants used First Class over Second Class services were the fact that the price differential between the two was small (particularly for letters),<sup>259</sup> certainty of service and perceived service quality, and that First Class can act as a signifier of the importance of the recipient.<sup>260</sup>
- 5.134 Our 2023 qualitative research found that, in general, participants who used First Class stamps were switching to Second Class.<sup>261</sup> This was in line with our finding that participants were cutting back on spending where possible across the board because of the increase in the cost of living. The switch from First to Second Class did not seem to cause participants detriment beyond some additional forward planning to account for slower delivery times. Most participants were aware that the price had recently increased to over £1.00 and some considered this to be ‘too much’. However, this appeared to cause annoyance or inconvenience to participants (for example, needing to plan further ahead to take into account the longer delivery time for Second Class), rather than affordability issues.<sup>262</sup>
- 5.135 Based on our research, we consider that, for a consumer in any given year, there would be very few occasions on which the priority First Class service would be essential or particularly important, and for whom the First Class price would be unaffordable. The standard Second Class services, which are significantly lower in price and (for letters) constrained by a safeguard cap, also act as a ‘backstop’. They ensure that consumers will continue to have access to a lower cost alternative that should, in most cases, meet their needs.
- 5.136 In summary, that First Class appears to be essential or important only infrequently, and that Second Class (which is capped) therefore meets consumers’ needs in the majority of cases, suggest that most consumers do not experience significant detriment as a result of First Class prices, and that consequently, First Class is affordable.<sup>263</sup>

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<sup>259</sup> We note that our more recent qualitative research (albeit with consumers with affordability issues) indicates that the recent First Class price rise has affected consumers’ perceptions of the relative value of First to Second Class. At the time this research was conducted (2019), the differential between First Class and Second Class was considerably lower than it is now.

<sup>260</sup> Jigsaw, 2020. UK Postal User Needs: Qualitative Research Report, section 5.1.

<sup>261</sup> We note that the qualitative research began several weeks after the announcement of Royal Mail’s 2023 price increases (see International Distributions Services plc, 3 March 2023, [press release](#)) and associated media coverage, thereby potentially increasing awareness amongst participants of current stamp prices.

<sup>262</sup> Jigsaw, 2023. Residential Postal Affordability Research, sections 3.4 and 4.3.

<sup>263</sup> While we recognise that there are occasions on which people need to send items quickly, we also note that First Class may not always be the most appropriate service for doing this. This is because people sending time-critical items such as legal documents, identity documents or grant applications, are likely to also want additional assurance about the delivery. While most First Class items are delivered within one day, this is not guaranteed (given the QoS target is 93%), and First Class does not include other ‘peace of mind’ features such as tracking and a signature on delivery.

5.137 We do however acknowledge that there will always be some cases when the First Class delivery time is needed and that this, combined with the First Class premium, may cause affordability issues for a consumer, and that this may have increased in recent years given the higher price increases to First Class services. However, as we have acknowledged in the past, it is likely that such a consumer would be experiencing a limited set of circumstances where they suffer both significant financial difficulty or have a very low income, and have a frequent need to send post items they consider to be essential and which need to arrive the next day. We recognise that the increased First Class prices could have negative impacts on these consumers, though unfortunately postal services may be unaffordable for some even if their prices were reduced significantly.

### Special Delivery

5.138 Royal Mail is required to offer a registered and insured next-day delivery service with a target delivery time of 1pm.<sup>264</sup> It meets this obligation with its ‘Special Delivery Guaranteed by 1pm’ service (referred to as ‘Special Delivery’ below).<sup>265</sup> Royal Mail offers this service at a number of weight steps (between up to 100g and up to 20kg) and compensation amounts (up to £750, £1,000 and £2,500). It can be purchased online or offline at a Post Office, with offline prices around 6% higher than online prices.

5.139 Prices are significantly higher than standard and Signed For services, reflecting the additional features provided by Special Delivery, namely a guaranteed delivery time, ability to track the item, and the amount of compensation that can be claimed in the event of loss or damage.

5.140 Special Delivery is used infrequently compared to letters and parcels. Our 2022 Residential Postal Tracker found that 7% of postal users report having sent a Special Delivery parcel in the past month, and 6% report having sent a Special Delivery Guaranteed by 1pm parcel.<sup>266</sup> By contrast, and as set out above, 58% of postal users report having sent a letter in the past month. While the price of Special Delivery is significantly higher than other USO services, the fact that it is only infrequently used suggests that it is likely to be affordable for most consumers on the occasions where it is needed.

5.141 Between April 2019 and April 2023, offline and online Special Delivery prices were flat in nominal terms. In real terms, prices decreased. For example, for items weighing up to and including 100g and with up to £750 of compensation, the offline price decreased by 11%, while the online price decreased by even more (18%).<sup>267</sup> The average real-terms price decrease for the services in Figure 11 below was 15%.

5.142 Royal Mail increased the prices of the services in Figure 11 by around £0.50. In nominal terms, prices are now slightly higher than in April 2019.

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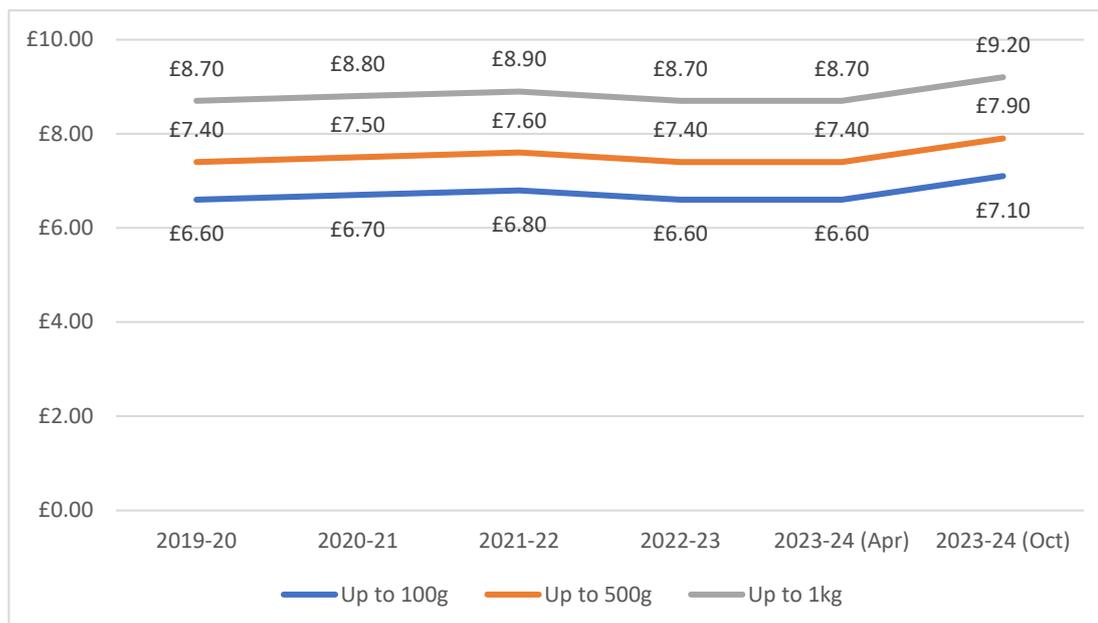
<sup>264</sup> DUSP 1.6.1(d). The target time is 1pm unless this is not reasonably possible (DUSP 1.6.1(d)(b)).

<sup>265</sup> Royal Mail also offers a ‘Special Delivery Guaranteed by 9am’ service on a commercial basis.

<sup>266</sup> Residential Postal Tracker 2022-23, Q14

<sup>267</sup> At the same time, Royal Mail has increased the minimum level of compensation offered from £500 to £750.

**Figure 11: Special Delivery nominal prices for services weighing up to 100g, up to 500g and up to 1kg, 2019-20 – 2023-24**



Source: Ofcom analysis of Royal Mail Price Guides. Royal Mail increased the minimum compensation amount for Special Delivery services in 2023 from £500 to £750. Therefore, 2023-24 prices are for services with £750 compensation, prices before that date are for services with £500 compensation. All prices shown are an average across online and offline.

- 5.143 We note that a number of other parcel operators offer a next-day delivery service with tracking. While these services do not generally offer all of the features of Special Delivery (for example, the compensation element), consumers have access to a range of similar services from a number of different operators.<sup>268</sup> Royal Mail’s internal documents indicate that it monitors its competitors’ offerings and how Special Delivery compares to those. For example, [redacted].<sup>269</sup>
- 5.144 In response to Citizens Advice’s concern about consumers who do not have access to, or cannot use, alternative operators, we note that the existence of competition protects consumers regardless of whether an individual uses the alternatives because of Royal Mail’s obligation to charge a uniform price across the UK. Our analysis suggests that a competition constrains Royal Mail’s pricing for Special Delivery services.
- 5.145 The infrequency of use of Special Delivery, and the existence of competition and the corresponding constraints on Royal Mail’s pricing (evidenced in the very modest price increases since 2019), means that we do not consider that a safeguard cap on Special Delivery would be appropriate to ensure affordability. With that in mind, we note our objective to provide protection to consumers where such protection is unlikely to be provided by competitive markets. We consider that competition is providing protection in respect of Special Delivery, alongside the fact that it is an infrequently used service.

<sup>268</sup> For example, DPD, Evri and DHL offer a next-day delivery service with tracking. For a 1kg parcel, the price (including VAT) ranges from £4.72 (Evri, with delivery to an Evri pick-up point) to £9.00 (DPD). All operators enable the customer to add compensation cover to the price if desired (for a fee), and Evri’s service includes a signature on delivery. Prices correct as of January 2024.

<sup>269</sup> Royal Mail response dated 23 January 2023 to s.55 Notice, [redacted].

## International delivery services

- 5.146 Royal Mail offers a number of international letter and parcel delivery services, including tracked and signed for options as well as a cheaper and slower parcel delivery service known as ‘International Economy’. International services are more expensive than their domestic equivalents, reflecting the longer distances involved.<sup>270</sup>
- 5.147 Our Residential Postal Tracker does not include questions about use of international delivery services. However, volume data from Royal Mail shows that international letter volumes are significantly lower than domestic letter volumes (international letter volumes represented [X] % of total letter volumes in 2022-23).<sup>271</sup> This suggests that international letter services are used less frequently than domestic letter services, and therefore, as for Special Delivery, that they are likely to be affordable for most consumers.
- 5.148 We recognise that certain groups of consumers are likely to use international mail services more than others – for example, recent immigrants to the UK. However, we also note that there are free or low-cost alternatives for communication with people in other countries, for example, messenger services such as WhatsApp and video calling services such as FaceTime. Further, where alternatives to postal services are less able to be used (i.e., for parcels), competition is likely to help to constrain those prices (see paragraph 5.150 below).
- 5.149 The higher price for international mail reflects the fact that, when mail is sent from one country to another, the universal service provider in the sending country must pay a fee to the universal postal service provider in the destination country to compensate them for the costs associated with the handling, transporting and delivering of the item. These fees (known as ‘terminal dues’) are set by international agreements, overseen by the Universal Postal Union (UPU). Royal Mail is therefore not responsible for all of the costs it incurs to handle and send international mail.
- 5.150 Royal Mail faces competition for international parcel services, although not for letter services. A number of parcel operators provide these services and offer comparable prices to Royal Mail, and some operators (e.g. FedEx, UPS and DHL) specialise in international delivery. The existence of these alternatives is likely to constrain Royal Mail’s international parcel prices.
- 5.151 We consider that the infrequency of use of international delivery services means that they are likely to be affordable for most consumers. We also do not consider that it would be appropriate to impose a safeguard cap on international delivery services as Royal Mail is not able to control all of the costs it incurs to provide them. Finally, we note our objective for the safeguard caps to provide protection to consumers where such protection is unlikely to be provided by competitive markets. We consider that competition is providing sufficient protection in respect of international parcels.

## Redirections

- 5.152 Redirection services enable consumers to divert their mail from one address to another address, for a specified period. Royal Mail offers the service for three time periods, three

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<sup>270</sup> Royal Mail is required to provide international postal services by DUSP 1.6.1(f) to (h).

<sup>271</sup> Royal Mail Regulatory Financial Reporting Information. Stamped letter volumes.

months (at a price of £36 for a single adult household), six months (£53) and twelve months (£76).<sup>272 273</sup>

- 5.153 We expressed concerns in our 2021 Review of Postal Regulation consultation about the affordability of the Redirections service for financially vulnerable consumers.<sup>274</sup> Our consumer research suggested that, while the majority of postal users found Royal Mail's Redirections service to be affordable, financially vulnerable consumers had encountered significant affordability issues, notwithstanding the introduction by Royal Mail of a discounted service in 2019.
- 5.154 We had therefore intended to propose a new targeted price cap on Redirections services for financially vulnerable consumers but, following an announcement from Royal Mail that it would make several significant changes to the scope and scale of its discounted service, we decided not to. We considered that the amended discount (known as Concession Redirections) largely addressed our affordability concerns.<sup>275</sup>
- 5.155 To ensure that Redirections continue to be affordable, we are monitoring prices, promotion, and uptake of the concession scheme through our monitoring programme, as well as the standard prices of the Redirections service over the coming years. We reported on take-up of the concession scheme in the 2022-23 Annual Post Monitoring Report and plan to continue to do so in future.<sup>276</sup>
- 5.156 We note that Consumer Scotland's research found that 7 in 10 consumers (68%) in Scotland regard standard redirection services as too expensive. This is higher for those on lower incomes, with 73% of those with a gross household income under £20,000 regarding this service as too expensive. Consumers with a disability or long term health condition were also more likely to say that redirection was too expensive, with only one in five of these consumers saying that the product was a fair price or cheap.<sup>277</sup>
- 5.157 However, as noted above, we do not consider that considering a service to be expensive is analogous to finding it unaffordable. In relation to Consumer Scotland's specific concerns around vulnerable consumers, we note that the discount Royal Mail offers is targeted at consumers who receive certain benefits and are therefore on a low income.

## Keepsafe

- 5.158 Royal Mail's Keepsafe service meets its obligation to provide 'retention' services.<sup>278</sup> A Keepsafe allows a customer to have their post delivered to a location other than their home address, for example when they are away from home. The price varies by length of time the customer wishes their post to be delivered to the alternative location. A residential Keepsafe service costs £18 for ten days, rising to £90 for 100 days.<sup>279</sup>
- 5.159 Although we have not conducted a full assessment of the affordability of Keepsafe services, we are not aware of any affordability concerns in relation to these services. We consider that they are affordable on the basis that they are likely to be infrequently needed given the

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<sup>272</sup> Royal Mail is required to provide redirection services by DUSP 1.7.1(a).

<sup>273</sup> See Royal Mail, [Redirections](#) [accessed 04/01/2024]. Prices correct as of January 2024.

<sup>274</sup> Ofcom, 2021. [Consultation: Review of Postal Regulation](#), pp. 55-72.

<sup>275</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#), p. 82.

<sup>276</sup> Ofcom, 2023. [Post Monitoring Report 2022-23](#), p. 21.

<sup>277</sup> Consumer Scotland, [response to consultation](#), p. 10.

<sup>278</sup> Royal Mail is required to provide retention services by DUSP 1.7.1(c).

<sup>279</sup> See Royal Mail, [Keepsafe](#) [accessed 04/01/2024]. Prices correct as of January 2024.

structural decline in letter volumes, and therefore the amount that consumers spend on them in any given year is low and unlikely to affect their ability to afford essential items.

## Conclusion on affordability of postal services

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- 5.160 As noted above, it is challenging to determine whether specific price points are affordable for consumers, and we therefore must weigh up the available evidence in the round in order to make a judgement.
- 5.161 An affordability assessment against the backdrop of unusually high inflation and an increase in the cost of living is particularly challenging. Nevertheless, based on the evidence, we continue to consider that most consumers do not experience significant detriment as a result of postal prices, and therefore that current prices are affordable for most consumers. However, more recent data that we have analysed since our consultation, as well as data provided by consumer groups in their responses to the consultation, confirms that some vulnerable groups may experience affordability challenges, in particular those on low incomes and those who are disabled.
- 5.162 Therefore, our assessment remains that real terms increases (i.e., above CPI) in the prices of the capped services are likely to lead to a larger proportion of consumers experiencing incidences of significant detriment in relation to the cost of post more frequently, and that such increases could particularly affect vulnerable consumers.
- 5.163 We have come to this view for the following reasons:
- a) There is a general recognition that, for most consumers, post is only occasionally essential and that consumers are sending fewer letters than in the past. However, a majority of consumers report sending at least one letter in the past month and, while sending letters for social reasons is falling particularly quickly, sending letters for non-leisure purposes will continue to be necessary in some circumstances. Vulnerable groups such as those on low incomes and disabled consumers are particularly likely to use or rely on the post to send important documents. Many people also value using the post for social and emotional reasons (for example, sending cards to friends and family).
  - b) Overall, average incomes increased slightly in real terms between 2018-19 and 2021-22, but reduced considerably for more vulnerable households, including those in the lowest income decile and those who are retired. In addition, more recent data shows that average pay has only just begun to keep pace with CPI inflation and incomes are therefore likely to have declined in real terms in the last year. However, we also note that most benefits and the State Pension typically rise with inflation annually.
  - c) Average expenditure on post remains very low, but is considerably higher for households who spend money on postal services.
  - d) Certain vulnerable groups (consumers on low incomes, consumers who claim benefits and disabled consumers) are more likely than average to experience affordability issues. Our qualitative research suggests that these groups are mostly (although not always) able to absorb these costs (for example, by forward planning when to send items) without experiencing significant detriment.
  - e) For households in the lowest income decile, 2021-22 data shows that typical expenditure on essentials is higher than average disposable income, suggesting that any spend on postal services for this group could represent a significant burden.

- f) There has been a significant increase in the proportion of consumers who say that they have cut back on post to afford essentials or who have cut back on essentials to afford post. This is corroborated by quantitative research conducted by consumer groups. Our qualitative research suggests that the increased cost of living appears to be driving the increases we observe, rather than postal prices themselves, although in practice it is difficult to separate the two.
- 5.164 As we have set out previously, we recognise that there are some consumers in particular circumstances who may face affordability issues at current prices, but that, for these consumers, even a significant reduction in postal prices may not ensure that they are affordable.
- 5.165 Finally, while we consider that for this review, the affordability evidence supports the continued imposition of a safeguard cap on Second Class letters rising by CPI annually, the evidence also suggests that specific groups of consumers face particular affordability concerns and raise wider questions on how we might address such concerns in the future. We consider this further in Section 7 and also in our separate call for input on the future of the universal postal service.<sup>280</sup>

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<sup>280</sup> Ofcom, 2023. [Call for Input: The future of the universal postal service.](#)

## 6. Financial sustainability

- 6.1 In this section we set out our assessment of the impact of a safeguard cap on Royal Mail's revenues and costs and hence the financial sustainability of the USO. In making this assessment we take into account stakeholders' comments on our analysis set out in the consultation.
- 6.2 In summary, our conclusion is that the total impact of our cap (on both Second and First Class revenues as well as Royal Mail's business mail services) is small in the first three years (i.e. up to the end of 2026-27), and as a result is unlikely to have a significant impact on the financial sustainability of the USO in that period. However, after this point, the potential indirect impact of the cap on Royal Mail's revenues could be considerably greater than we had previously assessed. This in turn means that it could from this point have a greater impact on the financial sustainability of the USO than we considered in the consultation.

### Our consultation position

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- 6.3 We set out in the consultation that the safeguard caps apply to a small proportion of USO services and therefore to a smaller proportion of Reported Business revenue. Second Class standard and large letters represented less than 5% of total Reported Business revenue in 2022-23.
- 6.4 Given the small proportion of Reported Business revenue that the capped services contribute, and the analysis that demonstrates that even a significant real-terms increase in the standard letter cap would have a relatively small direct impact on total revenue, we provisionally concluded that retaining a cap is unlikely to have a significant impact on the financial sustainability of the universal service.
- 6.5 We also provisionally concluded that, given the relatively common nature of Royal Mail's costs across its network, if letter prices were allowed to remain constant in real terms then this would continue to be sufficient to cover the incremental cost of providing the service.

### Stakeholder responses

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- 6.6 Royal Mail argued that our proposal could significantly undermine its financial sustainability. It noted that we did not propose a real-terms uplift in the cap (unlike in the 2018-19 review, where we allowed an uplift of 5% in real terms) and that it is currently pricing Second Class standard letters at the level of the cap, reducing its commercial flexibility. It argued that it would not necessarily use any additional headroom under the cap immediately, but that such headroom would enable it to respond to changing market conditions in future, if necessary. Overall, it suggested that our proposal risked inconsistency with the original objectives for the safeguard caps, which included minimising the impact of the cap on Royal Mail's wider pricing freedom.<sup>281</sup>
- 6.7 In particular, it stated that, although we had considered the direct impact of the cap on Second and First Class letter revenues, it is also necessary to consider the impact of the cap

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<sup>281</sup> Royal Mail, [response to consultation](#), paragraphs 41-46.

on the revenues of other services that are constrained by the Second Class standard letter price. Royal Mail asserted that this price constrains these other products as certain differentials to the stamped price must be maintained to make the offerings attractive to customers. Royal Mail referred to this as the ‘pricing ladder’ effect. Royal Mail estimated that the proposed cap would not allow it to implement its current pricing strategy, and also argued that the pricing ladder effect would be bigger if it felt it necessary to increase business mail prices in future at the same rate as it has done recently ([]).<sup>282</sup>

- 6.8 Royal Mail also argued that our proposed cap had ‘forced’ it to increase Second Class large letter prices earlier, and by more, than it had planned. It suggested that the proposed cap, and Royal Mail’s cash position, meant that this was necessary in order to give it commercial flexibility and support the finances of the USO. It expressed a concern that these latest price rises increase the risk of prices hitting ‘tipping points’ (where the price causes volumes to decrease substantially and more than anticipated, due to a large proportion of customers responding to the price increase by permanently switching away from post) or losing out to competitors, both of which could render the price increases unprofitable.<sup>283</sup>
- 6.9 As a general point, Royal Mail suggested that removal of the safeguard cap is one of the ‘limited levers’ Ofcom has to support Royal Mail’s financial sustainability, but one which we have chosen not to use. It also argued that we had not acknowledged the impact of the structural decline on letters on unit costs.<sup>284</sup>
- 6.10 The GCA and Quadiant agreed with our conclusions that the caps would have a relatively small impact on the financial sustainability of the universal service. CCNI and Citizens Advice also agreed with our conclusions on financial sustainability, but caveated this to be based only on the non-confidential information that was provided within the consultation.<sup>285</sup>
- 6.11 Citizens Advice suggested that Ofcom should look at other areas that might impact revenues, outside of the safeguard cap, when considering financial sustainability.<sup>286</sup>
- 6.12 Royal Mail argued that we should use profit, not revenue, when assessing any impacts on financial sustainability, as Second Class letters make a significant contribution to profit. It further said that, when taking account of the costs of providing the capped services, we should be using fully allocated costs (FAC) and not incremental costs, arguing that a network business which prices all of its services at, or only just above, incremental cost would quickly go out of business.<sup>287</sup>
- 6.13 Finally, Royal Mail stated that it operates across a number of markets, many of which are highly competitive and, in such markets, prices are driven lower and Royal Mail needs to price to incremental cost to remain competitive. However, Royal Mail asserted that, in order to provide a market funded, financially sustainable USO, it needs to be able to cover the total cost base of the business (i.e. Fully Allocated Costs including a reasonable return) and that therefore its prices “should reflect the costs of the provision of the service and the prices that customers are prepared to pay for the services”.<sup>288</sup>

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<sup>282</sup> Royal Mail, [response to consultation](#), paragraph 50-59.

<sup>283</sup> Royal Mail, [response to consultation](#), paragraphs 60-64.

<sup>284</sup> Royal Mail, [response to consultation](#), paragraph 45.

<sup>285</sup> Responses to consultation from: [GCA](#), p. 4; [Quadiant](#), p. 3; [CCNI](#), pp. 22-25; [Citizens Advice](#), p. 21.

<sup>286</sup> Citizens Advice, [response to consultation](#), pp. 21-22.

<sup>287</sup> Royal Mail, [response to consultation](#), paragraphs 48-49.

<sup>288</sup> Royal Mail, [response to consultation](#), paragraph 49.

## Our assessment

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### Balancing our duties to ensure affordability and have regard to financial sustainability

- 6.14 When setting safeguard caps, we are concerned with ensuring that the services to which they apply remain affordable, in particular for vulnerable consumers. We reflected this in two of our objectives – specifically, to ensure universal services are affordable, particularly for vulnerable consumers, and to provide protection to consumers where such protection is unlikely to be provided by competitive markets.
- 6.15 We must also, when carrying out our functions in relation to post, have regard to the need for the universal service to be financially sustainable, and, when setting a safeguard cap, seek to ensure that it takes account of the costs of providing the service. These requirements are reflected in our other objectives, specifically to minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently, and to ensure any safeguard cap takes into account the costs of providing the capped service(s).
- 6.16 Royal Mail’s suggestion that we should remove the safeguard cap given it is one of a limited number of ‘levers’ to support its business fails to recognise that there is typically tension between the need for the universal service to be affordable and our obligation to have regard to financial sustainability, as we explain in section 2. Given these competing obligations, Royal Mail’s financial sustainability is one of the factors to which we must have regard, but ultimately we must use our regulatory judgement to strike the most appropriate balance between the different factors at play.
- 6.17 With regard to Royal Mail’s comment about the impact of the structural decline in letter volumes and the resulting impact on unit costs, we set out below how the cap affects Royal Mail’s ability to recover its costs for these services. Further, as noted below, we acknowledge that as letter volumes decline, unit costs typically increase. More generally, we note that we have, alongside this statement, published a call for input on the future of the universal postal service, where we set out our view that the evidence suggests the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future. A key part of the evidence for this is (as Royal Mail notes) the structural decline in letter volumes.
- 6.18 We set out in the consultation and in section 5 above our assessment of the affordability of current postal prices, and in the rest of this section, our assessment of the impact of the cap on Royal Mail’s pricing freedom and the financial sustainability of the universal service. In section 7, we set out how we have considered all of the evidence in order to come to a decision that strikes the right balance between all of our policy objectives and our statutory duties.

### Financial sustainability of the universal postal service

- 6.19 To inform our assessment of the financial sustainability of the universal postal service, we consider whether the part of the UK business that delivers the universal postal service (which we call the Reported Business) can expect to earn a reasonable commercial rate of

return.<sup>289</sup> The Reported Business includes most of Royal Mail's UK activities, and also delivers non-universal services such as access and bulk mail.

- 6.20 We use a Reported Business profit (EBIT) margin in the range of 5% to 10% as a first order indicator of whether Royal Mail is earning a commercial rate of return on its provision of the universal service. Margins consistently below 5% could indicate that the universal service faces sustainability challenges.
- 6.21 We set out in our 2022-23 Post Monitoring Report (PMR) that the Reported Business EBIT margin has for the last seven years remained below the lower bound of the 5-10% range.<sup>290</sup> Royal Mail's recently published half year results reported a £319m operating loss for the UK business.<sup>291</sup> In the 2022-23 PMR we noted our increasing concerns about the longer-term sustainability of the USO, noting that Royal Mail's parcel volumes (which are key to long-term profitability) were lower than expected, and that Royal Mail's ability to deliver efficiency savings is uncertain.<sup>292</sup>

### The wider Group

- 6.22 Figure 12 below sets out how the USO fits within the Reported Business, Royal Mail Group and International Distributions Services (IDS). The Reported Business recorded revenues of £6,972m in 2022-23 and £7,121m in 2017-18. In 2022-23, 31% (£2,182m) of this revenue was attributed to universal services, while in 2017-18, the equivalent proportion was 40%. Therefore, the USO accounts for a relatively small, and declining, proportion of revenues for Royal Mail Group as a whole.

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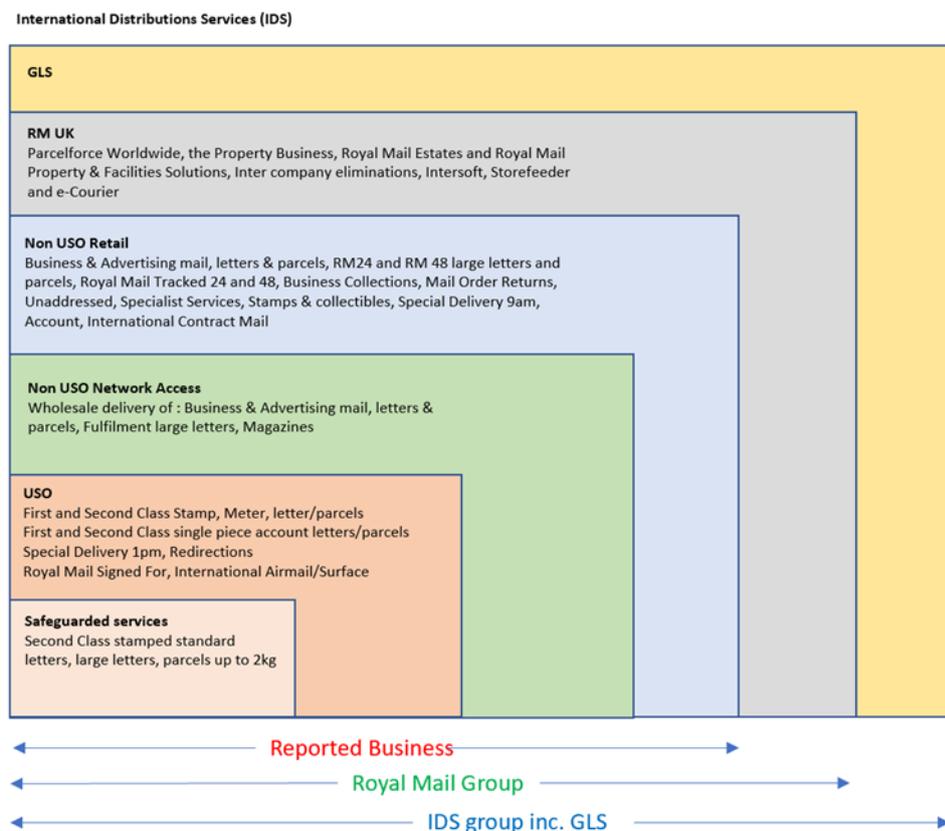
<sup>289</sup> Section 29(4) of the PSA 2011 states that the need for the provision of a universal postal service to be financially sustainable includes the need for a reasonable commercial rate of return for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service.

<sup>290</sup> Ofcom, 2023. [Post Monitoring Report](#), Figure 3.1.

<sup>291</sup> International Distributions Services plc, November 2023. [Results for the half year ended 24 September 2023](#).

<sup>292</sup> Ofcom, 2023. [Post Monitoring Report](#), p. 4.

**Figure 12: Reported Business, Royal Mail Group, International Distributions Services (IDS) (not to scale)**



Source: Ofcom analysis

6.23 The safeguard caps apply to a small proportion of USO services (and, therefore, to a smaller proportion of Reported Business revenue). In total, the services directly controlled by a safeguard cap (Second Class stamped standard letters, large letters and parcels weighing up to 2kg) accounted for £[redacted] in revenue in 2022-23, or [redacted]% of Reported Business revenue. Within this, Second Class standard letters accounted for £[redacted], or [redacted]% of total Reported Business revenue, Second Class large letters for £[redacted] ([redacted]%), and Second Class parcels weighing up to 2kg for £[redacted], or [redacted]% of total Reported Business revenue. Second Class standard and large letters combined represented less than 5% of total Reported Business revenue.

## Impact of the safeguard cap on Royal Mail’s commercial flexibility

6.24 It is important to consider the impact of any safeguard cap on Royal Mail’s commercial flexibility. In the absence of a cap, Royal Mail would price in a way that seeks to maximise revenue and therefore profit. To the extent that any cap restricts its ability to do this, it will necessarily have an impact on its revenues, which in turn could have an impact on the financial sustainability of the universal service.

6.25 Royal Mail is currently pricing Second Class standard letters prices at the cap, which means its commercial flexibility in relation to these services is limited. However, a safeguard cap only affects Royal Mail’s revenues to the extent that it leads it to set lower prices than it would do otherwise. This is why, in our consultation, we considered evidence (also discussed

below) on the prices that Royal Mail may charge in the absence of a cap. As noted below, we concluded that the additional revenue it could make in the absence of a cap is unlikely to have a significant impact on the financial sustainability of the universal service.

- 6.26 As such, while we acknowledged that our proposed cap would restrict Royal Mail's commercial flexibility in relation to Second Class letters, we considered the restriction to be small and therefore proportionate given the need for us to balance our competing duties.
- 6.27 We set out in the next section what impact our original proposals would have had and how we have reached our final decisions taking account of the impact of the safeguard cap on Royal Mail's wider pricing freedom (i.e. its pricing freedom for services that are not directly capped but nonetheless constrained in some way by the cap), taking into account additional evidence provided by Royal Mail in response to the consultation.
- 6.28 Finally, with regard to Royal Mail's argument that our proposed cap compelled it to increase large letter prices earlier and by more than it had planned, we would note that, as long as prices are compliant with any safeguard cap(s), pricing is a commercial decision for Royal Mail, and will take into account factors such as Royal Mail's risk appetite at the time (including in relation to the impact on volumes). As such, we do not agree that our proposal 'forced' it to raise prices. Further, we would note that (as set out below) these price increases have reduced the estimate of the potential impact of our cap on its revenues.

## Impact of the safeguard cap on revenue

- 6.29 In this section we consider, in turn, the potential direct and indirect impacts on Royal Mail's revenues of a CPI safeguard cap on letters and large letters. We consider the impact to be the difference between the revenues Royal Mail could make with the safeguard cap in place and the revenues it could make without the cap (i.e. if it were able to set prices as it wishes). The direct impact reflects this difference in respect of the revenues arising from the safeguarded products.<sup>293</sup> The indirect impacts reflect this difference in respect of the revenues arising from other products, the prices of which are constrained by the safeguard cap even though the products themselves are not subject to the cap.

### Direct revenue impact

- 6.30 Safeguard caps only impact on Royal Mail's revenues to the extent that they lead Royal Mail to set lower prices than it would do otherwise. To inform our understanding of this, therefore, we requested analysis from Royal Mail demonstrating the potential impact on its revenues of different scenarios in which the standard letter cap was increased.
- 6.31 This analysis entailed Royal Mail modelling a number of scenarios for both First Class and Second Class standard letter prices for the next five-year period, which was assumed as the period over which the safeguard caps would be in place. Most of the scenarios were chosen by Royal Mail. Following its price changes in October 2023 (including to First Class standard letters and Second Class large letters), Royal Mail provided updated analysis on the potential impact of our proposed cap.
- 6.32 Royal Mail's updated analysis found that one of its chosen theoretical pricing scenarios could result in a maximum of <£35m (£[£]) in forgone revenue in a single year for both Second and First Class letters for the next five years, compared to a continuation of the current

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<sup>293</sup> The section on direct revenue impact also includes the potential impact on First Class stamped letter and large letter revenues.

standard letter cap. This scenario assumed that it would increase the price of a Second Class standard letter gradually to the European median average throughout the five year period, and that First Class price increases would broadly mirror the Second Class price progression.<sup>294</sup> The impact is estimated to increase in each year of the cap.

- 6.33 Table 7 below shows Royal Mail’s quantification of the forgone revenue from stamped products, caused by Royal Mail being prevented from taking up its chosen theoretical pricing scenario, assuming a safeguard cap on letters set at CPI.

**Table 7: Royal Mail’s analysis of the potential impact on First and Second Class stamped letter revenue of a CPI price cap on Second Class letters (direct impact)**

Year	Royal Mail quantification of potential forgone revenue
2024-25	<£5m (£[REDACTED])
2025-26	<£15m (£[REDACTED])
2026-27	<£30m (£[REDACTED])
2027-28	<£35m (£[REDACTED])
2028-29	<£35m (£[REDACTED])

Source: Royal Mail estimates, provided in response to s.55 Notice dated 12 January 2024

- 6.34 While it is difficult to make a comparison to future Reported Business revenue, we note that the largest amount of revenue that Royal Mail estimated it could forgo (in a single year) represents a very small proportion (<0.5% ([REDACTED])%) of current (2022-23) Reported Business revenue. This is smaller than the estimated impact set out in the consultation (<0.6% ([REDACTED])%)

### Indirect revenue impact

- 6.35 We note the arguments made by Royal Mail in its consultation response in relation to the “pricing ladder”. We have accordingly considered further the extent to which the cap we proposed in the consultation could affect Royal Mail’s ability to maintain its desired pricing differentials between different products, and, in turn, affect its revenues by causing it to price certain uncapped products lower than it would otherwise. The overall financial sustainability of the universal service could be undermined if there were likely to be a material effect on Royal Mail’s revenues caused by the combined impact of the cap’s effect on revenues for the safeguarded products and revenues for other products which are not safeguarded but nevertheless indirectly affected by the cap.
- 6.36 We do not, in principle, disagree with Royal Mail’s pricing ladder argument. Firstly, we accept that, while only Second Class stamped standard and large letters are directly capped, the standard letter cap acts as an indirect cap on Royal Mail’s business mail products,<sup>295</sup> which are cheaper than a Second Class stamped letter because they typically require a minimum annual spend or have a lower specification (for example, unsorted business mail).

<sup>294</sup> Royal Mail response to s.55 Notice dated 12 January 2024.

<sup>295</sup> The business mail products that have been considered are Second Class standard; retail business mail letters, network access business mail letters and USO account and metered letters. Large letters have not been considered within this analysis because i) the price differentials between stamped large letters and business mail large letters are unlikely to act as a constraint on Business Mail pricing in the near future and [REDACTED].

- 6.37 Similarly, we note that there could be valid commercial reasons for Royal Mail to want or need to maintain differentials between stamped prices and other products of similar characteristics, with the potential for cross-substitution between them and stamped services, or between each other. For example, a metered customer must incur additional expenses compared to a stamped customer, i.e. the cost of renting the meter machine. To the extent that the other benefits to the customer from using a metered product do not compensate sufficiently for these additional costs, then a lower price needs to be charged for meter products to make it commercially viable for the user.
- 6.38 Secondly, we note that capping one, higher, price such that it increases at a lower rate than another lower, uncapped, price would inevitably lead to the differential between the two prices shrinking over time. The lower price may increase at a higher rate because it can be determined on a purely commercial basis.
- 6.39 We recognised that the safeguard cap could affect the prices Royal Mail can charge for its other products in our 2012 statement on imposing the original safeguard caps. In that statement, we stated that we were seeking to minimise the effect of the safeguard cap on Royal Mail’s commercial flexibility for its other products.<sup>296</sup>
- 6.40 While the proposed cap could therefore have a broader effect on Royal Mail’s revenues than we estimated in the consultation, it is clearly important to understand what that effect could be in practice in order to inform our assessment of the total potential impact of the cap on the financial sustainability of the USO. Using our formal powers, we requested and reviewed the analysis supporting Royal Mail’s assertions in order to assess the potential impact of our proposed cap on Royal Mail’s ability to maintain such differentials in practice, the assumptions underlying its approach, and the resulting potential impact on its revenues.<sup>297</sup>
- 6.41 This analysis showed that, if we proceeded with a letters safeguard cap set at CPI, Royal Mail would likely not be able to increase prices for its business mail products in line with the planned increases set out in its business plan over the cap period while also maintaining its preferred minimum differentials between related products.<sup>298</sup> It also showed that, if Royal Mail maintained these desired differentials, it could be constrained in its ability to increase some business mail prices ([£]) from the first year of the safeguard cap, and the constraint could affect multiple products in later years of the cap period.
- 6.42 However, we note that the evidence Royal Mail provided, for the price differentials it claimed were required between products, was based on commercial judgement, rather than evidence of substitution patterns and revenue losses if these price differentials were to narrow.<sup>299</sup> Further, we observe that Royal Mail has not been consistent in its application of the differentials, with one pair of prices currently having a smaller differential than Royal Mail’s preferred differentials.<sup>300</sup>

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<sup>296</sup> Ofcom, 2012. [Statement: Securing the Universal Postal Service](#), paragraph 8.4.

<sup>297</sup> Royal Mail, response to s.55 Notice dated 17 October 2023.

<sup>298</sup> Royal Mail plans to increase prices for these services by an average of [£].

<sup>299</sup> Royal Mail response to s.55 Notice dated 17 October 2023.

<sup>300</sup> The two prices are [£] and [£]. Royal Mail explained that this has been caused by the business mail price rises which were brought forward to October 2023. The differential used within its assumptions will return with future price rises in April 2024 but the lower differential will be present until then.

- 6.43 This suggests that there is some uncertainty about the differentials Royal Mail needs to maintain, and it is likely that, at least in some pairings, smaller differentials in prices between products would be commercially viable.
- 6.44 In general, however, we agree that, while the scale and speed of the impact of capping Second Class stamped standard letters on Royal Mail's revenues are subject to some uncertainty, it is very likely that proceeding with the proposal on which we consulted would give rise to greater forgone revenues than we envisaged in our consultation because of the impact on the prices Royal Mail can charge for other, uncapped products. We accept that this impact would materialise within the five year period proposed in the consultation.
- 6.45 Table 8 below shows the estimates of the potential forgone revenue from business mail products for each year of the cap, assuming we proceed with the safeguard cap set at CPI, caused by Royal Mail's inability to raise prices in line with its business plan.<sup>301</sup>
- 6.46 We have not considered possible forgone revenue from business mail in other hypothetical scenarios where Royal Mail might increase business mail prices by more than the pricing strategy within its current business plan. Royal Mail has not informed us that the pricing strategy within its current business plan is out of date for business mail, or provided us with an updated business plan.

**Table 8: Potential impact on business mail revenue of a CPI price cap on Second Class letters (indirect impact)**

Year	Quantification of potential forgone revenue
2024-25	<£1m (£[X])
2025-26	<£1m (£[X])
2026-27	<£4m (£[X])
2027-28	<£35m (£[X])
2028-29	<£65m (£[X])

Source: Royal Mail estimates for years 2024-25 to 2027-28 inclusive (provided in response to s.55 Notice dated 17 October 2023, and Ofcom revenue estimate for 2028-29.<sup>302</sup>

- 6.47 Royal Mail's estimates (set out in Table 8 above) indicate that potential forgone revenue in years one to three is very small in the context of total Reported Business revenue for 2022-23 (£6,972m),<sup>303</sup> representing, at a maximum, <£4m (£[X]) in the third year. However, the estimate of potential forgone revenue increases significantly in year four of the cap period (to around seven times the cumulative impact over the first three years) (<£35m (£[X])). The estimate of the impact in year five is significantly greater than the impact in year four (<£65m (£[X])).

<sup>301</sup> Revenues presented in the table are not cumulative.

<sup>302</sup> 2027-28 is the last year of Royal Mail's current business plan. Because of this, Royal Mail's analysis only covered the first four years of the price cap. Ofcom's estimate for year five has been calculated by simply extrapolating Royal Mail's indirect impact assumptions out for another year.

<sup>303</sup> Royal Mail, 2023. [Regulatory Financial Statements for the 52 week period ended 26<sup>th</sup> March 2023](#), p. 7.

6.48 The figures therefore indicate that the proposed cap could act as a material constraint on Royal Mail’s commercial flexibility to set prices for business mail from year four onwards, and could therefore have a more significant impact on overall financial sustainability than envisaged in our consultation.

### Total revenue impact

6.49 In this subsection we consider the total potential revenue impact of our proposed cap on Royal Mail’s revenues (i.e. the direct impact, resulting both from the forgone revenues from First and Second Class standard letters, and the indirect impact, resulting from the forgone revenues from business mail), and the possible implications for the financial sustainability of the USO.

6.50 We use a conservative approach, taking the highest estimate for the revenue impact in each year, while noting that Royal Mail’s existing pricing approach indicates that the claimed required price differentials could be lower than those included in its quantification.

6.51 Table 9 below shows that, the estimated total potential revenue impact increases in each year of the cap period (i.e. it is lowest in year one and highest in year five). The highest potential total revenue impact in a single year of a five year cap period could be <£100m (£[REDACTED]), which would be in the fifth year.

**Table 9: Total quantified impact on revenue of a CPI price cap on Second Class letters**

Year	Quantification of total potential forgone revenue	Total forgone revenue as a proportion of 2022-23 Reported Business revenue
2024-25	<£6m (£[REDACTED])	<0.1% ([REDACTED]%)
2025-26	<£15m (£[REDACTED])	<0.2% ([REDACTED]%)
2026-27	<£35m (£[REDACTED])	<0.5% ([REDACTED]%)
2027-28	<£65m (£[REDACTED])	<0.9% ([REDACTED]%)
2028-29	<£100m (£[REDACTED])	<1.4% ([REDACTED]%)

Source: Royal Mail estimates, for years 2024-25 to 2027-28 inclusive (provided in response to s.55 Notices dated 17 October 2023 and 12 January 2024, and Ofcom revenue estimate for 2028-29.

6.52 Our provisional conclusion in the consultation was that retaining a cap on letters at CPI would not have a significant impact on the financial sustainability of the universal service. This was because the capped services contribute a very small proportion of Reported Business revenue, and the information submitted by Royal Mail for the purposes of our consultation demonstrated that even a significant real-terms increase in the cap would likely have a relatively small impact on revenue. Other than Royal Mail, we note that the stakeholders who commented on our provisional conclusion were all in agreement.

6.53 Updating the direct impact with the latest available data and including the indirect impact results in the total potential impact, for years one to three of the cap period, being slightly smaller than the estimate of the impact in the consultation (which only took into account the direct impact). For the consultation, we estimated that the greatest potential impact of the proposed cap in any year of the cap period would be (as a proportion of 2022-23 Reported Business revenue) <0.6% ([REDACTED]%) – despite now taking into account indirect impact

as well as direct impact, the greatest impact in any of the first three years is now <0.5% ([REDACTED]%).<sup>304</sup>

- 6.54 However, including the indirect impact means that the total impact could be considerably greater than our consultation position (and the position based on the updated analysis provided by Royal Mail) in year four (at <0.9% ([REDACTED]%), and even greater in year five (at <1.4% ([REDACTED]%).
- 6.55 Taking all of this into account, we consider that, for the first three years of the cap period (i.e. until 2026-27), neither the evidence provided by Royal Mail on the indirect impact of the cap nor the updated information regarding the direct impact of the cap materially change our assessment as set out in our consultation of the impact of our proposed cap on Royal Mail's revenues, and therefore the financial sustainability of the USO.
- 6.56 However, we have changed our assessment of the impact of a cap with a duration of four years or more, as the potential indirect impact of the cap on Royal Mail's revenues results in a considerably greater impact after the third year than we had previously anticipated. This in turn means that it could from this point have a greater impact on the financial sustainability of the USO than we previously considered.

## Cost recovery and profitability

- 6.57 We explained in the consultation that we have also had regard to the impact of any cap on Royal Mail's ability to cover the cost of providing the service, and specifically whether the price for Second Class letters covers the cost of delivering Second Class letters.
- 6.58 Royal Mail argued that we should be using fully allocated costs (FAC) and not incremental costs, arguing that a network business which prices all of its services at, or only just above, incremental cost would quickly go out of business.
- 6.59 Our starting point is that Royal Mail, like any supplier, would at least expect revenues from specific services to cover the incremental costs of providing those services. We explained in the consultation that this appeared to be the case, if prices are permitted to remain constant in real terms (i.e., with CPI) and future volume declines stayed broadly in line with historic trends over the past five years. Royal Mail appeared to accept this, describing the "significant contribution to profit that is made by 2c stamp services" in its consultation response.<sup>305</sup>
- 6.60 We also recognise that a supplier needs to expect to earn sufficient aggregate revenues across all its services to cover all its costs (including common costs) and to make an adequate return. However, it does not follow that a company would choose to base the price of a service on an estimate of its FAC.
- 6.61 The FAC of a service includes the direct costs of providing that service, plus a share of the indirect costs. Some of Royal Mail's costs can be directly assigned to the services that caused them to be incurred, but a much larger proportion (including the costs of running a shared network used to deliver many services) cannot be attributed to individual services in this way. Therefore, any estimate of FAC depends to a significant extent on the cost allocation rules used to share those costs across its services, and we consider that market conditions

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<sup>304</sup> This figure is for the year (year three) in which our calculations show that the cap would have the greatest impact.

<sup>305</sup> Royal Mail, [response to consultation](#), paragraph 47.

are more likely to influence pricing decisions than an expectation that the price of each service should cover an estimate of its FAC.

- 6.62 Royal Mail has not said what it considers to be the FAC of these services, or stated that it would set prices based on its FAC estimate if it was able to do so.
- 6.63 Therefore, rather than looking at the FAC of individual services, we have considered the impact of the proposed caps on Royal Mail's ability to recover total costs as well as incremental costs. While Royal Mail's ability to deliver changes in parcel revenues and efficiency improvements could have a significant bearing on its ability to recover its costs, its own modelling (described above) suggests that the additional potential revenue that might be achieved without a safeguard cap could be <£35m ([<math>3</math>]%) in year three, and therefore cover only a small proportion of Reported Business 2022-23 total costs (£7,301m).<sup>306</sup>
- 6.64 Accordingly, in the context of other, more impactful, actions<sup>307</sup> which are at least to some extent within Royal Mail's control, we consider that the cap on Second Class letters would likely have only a minimal impact on Royal Mail's ability to recover its total costs.

## Safeguard caps and efficiency incentives

- 6.65 As noted above, the future costs of providing Second Class letters will depend to a significant extent on Royal Mail's ability to make efficiency improvements. More generally, it is essential for Royal Mail to become more efficient if it is to sustainably secure a commercial rate of return.
- 6.66 As a general point, we note that, if Royal Mail is able to increase prices in markets where it is not subject to effective competitive constraints, then its incentives to operate efficiently could be reduced. Therefore, price caps can play a role in increasing efficiency incentives. However, as we set out in the 2018-19 safeguard caps review, the safeguard caps are not intended, in and of themselves, to provide efficiency incentives to Royal Mail. The safeguard caps apply only to a small proportion of the revenues of the Reported Business and the efficiency challenges faced by Royal Mail are considerably broader.
- 6.67 We continue to consider, as set out in our 2022 Review of Postal Regulation statement, that market conditions and shareholder pressures provide Royal Mail with incentives to make efficiency gains in order to maximise profits. Indeed, our analysis in that statement suggested that efficiency gains are critical for the USO to be sustainable, as Royal Mail cannot rely on revenue increases alone.<sup>308</sup> Further, as we note in our call for input on the future of the universal postal service published alongside this statement, Royal Mail must continue to work towards transforming its network and operations, and improving efficiency, to ensure that consumers get the best possible value for the services they buy.<sup>309</sup>

## Conclusion on our analysis

- 6.68 Having taken account of the evidence Royal Mail provided on the indirect impact of our proposed cap, we have reached a different conclusion regarding financial sustainability to that in our consultation.

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<sup>306</sup> Royal Mail, 2023. [Regulatory Financial Statements for the 52 week period ended 26<sup>th</sup> March 2023](#), p. 7.

<sup>307</sup> For example, Royal Mail's ability to increase revenues and/or improve efficiency.

<sup>308</sup> Ofcom, 2022. [Statement: Review of Postal Regulation](#), paragraphs 3.27 and 4.38.

<sup>309</sup> Ofcom, 2023. [Call for Input: The future of the universal postal service](#).

- 6.69 While Second Class standard and large letters contribute a very small proportion of Reported Business revenue (<5%), further evidence on the potential indirect impact of our proposed cap suggests that the impact of our proposals could be more material than we previously considered within the proposed five-year duration.
- 6.70 However, the evidence indicates that, up to and including the third year of the cap period (2026-27), the total impact on revenues in each of year would not be materially higher than previously assessed, but after this point, the impact could be considerably greater than we set out in the consultation. Accordingly, our conclusion remains that our proposed cap is unlikely to have a significant impact on the financial sustainability of the universal service in the first three years of the cap period. However, we now consider that, after this point, the impact may be materially higher than that on which our consultation proposals were based (and on the updated analysis provided ahead of this statement).
- 6.71 With regard to the costs of the capped services, it appears to be the case that, if prices are permitted to remain constant in real terms (i.e., with CPI) and future volume declines stay broadly in line with historic trends over the past five years, then revenues from Second Class letters will likely be sufficient to cover the incremental costs of providing those services. We also consider that the cap on Second Class letters has little impact on Royal Mail's ability to recover its total costs.
- 6.72 Finally, in section 7 below, we consider the balance between achieving affordability and financial sustainability of Royal Mail when coming to our decision on the level, scope, and duration of any safeguard caps requirements we impose on Royal Mail.

# 7. Our decisions

- 7.1 In this section we set out our final decisions on the scope, size and duration of the safeguard cap. In summary, we have decided to:
- a) Remove the safeguard cap from Second Class parcels weighing up to 2kg;
  - b) Impose a basket safeguard cap on the pricing of Royal Mail Second Class stamped standard and large letters such that the overall price increase of the basket is limited to CPI; and
  - c) Apply the CPI cap in financial years 2024-25, 2025-26 and 2026-27 (i.e. for the three years where the impact of the cap on Royal Mail's revenues is not significant).
- 7.2 During this period, we intend to work with Royal Mail to consider alternatives to the current safeguard cap to ensure affordability for vulnerable consumers. In the event that we consider there are affordability concerns that remain unaddressed (for example if no alternative has been agreed), we may exercise our power to direct Royal Mail to set prices at a level that we consider to be affordable after the end of financial year 2026-2027. The level and duration of any such cap would be based on an analysis of affordability and the financial sustainability of the universal service at the relevant time and would be subject to consultation.
- 7.3 We note that we have published alongside this document a call for input on the future of the universal postal service, finding that the evidence suggests the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future. Any change could impact the structure of the current safeguard cap.
- 7.4 Our decisions are reflected in the modifications to DUSP Condition 3 and revocation of DUSP Condition 2 set out in the notification at Annex 1 to this statement. At Annex 2 we have included a version of the modified DUSP Condition 3, marked up against the version of this condition on which we consulted in order to show the amendments we have made to our consultation proposals.<sup>310</sup>

## Our consultation proposal

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- 7.5 Following our assessment of the evidence in the consultation, we proposed to:
- a) remove the safeguard cap from Second Class parcels up to 2kg;
  - b) continue to impose a safeguard cap on Second Class standard and large letters but combine these into a single weighted basket cap; and
  - c) set a CPI cap on the weighted basket of Second Class standard and large letters for a period of five years.
- 7.6 In order to give effect to these proposals, we proposed modifications to DUSP Condition 3 and the revocation of DUSP Condition 2, as set out in the notification published at Annex 5

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<sup>310</sup> For the avoidance of doubt, Annex 2 does not form part of the Notification at Annex 1. Note that Annex 2 also shows some minor typographical amendments.

to the June 2023 consultation. We set out below stakeholder comments received on our proposals, together with our assessment and final decisions.

## Stakeholder responses

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### Removal of cap on Second Class parcels

- 7.7 Royal Mail and Evri were supportive of our proposal to remove the cap on Second Class parcels up to 2kg, considering that increasing competition in the C2X parcels market provides a sufficient constraint on Royal Mail's pricing for these services. Quadiant and the GCA also agreed with the proposal.<sup>311</sup>
- 7.8 Consumer groups were not supportive of removing the cap on parcels, contending that some consumers – such as those in locations where other parcel operators do not operate or apply surcharges, and those who do not use the internet – do not benefit from competition in the parcels market and would therefore be negatively affected if the cap was removed.<sup>312</sup> They (and Post Office) also raised concerns about the offline/online differential widening if the cap is removed.<sup>313</sup> The NFSP also disagreed with the proposal to remove the cap as vulnerable customers could be particularly affected, but did not set out why.<sup>314</sup>

### Single basket cap for Second Class standard and large letters

- 7.9 Consumer groups and Post Office expressed support for retaining a cap on letters on the basis that it is important to protect consumers. However, consumer groups did not support the proposed single basket cap for all letters, instead arguing that standard and large letters should be subject to separate caps.
- 7.10 Citizens Advice and Consumer Scotland expressed some concerns that the proposed structure (i.e. a single basket cap for all letters) would give Royal Mail too much freedom, contending that above-inflation increases on either standard or large letters could disproportionately affect vulnerable consumers.<sup>315</sup> Post Office further argued that the competitive conditions for standard and large letters are different, which would give Royal Mail the ability to raise standard letter prices in order to subsidise large letters, where it faces more competition.<sup>316</sup>
- 7.11 Citizens Advice, CCNI and Consumer Scotland also argued that the proposed basket structure would not provide enough transparency around price increases, and that a separate cap on standard letters would be simpler to understand and provide certainty to consumers.<sup>317</sup>
- 7.12 The NFSP disagreed with the proposed approach, contending that it could result in significant price increases for large letters, as standard letter volumes are much higher than large letter volumes.<sup>318</sup>

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<sup>311</sup> Responses to consultation from: [Royal Mail](#), p. 13; [Evri](#), p. 2; [Quadiant](#), p. 6; [GCA](#), p.6.

<sup>312</sup> Responses to consultation from: [Citizens Advice](#), pp. 24-26; [CCNI](#), pp. 29-34; [Consumer Scotland](#), p. 15; [CCP-ACOD](#), p. 2.

<sup>313</sup> Post Office, [response to consultation](#), p. 11.

<sup>314</sup> NFSP, [response to consultation](#), p. 2.

<sup>315</sup> Responses to consultation from: [Citizens Advice](#), paragraphs 51-53; [Consumer Scotland](#), pp. 12-13.

<sup>316</sup> Post Office, [response to consultation](#), p. 9.

<sup>317</sup> Responses to consultation from: [Citizens Advice](#), paragraph 79, [CCNI](#), p. 27; [Consumer Scotland](#), pp. 12-13.

<sup>318</sup> NFSP, [response to consultation](#), p. 2.

- 7.13 Post Office and CCNI also raised a concern that Royal Mail could use the flexibility under the basket cap to increase the online/offline differential for capped services, affecting the affordability of offline services. Post Office therefore argued that we should not allow Royal Mail to offer discounts for its universal services when purchased online.<sup>319</sup>
- 7.14 The GCA agreed with our approach as it considered the greeting card market has been negatively affected by recent price rises for large letters which the previous basket structure had allowed. Quadient also agreed with our proposed approach.<sup>320</sup>
- 7.15 Royal Mail was not supportive of any sort of safeguard caps on any of its services. It argued that there is no justification for safeguard caps as there are no affordability issues caused by Second Class stamp prices, and that Ofcom should allow it greater flexibility in the face of financial jeopardy. However, in the event that a cap continues to be imposed, Royal Mail supported the proposal for a basket on Second Class standard and large letters, as it considered that it needs the commercial flexibility that this would provide.<sup>321</sup>

## Level of basket cap at current prices plus CPI

- 7.16 If we decided to impose any cap, Royal Mail urged us to consider materially increasing the starting level. It proposed allowing it to price to the EU median letter price over a three-year period, arguing that it offers low prices compared to operators in EU countries, and is also subject to more stringent requirements. It estimated that an uplift in the basket cap of around 25% (around 25p) would be required to provide the commercial flexibility to avoid the perceived adverse impact a cap would have on prices and revenues for its other products (i.e. business mail), effectively allowing it to maintain the ‘pricing ladder’ effect discussed in section 6.<sup>322</sup>
- 7.17 Consumer bodies expressed concern about Royal Mail being able to increase prices for some products beyond inflation under the basket cap, and consequential negative effects for consumers. They urged us to consider CPI freezes to ensure affordability, particularly for the first year of the new cap, which would be followed by a reassessment in which we could consider adjustments below the rate of CPI. Citizens Advice was not convinced of the need for Royal Mail to apply above-inflation price increases, as the current cap allows Royal Mail to recover its costs.<sup>323</sup>
- 7.18 Post Office disagreed with the proposed approach, considering that the level of the cap should be based solely on affordability and such an increase would mean that letters are unaffordable.<sup>324</sup>
- 7.19 The GCA considered a cap set at current prices plus CPI to be a reasonable compromise given the financial pressures on Royal Mail. Quadient also agreed with our proposed approach.<sup>325</sup>

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<sup>319</sup> Responses to consultation from: [Citizens Advice](#), pp. 22-23; [CCNI](#), pp. 25-29; [Consumer Scotland](#), pp. 11-13; [Post Office](#), p. 9.

<sup>320</sup> Responses to consultation from: [GCA](#), p. 5, and [Quadient](#), p. 2.

<sup>321</sup> Royal Mail, [response to consultation](#), paragraph 39.

<sup>322</sup> Royal Mail, [response to consultation](#), p. 14.

<sup>323</sup> Responses to consultation from: [Citizens Advice](#), p. 23; [CCNI](#), pp. 27-29; [Consumer Scotland](#), p. 14.

<sup>324</sup> Post Office, [response to consultation](#), p. 10.

<sup>325</sup> Responses to consultation from: [GCA](#), p. 5, and [Quadient](#), p. 3.

## Duration of the safeguard cap

- 7.20 Royal Mail agreed that a five-year period would offer certainty but also urged us to monitor the market for changing conditions.<sup>326</sup> Consumer bodies also agreed that five years was a suitable duration for the cap but conversely urged Ofcom to monitor any price increases on letter products and intervene within the five-year period if necessary.<sup>327</sup>
- 7.21 Post Office agreed that the proposed approach was reasonable but considered it might be more suitable to review any future caps at time of next review of overall postal regulatory framework, i.e. around 2027. It also argued that there should be an ability to re-open the safeguard cap in certain situations.<sup>328</sup>
- 7.22 The GCA and Quadiant agreed with the proposed approach.<sup>329</sup> The NFSP argued for a yearly review of any future caps due to the fast-changing nature of the postal market.<sup>330</sup>

## Development of targeted scheme for vulnerable consumers

- 7.23 Royal Mail noted that it had explored a potential targeted scheme for vulnerable consumers of postal services with the intention of introducing it as an alternative to the safeguard caps in ensuring affordability for consumers. It called on us to re-engage with it urgently to develop the proposal, including providing objective, specific and measurable criteria that would need to be met in order for decisions regarding the safeguard caps to be reconsidered.<sup>331</sup>
- 7.24 Consumer bodies and Post Office opposed the introduction of a targeted scheme to replace the safeguard caps on the basis that it would only protect vulnerable consumers and other consumers would lose the current protection they receive from the safeguard cap.<sup>332</sup>
- 7.25 Citizens Advice also raised specific concerns about a targeted scheme. These concerns included the fact that it is difficult to accurately assess which consumers are most likely to be affected by post affordability issues and how many stamps they might need, as well as the difficulty of awareness-raising among vulnerable groups, and other delivery challenges.<sup>333</sup>
- 7.26 Consumer Scotland and CCNI considered that a targeted scheme in addition to safeguard caps could help protect vulnerable consumers. They called for further examination of consumer vulnerability and offered to engage with future development.<sup>334</sup> Consumer Scotland pointed to the energy sector as an example of a market with a market-wide price cap and additional affordability interventions targeted at vulnerable consumers.<sup>335</sup>

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<sup>326</sup> Royal Mail, [response to consultation](#), p. 31.

<sup>327</sup> Responses to consultation from: [Citizens Advice](#), pp. 23-24; [CCNI](#), p. 29; [Consumer Scotland](#), p. 14; [CCP-ACOD](#), p. 1.

<sup>328</sup> Post Office, [response to consultation](#), p. 10.

<sup>329</sup> Responses to consultation from: [GCA](#), p. 6, and [Quadiant](#), p. 3.

<sup>330</sup> NFSP, [response to consultation](#), p. 2.

<sup>331</sup> Royal Mail, [response to consultation](#), paragraphs 71-75.

<sup>332</sup> Responses to consultation from: [Citizens Advice](#), pp. 26-29; [CCNI](#), pp. 34-35; [Consumer Scotland](#), pp. 15-18; [Post Office](#), pp. 11-12.

<sup>333</sup> Citizens Advice, [response to consultation](#), pp. 26-29.

<sup>334</sup> Responses to consultation from: [Consumer Scotland](#), pp. 15-18, and [CCNI](#), pp. 34-35.

<sup>335</sup> Consumer Scotland, [response to consultation](#), p. 17.

- 7.27 The GCA opposed a scheme, contending that, if Ofcom’s conclusions on affordability are correct, it is difficult to see how such a scheme would be of greater benefit than the current safeguard cap approach.<sup>336</sup> Quadient considered that such a scheme would be too difficult to implement and operate, and would be of little benefit with low consumer spend on post.<sup>337</sup> The NFSP considered that it was a good idea but would create a ‘tiered’ universal service.<sup>338</sup>

## Our assessment

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### Removal of the safeguard cap on parcels

- 7.28 We have carefully considered stakeholder concerns and comments with respect to the removal of a safeguard cap on parcels, including specific concerns around the online/offline differential for these services, and concerns about those who live in areas with limited competition. We set out our detailed response to these points, as well as our evidence on the competition for C2X parcels weighing up to 2kg, in section 4.
- 7.29 As set out in that section, while we note that not all consumers can or do use alternatives to Royal Mail, the obligation on Royal Mail to set uniform national prices ensures that *all* consumers benefit from the price impacts of competition (including those who use only Royal Mail services) and that this competitive impact applies to both online and offline pricing. Indeed, there is evidence to suggest that, even since the publication of our consultation, the competitive constraints on Royal Mail have grown further, including for parcels purchased offline – for example, the recent announcement of DPD and Evri’s deal with the Post Office to allow customers to drop off parcels with those operators at some Post Office branches.
- 7.30 Accordingly, we consider that competition will ensure that parcel prices remain affordable for consumers, even in those locations where competition is less intense, and for consumers who access offline services, and that it therefore is appropriate to remove the safeguard cap on parcels. In coming to this decision, we have been mindful of our general regulatory principles and approach to postal regulation – i.e. to intervene only where a user need is not met by the market, or where there is a risk of consumer harm more generally. In this case, we consider that the market is and will continue to provide sufficient affordability protection, such that a safeguard cap is not appropriate.

### Retention of a safeguard cap on Second Class letters

- 7.31 Unlike parcels, we consider that Royal Mail does not face sufficient competitive pressures in letters to constrain its pricing for standard letters, and that therefore without a cap there is a risk that prices could become unaffordable. With respect to large letters, while we note in section 4 that there is evidence of nascent competition for these services (in particular the heaviest large letters), we consider that this competitive pressure is not sufficient to constrain Royal Mail’s pricing significantly.

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<sup>336</sup> GCA, [response to consultation](#), p. 5.

<sup>337</sup> Quadient, [response to consultation](#), p. 3.

<sup>338</sup> NFSP, [response to consultation](#), p. 2.

- 7.32 Overall, we accept that it is appropriate to allow Royal Mail to set letter prices in a manner to recover its costs and to respond commercially to variations in consumer demand (for example by setting prices according to its overall cost base and consumer demand, rather than setting the price of a particular service by reference only to the cost of providing that individual service). However, we believe that, without a safeguard cap, there remains a risk that letter prices could become unaffordable for some consumers, and that this risk is higher for vulnerable consumers, particularly those with greater reliance on letters.
- 7.33 In our view, therefore, it is appropriate for us to impose a safeguard cap on Second Class standard and large letters to ensure that access to letter services remains affordable. Without a safeguard cap, our evidence suggests that Royal Mail would have the ability and incentive to raise prices considerably, reducing the affordability of these services and increasing the incidences of consumers experiencing significant detriment.

## Structure of the letters safeguard cap

- 7.34 Some stakeholders raised concerns about the proposed structure of the safeguard cap – i.e. a single basket for all letters. Specific concerns were raised about the freedom that this could give Royal Mail with respect to large letter prices, while Citizens Advice was concerned about the freedom this would give Royal Mail to apply above-inflation increases to standard letters and the lack of transparency it would offer. As noted above, these stakeholders urged us to cap standard letters separately from large letters.
- 7.35 We accept that, by its nature, a single letters' basket cap does allow Royal Mail greater discretion in deciding where to apply price increases, compared to separate caps for standard and large letters. However, we continue to consider that imposing a single basket cap for all letters is the appropriate approach for a number of reasons.
- 7.36 Firstly, this approach will provide Royal Mail with some additional commercial flexibility compared to separate caps for standard and large letters. This is important as it better enables Royal Mail to respond to changing market conditions and variation in demand between services, which in turn ultimately supports the financial sustainability of the USO. We also note a general point that, as letter volumes decline, unit costs increase, and providing some additional flexibility to Royal Mail across standard and large letter pricing will help them to manage these changes more easily.
- 7.37 We consider that providing this flexibility is justified by the fact that letters, regardless of size, share a common cost base and operational management. They operate in very similar market conditions, with Royal Mail holding a near-monopoly position in these markets. While we have noted above that there is evidence of some competition in the large letters segment, this is nascent and concentrated at the highest weight-step.
- 7.38 Secondly, a basket cap set at an appropriate level will ensure that consumers' *overall* consumption of letters is affordable. We note in response to Citizens Advice's point that we do not have specific evidence relating to consumers' (and vulnerable consumers') use of standard versus large letters. However, we consider it reasonable to assume that consumers generally buy a mix of standard and large letters in proportions that reflect the proportional split between the total volumes of these two products. Further, we have seen no evidence to indicate that vulnerable consumers are particularly likely to purchase standard letters or large letters in proportions very different from the proportional split between the total volumes of these two products.

- 7.39 As we have decided that the basket cap should be weighted by volumes of these products purchased (as is the case for the current basket cap on large letters and parcels), in our view it is unlikely that Royal Mail exercising its pricing freedom in respect of the services in the basket will pose a risk to affordability, as we now further explain.
- 7.40 With respect to concerns about above-inflation increases for standard letters, the volume weighting of the basket provides protection. Large letter volumes are significantly lower than standard letter volumes - based on 2022-23 data, large letters will account for a relatively small proportion (just over 20%) of the volume of all letters in the basket.<sup>339</sup> This means that Royal Mail's pricing choices on standard letters have the most weight with respect to compliance with the cap (compared to large letters), meaning that even if it holds the price of large letters fixed, the impact on pricing flexibility for standard letters will remain relatively small.
- 7.41 Further, while there is greater pricing freedom for large letters if standard letters are held constant in price in nominal terms, Royal Mail explained in its consultation response that greater restriction on its standard letter price would further accentuate the pricing ladder impact on other services.<sup>340</sup> This wider impact on its other services (business mail) suggests that Royal Mail would have limited commercial incentives to hold the standard letter price steady. In any event, any above inflation price increases for large letters would have a limited impact on affordability, given both the relatively low use of such letters compared to standard letters and the consequential offsetting impact of below inflationary prices for other services. We also note Royal Mail's point in its consultation response, ispe that it has increased large letter prices earlier and by more than planned, risking a tipping point. This suggests that it may have increased large letter prices by as much as it is likely to in the short term.
- 7.42 In summary, while we expect Royal Mail to make use of the basket structure to increase the price of some of the services in the basket above the rate of inflation, the overall impact on consumers will remain aligned with the rate of inflation.
- 7.43 We disagree with stakeholders that a single basket cap for letters would mean that there would not be transparency for consumers about price rises for these services. Royal Mail, as now, will be required at least one month in advance of any price rises to notify Ofcom and the consumer advocacy bodies of the planned changes, and to publish these with 'reasonable publicity'.<sup>341</sup> We consider that this, along with the subsequent press coverage of these announcements, is sufficient to ensure consumers are informed about future price changes for letters.
- 7.44 Finally, since we published our consultation, Royal Mail has introduced online/offline differentials for large letters. We set out in section 3 our view that online/offline differentials for universal services can offer benefits to consumers and are likely to reflect cost differences to Royal Mail. We also set out in section 4 that we consider that competition for both online and offline parcels will limit Royal Mail's ability to deliver adverse outcomes for offline consumers by setting prices at an unaffordable level.
- 7.45 However, while there is evidence of nascent competition for heavier large letters, overall we have concluded that Royal Mail remains a near-monopolist for large letter services.

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<sup>339</sup> Royal Mail Regulatory Financial Reporting Information.

<sup>340</sup> Royal Mail, [response to consultation](#), paragraphs 50-59.

<sup>341</sup> See DUSP 1.10.2. Royal Mail typically fulfils this requirement by publishing a press release on its website.

Therefore, unlike for parcels, there is a material risk that Royal Mail could use the flexibility within the basket to offset offline pricing increases with online price reductions. This in turn could mean that the offline price becomes unaffordable.

- 7.46 Accordingly, we have ensured that the basket cap, while based on total volumes (i.e. both online and offline), calculates the safeguard cap as if all services are sold offline. In order to do this, we have made clear that the calculation for the price cap is to be based on the maximum price for each product in the basket, whether it is purchased online or offline. This will not prevent Royal Mail from offering discounts for services purchased online, but will restrict its ability to use the freedom within the basket to make the offline price unaffordable through excessive price rises.

## Level of the safeguard cap

- 7.47 In section 5, we considered the evidence on affordability of current postal prices. Our evidence suggests that real terms increases (i.e., above CPI) in the prices of the capped letter services are likely to lead to a larger proportion of consumers more frequently experiencing incidences of significant detriment in relation to the cost of post, and that such increases could particularly affect vulnerable consumers. Accordingly, Royal Mail's proposed c. 25% uplift to the cap would significantly increase the proportion of consumers who at times find letter services unaffordable.
- 7.48 We note Royal Mail's point that its prices are below the EU median average, and that such an increase would raise prices only to the EU average. However, as noted in section 5 (see paragraph 5.115), it is difficult to use comparisons of UK prices to European prices to draw meaningful conclusions about affordability in the UK, given differences between (for example) use of postal services and levels of digitisation. With respect to the argument that Royal Mail is subject to particularly stringent service requirements, we look at how the USO specification in the UK compares to that of other countries in our call for input on the future of the USO, published alongside this statement.<sup>342</sup>
- 7.49 Equally, while price freezes in year one of the cap period (as proposed by consumer bodies) would offer some affordability respite to consumers, given the rate of inflation, they would impact Royal Mail's revenue and ability to recover its costs, further accentuating the issues discussed in section 6. Our analysis suggests that doing so would very significantly increase the impact of the safeguard cap on Royal Mail's revenue (by a factor of four to eleven).<sup>343</sup> We therefore consider that there is a risk that such an approach could potentially undermine the financial sustainability of the USO.
- 7.50 In section 6, we set out the evidence on both the direct and indirect impact of setting the safeguard cap at CPI, as proposed in the consultation. Our analysis of Royal Mail's 'pricing ladder' (indirect) effect suggests that the impact of the cap on its ability to maintain its chosen price differentials may only become material from year 4.
- 7.51 Overall, when combining the potential direct *and* indirect impact of the cap on Royal Mail's revenues, the greatest likely impact in any of the first three years of our proposed cap represents <0.5% ([~~0.5~~])% of current Reported Business revenue. As discussed in our consultation, this does not suggest that the safeguard cap would significantly affect the financial sustainability of the USO. However, after this point, the impact (driven by the

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<sup>342</sup> Ofcom, 2023. [Call for Input: The future of the universal postal service.](#)

<sup>343</sup> Based on an estimate of the impact of the cap in the first three years of the period.

indirect impact) could increase considerably, representing <0.9% ([✂]%) and <1.4% ([✂]%) of current Reported Business revenue in the fourth and fifth years respectively. The impact in years four and five could therefore be considerably greater than the impact that led us to the view that the proposed cap would not have a significant effect on financial sustainability.

- 7.52 We are conscious that our intervention must balance a number of competing considerations: on the one hand, significant affordability challenges for certain consumers, including those who are vulnerable, and on the other, the impact of the cap on Royal Mail's commercial freedom and ultimately the financial sustainability of the USO.
- 7.53 On balance, based on the evidence in sections 5 and 6, we consider that a CPI cap appropriately addresses the affordability concerns we have identified, while also having the appropriate regard to the financial sustainability of the USO. However, given the evidence that the cap could have a considerably greater impact in years four and five, we have considered further whether five years is an appropriate duration for the cap. We set this out below.

## Duration of the safeguard cap

- 7.54 We note that, while there was general agreement with our consultation proposal to impose the safeguard cap for five years, Post Office suggested that we should align our next safeguard cap review with our wider review of postal regulation (i.e. in 2027), while Royal Mail suggested that we should be open to reviewing it sooner if market conditions change. The NFSP also suggested that we should review the cap yearly given the fast-changing postal market.<sup>344</sup>
- 7.55 Since the consultation we have further considered what would be an appropriate duration for the safeguard cap, taking into account two main factors:
- a) the impact of the cap on Royal Mail's pricing freedom for other, non-capped services (i.e. business mail services) and its consequential impact on revenue; and
  - b) the interaction between this review and our call for input on the future of the universal postal service.
- 7.56 Firstly, as noted above, the indirect impact of the cap could increase materially from the fourth year of the proposed cap period, and the overall impact in years four and five of the cap could be considerably higher than that calculated in the consultation. We have considered this new evidence about the impact of the cap carefully given the considerable uncertainty, and our increasing concerns, about the longer-term sustainability of the USO.<sup>345</sup>
- 7.57 Further, as the evidence suggests that from year four of the proposed cap period the cap could begin to materially impact Royal Mail's freedom with respect to some of its business mail services (most of which are non-USO and offered on a commercial basis), imposing restrictions on Second Class stamped letters from this point raises questions as to how we reconcile any decision with our overall approach to postal regulation, which (as noted in paragraphs 2.14-2.18) is to afford Royal Mail considerable commercial flexibility, supported by a number of safeguards. This approach aims to ensure that Royal Mail can make its own commercial decisions based on the challenges it faces, supporting the provision of a financially sustainable and efficient USO.

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<sup>344</sup> NFSP, [response to consultation](#), p. 2.

<sup>345</sup> See Ofcom, 2023. [Post Monitoring Report](#), p. 4.

- 7.58 In addition, alongside this statement we have published a call for input on the future of the universal postal service. This notes our assessment of the evidence, which suggests that the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future, as well as setting out options for reform of the USO.<sup>346</sup> We highlight in that document that any changes are likely to directly impact the current safeguard caps structure. As such, any regulation to ensure prices are affordable after the three year period may need to take a different form.
- 7.59 As mentioned at paragraph 7.23 above, Royal Mail has explored a potential targeted scheme for vulnerable consumers with the intention of introducing it as an alternative to the safeguard caps in ensuring affordability for consumers. We invite Royal Mail during these next three years to engage with us to examine whether an alternative targeted scheme to ensuring affordability is viable and would achieve our objectives. If such a scheme were possible, then this may also affect the need for a cap or any cap's structure in the future. We discuss this in more detail below.
- 7.60 Taking all of these factors in the round, we do not consider it appropriate to decide now on the level of a cap after 2026-27, or indeed whether a cap will be required. We have therefore decided to reduce the duration of the safeguard cap to three years. In practice, this means that we will impose a safeguard cap set at CPI on Royal Mail's Second Class letter services for three years, starting in April 2024.
- 7.61 We nevertheless acknowledge that there is uncertainty as to whether the scope of the USO will change and whether an alternative approach can be agreed, and indeed whether this would mean that a price cap would no longer be required. As such, we will consider the following factors, before April 2027, in determining whether to use our direction making power to cap prices following the end of the three year period of the basket cap:
- a) whether there remains the need for intervention to ensure affordability;
  - b) whether there has been any material change to the scope of the USO (including any change that removes the need to intervene to ensure affordability); and
  - c) whether an alternative approach to the safeguard cap has been agreed (including whether any agreed approach has addressed any affordability concerns).
- 7.62 Ofcom has a power to direct Royal Mail in relation to the matters set out in the regulatory conditions which impose the current safeguard caps.<sup>347</sup> Given the above, we have decided to make clear in the relevant regulatory condition that this power extends to giving directions in relation to the maximum prices that Royal Mail may charge for Second Class standard and large letters in any period following the expiry of the three year safeguard cap that we have decided to impose.<sup>348</sup>
- 7.63 We note Royal Mail's and Post Office's submissions that we should remain open to revisiting the safeguard cap in the case of changing market conditions or if we become concerned about the online/offline differential. Although we are setting the cap for three years, that does not prevent us from intervening during that period if we consider it appropriate. Further, any direction we make capping prices after the end of that three year period

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<sup>346</sup> Ofcom, 2023. [Call for Input: The future of the universal postal service](#).

<sup>347</sup> Our statutory power in section 36 of the PSA 2011 to impose regulatory conditions includes a power to impose a requirement to comply with directions made in respect of the matters to which the relevant condition relates (paragraph 2 of schedule 6 to the PSA 2011). DUSP 2.2.6 and DUSP 3.2.6 both state that Royal Mail shall comply with any direction we may make from time to time under the relevant condition.

<sup>348</sup> See the Notification at Annex 1 for the modifications we have decided to make to DUSP Condition 3.

(including the duration of any such cap) will need to be based on an assessment of affordability and financial sustainability at the relevant time, taking into account the specific economic context. We will also be required to consult on any future regulation, including any proposal to give a direction.

- 7.64 We consider that our decision to reduce the duration of the cap to three years minimises its impact on the financial sustainability of the USO, as it would have been in years four and five that Royal Mail could have felt a material impact of the cap on its pricing freedom for other services. It also takes into account the fact that change to USO services (and therefore the need for a safeguard cap) may occur in the next three years.
- 7.65 However, it is important to note that this decision does not mean that we consider that affordability concerns will cease to exist when the safeguard cap expires. Rather, our decision acknowledges that there is currently uncertainty about what the appropriate level of the cap should be after this point, or indeed whether a cap will be necessary at all to protect consumers, and that we will therefore revisit this closer to the time.

## Exploration of alternatives to the current safeguard cap

- 7.66 Finally, as discussed in section 5, responses to the consultation highlighted the fact that affordability concerns are particularly acute for some vulnerable consumers (for example, disabled consumers and those on low incomes). We discussed in the consultation the potential for a targeted scheme. While there were some concerns raised by stakeholders as to the motivation for a change, there was acceptance by some that there is value in examining an approach which delivers greater protection to those who have significant affordability challenges, albeit alongside a safeguard cap rather than instead of one.
- 7.67 Indeed, we consider that such an approach could have wider benefits – for example, providing discounts on a wider range of services than are currently subject to a cap for people fulfilling certain criteria linked to their capacity to afford postal services.
- 7.68 Royal Mail previously suggested some potential approaches for a more targeted affordability scheme, but these have not been sufficiently developed for us to consider in the context of this decision.
- 7.69 As noted above, we therefore invite Royal Mail to continue to work with us to explore what options might be viable, potentially including trials of a scheme. We observe that Royal Mail's initial proposals have not been well received by stakeholders they have engaged with (for example, Citizens Advice). We would also welcome the views of stakeholders' alternative options and the criteria for assessment of any alternatives.
- 7.70 Given this, we consider a wider exploration of the possible options is desirable. If a viable alternative is identified, this could potentially lead to a replacement of the current safeguard cap approach. This would be to the benefit of vulnerable consumers (as a targeted approach could provide them with greater support than the current cap) and would offer Royal Mail greater commercial freedom, including in relation to services that are currently indirectly impacted by the cap.

## Summary of our decisions and how they achieve our objectives

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### Summary of our decisions

- 7.71 As set out above, in summary, we have decided to:
- a) Remove the safeguard cap from Second Class parcels weighing up to 2kg;
  - b) Impose a basket safeguard cap on the pricing of Royal Mail Second Class stamped standard and large letters such that the overall price increase of the basket is limited to CPI; and
  - c) Apply the cap in financial years 2024-25, 2025-26 and 2026-27.
- 7.72 During the three years of the cap we intend to work with Royal Mail to see if there are viable alternatives to the current safeguard cap approach for ensuring affordability for vulnerable consumers. In the event that we consider that affordability concerns remain unaddressed (for example where no alternative has been agreed), we may exercise our power to direct Royal Mail to set prices at a level that we consider affordable after the end of financial year 2027-2028 (for a period to be determined at the relevant time).

### How our decisions meet our objectives

- 7.73 As noted in section 3 of this statement, a particular challenge in this review has been to ensure that postal services remain affordable in the context of the long-term challenges to the financial sustainability of the universal service. We set out below how we consider that our decisions meet each of our policy objectives. Given the tension between them, we have used our regulatory judgement to strike the most appropriate balance between the different factors at play.

#### Ensure universal services are affordable, particularly for vulnerable consumers

- 7.74 As per our conclusion in section 5, we consider that most consumers do not experience significant detriment as a result of postal prices, although there is some evidence that some vulnerable groups do experience affordability challenges. We also recognise that a proportion of consumers in particular circumstances may face affordability issues at current prices, but that, for these consumers, even a significant reduction in postal prices may not ensure that they are affordable.
- 7.75 Therefore, overall, we consider that setting the basket safeguard cap for Second Class standard and large letters at current prices plus annual increases by CPI will make it unlikely that there will be an increase in consumers, including vulnerable consumers, experiencing incidences of significant detriment in relation to the cost of post more frequently.

#### Provide protection to consumers where such protection is unlikely to be provided by competitive markets

- 7.76 We have found that protection is unlikely to be provided by competition in the market for both Second Class standard and large letters. While we have observed that there is nascent competition for large letters (and specifically, the highest weight-steps), Royal Mail still maintains a very strong position in this segment of the market.
- 7.77 We accordingly consider that a safeguard cap is appropriate for Second Class standard and large letters.

- 7.78 We consider that the growing competition in the C2X parcels segment will ensure that USO parcel prices remain affordable, including in areas where competition is less intense, or for those who do not or cannot access alternatives to Royal Mail, because of the uniform pricing requirement. Accordingly, we believe a safeguard cap on parcels weighing up to 2kg is no longer appropriate.
- 7.79 We also note that competition appears to be providing protection to consumers in respect of Special Delivery, international parcel prices and other universal services.

### Minimise the impact of any safeguard cap on the financial sustainability of the universal service, while retaining incentives for Royal Mail to operate efficiently

- 7.80 As noted above, it is not possible to predict with certainty how the costs for these services will evolve over the next five years. However, given the relatively common nature of Royal Mail's costs over its network, we are satisfied that, were prices allowed to remain constant in real terms (i.e., rise with CPI) and any future declines in volumes are broadly in line with historic trends over the past five years, this would be sufficient support to Royal Mail in the recovery of its costs across these and other USO services.
- 7.81 We consider we have minimised the impact of the safeguard caps on the financial sustainability of the universal service by imposing them only to the extent appropriate to protect consumers and ensure affordability.
- 7.82 Further, the capped services account for a small proportion (<5%) of Reported Business revenue. The safeguard cap would only cause Royal Mail to forgo the revenue arising from any difference between the safeguard cap and the price it would set in the absence of a cap. Royal Mail's modelling suggests that this additional revenue could account for a very small proportion of Reported Business revenue, which we consider is unlikely to have a significant impact on the financial sustainability of the USO.
- 7.83 We have also taken account of the additional evidence provided by Royal Mail with respect to the indirect impact of the cap on its revenues – specifically, on business mail. We have responded to this by reducing the duration of the cap from five to three years, as the evidence shows that this indirect impact could become significant from year four of the cap period, and that the overall impact in years four and five could be considerably greater than we envisaged in our consultation.
- 7.84 We also note that combining standard and large letters in a single basket cap should afford Royal Mail some additional commercial flexibility to help it to encourage a balance in demand which can be managed more effectively and efficiently, and to have sufficient commercial flexibility to recover costs across these services.
- 7.85 Finally, we note that efficiency gains are critical for the USO to be sustainable, as Royal Mail cannot rely on revenue increases alone. While the safeguard caps are not intended, in and of themselves, solely to provide efficiency incentives to Royal Mail, setting the letters cap at current prices plus CPI should ensure that Royal Mail's incentives are not reduced. We consider that Royal Mail remains incentivised to pursue efficiency improvements given the wider commercial pressures that it faces.

### Interaction between affordability and financial sustainability

- 7.86 In our view, our decision to impose a safeguard cap on Second Class letters which is permitted to rise annually by CPI strikes the right balance between these competing interests, giving each of them appropriate weight in accordance with our statutory duties. Reducing the duration of the cap from five to three years ensures that Second Class letters

will remain affordable for the majority of consumers while having only a small impact on the financial sustainability of the universal service for the duration of the cap. If there remain affordability concerns in the period following the expiry of the cap, we will need to consider whether a cap continues to be an appropriate and effective tool to address those concerns, taking into account the possibility that any intervention could have a significant impact on the financial sustainability of the universal service in that period.

## Legal tests

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- 7.87 Pursuant to paragraph 1 of schedule 6 to the PSA 2011, we may modify or revoke a regulatory condition only if we are satisfied that the modification or revocation:
- 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.
- 7.88 We consider our decision to modify DUSP 3 and revoke DUSP 2 satisfy these tests for the following reasons:
- a) We believe our decision to be objectively justifiable.
    - i) Firstly, it takes into account the experience of consumers as regards the affordability of the universal postal service, as discussed in section 5. Our analysis suggests that any real increase in the price of letters would make postal services unaffordable for more consumers.
    - ii) Secondly, we have in making this decision recognised that taking Royal Mail's costs of provision into account and granting Royal Mail an appropriate degree of commercial flexibility are important factors in ensuring the universal service is financially sustainable. We have also balanced these factors against the need to ensure Royal Mail is incentivised to operate efficiently. Further, we have taken into account the responses to our consultation in revising our proposals. In particular, we have ensured our analysis of the affordability of postal services is based on the most up to date information available, including research provided by consumer bodies. We have in addition decided to impose the safeguard cap for three years, given Royal Mail's evidence showing that the impact of the cap on its revenues, and therefore on the financial sustainability of the universal service, could be more significant than previously considered in years four and five of the proposed cap period. With those factors in mind, we consider the most appropriate way forward to be a three year basket cap for standard and large letters, increasing annually in line with CPI. We believe our decision strikes the right balance between our policy objectives and, as explained further below, is consistent with our statutory duties.
    - iii) With respect to parcels, in recent years Royal Mail has reduced its parcel prices in real terms, and alternative operators have materially increased their presence and volume shares. This suggests that the increasing competitive constraints to which Royal Mail is subject combined with its universal pricing obligation will limit its ability to increase prices to the extent that they become unaffordable. We have therefore decided that the safeguard cap on parcels can be removed.

- b) We consider our decisions are not unduly discriminatory as they affect only Royal Mail, reflecting its unique position as the provider of the universal postal service in the UK. We have identified disabled consumers and ethnic minorities as groups that may be more likely to experience affordability issues in relation to post. However, we believe we have set the cap at an appropriate level taking into account the factors that we must balance when exercising our postal functions, and that therefore our decision is not unduly discriminatory against these groups.
- c) We believe our decision to be proportionate as it only imposes requirements on Royal Mail as far as is appropriate and it does not go beyond what is necessary to achieve our objectives and to secure an affordable universal postal service. We have struck what we consider to be the right balance between ensuring that the universal postal service is affordable for consumers, that it is financially sustainable, and that Royal Mail remains incentivised to operate efficiently.
- d) We consider our decision to be transparent as it clearly sets out the obligations we intend to impose on Royal Mail in its capacity as the designated universal service provider. The reasons for making our decision are set out in this statement.

- 7.89 In reaching our decision, we have also sought to ensure that the requirements set out in section 36(5) of the PSA 2011 are satisfied. This states that, where we are exercising our power to impose a DUSP condition that makes provision as to the tariffs to be used for determining prices in accordance with which part of a universal postal service is to be provided, we must seek to ensure that prices are affordable (as to which see section 5), take account of costs (as to which see section 6), and provide incentives to provide the service efficiently (which forms part of our objectives – we explain above why we consider our decision has achieved those objectives).
- 7.90 We believe we have acted in accordance with our specific duty in section 29 of the PSA 2011 to carry out our postal functions in a way that we consider will secure an affordable universal postal service. As required under section 29, we have had regard to the financial sustainability of the universal service, including the need to make a reasonable commercial rate of return. This is why we have ensured our decision takes into account costs and grants Royal Mail an appropriate degree of commercial flexibility, while maintaining the affordability of the universal service. We have also had regard to the need for the provision of the universal service to be efficient and this is reflected in our objectives. Although we have granted Royal Mail some commercial flexibility in setting the prices of the services subject to the safeguard caps, we have sought to ensure that this flexibility does not enable Royal Mail to increase prices rather than seek to improve its efficiency in order to increase its revenues.
- 7.91 Finally, we consider we have complied with our general duties in section 3 of the CA 2003. In particular, we have had regard to those consumers we have identified as potentially vulnerable as regards postal matters and how our proposals may affect them. Taking account of the impact our decision may have on consumers and Royal Mail, we are of the view that our decision will further the interests of citizens and consumers in accordance with our principal duty set out in section 3(1) of the CA 2003.

# A1. Statutory notification: revocation of Designated USP Condition 2 and modification of Designated USP Condition 3

## Notification of revocation of Designated USP Condition 2 and modification of Designated USP Condition 3 pursuant to Section 36 of, and in accordance with Section 53 of, and Schedule 6 to, the Postal Services Act 2011

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### Background

- (A) On 1 October 2011, responsibility for postal regulation transferred to Ofcom under the Act. Ofcom subsequently imposed on Royal Mail, as the designated universal service provider, certain designated USP conditions to make provision for matters set out in sections 36 and 37 of the Act. These conditions included DUSP 2,<sup>349</sup> which put in place a safeguard cap for Second Class letters, and DUSP 3,<sup>350</sup> which put in place a basket safeguard cap for Second Class large letters and parcels up to 2kg.
- (B) Ofcom subsequently modified DUSP 2 and DUSP 3.<sup>351</sup> Prior to the publication of this Notification, the most recent modifications were made on 17 January 2019,<sup>352</sup> and these were the versions of DUSP 2<sup>353</sup> and DUSP 3 that were in force immediately prior to the publication of this Notification.<sup>354</sup>
- (C) On 26 June 2023, Ofcom published a consultation document entitled ‘*Review of Second Class safeguard caps 2024*’, which included at Annex 5 a Notification of Ofcom’s proposals to revoke DUSP 2 and modify DUSP 3 (the “**June 2023 Notification**”).<sup>355</sup> A copy of the June 2023

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<sup>349</sup> See Schedule 2 to the statutory notification published in Ofcom, March 2012. [Statement: Securing the Universal Postal Service](#), Annex 7.

<sup>350</sup> See Schedule 1 to the statutory notification published in Ofcom, July 2012. [Statement: Securing the Universal Postal Service: Safeguard cap for Large Letters and packets](#), Annex 1.

<sup>351</sup> See Ofcom, 2013. [Statement: Safeguard cap for Second Class Large Letters and packets](#); Ofcom, 2017. [Statement: Regulatory financial reporting for Royal Mail](#), Annex 3.

<sup>352</sup> Ofcom, 2019. [Statement: Review of the Second Class Safeguard Caps 2019](#).

<sup>353</sup> See the version of DUSP 2 that was in force immediately prior to this Notification: [Designated USP Condition 2, Safeguard cap price control for Second Class standard letters](#).

<sup>354</sup> See the version of DUSP 3 that was in force immediately prior to this Notification: [Designated USP Condition 3, Safeguard cap price control for Second Class large letters and relevant packets](#).

<sup>355</sup> Ofcom, 2023. [Consultation: Review of Second Class safeguard caps 2024](#).

Notification was sent on the same date to the Secretary of State, in accordance with paragraph 5(1)(a) of Schedule 6 to the Act.

**(D)** Ofcom invited representations about the proposals set out in the June 2023 Notification by 1 September 2023. Ofcom received responses from 10 stakeholders, and considered every such response in reaching the decisions set out below. In accordance with paragraph 3(5) of Schedule 6 to the Act, Ofcom has made the decisions set out below to give effect, with some modifications (the nature of which are explained in the accompanying statement), to its proposals set out in the June 2023 Notification. The Secretary of State has not notified Ofcom of any international obligation of the United Kingdom for the purpose of Ofcom giving effect to those proposals.

## Decisions

1. Ofcom hereby decides, in accordance with section 53 of, and Schedule 6 to, the Act, and pursuant to its powers under section 36 of the Act, to:
  - a. revoke DUSP 2 in its entirety; and
  - b. modify DUSP 3 as set out in Schedule 1 to this Notification, in order to make further provision for matters set out in section 36.
2. These decisions will take effect on 1 April 2024.
3. The text of DUSP 3 as modified by the above-mentioned decision is set out in Schedule 1 to this Notification.
4. As Ofcom has decided to revoke DUSP 2 in its entirety, that condition has not been included as a Schedule to this Notification.
5. The effect of, and Ofcom's reasons for making, these decisions are set out in the accompanying statement. In summary, Ofcom has decided to reformulate the safeguard cap structure to a single basket cap on Second Class standard letters and large letters and to remove the safeguard cap in respect of Second Class parcels up to 2kg. Ofcom considers that the clearest and most appropriate way to achieve its intentions is by modifying DUSP 3, which currently imposes the basket cap on Second Class large letters and parcels up to 2kg, so as to remove the latter from its scope and bring Second Class standard letters within its scope. This means that DUSP 2, which places a safeguard cap on Second Class standard letters, is no longer needed, such that it can be revoked in its entirety.<sup>356</sup>

## Ofcom's duties and legal tests

6. Ofcom is satisfied that these decisions satisfy the general test in paragraph 1 of Schedule 6 to the Act and the test in section 36(5) of the Act.
7. In making these decisions, Ofcom has considered and acted in accordance with its duties in the Act and its general duties in section 3 of the Communications Act 2003.

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<sup>356</sup> For the avoidance of doubt, DUSP Condition 1 is unaffected by these decisions.

8. Copies of this Notification and the accompanying statement have been sent to the Secretary of State in accordance with paragraph 5(1)(a) of Schedule 6 to the Act.

## Interpretation

9. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this Notification and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act.

10. In this Notification—

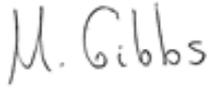
- (a) “**Act**” means the Postal Services Act 2011 (c.5);
- (b) “**DUSP 2**” means Designated USP Condition 2 referred to in recital (A) to this Notification, as amended by the modifications referred to in recital (B);
- (c) “**DUSP 3**” means Designated USP Condition 3 referred to in recital (A) to this Notification, as amended by the modifications referred to in recital (B);
- (d) “**Ofcom**” means the Office of Communications; and
- (e) “**Royal Mail**” means Royal Mail Group Ltd, whose registered company number in England and Wales is 04138203.
- (f) “**Second Class**” means a service of sending a stamped item by post where the universal service provider aims to deliver the item no later than the third working day after it was posted. For the purposes of this Notification, it does not include services which are not universal services or which include charges in respect of additional registered, insured, tracked or recorded services.

11. For the purpose of interpreting this Notification—

- (a) headings and titles shall be disregarded;
- (b) expressions cognate with those referred to in this Notification shall be construed accordingly; and
- (c) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.

12. Schedule 1 to this Notification shall form part of this Notification.

Signed by

A handwritten signature in black ink that reads "M. Gibbs". The letters are cursive and slightly slanted to the right.

**Marina Gibbs**

**Director of Post**

*A person duly authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002*

24 January 2024

## Schedule: Modified DUSP 3

### DESIGNATED USP CONDITION 3

#### SAFEGUARD CAP PRICE CONTROL FOR SECOND CLASS STANDARD LETTERS AND LARGE LETTERS

<b>3.1. Application, Definitions and Interpretation</b>	
<b>DUSP 3.1.1</b>	This designated USP condition (“ <b>DUSP Condition</b> ”) shall apply to the <u>universal service provider</u> .
<b>DUSP 3.1.2</b>	<p>In this DUSP Condition—</p> <p><b>(a) “Base Year”</b> means the period beginning on 1 April 2023 and ending on 31 March 2024;</p> <p><b>(b) “Basket”</b> means the services of sending <u>Standard Letters</u> and <u>Large Letters</u> by <u>Second Class Post</u> (whether postage is purchased online or offline) that the <u>universal service provider</u> currently provides (as set out in the Appendix to this DUSP Condition);</p> <p><b>(c) “Consumer Prices Index”</b> means the index of consumer prices compiled by an agency or a public body on behalf of His Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items and which, at the time of publication of this Notification, is indexed against the year 2015;</p> <p><b>(d) “Large Letter”</b> means a letter weighing up to 750 grams that is no more than 25 millimetres thick and up to 353 millimetres in length and up to 250 millimetres in width;</p> <p><b>(e) “Relevant Year”</b> means any period of 12 consecutive months beginning on 1 April and ending on 31 March, the last period of which begins on 1 April 2026 and ends on 31 March 2027;</p> <p><b>(f) “Second Class Post”</b> means a service of sending a stamped item by post where the <u>universal service provider</u> aims to deliver the item no later than the third working day after it was posted. For the purposes of this DUSP Condition, it does not include services which are not universal services or which include charges in respect of additional registered, insured, tracked or recorded services; and</p> <p><b>(g) “Standard Letter”</b> means a letter weighing up to 100 grams that is no more than 5 millimetres thick and up to 240 millimetres in length and up to 165 millimetres in width.</p>
<b>DUSP 3.1.3</b>	<p>For the purpose of interpreting this DUSP Condition—</p> <p><b>(a)</b> except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in DUSP 3.1.2 above and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Postal Services Act 2011;</p> <p><b>(b)</b> headings and titles shall be disregarded;</p>

	<p>(c) expressions cognate with those referred to in this DUSP Condition shall be construed accordingly;</p> <p>(d) the Interpretation Act 1978 (c. 30) shall apply as if this DUSP Condition were an Act of Parliament; and</p> <p>(e) references in this DUSP Condition to “stamped” postal items (or mail) are references to traditional postage stamps or other types of labelling affixed to such items to indicate the amount of postage paid including where the postage has been sold online.</p>
<p><b>3.2 Maximum price to be charged for specified services</b></p>	
<p><b>DUSP 3.2.1</b></p>	<p>This DUSP Condition concerns the maximum prices that the <u>universal service provider</u> shall be permitted to charge for the services within the <u>Basket</u>.</p>
<p><b>DUSP 3.2.2</b></p>	<p>In each <u>Relevant Year</u> (which is represented as “<i>t</i>” in the formulas below), the price of services in the <u>Basket</u> (where each service in the <u>Basket</u> is represented as “<i>i</i>”) shall be set such that—</p> $\frac{\sum_i P_{i,t} V_{i,t-2}}{\sum_i V_{i,t-2}} \leq \left( \frac{\sum_i P_{i,0} V_{i,t-2}}{\sum_i V_{i,t-2}} \times X_t \right)$ <p>where—</p> $X_t = \frac{CPX_t}{CPX_0}$ <p><b><i>P<sub>i,t</sub></i></b> is the maximum price charged for each service in the <u>Basket</u> in <u>Relevant Year t</u>;</p> <p><b><i>V<sub>i,t-2</sub></i></b> is the volume delivered by the <u>universal service provider</u> in the twelve consecutive months from 1 April to 31 March in the year <i>t-2</i>, for each service in the <u>Basket</u> as calculated by the <u>universal service provider</u> using a reasonable methodology which has been disclosed to <u>OFCOM</u>;</p> <p><b><i>P<sub>i,0</sub></i></b> is the price as listed in the Appendix to this DUSP Condition charged for each service in the <u>Basket</u> as at 24 January 2024 (which is represented as “0”);</p> <p><b><i>CPX<sub>0</sub></i></b> is the <u>Consumer Prices Index</u> for the month of September immediately before the beginning of the <u>Base Year</u> (rounded to one decimal place), the figure of which is 123.8; and</p> <p><b><i>CPX<sub>t</sub></i></b> is the <u>Consumer Prices Index</u> for the month of September immediately before the beginning of a <u>Relevant Year</u> (rounded to one decimal place).</p>

<b>DUSP 3.2.3</b>	Where the <u>universal service provider</u> makes a material change (other than to a charge) to any service which is subject to this DUSP Condition or there is a material change in the basis of the <u>Consumer Prices Index</u> , DUSP Conditions 3.2.1 and 3.2.2 shall have effect subject to such reasonable adjustment to take account of the change as <u>OFCOM</u> may direct to be appropriate in the circumstances. For these purposes, a material change to any service which is subject to this DUSP Condition includes the introduction of a new service wholly or substantially in substitution for that existing service listed in the Appendix to this DUSP Condition.
<b>DUSP 3.2.4</b>	The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, within one month of the coming into effect of any price increase, the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this DUSP Condition, including the requirements of any direction made under this DUSP Condition.
<b>DUSP 3.2.5</b>	This DUSP Condition shall not apply to such extent as <u>OFCOM</u> may direct.
<b>DUSP 3.2.6</b>	The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition, including (but not limited to) any direction regarding the prices the <u>universal service provider</u> is permitted to charge for the services in the <u>Basket</u> in any period following the end of the last <u>Relevant Year</u> .

### Appendix

	Description of postal service	Maximum price as at 24 January 2024
1.	<u>Second Class Post, Standard Letter</u>	£0.75
2.	<u>Second Class Post, Large Letter, 0-100 grams</u>	£1.55
3.	<u>Second Class Post, Large Letter, 101-250 grams</u>	£2.40
4.	<u>Second Class Post, Large Letter, 251-500 grams</u>	£2.70
5.	<u>Second Class Post, Large Letter, 501-750 grams</u>	£2.70

#### ***Table of terms defined in the Postal Services Act 2011***

*This table is provided for information and does not form a part of this DUSP Condition. We make no representations as to its accuracy or completeness. Please refer to the Postal Services Act 2011.*

<b><i>Defined term</i></b>	<b><i>Section of the Postal Services Act 2011</i></b>
<i>OFCOM</i>	<i>90</i>
<i>universal service provider</i>	<i>65(1) and Schedule 9 paragraph 3(3)</i>

# A2. DUSP 3 with modifications marked up

## DESIGNATED USP CONDITION 3

### SAFEGUARD CAP PRICE CONTROL FOR SECOND CLASS STANDARD LETTERS AND LARGE LETTERS

<b>3.1. Application, Definitions and Interpretation</b>	
<b>DUSP 3.1.1</b>	This designated USP condition (“ <b>DUSP Condition</b> ”) shall apply to the <u>universal service provider</u> .
<b>DUSP 3.1.2</b>	<p>In this DUSP Condition—</p> <p>(a) “<b>Base Year</b>” means the period beginning on 1 April 2023 and ending on 31 March 2024;</p> <p>(b) “<b>Basket</b>” means the services of sending <u>Standard Letters</u> and <u>Large Letters</u> by <u>Second Class Post</u> (whether postage is purchased online or offline) that the <u>universal service provider</u> currently provides (as set out in the Appendix to this DUSP Condition);</p> <p>(c) “<b>Consumer Prices Index</b>” means the index of consumer prices compiled by an agency or a public body on behalf of <del>Her</del> His Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items and which, at the time of publication of this Notification, is indexed against the year 2015;</p> <p>(d) “<b>Large Letter</b>” means a letter weighing up to 750 grams that is no more than 25 millimetres thick and up to 353 millimetres in length and up to 250 millimetres in width;</p> <p>(e) “<b>Relevant Year</b>” means any period of 12 consecutive months beginning on 1 April and ending on 31 March, the last period of which begins on 1 April <del>2026-2028</del> and ends on 31 March <del>2027-2029</del>;</p> <p>(f) “<b>Second Class Post</b>” means a service of sending a stamped item by post where the <u>universal service provider</u> aims to deliver the item no later than the third working day after it was posted. For the purposes of this DUSP Condition, it does not include services which are not universal services or which include charges in respect of additional registered, insured, tracked or recorded services; and</p> <p>(g) “<b>Standard Letter</b>” means a letter weighing up to 100 grams that is no more than 5 millimetres thick and up to 240 millimetres in length and up to 165 millimetres in width.</p>
<b>DUSP 3.1.3</b>	<p>For the purpose of interpreting this DUSP Condition—</p> <p>(a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in DUSP 3.1.2 above and</p>

	<p>otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Postal Services Act 2011;</p> <p>(b) headings and titles shall be disregarded;</p> <p>(c) expressions cognate with those referred to in this DUSP Condition shall be construed accordingly;</p> <p>(d) the Interpretation Act 1978 (c. 30) shall apply as if this DUSP Condition were an Act of Parliament; and</p> <p>(e) references in this DUSP Condition to “stamped” postal items (or mail) are references to traditional postage stamps or other types of labelling affixed to such items to indicate the amount of postage paid including where the postage has been sold online.</p>
<p><b>3.2 Maximum price to be charged for specified services</b></p>	
<p><b>DUSP 3.2.1</b></p>	<p>This DUSP Condition specifies concerns the maximum prices that the universal service provider shall be permitted to charge for the group of services within the Basket in each Relevant Year.</p>
<p><b>DUSP 3.2.2</b></p>	<p>In each Relevant Year (which is represented as “<i>t</i>” in the formulas below), the price of services in the Basket (where each service in the Basket is represented as “<i>i</i>”) shall be set such that—</p> $\frac{\sum_i P_{i,t} V_{i,t-2}}{\sum_i V_{i,t-2}} \leq \left( \frac{\sum_i P_{i,0} V_{i,t-2}}{\sum_i V_{i,t-2}} \times X_t \right)$ <p>where—</p> $X_t = \frac{CPX_t}{CPX_0}$ <p><b><i>P<sub>i,t</sub></i></b> is the maximum price charged for each service in the Basket in Relevant Year <i>t</i>;</p> <p><b><i>V<sub>i,t-2</sub></i></b> is the volume delivered by the universal service provider in the twelve consecutive months from 1 April to 31 March in the year <i>t-2</i>, for each service in the Basket as calculated by the universal service provider using a reasonable methodology which has been disclosed to OFCOM;</p> <p><b><i>P<sub>i,0</sub></i></b> is the price as listed in the Appendix to this DUSP Condition charged for each service in the Basket as at 24 January 2024 (which is represented as “0”);</p> <p><b><i>CPX<sub>0</sub></i></b> is the Consumer Prices Index for the month of September immediately before the beginning of the Base Year (rounded to one decimal place), the figure of which is 123.8; and</p>

	<b>CPX<sub>t</sub></b> is the <u>Consumer Prices Index</u> for the month of September immediately before the beginning of a <u>Relevant Year</u> (rounded to one decimal place).
<b>DUSP 3.2.3</b>	Where the <u>universal service provider</u> makes a material change (other than to a charge) to any service which is subject to this DUSP Condition or there is a material change in the basis of the <u>Consumer Prices Index</u> , DUSP Conditions 3.2.1 and 3.2.2 shall have effect subject to such reasonable adjustment to take account of the change as <u>OFCOM</u> may direct to be appropriate in the circumstances. For these purposes, a material change to any service which is subject to this DUSP Condition includes the introduction of a new service wholly or substantially in substitution for that existing service listed in the Appendix to this DUSP Condition.
<b>DUSP 3.2.4</b>	The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, within one month of the coming into effect of any price increase, the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this DUSP Condition, <b>including the requirements of any direction made under this DUSP Condition.</b>
<b>DUSP 3.2.5</b>	This DUSP Condition shall not apply to such extent as <u>OFCOM</u> may direct.
<b>DUSP 3.2.6</b>	The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition, <b>including (but not limited to) any direction regarding the prices the universal service provider is permitted to charge for the services in the Basket in any period following the end of the last Relevant Year.</b>

### Appendix

	Description of postal service	Maximum price as at <b>24</b> <b>January 2024</b>
1.	<u>Second Class Post, Standard Letter</u>	<b>£0.75</b>
2.	<u>Second Class Post, Large Letter</u> , 0-100 grams	<b>£1.55</b>
3.	<u>Second Class Post, Large Letter</u> , <del>Second Class Post</del> , 101-250 grams	<b>£2.40</b>
4.	<u>Second Class Post, Large Letter</u> , 251-500 grams	<b>£2.70</b>
5.	<u>Second Class Post, Large Letter</u> , 501-750 grams	<b>£2.70</b>

#### ***Table of terms defined in the Postal Services Act 2011***

*This table is provided for information and does not form a part of this DUSP Condition. We make no representations as to its accuracy or completeness. Please refer to the Postal Services Act 2011.*

<b><i>Defined term</i></b>	<b><i>Section of the Postal Services Act 2011</i></b>
<i>OFCOM</i>	<i>90</i>
<i>universal service provider</i>	<i>65(1) and Schedule 9 paragraph 3(3)</i>

## A3. DUSP 3 with modifications in table format

The table below set outs a summary of the changes we have decided to make to DUSP 3 as compared against the version proposed in our consultation (at Schedule 1 to Annex 5 of that consultation), in line with the decisions we have made in this statement.

Condition number	Previous text	New text
DUSP 3.1.2(b)	<p>“<b>Basket</b>” means the services of sending <u>Standard Letters</u> and <u>Large Letters</u> by <u>Second Class Post</u> that the <u>universal service provider</u> currently provides (as set out in the Appendix to this DUSP Condition);</p>	<p>“<b>Basket</b>” means the services of sending <u>Standard Letters</u> and <u>Large Letters</u> by <u>Second Class Post</u> (whether postage is purchased online or offline) that the <u>universal service provider</u> currently provides (as set out in the Appendix to this DUSP Condition);</p>
DUSP 3.1.2(c)	<p>“<b>Consumer Prices Index</b>” means the index of consumer prices compiled by an agency or a public body on behalf of Her Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items and which, at the time of publication of this Notification, is indexed against the year 2015;</p>	<p>“<b>Consumer Prices Index</b>” means the index of consumer prices compiled by an agency or a public body on behalf of His Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items and which, at the time of publication of this Notification, is indexed against the year 2015;</p>
DUSP 3.1.2(e)	<p>“<b>Relevant Year</b>” means any period of 12 consecutive months beginning on 1 April and ending on 31 March, the last period of which begins on 1 April 2028 and ends on 31 March 2029;</p>	<p>“<b>Relevant Year</b>” means any period of 12 consecutive months beginning on 1 April and ending on 31 March, the last period of which begins on 1 April 2026 and ends on 31 March 2027;</p>
DUSP 3.2.1	<p>This DUSP Condition specifies the maximum prices that the <u>universal service provider</u> shall be permitted to charge for the group of services within the <u>Basket</u> in each <u>Relevant Year</u>.</p>	<p>This DUSP Condition <b>concerns</b> the maximum prices that the <u>universal service provider</u> shall be permitted to charge for the services within the <u>Basket</u>.</p>

Condition number	Previous text	New text
DUSP 3.2.2	<i>P<sub>i,0</sub></i> is the price as listed in the Appendix to this DUSP Condition charged for each service in the <u>Basket</u> as at [ <i>date of publication of Ofcom's final statement in this review</i> ] (which is represented as "0");	<i>P<sub>i,0</sub></i> is the price as listed in the Appendix to this DUSP Condition charged for each service in the <u>Basket</u> as at 24 January 2024 (which is represented as "0");
DUSP 3.2.4	The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, within one month of the coming into effect of any price increase, the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this DUSP Condition.	The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, within one month of the coming into effect of any price increase, the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this DUSP Condition, including the requirements of any direction made under this DUSP Condition.
DUSP 3.2.6	The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition.	The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition, including (but not limited to) any direction regarding the prices the <u>universal service provider</u> is permitted to charge for the services in the <u>Basket</u> in any period following the end of the last <u>Relevant Year</u> .

## Condition number

## Previous text

## New text

## Appendix

	Description of postal service	Maximum price as at [date of publication of Ofcom's final statement in this review]
1.	<u>Second Class Post, Standard Letter</u>	[price]
2.	<u>Second Class Post, Large Letter, 0-100 grams</u>	[price]
3.	<u>Second Class Post, Large Letter, Second Class Post, 101-250 grams</u>	[price]
4.	<u>Second Class Post, Large Letter, 251-500 grams</u>	[price]
5.	<u>Second Class Post, Large Letter, 501-750 grams</u>	[price]

	Description of postal service	Maximum price as at 24 January 2024
1.	<u>Second Class Post, Standard Letter</u>	£0.75
2.	<u>Second Class Post, Large Letter, 0-100 grams</u>	£1.55
3.	<u>Second Class Post, Large Letter, 101-250 grams</u>	£2.40
4.	<u>Second Class Post, Large Letter, 251-500 grams</u>	£2.70
5.	<u>Second Class Post, Large Letter, 501-750 grams</u>	£2.70

# A4. Legal and regulatory framework

A4.1 Our principal duty across all of our different functions is to further the interests of consumers and citizens. In relation to post, we must perform our functions in a way that we consider will secure the provision of a universal postal service. The provision of a universal postal service includes the provision of a number of end-to-end services (as defined in the legislation) at affordable prices. In carrying out this duty, we must also have regard to the need for the universal service to be financially sustainable (including the need to make a reasonable commercial rate of return) and efficient.

## Statutory basis for postal regulation

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A4.2 The Postal Services Act 2011 (the “**PSA 2011**”) contains the statutory basis for the requirement to establish a universal postal service in the United Kingdom. The PSA 2011 currently implements the EU Postal Services Directive (the “**Directive**”).<sup>357</sup>

A4.3 Section 31 of the PSA 2011 sets out various requirements that, as a minimum, must be included in the universal postal service:

- a) At least one delivery of letters every Monday to Saturday and of other postal packets<sup>358</sup> every Monday to Friday to the home or premises of every individual or other person in the United Kingdom or to such identifiable points as approved by Ofcom.
- b) At least one collection of letters every Monday to Saturday and of other postal packets every Monday to Friday for the purpose of onwards transmission in connection with the provision of the universal service (including onwards transmission outside of the United Kingdom).
- c) A service of conveying postal packets from one place to another by post at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom (including conveyance outside of the United Kingdom).  
A registered items service<sup>359</sup> at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.

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<sup>357</sup> Although EU Directives no longer apply to the United Kingdom following Brexit, the PSA 2011 is a piece of United Kingdom legislation and is still in force. The Directive therefore remains relevant to the interpretation and application of the PSA 2011. The Directive was introduced to, amongst other things, establish a universal postal service providing a minimum range of services of specified quality in all Member States of the EU at an affordable price for the benefit of all users, irrespective of geographical location (recital 11).

<sup>358</sup> “Postal packets” means a letter, parcel, packet or other article transmissible by post (section 27(2) of the PSA 2011).

<sup>359</sup> “Registered items service” means a service of conveying postal packets from one place to another by post which provides—

- (a) for the registration of the packets in connection with their conveyance by post, and
- (b) for the payment of an amount determined by the person providing the service in the event of the theft or loss of or damage to the packets (section 32(4) of the PSA 2011).

- d) An insured items service<sup>360</sup> at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- e) The provision free of charge of such postal services as are specified in the universal postal service order to such descriptions of blind or partially sighted persons as are so specified.
- f) A service of conveying free of charge qualifying legislative petitions and addresses<sup>361</sup>

## Ofcom's duties

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### Duties in relation to post

- A4.4 Our principal duty under the Communications Act 2003 (the “CA 2003”) when carrying out our functions, including in relation to post, is to further the interests of citizens and of consumers, where appropriate by promoting competition.<sup>362</sup>
- A4.5 When performing our duty to further the interests of consumers, we must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.<sup>363</sup>
- A4.6 The PSA 2011 also imposes on us a specific duty in respect of post, which we must treat equally to our duty under the CA 2003 where possible. That duty is to carry out our functions related to post in a way that we consider will secure the provision of a universal postal service.<sup>364</sup>
- A4.7 “Provision of a universal postal service” is not defined in the PSA 2011 but the legislation says that this phrase must be read in accordance with sections 30 to 33.<sup>365</sup> These sections require us to, by order, set out the services that must be provided as part of the universal service (as to which see paragraphs A4.17 – A4.19 below). These services must include at least the minimum requirements referred to in paragraph A4.3 above.<sup>366</sup>
- A4.8 In performing our duty under the PSA 2011, we must have regard to the need for the provision of the universal postal service to be: (a) financially sustainable; and (b) efficient before the end of a reasonable period<sup>367</sup> and for its provision to continue to be efficient at all subsequent times.<sup>368</sup>

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<sup>360</sup> “Insured items service” means a service of conveying postal packets from one place to another by post which, in the event of the theft or loss of or damage to the packets, provides for the payment of an amount up to the value of the packets as declared by the sender (section 32(1) of the PSA 2011).

<sup>361</sup> The Explanatory Notes to the PSA 2011 confirm that section 31 complies with the requirements of Article 3(1) of the Directive, which states that “Member States shall ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users”.

<sup>362</sup> Section 3(1) of the CA 2003.

<sup>363</sup> Section 3(5) of the CA 2003.

<sup>364</sup> Section 29(1) of the PSA 2011.

<sup>365</sup> Section 65(2)(a) of the PSA 2011.

<sup>366</sup> Section 30(2) of the PSA 2011.

<sup>367</sup> “A reasonable period” is defined in section 29(5) PSA 2011 as such period beginning with the day on which the relevant provisions of PSA 2011 come generally into force as Ofcom considers, in all the circumstances, to be reasonable.

<sup>368</sup> Section 29(3) of the PSA 2011.

- A4.9 The reference to the universal postal service needing to be financially sustainable includes the need for a reasonable commercial rate of return to be made on any expenditure incurred for the purpose of, or in connection with, the provision of the universal postal service.<sup>369</sup>
- A4.10 The PSA 2011 does not require that we give more weight to one of those considerations than the other. We must take them both into account in arriving at a judgement as to how best to carry out our functions.

## Other considerations under the CA 2003

- A4.11 There are a number of factors that we must also take into account when exercising our principal duty under the CA 2003.
- A4.12 We 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, as well as any other principles appearing to us to represent the best regulatory practice.<sup>370</sup>
- A4.13 Those principles include ensuring that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome; that we seek the least intrusive regulatory mechanisms to achieve our policy objectives; and that we consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation upon a market.
- A4.14 Where they appear to us to be relevant in the circumstances, we must also have regard to considerations including (but not limited to):
- a) the needs of persons with disabilities, of the elderly and of those on low incomes;
  - b) the opinions of consumers in relevant markets and of members of the public generally;
  - c) 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
  - d) the extent to which, in the circumstances of the case, the furthering or securing of the interests of citizens and of consumers (as referred to in paragraph A3.4 above) is reasonably practicable.<sup>371</sup>
- A4.15 Although where possible we must treat our duties under the CA 2003 and PSA 2011 equally, the latter would take priority if there were conflict between them.<sup>372</sup>

## Implementation of the regulatory framework

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- A4.16 We have the following powers and duties to secure the provision of a universal postal service:
- a) We must define the scope of a universal postal service in secondary legislation;
  - b) We have the power to designate one (and in certain circumstances more than one) postal operators as universal service provider(s); and

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<sup>369</sup> Section 29(4) PSA 2011.

<sup>370</sup> Section 3(3) of the CA 2003.

<sup>371</sup> Section 3(4) of the CA 2003.

<sup>372</sup> Section 3(6A) of the CA 2003.

We have the power to impose regulatory obligations on the postal operator(s) in the form of designated USP conditions (“**DUSP Conditions**”).

## Universal Service Order

A4.17 As noted above, we are required under the PSA 2011 to make an order setting out a description of the services we consider should be provided in the United Kingdom as part of the universal postal service, as well as the standards with which those services are to comply.<sup>373</sup>

A4.18 We therefore made the Postal Services (Universal Postal Service) Order 2012<sup>374</sup> (the “**Order**”) to fulfil that duty. The services that Royal Mail must provide as part of the universal postal service are set out in Article 5 of the Order and capture the minimum requirements set out in section 31 of the PSA 2011. They include a number of end-to-end services at affordable prices,<sup>375</sup> as follows:

- a) A priority single piece service<sup>376</sup> (i.e. 1<sup>st</sup> Class) for the conveyance of postal packets other than insured items, with a routing time of D+1,<sup>377</sup>
- b) A standard single piece service (i.e. 2<sup>nd</sup> Class) for the conveyance of postal packets other than insured items, with a routing time of D+3,<sup>378</sup>
- c) A registered and insured service for items weighing no more than 10 kilograms with a routing time of D+1;
- d) A return to sender service;
- e) Incoming and outgoing services for the conveyance of postal packets to and from the EU; and
- f) Incoming and outgoing services for the conveyance of postal packets to and from the rest of the world.

A4.19 These end-to-end services must be provided at affordable prices determined in accordance with a public tariff that is uniform throughout the United Kingdom and on fair and reasonable terms.<sup>379</sup>

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<sup>373</sup> Section 30(1) of the PSA 2011.

<sup>374</sup> <https://www.legislation.gov.uk/uksi/2012/936/contents/made>

<sup>375</sup> These services are described more fully in schedule 1 to the Order. The other services that must be provided are the delivery services described in Article 6 and the collection services described in Article 7 of the Order (which for the most part are consistent with the first and second minimum requirements contained in section 31 of the PSA 2011 respectively); the free end-to-end services described in schedule 2 to the Order; and the addressee services described in schedule 3 to the Order.

<sup>376</sup> Paragraph 1 of schedule 1 describes a “single piece service” as a postal service for the conveyance of an individual postal packet to the addressee, which is not subject to certain discounts.

<sup>377</sup> This refers to a routing time of one working day (which includes Saturdays), i.e. the target maximum time for conveying the postal packet from the access point (e.g. a post box) to its delivery point is one working day.

<sup>378</sup> Similarly, this refers to a routing time of three working days.

<sup>379</sup> Article 8 of the Order.

## Designation of a universal service provider

A4.20 Pursuant to our duty to secure a universal postal service, we have designated Royal Mail Group Limited (“**Royal Mail**”) to provide the universal postal service throughout the United Kingdom.<sup>380</sup>

## DUSP Conditions and the safeguard caps

A4.21 In order to secure the provision of the universal postal service, section 36 of the PSA 2011 empowers us to impose DUSP Conditions, as well as modify or revoke existing DUSP Conditions.<sup>381</sup> The DUSP Conditions are regulatory obligations to secure the provision of the universal service (i.e. the services set out in the Order) and therefore form part of Royal Mail’s universal service obligations.

A4.22 In particular, we may impose or modify DUSP Conditions in order to set tariffs to be used for determining the prices of the universal postal service or a part of it.<sup>382</sup>

### Substantive requirements

A4.23 We may only impose, modify or revoke a DUSP Condition where we consider it is necessary to do so in order to secure the provision of a service described in the Order, in accordance with the standards set out in the Order.<sup>383</sup>

A4.24 We must be satisfied that the imposition, revocation or modification of a DUSP Condition: (a) is objectively justifiable; (b) does not discriminate unduly against particular persons or a particular description of persons; and (c) is proportionate and transparent in relation to what it is intended to achieve.<sup>384</sup>

A4.25 Further, when exercising our power to set tariffs to be used for determining the prices in accordance with which a universal service, or part of a universal service, is provided, we must seek to ensure that the prices: (a) are affordable; (b) take account of the costs of providing the service or part of a service; and (c) provide incentives to provide the service or part of a service efficiently.<sup>385</sup>

A4.26 Our power to impose, modify or revoke DUSP Conditions is subject to our duty to carry out our functions in relation to postal services in a way that we consider will secure the provision of a universal postal service<sup>386</sup> (and, as noted above, when performing that duty we must have regard to the need for the universal service to be financially sustainable and efficient).<sup>387</sup>

### Procedural requirements

A4.27 The procedure for imposing, revoking or modifying a condition is set out in paragraph 3 of schedule 6 to the PSA 2011:

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<sup>380</sup> Section 35 of the PSA 2011.

<sup>381</sup> Paragraph 2(1) of schedule 6 to the PSA 2011 confirms that our power to impose a regulatory condition includes the power to revoke or modify the condition.

<sup>382</sup> Section 36(4) of the PSA 2011.

<sup>383</sup> Section 36(3) of the PSA 2011.

<sup>384</sup> Paragraph 1, schedule 6 to the PSA 2011.

<sup>385</sup> Section 36(5) of the PSA 2011.

<sup>386</sup> Section 29(2) of the PSA 2011.

<sup>387</sup> Section 29(3) of the PSA 2011.

- a) Before imposing, modifying or revoking a condition, we must publish a notification: (i) stating our proposal; (ii) setting out the effect of our proposal; (iii) giving our reasons for the proposal; and (iv) specifying the period within which representations about the proposal can be made (which must be at least one month beginning with the day after the day the notification is published).
- b) We may then only give effect to a proposal where we have: (i) considered every representation made to us; and (ii) had regard to every international obligation of the United Kingdom notified to us by the Secretary of State.
- c) We must then publish a notification setting out the imposition or modification or stating that the DUSP Condition has been revoked in a manner which is appropriate for bringing its contents to the attention of the persons who we consider are likely to be affected by its contents.

### Safeguard caps

A4.28 We have exercised our condition-setting powers and have imposed a set of DUSP Conditions on Royal Mail as the designated provider. These regulatory obligations include the following two requirements in respect of tariffs charged by Royal Mail, which are referred to as safeguard caps:

- a) DUSP Condition 2 sets out the maximum amount that Royal Mail can charge for sending a single standard Letter by Second Class post. Following our 2018-19 review, in April 2019 the cap was set at 65.2p, to increase by CPI each year until the cap expires on 31 March 2024. The current price of a Second Class standard letter is 75p.<sup>388</sup>
- b) DUSP Condition 3 sets out the maximum amount that Royal Mail can charge for services falling within the “Basket”, which includes Second Class large letters and small and medium parcels weighing up to 2 kilograms. The maximum prices for the Basket services are contained in the Appendix to DUSP Condition 3. They also increase by CPI each year and expire on 31 March 2024.<sup>389</sup>

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<sup>388</sup> Ofcom, [Designated USP Condition 2, Safeguard cap price control for Second Class standard letters](#).

<sup>389</sup> Ofcom, [Designated USP Condition 3, Safeguard cap price control for Second Class large letters and relevant packets](#).