

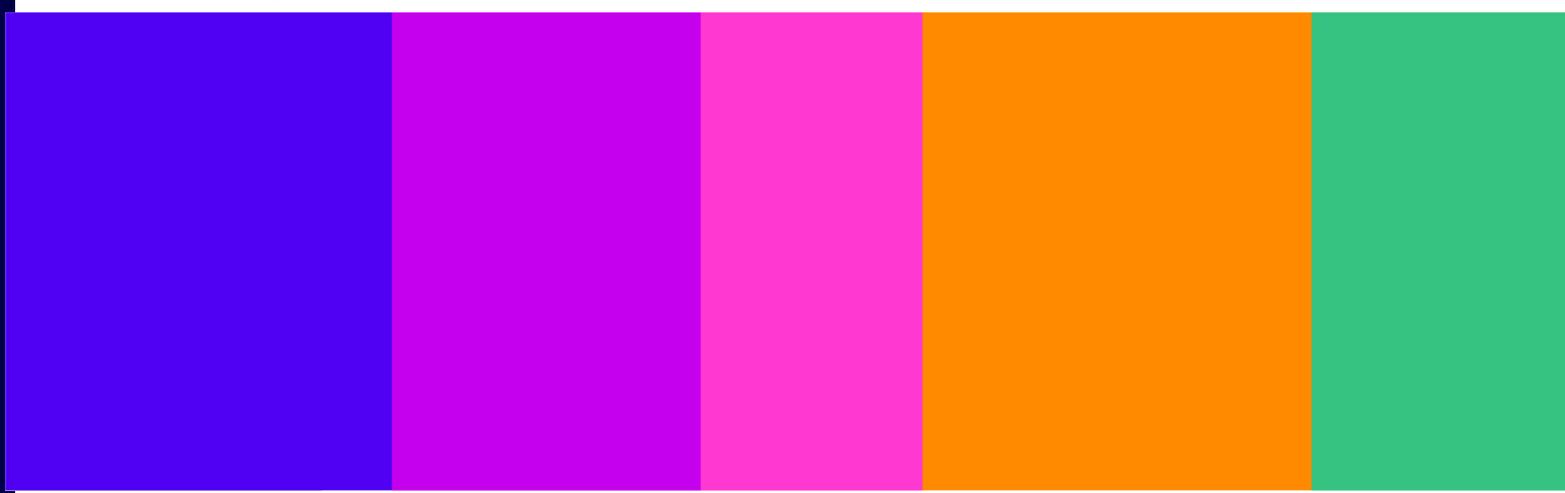


The future of the universal postal service

Call for Input

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We have published [Annex 7](#), on our approach to the net cost calculation, separately.

1. Overview

Postal services remain a vital communications tool for many people and businesses, but the way people use postal services has changed substantially. Since the Postal Services Act was passed in 2011, the legal obligations on the universal service provider Royal Mail have largely remained the same while letter volumes have halved, and parcel deliveries have become increasingly important.

As the UK's postal regulator, Ofcom oversees the universal postal service, making sure it meets people's needs while also considering its financial sustainability and efficiency. Royal Mail is required to deliver the universal service, and its obligations include offering to deliver letters Monday-Saturday and parcels Monday-Friday as well as offering two delivery speeds for its main universal service products: First Class (next day) and Second Class (within three days). These obligations have not changed since 2011, despite significant changes in postal markets.

This document sets out evidence that 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. We are seeking input from all interested parties on our assessment, so there can be an informed public debate on how the specification should be modernised for the future.

In summary

- **The letters market is in structural decline whereas people are sending and receiving more parcels.** Letter volumes halved between 2011/12 and 2022/23, from around 14 billion items to 7 billion, and the rate of decline has recently accelerated. In contrast, parcel volumes have increased considerably over the last decade (with 3.6 billion items sent in 2022/23) as online shopping has become mainstream. Parcels are increasingly important to people's daily lives and expectations of delivery service levels and product features have risen accordingly.
- **Many still rely on letters but people's needs have changed.** While use of letters is declining, some things still need to be sent by letter. Our recent qualitative research shows that people prioritise *reliability* for receiving letters, whereas speed and frequency of delivery are seen as less critical. More than eight in 10 addressed letters are sent by large organisations, such as the NHS and banks. These senders also value reliability over speed and are increasingly choosing slower delivery times (within 5 days). Consumers and businesses do not currently receive the reliable service that they value because of Royal Mail's poor quality of service.
- **The postal service remains important for social cohesion.** For some users, especially for the elderly and less mobile, post is a vital tool to connect with the outside world and maintain contact with their friends and families. Royal Mail postal workers also play an important role, as for some people they are considered as a regular and familiar visitor.
- **The evidence indicates an increasing risk of the current obligations becoming unsustainable both financially and operationally.** We estimate that the net cost of the universal service obligation (USO) to Royal Mail was £325m-£675m in 2021/22.¹ This range is based on the profits that we have calculated Royal Mail could have made if it had not been

¹ We have not carried out a formal assessment as set out in Section 44 of the Postal Services Act 2011 but we have considered alternative estimation options in arriving at our provisional position.

subject to the USO and had commercial freedom, compared to its actual position in that year (though the range includes the loss of the VAT exemption benefit). While some measure of net cost might be justifiable when considered against the benefits associated with owning the postal network, which is a unique national asset, the evidence suggests that this level of net cost is not sustainable in the long term noting that Royal Mail has not achieved the level of profitability indicative of USO sustainability since 2015/16.² This net cost estimate is not intended to represent the savings that Royal Mail could make if the USO were changed.

- **The consequence of a letters USO that does not align with people's needs is that people could pay higher prices than necessary.** It also makes it harder and more expensive for Royal Mail to provide a reliable service, and to invest and restructure its network to respond to what people place higher value on – reliability in letters and more service options in parcels.
- **The UK is not alone in needing to respond to these challenges.** Across Europe and more widely, universal postal service obligations have been, or are being, reformed. Other countries have reduced the frequency of delivery and/or extended delivery times for letters while also seeking to strengthen reliability. In all countries, the aim is to ensure that there remains a viable postal service that meets people's needs and is fit for the future.
- **We have set out a number of options for redesigning the USO.** There are two primary options we consider could lead to a USO that more closely aligns with people's needs for letters and help secure the future of the service: (1) making changes to the existing First and Second Class and business products so most letters are delivered through a slower service taking up to three days or longer, with a next-day service still available for any urgent letters, which could allow savings of £150-650m; and (2) reducing the number of delivery days offered from the existing six-day-a-week obligation down to five or three days. We estimate that Royal Mail could achieve a net cost saving of £100-200m if letter deliveries were reduced to five days; and £400-650m if reduced to three days.³
- **Downgrading quality of service is not an option for reform.** As part of any USO reform, it will be important to consider whether additional safeguards are necessary to ensure people's needs are fully met. Consumers' expectations of reliability from postal services remain very high and access to postal services must remain affordable. Any changes must improve existing levels of reliability and ensure people can make informed choices, as well as protecting people who are particularly reliant on postal services.
- **While the evidence suggests there is a need to reform the universal service, this alone will not provide the answer to the financial and operational challenges Royal Mail faces.** As we observed in our recent investigation into Royal Mail's quality of service performance, we expect Royal Mail to improve its reliability and resolve any operational issues that contributed to its failure to meet its delivery targets in 2022/23. In addition, 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. Action in these areas is vital for Royal Mail to rebuild trust and remain a viable provider of the universal service. As the regulator, Ofcom will continue to hold Royal Mail to account.

² Ofcom, 2023. [Post Monitoring Report](#), p. 23-24.

³ The savings that Royal Mail could have achieved in 2021/22 if the changes had been in place at that time.

Next steps

- 1.1 **We are inviting views and input from all stakeholders** on our assessment of the need to consider changes to the USO, and the range of options for change we have set out. We also want to ensure that we understand the potential impact of any USO changes on all people and businesses. This includes vulnerable people, those in rural and remote areas of the UK’s nations, as well as large organisations who use bulk mail services. We welcome responses to the evidence we have set out **by 3 April 2024**.
- 1.2 **We will hold stakeholder events in the first part of 2024** to discuss the evidence and options. Our aim is to bring together a range of stakeholders with different perspectives. You can register your interest in attending [here](#).
- 1.3 **Following this, we will carefully consider all stakeholder input, assess the options and provide an update in the summer**. Some of the options for change require legislative change, others could be made through changes to our regulations and, under any scenario, Royal Mail will need to restructure its network to respond to what people need.

The universal service obligation (USO) means Royal Mail has to offer:

 **To deliver letters 6 days**

 **...and parcels 5 days**

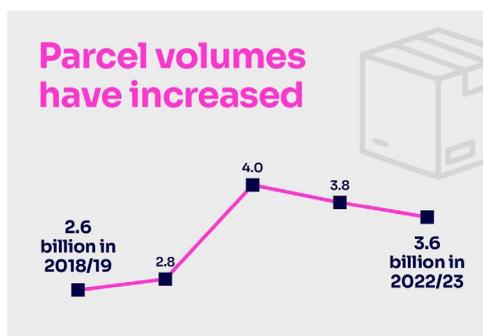
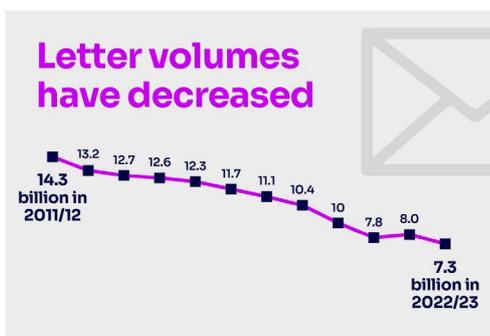
Two delivery speeds

 **1st Class**
(next day)

 **2nd Class**
(within 3 days)

This has not changed since

 **2011**



What’s important to people when it comes to letters:

Affordability	90% in 2020	91%
Reliability	87% in 2020	88%
Monday–Friday delivery	81% in 2020	79%
Delivery 6 days a week	68% in 2020	63%
Saturday deliveries	63% in 2020	58%

Estimated net cost of the USO to Royal Mail: £325m–£675m in 2021/22

Potential options for USO reform and 2021/22 net cost saving:

Reduction in letter delivery to 5 days per week	Reduction in letter delivery to 3 days per week	Reduction in delivery speed to within 3 days
£100–200m	£400–650m	£150–650m

2. Introduction and background

Purpose of this chapter:

- This chapter summarises the structure of the postal universal service obligation, explains Ofcom's role and the purpose and structure of this document.

In brief

- Ofcom is required to carry out our postal functions in a way that we consider will secure the provision of a universal postal service, having regard to the need for it to be financially sustainable and efficient.
- The specification of the USO comprises the minimum requirements set by Parliament in the Postal Services Act 2011 and the scope of the services and other details set by Ofcom in secondary legislation and regulatory conditions.
- Key minimum requirements set out the services that must be included in the universal postal service. This includes at least one collection and delivery of letters six days a week (Monday-Saturday) and parcels five days a week (Monday-Friday); and a service that is affordable and uniformly priced across the UK.
- The scope of services set by Ofcom in secondary legislation and further detail set in regulatory conditions include the two delivery speeds of the largest volume, main USO products: First and Second Class and quality of service targets.
- Royal Mail is the designated provider of the universal postal service and we actively monitor its compliance with its obligations to deliver a good quality service, as well as its longer-term capacity to continue to deliver the USO.
- Over recent years we have grown increasingly concerned about the sustainability of the USO and Royal Mail's capacity to deliver an efficient service.
- We are also very concerned about Royal Mail's quality of service performance, which continues to be well below target. We will be holding Royal Mail to account for these issues, taking further enforcement action if necessary.
- The purpose of this document is to present the evidence of changing user needs, and to promote discussion on potential changes required to meet those evolving user needs.

The current universal service obligation

- 2.1 The USO requires the designated universal service provider (USP), Royal Mail Group Limited ('Royal Mail'), to deliver a range of postal products to homes and businesses at affordable prices, which are uniform throughout the UK.

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- 2.2 Section 31 of the Postal Services Act 2011 ('the Act') sets out the key characteristics which must be included, as a minimum, in the universal postal service in the UK.⁴ These minimum requirements include:
- a) At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday⁵;
 - b) At least one collection of letters every Monday to Saturday, at least one collection of other postal packets every Monday to Friday;
 - c) A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK;
 - d) A registered items service at affordable, geographically uniform prices throughout the UK;
 - e) An insured items service at affordable, geographically uniform prices throughout the UK;
 - f) The provision of certain free services to blind/partially sighted people; and
 - g) The free conveyance of certain legislative petitions and addresses.
- 2.3 The Act requires Ofcom to set out by order a description of the services to be provided as part of the universal postal service.⁶ We set out the detailed scope of the universal service in the Postal Services (Universal Postal Service) Order 2012 ('the Order').⁷ The Order requires the provision of two delivery speeds for the largest volume, main USO products: First Class (next day) and Second Class (within 3 days).
- 2.4 Royal Mail is the designated universal service provider (USP). This means that, under the Act, we can impose Designated Universal Service Provider (DUSP) conditions on Royal Mail. These regulatory conditions require Royal Mail to provide the universal service as specified in the Order.⁸ The DUSP conditions also set out in greater detail the products and services that must be provided as part of the universal postal service. For example, they include quality of service (QoS) targets for certain services (as discussed further below).

What are the universal postal service products?

Main letters and parcels products:

- First and Second Class;
- First and Second Class with Signed For (previously known as Recorded Delivery);
- A registered and insured service (Special Delivery guaranteed next day by 1pm);
- End-to-end international services – fast and slow outgoing;
- End-to-end international services – inbound services.

Additional products:

⁴ [Postal Services Act 2011](#).

⁵ Postal packets is defined by section 27(2) of the Postal Services Act 2011 as "a letter, parcel, packet or other article transmissible by post." For clarity, we use the terms letters and parcels in this document.

⁶ Postal Services Act 2011, s30.

⁷ [The Postal Services \(Universal Postal Service\) Order 2012 \(legislation.gov.uk\)](#).

⁸ [DUSP Condition 1 \(ofcom.org.uk\)](#).

- Certificate of posting (proof of posting with other universal service products);
- Return to Sender (a way of returning mail not intended for you via a post box or post office);
- Retention of mail (Keepsafe: where a customer's mail is held while they are away);
- Redirections (redirection of mail addressed to one recipient from one address to another for a period of time);
- Meter mail (used by businesses via franking machines);
- Articles for the Blind (a free First Class service for blind and partially-sighted users);
- Legislative Petitions and Addresses to the Sovereign (a free service for these items);
- Post Restante (a free service which allows users to have mail delivered to a post office from where they collect it for a period of time).

Ofcom's role

- 2.5 Ofcom is the regulator of postal services in the UK. We are required by the Act 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. In performing that duty, we are required by section 29(3) of the Act to have regard to the need for a universal postal service to be financially sustainable and efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times).⁹
- 2.6 As part of our role, we monitor the sector so that we understand the changing needs of users, the changing market dynamics and the financial sustainability and efficiency of the universal service, as well as any risks to the universal service. The focus of our monitoring is Royal Mail, as the USP, and we set out our findings in our annual post monitoring report.¹⁰
- 2.7 We also have distinct roles in relation to the specification of the universal postal service. We have the power to review the extent to which the minimum requirements imposed by the Act (set out above) reflect the reasonable needs of users of postal services in the UK, and as part of such a review we may consider whether the minimum requirements could be altered to better reflect those needs. The Government may ask Ofcom to carry out a user needs review or we may decide to do one on our own initiative.¹¹
- 2.8 The detailed scope of the USO is set by Ofcom in the Order (as explained above).¹² This includes the two delivery speeds for its largest volume, main USO products: First Class (next day) and Second Class (within 3 days). Under section 30 of the Act, we may amend

⁹ Section 29(1) and (3) of the Postal Services Act 2011.

¹⁰ [Annual monitoring updates on the postal market - Ofcom.](#)

¹¹ Section 34 of the Act. Ofcom has conducted two reviews of the users of postal services, in 2013 upon becoming the postal regulator, and in 2020. Ofcom, 2020. [Review of postal users' needs](#); and Ofcom, 2013. [Review of Postal users' needs.](#)

¹² [The Postal Services \(Universal Postal Service\) Order 2012 \(legislation.gov.uk\).](#)

the Order following an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services.¹³ The DUSP conditions can also be amended by Ofcom following consultation.¹⁴

Figure 2.1. How amendments can be made to the USO specification

Legislation / regulation	What does it do?	Who can amend it?
Postal Services Act 2011 (s31 minimum requirements)	Sets out what must be in the universal service, including an affordable service at a uniform price, and collection and delivery of letters six days a week.	Secretary of State by order with approval by Parliament, following s34 user needs review by Ofcom.
Postal Services (Universal Postal Service) Order 2012	Sets detailed scope of USO specification, including requirement to provide First Class and Second Class services, and their delivery speeds.	Ofcom, following s30 assessment by Ofcom of extent to which the market for provision of postal services in UK is meeting reasonable user needs and public consultation.
Designated Universal Service Provider Conditions (DUSPs)	Set specific requirements on Royal Mail as the universal service provider, including collection and delivery obligations, performance targets and price caps.	Ofcom, following public consultation.

Financial sustainability and efficiency – our approach

- 2.9 The Act sets out that the need for a universal service to be financially sustainable includes the need for the USP to make a reasonable commercial rate of return on the provision of the universal service.
- 2.10 We assess the financial sustainability of the universal postal service by considering whether Royal Mail’s ‘Reported Business’ could expect to earn a reasonable commercial rate of return. The Reported Business is the part of Royal Mail’s business that includes the network and operations which provide the universal postal service. The Reported Business is not a legal entity itself, but it sits within Royal Mail Group Limited (which we refer to as

¹³ Section 30(2) and (3) of the Postal Services Act 2011.

¹⁴ Please see annex 6 for more information about the legal and regulatory framework.

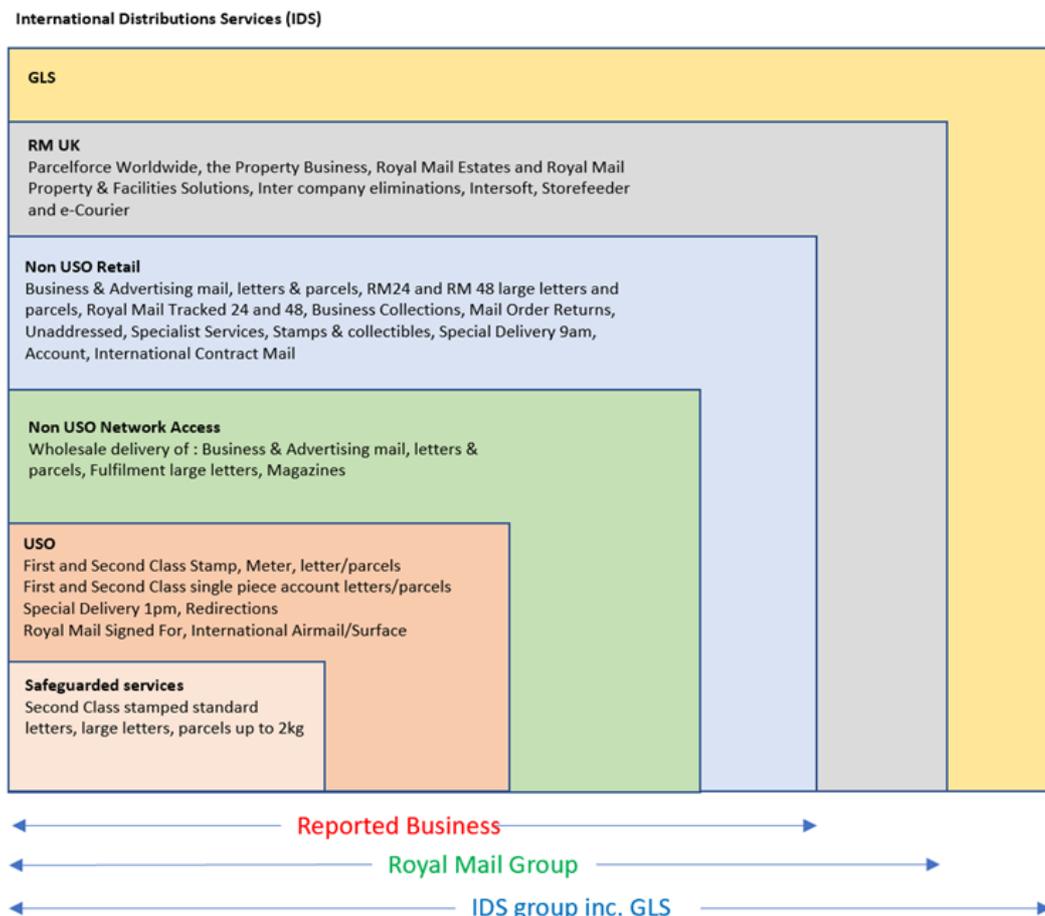
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'Royal Mail' in this document) which is a subsidiary in a group of companies under the ultimate parent company, International Distributions Services plc ('IDS').¹⁵

- 2.11 The network within the Reported Business also provides a wide range of products outside the scope of the USO, such as bulk and access mail and accounts parcels. The operations and activities related to USO and non-USO products overlap greatly and are mostly the same in some parts of the network, such as delivery where a mix of USO and non-USO products are carried and delivered together. As a result, there is no accounting and cost allocation method to separate the costs and profits of the USO products from the non-USO products. This means that it is not possible precisely to assess the financial sustainability of the USO on its own. We therefore consider the rate of return of the whole of the Reported Business in our assessments of the long-term financial sustainability of the USO.
- 2.12 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. We have derived that range from a review of appropriate comparator universal service providers in Europe. We consider that margins consistently below 5% could indicate that the universal service faces sustainability challenges.

¹⁵ In our financial sustainability assessments, we also consider the short-term health of IDS. Royal Mail Group Limited is one of IDS's subsidiaries. The financial health of IDS is important when considering the financial sustainability of the USO, as this is the level at which the company manages its cash and makes investment decisions, and is the level at which its creditors, analysts, and investors consider the group's financial health.

Figure 2.2 Reported Business, Royal Mail Group, International Distributions Services (IDS)



Source: Ofcom analysis.

2.13 The Act also requires us to have regard to the need for the universal postal service to be efficient. We monitor the efficiency of the Reported Business using a range of metrics. We recently strengthened our efficiency monitoring regime by requiring Royal Mail to publish its expectations for improvements in efficiency for the next five-year period, and to annually publish progress against them.¹⁶

2.14 In our latest post monitoring report for the 2022/23 financial year (published in December 2023), we highlighted the following points on financial sustainability and efficiency:

- Royal Mail’s revenue and profits fell significantly over 2022/23. The profit (EBIT) margin for the Reported Business decreased to -6.3% (compared to 3.6% in 2021-22). The decrease was largely driven by a drop in its revenues (by c.£950m year on year) mainly the result of falling parcel volumes. This was in part caused by market factors (such as weaker online shopping trends), but a key factor was also the significant drop in Royal Mail’s market share, which was affected by industrial action.
- Royal Mail made some progress on efficiency in 2022/23, facilitated by revisions to its delivery and processing operations together with increased automation,

¹⁶ Ofcom, 2022. [Statement on changes to Royal Mail’s regulatory reporting requirements.](#)

including the opening of its second parcels hub in the Midlands. However, the prolonged industrial action and Royal Mail's QoS performance meant that it was difficult to assess its efficiency performance in 2022/23.

- Royal Mail recently published its five-year efficiency expectations, which indicate that by 2027-28 it aims to achieve efficiency savings of 9% and an operational efficiency improvement of its frontline staff of 25%.
- Royal Mail has continued to make losses this year. In its half year results for 2023/24, it reported an operating loss of £319m and a weaker than expected revenue performance. While Royal Mail reached agreement with the Communications Workers Union on planned changes to working practices and employee terms and conditions, it is likely to take time for the changes to be implemented and have an impact and we have concerns about its ability to make sufficient efficiency savings.
- Given these risks and uncertainties, we said that our concerns about the longer-term financial sustainability of the universal service had further increased since last year.

Royal Mail's quality of service – our approach and Royal Mail's performance

- 2.15 Under the DUSP conditions, we currently impose eight QoS targets on Royal Mail which are designed to incentivise high levels of reliability and certainty as to when an item will arrive. These targets cover performance against expected speed of delivery, collection activities, delivery route completions, as well as performance across UK postcode areas. For example, Royal Mail is required to deliver:
- a) 93% of First Class mail on a national basis the day after it has been collected (D+1); and
 - b) 98.5% of Second Class mail on a national basis on the third day after it has been collected (D+3).
- 2.16 We monitor Royal Mail's QoS performance closely and take enforcement action if it fails to meet its targets without adequate justification. We recently announced our decision to fine Royal Mail £5.6 million for its failure to meet a number of its QoS performance targets for 2022-23.¹⁷
- 2.17 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%.¹⁸ As noted in our recent post monitoring report, 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.¹⁹ We will continue to hold Royal Mail to account, including taking further enforcement action if appropriate.

How this document builds on previous work

- 2.18 In September 2023, we announced that we were beginning this work to consider the longer-term future of the universal service ahead of any future review of the regulatory

¹⁷ Ofcom, 2023. [Royal Mail fined £5.6m for missing delivery targets](#).

¹⁸ Royal Mail, 2023. [Quality of Service and Complaints Report Quarter 2 2023/24](#).

¹⁹ Ofcom, 2023. [Post Monitoring Report](#). p. 19.

framework.²⁰ The aim of this document is to present the evidence and set out our assessment of the potential need for reform of the current USO and to seek views on whether and how the universal service should be updated to better reflect the ways people use post today.

- 2.19 This document builds on work we have been doing in recent years. In November 2020, we published our most recent review of postal users' needs. We found contrasting attitudes towards letters and parcels. We found that, while letters remained very important, there was a marked reduction in the use of, and reliance on, letters both for residential and SME users. We also found that offering deliveries 5 days a week (removing Saturdays) would meet the overwhelming majority of user needs for letters. In contrast, we found a large increase in the use of parcels, high expectations in terms of delivery days and speeds, and a growing willingness to consider and use alternatives to Royal Mail, especially for SMEs.²¹
- 2.20 In our July 2022 Review of Postal Regulation, which set our regulatory framework for postal services from 2022 to 2027, we acknowledged the changing market environment and the challenges being faced by Royal Mail. As a result, we decided to strengthen our monitoring regime in relation to both financial sustainability and efficiency to ensure that we had a better understanding of the future of the USO (this included requiring Royal Mail to publish its five-year efficiency expectations as mentioned above).²²
- 2.21 In our most recent post monitoring report for 2022/23, as explained in the section above, we set out that our concerns about the long-term financial sustainability of the universal service had further increased since our 2020/21 report.²³
- 2.22 In our 2023/2024 Plan of Work, we highlighted that regulation of postal services remains one of the core elements of our work and that this includes reviewing whether regulation in the sector needs to change in view of market developments and evolving user needs. We also acknowledged that in November 2022 Royal Mail approached the Government seeking reform of the minimum requirements of the USO, to reduce the frequency of letters delivery from 6 to 5 days a week (removing Saturdays).²⁴

The structure of this document

- 2.23 The rest of this document is structured as follows:
- **Chapter 3. Changing market context:** sets out market data which demonstrates the changing use of post.
 - **Chapter 4. The role of a universal postal service:** explains the development of the universal postal obligations, their purpose and key principles.
 - **Chapter 5. People's changing expectations of post:** sets out evidence from consumer research on how user expectations and use of post has changed.
 - **Chapter 6. Bulk mail:** explains the importance of bulk mail (which is not part of the USO specification) to consumers, large businesses and to the sustainability of the USO.

²⁰ Ofcom, 2023. [Ofcom to produce potential options for the future of the universal postal service - Ofcom](#).

²¹ Ofcom, 2020. [Review of postal users' needs](#).

²² Ofcom, 2022. [2022 Review of Postal Regulation](#).

²³ Ofcom, 2023. [Post Monitoring Report](#). Ofcom, 2022. [Annual Monitoring Update for Postal Services](#).

²⁴ Ofcom, 2023. [Ofcom's Plan of Work 2023-24](#).

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- **Chapter 7. International experience:** explains the experience of countries that have already adapted, or are in the process of adapting, the universal service obligation in their countries in response to changing user needs.
- **Chapter 8. The financial burden and sustainability of the USO:** considers the financial burden of the USO, including our estimate of the financial burden, the fairness of the burden and also its relationship to financial sustainability.
- **Chapter 9. How USO services could adapt to better reflect changing needs of users:** explores a range of potential options for adapting the specification of the USO and considers how the changes might meet users evolving needs, as well as the possible environmental impacts of the different options.
- **Chapter 10. Next steps**

3. Changing market context

Purpose of this chapter:

- This chapter sets out context and market data which demonstrates the changing use of post.

In brief

- The increasing availability and take-up of faster broadband and mobile connections has led to more opportunities for businesses and public services to use digital communications rather than post. There remain, however, some areas of the UK and some groups of consumers who are not yet digitally connected.
- Market data demonstrates the ongoing (and recently accelerated) decline in letter volumes. Parcel volumes, in contrast, are continuing to increase due to the growth in online shopping and selling on online marketplaces. These market trends are also being seen internationally.
- USO services are only a small, and decreasing, part of the post market with bulk letters and parcels sent by larger businesses making up the majority of Royal Mail's volumes and revenues.
- There is some evidence that environmental factors are becoming more relevant to consumers' choices of postal services, and the design of the USO will affect Royal Mail's ability to contribute to national targets to reduce its impact on the environment.

Digital services are profoundly shaping postal user needs

- 3.1 How people use postal services varies greatly depending on the economic and social activities they pursue, and whether there is an effective, easily accessible digital alternative. The availability and take-up of faster broadband and mobile connections has been rapidly increasing over recent years, offering more opportunities for businesses and public services to adopt digital communications tools and systems.
- 3.2 Our latest Connected Nations report highlights that the vast majority of premises in the UK (97%) have access to superfast broadband (an increase from 65% in 2012)²⁵ and 75% of premises take up these services.²⁶ Full-fibre broadband is also now available to over half of homes in all four of the UK nations, and take up of these services rose to 28% in 2023.²⁷ 4G services also now provide the backbone of mobile services in the UK (in 2012 only 2G/3G services were available), with coverage for 4G data services from at least one MNO now at 93% of the UK's landmass, and 5G services now increasingly available (5G traffic grew by around 140% in 2023).²⁸

²⁵ Ofcom, 2012. [Infrastructure Report 2012](#).

²⁶ Ofcom, 2023. [Connected Nations UK 2023](#).

²⁷ Ofcom, 2023. [Connected Nations UK 2023](#), p. 3.

²⁸ Ofcom, 2023. [Connected Nations UK 2023](#), section 3.

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- 3.3 We expect the availability and take-up of increasingly faster, and more reliable, broadband and mobile services to continue to grow and therefore digital strategies will increasingly shape workplaces, public services and education, affecting workforces and consumer behaviour significantly.²⁹ Post will remain a vitally important communications tool, but it is now competing with a range of digital alternatives and is sometimes viewed as a complementary tool to digital platforms and systems.³⁰ These developments, along with changes in user behaviour, will continue to drive increasing e-substitution (where letters are replaced by electronic communications) away from letter services.
- 3.4 There are some areas of the UK that still do not have access to good connectivity (e.g. 0.2% of premises do not have access to decent broadband from either a fixed or mobile connection), and there are also significant geographical variations in coverage (particularly in more rural and remote areas of the UK).³¹ These gaps are increasingly being addressed but reliance on post is likely to be higher in these areas that do not yet have good connectivity.
- 3.5 In addition, even where good connections are available, there are still those who have not taken it up (whether for financial reasons or lack of digital skills). We estimate that 7% of adults do not have internet access via any device at home, and those adults more likely not to have access to the internet at home are in the lowest DE socio-economic group or are 75+, although take-up in both groups has grown considerably since 2019.³²

Market data provides evidence of changing use of post

- 3.6 We gather a range of market data on postal services (published as part of our annual post monitoring report)³³ which provides evidence of the changing use of post.

Letter volumes are in rapid decline while parcels volumes have increased

- 3.7 As shown in the figure below, the volume of letters to UK addresses has declined by nearly 50% since 2011-12, to 7.28 billion items in 2022-23.
- 3.8 The downward trend in volumes and revenues has been consistent over time and is driven by online substitution, with the exception of 2021-22 when letters recovered slightly following resumption of normal business and direct mail activity as sectors opened up following the pandemic lockdowns.

²⁹ UK Government, 2022. [UK Digital Strategy](#), section 3.

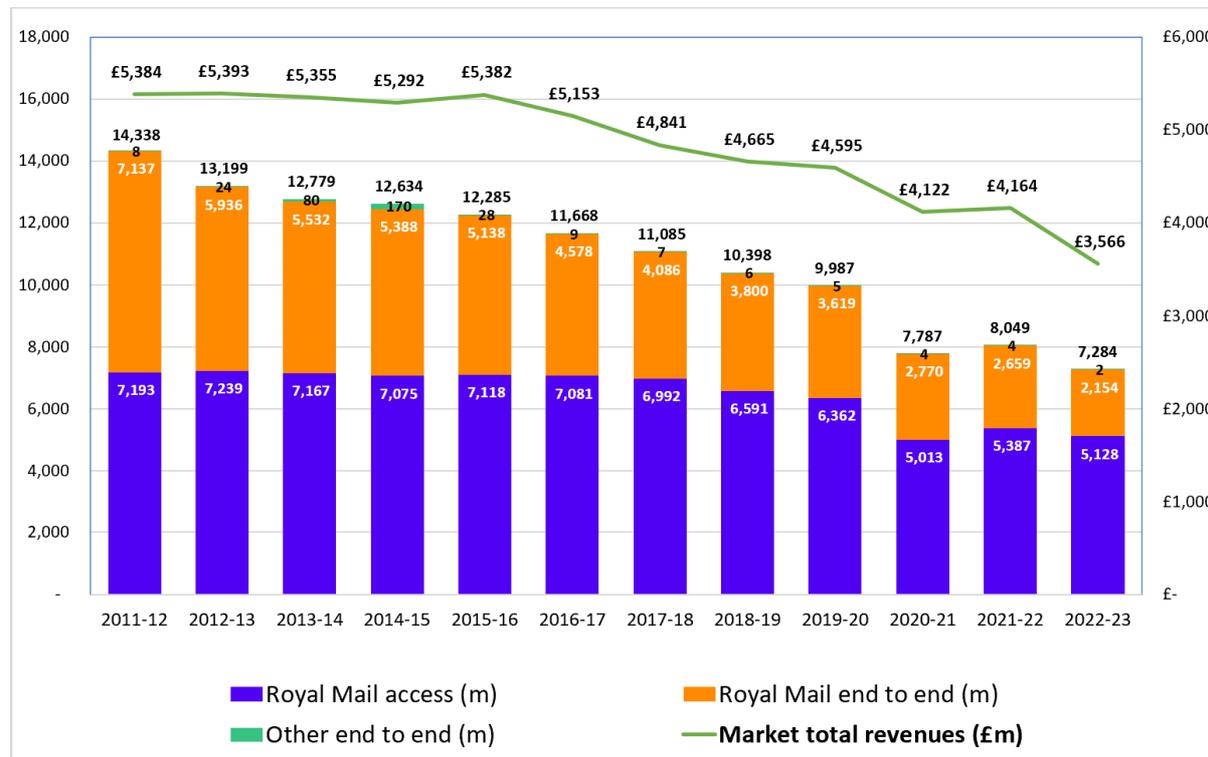
³⁰ ERGP, 2023. [Report on the future needs of the USO](#), p 17.

³¹ Ofcom, 2023. [Connected Nations UK 2023](#), p. 22.

³² Ofcom, 2023. [Adults' Media Use and Attitudes report 2023](#), p. 25.

³³ Ofcom, 2023. [Post Monitoring Report](#).

Figure 3.1: Letter volumes (millions) and revenues (£millions), including end-to-end and access mail



Source: Ofcom. Operator returns, Ofcom estimates. Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excluding access. Figures exclude international. Access volumes include small volume of access parcels. Changes in methodology over this extended period mean not all years are directly comparable. Revenues adjusted for CPI at 2022-23 prices.

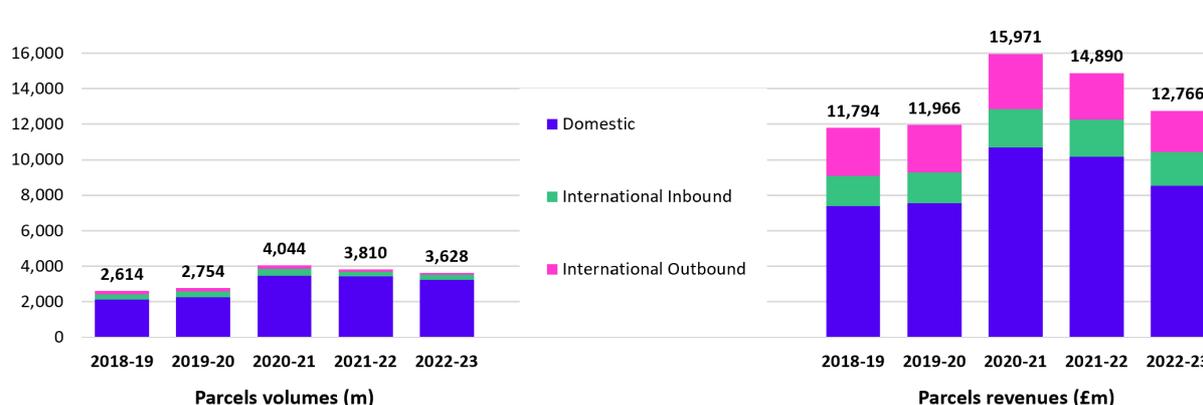
- 3.9 We note that while market total revenues have seen a downward trend since 2011-12, the decline has not been as rapid as for total volumes. This is because Royal Mail has increased prices to compensate for falling letter volumes.
- 3.10 However, it is important to note that the labour costs which arise from the delivery of letters do not fall easily in line with volumes. For example, the cost of a Royal Mail postal worker delivering to a single property is largely the same when delivering two letters as it is when delivering one letter, and at present the nature of the USO requires a postal worker to pass (almost) every single property whether or not there is a letter to deliver. As a result, it is difficult to reduce costs as volumes and revenues fall regardless of economic incentives to achieve efficiency savings. We also note that, since 2008, the number of addresses which must be served by the universal postal service has increased from 28 million to 31.7 million.³⁴ These factors help to explain the financial sustainability challenges.
- 3.11 In contrast, as consumers and businesses have reduced their use of letters, the parcels market has grown significantly. This growth has largely been driven by business to

³⁴ The number of UK addresses (delivery points) covered by the universal postal service has increased from around 28 million in 2008 (at the time of the Hooper Review) to around 31.7 million in September 2023, according to the [Postcode Address File](#).

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consumer volumes associated with online shopping becoming more popular over time, and then essential during the Covid-19 pandemic. Although parcel volumes and revenues have fallen back since 2020-21, the overall trend is upwards, with 2022-23 totals higher than 2019-20 pre-pandemic figures.

Figure 3.2: Parcel volumes and revenues, including domestic and international services



Source: Ofcom. Operator returns / Ofcom estimates. Revenues from delivery of access parcels included in domestic. Revenues adjusted for CPI at 2022-23 prices.

Changes in the UK are in line with international trends

- 3.12 The market dynamics seen in the UK across recent years have followed key trends impacting markets around the world. While cultural, economic and other factors may have varying degrees of impact on the pace of change in different national markets, the relative trends are very similar.
- 3.13 Copenhagen Economics reports that letter volumes in EU member states, including the UK at the time, declined 7.3% on average each year between 2017 and 2021³⁵ with addressed letter volumes decreasing from over 59 billion items in 2017 to around 47 billion items in 2020.³⁹ Our monitoring data reflects the increasing rate of decline in letters in the UK from 4-5% annually in 2018 to around 9% in 2023.
- 3.14 Copenhagen Economics attributes this decline “to a large extent” to increased digitalisation and e-substitution highlighting in particular digital communication with public authorities. It highlights the example of Denmark where it has been mandatory for public bodies to send and receive information from people and businesses digitally by law since 2012.³⁶
- 3.15 This is not just a European phenomenon. The Australian Government, for example, has also identified alternative digital communications options as a driver of the observed decline in letter volumes. Addressed letter volumes in Australia have declined 66% since peaking in 2007-08 (1.6 billion in 2021-22, down from 4.6 billion in 2007-08). It notes that

³⁵ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p.38-39. Study includes the United Kingdom as a member state for the reporting period.

³⁶ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p. 42-45.

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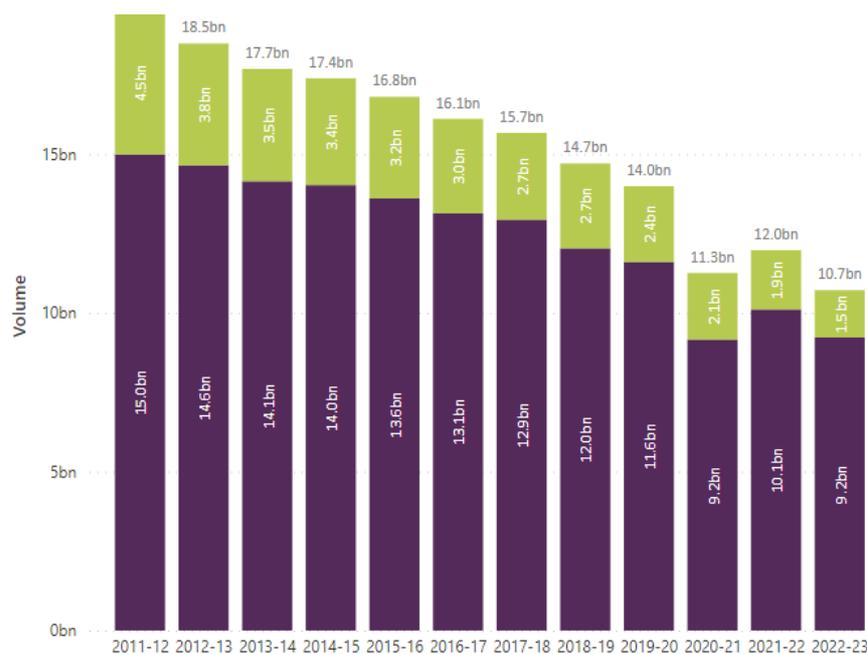
businesses and governments send over 97% of the letters in Australia and anticipates accelerating rates of letter decline as e-substitution continues to be embraced.³⁷

- 3.16 The opposite is true for parcels. Online shopping has driven parcel volumes and there was a particular increase in parcel volumes associated with the Covid-19 pandemic. Parcel volumes in Europe grew by around 14.6% annually between 2017 and 2021, compared to an average annual increase of 6.4% between 2013 and 2017.³⁸

USO services are an ever-decreasing segment of the market

- 3.17 While the USO broadly comprises letters and parcels sent by consumers and smaller businesses, the postal market is much broader and includes bulk letters and parcels sent by larger businesses including public organisations, financial institutions and online retailers. The latter, which account for the majority of Royal Mail's volumes and revenues, do not form part of the USO but are delivered over the same network.
- 3.18 Over time non-USO products for Royal Mail have become the more significant part of Royal Mail's business, with USO products now accounting for only 17% of volumes and approximately 30% of revenues.

Figure 3.3: Royal Mail Reported Business volumes, split across USO and non-USO

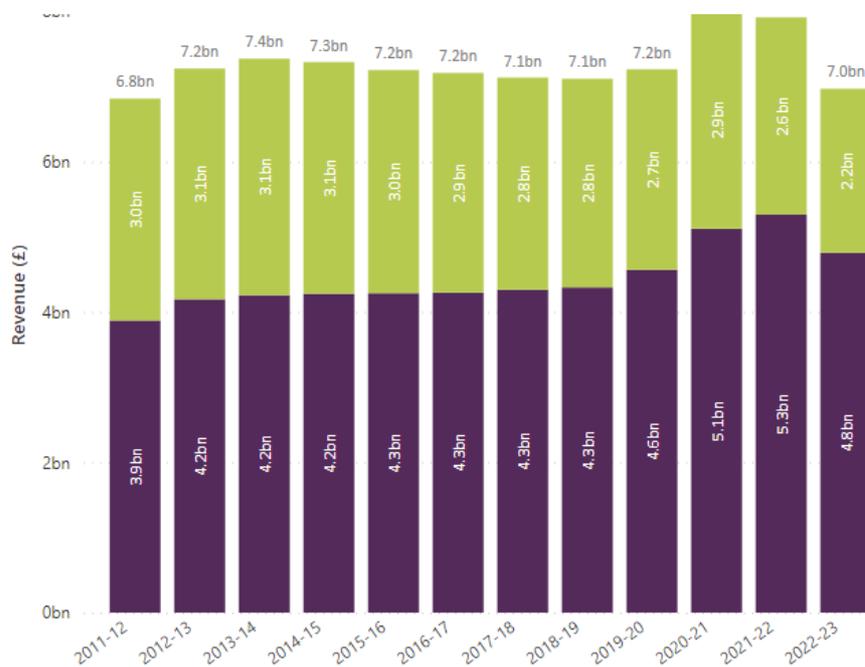


Source: Royal Mail Regulatory Financial Statements and unaudited submissions from Royal Mail.

³⁷ Australian Government, 2023. [Postal Services Modernisation – Discussion Paper](#). p 12-14.

³⁸ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#). p 49.

Figure 3.4: Royal Mail Reported Business revenues, split across USO and non-USO



Source: Royal Mail Regulatory Financial Statements and unaudited submissions from Royal Mail.

Environmental considerations

- 3.19 While Ofcom does not have a duty to consider environmental impacts in connection with the USO, this is clearly an issue of national importance and one in which logistics activities play a major role. Targets related to environmental outcomes are likely to affect the costs of delivering the USO. Given the transport requirements necessary to deliver the USO, Royal Mail’s means of distributing USO products is in turn likely to impact its ability to contribute towards meeting national targets. Further, there is some evidence that consumers are considering environmental factors when choosing postal services and operators. Accordingly, we consider it important to present considerations of environmental sustainability as part of our review.
- 3.20 The UK Government has a target to reach net-zero by 2050. Interim targets are to reduce carbon emissions by 68% by 2030 compared to 1990 levels, and by 77% by 2035.³⁹ A framework of legal and regulatory drivers to support these targets is beginning to emerge, which will increasingly affect the market context for postal services.
- 3.21 The UK has a policy to end the sale of new conventional petrol and diesel cars and vans by 2035. A lot of postal sector emissions come from operators’ commercial fleets. The policy has encouraged postal operators including Royal Mail to invest in electric vehicles.
- 3.22 From April 2022, Task Force on Climate-related Financial Disclosures (TCFD) reporting has been mandatory for certain large businesses in the UK. In 2022, Royal Mail published its

³⁹ [PM recommits UK to Net Zero by 2050 and pledges a “fairer” path to achieving target to ease the financial burden on British families - GOV.UK \(www.gov.uk\).](https://www.gov.uk/government/news/pm-recommits-uk-to-net-zero-by-2050-and-pledges-a-fairer-path-to-achieving-target-to-ease-the-financial-burden-on-british-families)

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Steps to Zero strategy. This sets out how it aims to become a net zero emissions business by 2040 and reduce Scope 1 and 2 greenhouse gases (GHG) emissions by 50% and Scope 3 by 25% by 2030. The company claims to have the UK's largest 'Feet on the Street' network of over 85,000 postal workers, giving it the lowest publicly reported CO₂e emissions per parcel among major UK delivery companies. It has a long-term plan to reduce average per parcel emissions from 218gCO₂e in 2022-23 to 50gCO₂e. Average per letter emissions stood at 27gCO₂e in 2022-23.⁴⁰

- 3.23 The strategy will require investment. This includes funding to swap out fossil fuel vehicles for electric (Royal Mail currently has 5,000 electric vehicles out of a fleet of 41,500 vans); to move trucks to low-carbon alternative fuels (around 80 low emission bio-CNG trucks are in place out of a fleet of 4,000); and to ramp up use of rail (the recently announced Midlands Super Hub, with its own rail terminal, is designed to increase parcel volumes carried by train). Indeed, from 6 November 2023 Royal Mail introduced a Green Surcharge of 2p per item on some non-USO products for account customers that will contribute towards funding decarbonisation measures in its network.⁴¹
- 3.24 Emissions savings could bring cost savings and help spur innovation. Royal Mail's analysis on part of its existing EV fleet found direct costs for fuel and maintenance dropped 78% and 60% respectively by year 4 of a 9-year average lifecycle. Full transition would reduce fuel costs by £106m and maintenance by £95m at total deployment.⁴²
- 3.25 The business case for environmentally sustainable solutions in the postal sector is supported by consumer preferences, as reflected in our Residential Postal Tracker.⁴³ The research shows 49% of respondents agreed that they would prefer their postal services to be delivered in an environmentally sustainable way, even if it takes a little longer to deliver (20% disagreed). Agreement was lower where the cost of service increased in order to achieve sustainability (36%), with disagreement rising to 31%.
- 3.26 Changing the specification of the USO would allow Royal Mail to reduce its overall impact on the environment. In addition, changes to the USO would provide Royal Mail with greater flexibility to adjust its operations to contribute to its Steps to Zero targets. We have engaged with Royal Mail on their research in this area, and when we consider options for potential changes to the USO in chapter 9, we set out potential emission impacts. This is not, of course, only an issue in the UK. Other countries are considering environmental sustainability in USO reform, including France, Germany and Norway as discussed in chapters 7 and 9, and a majority of European USPs surveyed have stated that USO requirements in their country are among challenges that are constraining their ability to reduce their environmental footprint.⁴⁴

⁴⁰ Royal Mail, 2023. [Environmental Societal and Governance \(ESG\) Report 2022-23](#). p. 14.

⁴¹ [Surcharges | Royal Mail Group Ltd.](#)

⁴² Royal Mail, 2023. [Environmental Societal and Governance \(ESG\) Report 2022-23](#). p. 15.

⁴³ [Ofcom Residential Postal Tracker 2022-23, QC3.](#)

⁴⁴ Copenhagen Economics, 2022. [Main Developments in the Postal Sector: 2017-2021](#). p. 303.

4. The role of a universal postal service

Purpose of this chapter:

- This chapter explains the history of the universal postal service and explores the fundamental principles of a universal service, to enable stakeholders to assess whether those principles are still relevant and, if so, how they can be maintained when considering changes to the USO.

In brief

- The USO is designed to guarantee the provision of a good quality universal service at affordable prices, which is accessible to everyone in the UK. It has important social and economic benefits, and facilitates key interactions between citizens and state.
- We identify universality, affordability and uniform pricing as the fundamental principles of a universal service. These principles help ensure that users are not disadvantaged due to where they live or work, or their income.
- The specification of the USO was intended to adapt to users' needs over time. However, there have been no significant changes made in the period since the legislation was passed.

The development of the universal postal service

- 4.1 The universal postal service was first enshrined in UK legislation in the Postal Services Act 2000 ('PSA 2000').⁴⁵ However, the postal service has a long history in the UK, with its roots stretching back to 1516. In 1840, the first adhesive postage stamp, the Penny Black, was launched, and the concept of uniform pricing or 'one price goes anywhere' was introduced. In 1968, a two-speed service was introduced: First and Second Class.
- 4.2 The PSA 2000 implemented the European Union's (EU) first Postal Services Directive.⁴⁶ This directive had the creation of a postal universal service obligation at its core. The Directive stated that a universal postal service was to be affordable for all users and set minimum requirements to be guaranteed by each EU member state. These requirements included that letters and parcels should be collected and delivered to homes and businesses not less than 5 days a week, and that the universal service should include a registered and insured service.⁴⁷ It also included a requirement for the universal service to evolve in response to the technical, economic and social environment, and the needs of users.⁴⁸
- 4.3 The Directive also gave flexibility to EU member countries to adapt the universal service to their needs by setting a minimum level of service levels and products which could be

⁴⁵ [Postal Services Act 2000](#).

⁴⁶ [Postal Services Directive \(97/67/EC\)](#). This was later amended by the second [Postal Services Directive \(2002/39/EC\)](#) before the more fundamental review introduced by the third [Postal Services Directive \(2008/6/EC\)](#).

⁴⁷ [Postal Services Directive \(97/67/EC\)](#). Chapter 2, Article 3.

⁴⁸ [Postal Services Directive \(97/67/EC\)](#). Chapter 2, Article 5.

exceeded. For example, in the UK, the PSA 2000 stated that a universal postal service was provided if collections and deliveries of postal packets were provided every working day. This was defined as Monday-Saturday for letters (exceeding the Directive's minimum requirements), and Monday-Friday for parcels.⁴⁹ The PSA 2000 also required USO services to be provided at affordable prices which were uniform throughout the UK.⁵⁰ The detailed scope of the universal postal service was set out in a licence. This was granted to the universal service provider by the then regulator, the Postal Services Commission (Postcomm).⁵¹ The collection and delivery days and products which were set as part of the USO reflected the postal service operating at the time. We discuss the general principles flowing from the directive further below.

Hooper Review

- 4.4 In 2008, the Hooper Review made a series of recommendations which aimed to maintain the universal postal service which was threatened by the impact of digitalisation.⁵² The review made an urgent call for a change in the UK's legal framework governing postal services. This was seen as necessary for three overlapping reasons:
- a) The universality of the postal service was important, with the ability to deliver to 28 million UK addresses offering key economic and social benefits.⁵³ Universality was recognised in terms of fairness, linked to nationwide social cohesion and the prospect for economic growth.
 - b) Sustaining the universal service depended fundamentally on modernising Royal Mail, recognising competition was increasing in the parcels market and the need for efficiency across the postal network to achieve fairness in terms of ensuring affordable postal services.
 - c) There was recognition of ongoing and future e-substitution affecting letters volumes and the impact this would have on postal user needs. A new regulatory regime was sought to place postal regulation within the broader context of the communications market, offering flexibility to Royal Mail in order to adapt and innovate across its network. Alongside such flexibility, strengthened parliamentary accountability for the provision of the universal service was deemed necessary to ensure users' postal needs continued to be served.
- 4.5 It was clearly envisaged that any regime would evolve over time in response to changes in user needs.

⁴⁹ The UK was among a relatively small number of EU member countries at the time that required the delivery of letters 6 days a week (exceeding the minimum requirements of the directive) as part of its universal service requirements. Most countries opted to require deliveries of letters (and parcels) 5 days a week.

⁵⁰ [Postal Services Act 2000](#), section 4 (as originally enacted).

⁵¹ See Postcomm, 2001, [amended licence granted to Royal Mail Group Plc](#).

⁵² Department for Business, Innovation and Skills, 2008. [Modernise or decline: policies to maintain the universal postal service in the United Kingdom](#). The review was updated in 2010. Department for Business, Innovation and Skills, 2010. [Saving the Royal Mail's universal postal service in the digital age](#).

⁵³ The number of UK addresses (delivery points) covered by the universal postal service has increased from around 28 million in 2008 to around 31.7 million in September 2023, according to the [Postcode Address File](#).

Postal Service Act 2011

- 4.6 The Postal Services Act 2011 ('the Act') implemented the Hooper Review's recommendations and it also gave effect to the third Postal Services Directive. The objective of this Directive was to create a single market for postal services in the EU, while ensuring a high-quality universal service.⁵⁴
- 4.7 The Act paved the way for the privatisation of Royal Mail and it transferred regulatory responsibility for postal services from Postcomm to Ofcom, a converged regulator overseeing the broader communications market. The Act provides that the primary duty of Ofcom in relation to postal services is to carry out its postal functions in a way that it considers will secure the provision of a universal postal service. In performing this duty, Ofcom must have regard to the need for the provision of a universal postal service to be financially sustainable and efficient.⁵⁵
- 4.8 The Act set the minimum requirements of a universal postal service which apply today. The seven minimum requirements include the collection and delivery of letters Monday-Saturday, and collection and delivery of parcels Monday-Friday, as well as the provision of certain USO products at affordable prices which are uniform throughout the UK.⁵⁶ It also created a process for secondary legislation to be used to modify these requirements in line with the reasonable needs of postal users as the postal market developed. The detailed scope of the postal USO was then set by Ofcom in the Order and regulatory conditions, which apply to the designated universal service provider, Royal Mail Group Limited.⁵⁷
- 4.9 With the exception of decisions by Postcomm to remove bulk mail products from the scope of the USO in 2005 and 2011, despite material changes to the postal market and changing use in the period since the legislation was passed, the minimum requirements and the scope of the USO have not been changed.⁵⁸ We have conducted two reviews of postal users' needs, in 2013 upon becoming the postal regulator, and in 2020.⁵⁹

The purpose of a universal postal service

- 4.10 In this section, we identify three main aims of the postal service, which the USO was introduced to support. We then identify three fundamental principles and four core features of a universal postal service which together operationalise how the service should achieve its intended aims. This exercise provides a set of basic criteria (along with user

⁵⁴ [Postal Services Directive \(2008/6/EC\)](#).

⁵⁵ [Postal Services Act 2011](#). s29 (1) and (3).

⁵⁶ [Postal Services Act 2011](#). s31. The other minimum requirements, beyond collection and delivery days and services at affordable prices in accordance with a uniform public tariff, that a universal postal service must include are: a registered items service; an insured items service; a free service for blind or partially sighted people; and a free service for legislative petitions and addresses.

⁵⁷ [The Postal Services \(Universal Postal Service\) Order 2012 \(legislation.gov.uk\)](#) and [DUSP Condition 1 \(ofcom.org.uk\)](#)

⁵⁸ Bulk mail was removed for the following reasons: decreasing volumes, increasing competition with alternative products available, low attachment by users to features of universal service, and the view that Royal Mail would be unlikely to stop providing such services. Postcomm, 2011. [The building blocks for a sustainable postal service](#).

⁵⁹ Ofcom, 2020. [Review of postal users' needs](#); and Ofcom, 2013. [Review of postal users' needs](#).

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needs) against which to assess potential changes to the USO which we explore further in chapter 9.

- 4.11 The objective of a universal postal service is to guarantee the provision of a good quality postal service at affordable prices, which is accessible to everyone in the UK. It reflects the conclusion that the service is of such importance to consumers, businesses and society as a whole that intervention is necessary to ensure that everyone has access on equal terms to services that the market would otherwise fail to provide. The universal service is intended to meet only those reasonable user needs which are not otherwise sufficiently met by the wider market.
- 4.12 The aim of the intervention is to ensure that we have a postal service which delivers on the three main purposes:
- a) **To promote social cohesion.** The postal service is an important method of communication for consumers and society generally. It is particularly important for consumers in rural and remote areas, and for vulnerable users who might otherwise be at risk of social and/or economic exclusion.
 - b) **To promote economic growth.** The postal service is an important channel for SMEs and market-place sellers to conduct their business activities. It allows them to communicate with customers and suppliers, and in particular to send and receive physical goods, critical to selling online.⁶⁰ Importantly, the universal service creates a level playing field between businesses based in urban, rural and remote areas.
 - c) **To facilitate key interactions between citizens and state.** The postal service and USO network support democratic engagement, for example the receipt and return of postal votes. It is also an important way for citizens to apply for, renew and return expired identity documents and submit tax returns. While public bodies are increasingly taking steps to encourage citizens to interact with their services online, it is likely post will remain an important method of communication for the foreseeable future.⁶¹
- 4.13 Given these three purposes, the state has intervened to ensure that the postal service provides a basic level of service to everyone, and this is achieved by the legislation requiring there to be a universal postal service with certain minimum requirements, and the detailed scope set in the Order which is implemented through the regulatory conditions.

The principles of the universal postal service

- 4.14 The European Commission identified a number of general principles in relation to the development of EU policy in the postal sector as part of its proposal for the First Postal Services Directive.⁶² Many of these principles are relevant particularly for the concept of

⁶⁰ It is important to note that that larger businesses do not use USO products for e-commerce delivery. Instead, they contract with parcel operators, of which Royal Mail is one of a number of competitors.

⁶¹ For example, around 3% of people file their tax returns using paper forms, although this is expected to reduce further in future as HMRC encourages more people to interact with its services online. HMRC, 2023. [Self Assessment customers who file early doubles in 5 years - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

⁶² European Commission, 1995. [Proposal for a European Parliament and Council Directive on common rules for the development of Community postal services and the improvement of quality of service.](#) p. 8. Following the

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the universal postal service, which this Directive had at its core. These general principles included universality; equal treatment of users; and adaptability of services to technical progress and changes in demand.⁶³

- 4.15 Having considered the history of the postal service and the development of the universal service, and drawing on our experience as the postal regulator, in our view there are three fundamental principles at the heart of the UK's universal postal service.
- a) **Universality:** this principle ensures that everyone has access to a national network and a set of basic postal services to send items regardless of where they live and work, whether in urban, rural or remote areas. Everyone can receive items at their home or place of work. In addition, there are specific requirements to promote the inclusion of specific groups who may be more dependent on post e.g. Articles for the Blind.
 - b) **Affordability:** this principle helps to ensure that access is not prevented by the pricing of universal postal products. This is particularly important to support the inclusion of low income and vulnerable consumers.⁶⁴ There are certain services which are required to be free-of-charge.⁶⁵ Further, there is no connection charge, and no ongoing charges if you do not send items regularly. There is also no charge to receive post.
 - c) **Uniform pricing:** this principle (also known as 'one-price-goes-anywhere') ensures that the benefits of competition in competitive areas (typically urban areas) are available to those in rural or remote areas, which are more expensive to serve. It ensures that such consumers and businesses are not disadvantaged by their location and helps to spread economic growth more evenly. It also means a simple pricing structure, which is easy to understand.⁶⁶
- 4.16 We note that the fundamental principles we have identified above, which are part of the minimum requirements in section 31 of the Act, interlink and support each other. For example, uniform pricing supports the principle of affordability, which in turn supports the principle of universality.
- 4.17 Following on from the key principles explained above, we have identified below a number of core features of the service. The principles and features identified guide how a universal

UK's withdrawal from the EU, EU Directives no longer have effect in the UK. However, this directive led to the postal USO's enshrinement in UK legislation and so we believe the principles behind it remain relevant.

⁶³ The other principles identified by the European Commission in its 1995 proposal for the first Postal Services Directive were: neutrality (treatment is independent of the status of the person sending the mail); confidentiality (inviolability and secrecy of postal items); and continuity (provision of an uninterrupted service).

⁶⁴ Ofcom's approach to ensuring postal services remain affordable consists of four key pillars: 1) safeguard caps on basic USO services via the Second Class Safeguard Caps; 2) active monitoring and seeking of targeted voluntary change where problems emerge e.g. [concession redirection](#); 3) enforcement action, where appropriate; and 4) supporting competition to keep downward pressures on prices (via end-to-end competition for parcels, and access competition for upstream bulk letters).

⁶⁵ Free of charge USO products include: Certificate of Posting; Articles for the Blind; Petitions and Addresses; Return to Sender; and Post Restante.

⁶⁶ Without this requirement, it is likely that prices would vary geographically. This is seen in the wider parcels market (non-USO), where some parcel operators surcharge delivery to addresses in parts of the UK e.g. the Highlands and Islands of Scotland and Northern Ireland.

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service may be designed to meet its intended aims and ensure that it is an effective method of communication.⁶⁷ These include:

- a) **Accessibility:** this ensures everyone can access USO services. It is achieved by the requirement for the delivery of post to people's homes and businesses (rather than a central point or locker), and regulatory requirements on the geographic distribution of universal service access points (e.g. post boxes), which ensure that users can post items near where they live and work.⁶⁸ These requirements are complemented by the Post Office network.⁶⁹ Further requirements are designed to support the inclusion of vulnerable groups and geographically remote users.⁷⁰
- b) **Reliability:** this provides certainty to users that items will arrive when promised and is achieved via QoS targets for certain products and services which are set in regulatory conditions.⁷¹
- c) **Timeliness:** this ensures that items get to where they need to be within a reasonable time and that information in letters is still relevant. It is achieved by the frequency of collection and delivery days per week for letters and parcels (which are set by legislation in the minimum requirements), as well as the speed of products offered (set in regulation).
- d) **Security:** this ensures users have confidence that the confidentiality of their mail will be safeguarded and that reasonable steps will be taken to minimise incidences of mail which is lost, stolen or damaged. It is achieved by criminal offences which aim to prevent interference with mail (set in legislation) and the mail integrity requirements (set in regulatory conditions).⁷² It is also supported by specific products e.g. Special Delivery; Redirections; Keepsafe; and Return to Sender.

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

⁶⁷ When highlighting existing rules and USO products, this is to illustrate how existing rules reflect the relevant feature/principle. We are not suggesting that the rules are themselves part of the feature or principle.

⁶⁸ DUSP 1.8.2 (a) requires Royal Mail to ensure that in the UK as a whole, there is a letter box within half a mile of the premises of not less than 98% of users of postal services. DUSP 1.8.2 (c) (i) requires Royal Mail to ensure that in the UK as a whole the premises of not less than 95% of users of postal services are within 5 kilometres of an access point capable of receiving the largest postal packets and registered items. DUSP 1.8.2 (c) (ii) requires Royal Mail to ensure that in all postcode areas the premises of not less than 95% of users of postal services are within 10 kilometres of an access point capable of receiving the largest postal packets and registered items.

⁶⁹ There are around 11,500 Post Offices in the UK. Ofcom does not regulate Post Office Limited. However, we note that it is required to meet six access criteria set by the UK Government on the distribution of post offices. It must also report to the UK Government, and to Parliament, on the accessibility of its network.

⁷⁰ These include the Articles for the Blind Service (a minimum requirement of the PSA 2011); the requirement for Royal Mail to set out its arrangements for disabled users, required by DUSP 1.8.4; and the requirement for Royal Mail to set out its arrangements for remote users, required by DUSP 1.8.3.

⁷¹ There are regulatory QoS targets set for First Class (there is a national and local target); Second Class; Special Delivery by 1pm; delivery routes; and collections from access points. DUSP 1.9. [DUSP Condition 1 \(ofcom.org.uk\)](#)

⁷² [Postal Services Act 2000](#), s84 and s84. Ofcom. [Essential Condition 1 \(ofcom.org.uk\)](#).

5. People's changing expectations of post

Purpose of this chapter:

- This chapter sets out evidence from consumer research on how user expectations and use of post has changed.

In brief

- The USO is designed to guarantee the provision of a good quality universal service at affordable prices, which is accessible to everyone in the UK. It has important social and economic benefits, and facilitates key interactions between citizens and state
- Our research indicates that post is still seen as an important service by most consumers and it can play an important social role. The key principles of the USO (including affordability, uniform pricing and delivery across the whole UK) also remain valued;
- People are sending and receiving fewer letters and increasingly prefer to use digital alternatives. There remains, however, some correspondence for which users prefer, and need to, use post. These letters are usually important and the evidence shows users are place a higher level of importance on the reliability of delivery than they do on speed.
- Our research shows parcels are seen as an essential service, with users having increasing expectations about delivery convenience and speed.
- Our research also found that while certain groups of users are more reliant on post (e.g. those with limited or no internet access, people with mobility issues, those in more rural or remote areas and older users), the delivery needs of these groups of users are mostly similar to broader user needs.
- The evidence indicates that most user needs would continue to be met by changes to the specification of the letters USO in terms of reduced delivery frequency and increased emphasis on certainty of delivery (rather than speed of delivery).
- The parcels USO, however, is seen as in line with user needs. The expectations of users are rising in line with their experiences driven by the market, which offers a range of delivery options and other features.

Consumer use of, and dependence on, post is changing

- 5.1 As the postal regulator, we conduct a wide range of research into consumer and SME use of and attitudes towards postal services. This includes ongoing, regular tracker surveys

which we report on in our annual post monitoring report.⁷³ We also commissioned research to inform specific areas of work. To inform our 2020 Review of postal users' needs, we commissioned extensive qualitative and quantitative research among residential and SME users across the UK. This was carried out in 2019. We also commissioned follow up research in summer 2020 to understand how Covid-19 may have impacted users' perspectives and behaviour.⁷⁴

- 5.2 More recently, as part of our review of the safeguard caps on some Second Class services, we commissioned qualitative research into the affordability of current postal prices.⁷⁵ In addition, to support this work to consider the future development of the postal USO, we commissioned new qualitative and quantitative research looking at use of and key needs from postal services, use of alternatives to postal services and the value of the USO.⁷⁶
- 5.3 This research evidence demonstrates some important themes in people's use and expectations of post and the USO, as well as how that is changing over time – in particular:
- a) the majority of people continue to need a reliable, universal postal service and there is ongoing strong support for the key principles of the USO (such as a uniform price and service across the whole of the UK);
 - b) people are increasingly sending and receiving fewer letters, but reliability of delivery rather than speed) remains of core importance for both residential and SME users;
 - c) parcels are seen as an essential service, with increasing expectations of convenience and delivery speed;
 - d) while some groups of users are more reliant on post, the delivery needs of these users are broadly similar to other users; and
 - e) that user needs could continue to be met if the specification of the USO were changed.
- 5.4 We explore these themes in more detail below.

Postal services, and the key principles of the USO, remain important to users

- 5.5 Postal services remain a vital communications tool for both personal and business use - 79% of postal users agree that there are some things they will always need to send by post.⁷⁷ In particular, post remains an important way of communicating with friends and family despite the increasing availability and popularity of other options (such as instant messaging) - 65% of users say post is an important communications channel for contacting friends and family. However, this proportion has reduced from 73% in 2015-16, while the importance of video calling has increased from 39% to 58%, and instant messaging from 52% to 81%, in the same period (see Figure 5.1 below).⁷⁸

⁷³ Ofcom, 2023. [Post Monitoring Report](#).

⁷⁴ Jigsaw, 2020. [UK Postal User Needs: Qualitative Research Report](#). Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#). Jigsaw, 2020. [Postal Needs Follow up](#).

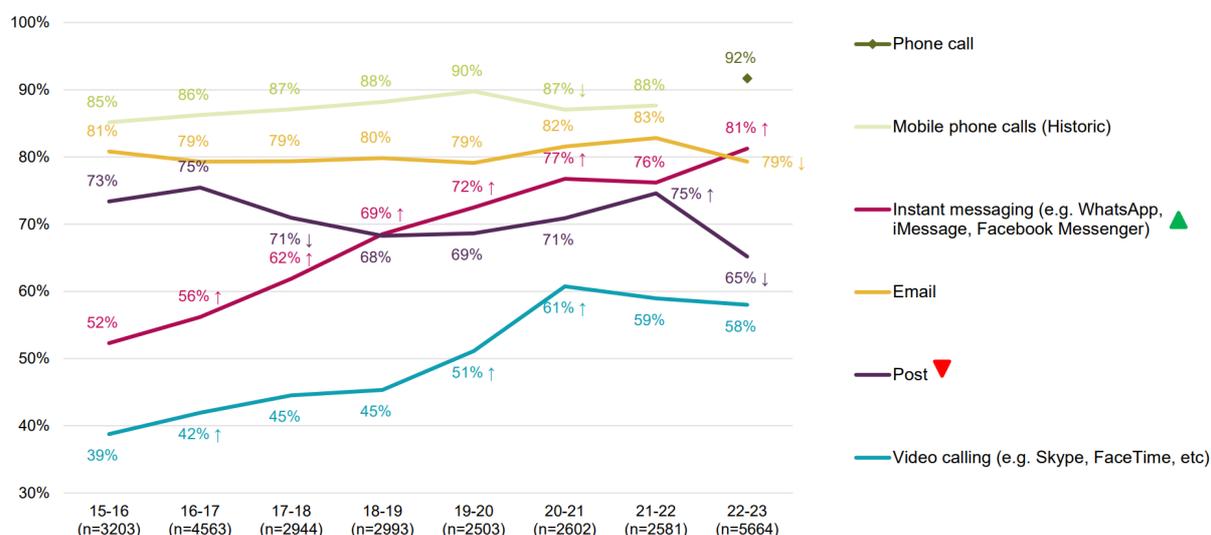
⁷⁵ Jigsaw, 2023. [Residential Postal Affordability Research](#).

⁷⁶ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#). Yonder, 2023. [Consumer Survey Research on Post](#).

⁷⁷ Yonder, 2023. [Consumer Survey Research on Post, slide 5](#).

⁷⁸ Ofcom [Residential Postal Tracker, 2022-23, QC4](#).

Figure 5.1: Importance of channels used to communicate with friends and family – trends 2015-16 to 2022-23



Source: Residential Postal Tracker, QC4: Thinking about how you communicate with friends and family, how important to you are each of these channels of communication? Text messages were Essential/Fairly Important to 88% and social media to 58% (not shown on chart). Base: All participants (on even months) - Sample sizes shown on chart.

5.6 Three quarters of postal users (74%) say that they are reliant on the post for sending and receiving letters and cards. Reported reliance is higher among the oldest age groups (65+, at 83%) and lowest among the youngest (16-34, at 65%). Reported reliance on the post for this purpose is also higher among those who are housebound than those who are not (80% vs 73%).⁷⁹

5.7 Postal services play a social role as well as a functional role for some user groups. Our research indicated the following areas were particularly important:

- **Connection:** for some users, especially for the elderly and less mobile, post is a vital tool to connect with the outside world and maintain contact with their families and relatives – 57%⁸⁰ of users said they would feel cut off from society without being able to send and receive post.⁸¹ Royal Mail postal workers also play an important role as for some users, they are considered as a regular and familiar visitor helping them to ensure the continuity of this connection.
- **Reassurance:** some users feel more comfortable receiving hard copies of bank statements, financial documents or hospital appointments.
- **Personal/more meaningful interaction:** for some users, sending greeting cards, postcards and items still provide more of a genuine link to other people than other forms of communication.

⁷⁹ Ofcom Residential Postal Tracker, 2022-23, QD1.

⁸⁰ 57% overall but this is lower amongst the youngest adults aged 16-24 (44%) vs 69% of those aged 65+ and 75% amongst the oldest age group aged 75+.

⁸¹ Ofcom Residential Postal Tracker, 2022-23, QC3.

- **Citizenship:** some users view Royal Mail as a significant part of British culture and acknowledge there should remain a legal duty on the state (as delegated to Ofcom) to secure a universal postal service. This particularly includes older generations and less digitally connected users.⁸²

I think I could manage paperless. I think I could... but I don't know about e-cards and things like that. I don't think they bring any joy. So, I would still want to send a card or a letter to someone to let them know that I care... there's nothing better than something handwritten really.

Mobility Restricted, 60s, England



- 5.8 The research indicates that, overall, users still value the key principles of the USO, particularly universality, affordability, uniform pricing, and delivery of letters and parcels to the door (rather than to a central point):
- more than 90% of users agree that the price of sending letters and parcels should be kept affordable;⁸³
 - two thirds agree that Royal Mail should provide its services at the same price to all, regardless of where a letter or parcel is sent within the UK (uniform pricing);⁸⁴ and
 - 70% are unfavourable to the idea of letters being delivered to a secure locker in a central location instead of to the door, and 57% do not favour the idea of parcels being sent to a central location instead of to the door.⁸⁵
- 5.9 Users also, however, acknowledge the need for the USO to adapt to fit changing needs, particularly given changing use of letters which we discuss further below.

People are using letters less, but reliability of delivery (rather than speed) is more important

- 5.10 In line with the market data set out in chapter 3, the trend of fewer letters being sent and received is also reflected in user perceptions, as shown in our research data. Our Residential Postal Tracker asked postal users if they were sending more, less or the same amount of different types of mail as two years ago. For each of the eight types of mail asked about, the proportion of postal users saying that they are sending less than two years ago was higher than the proportion reporting that they are sending more. This was particularly the case for personal letters, formal letters to organisations and payments for bills, invoices and statements.

⁸² Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 16.

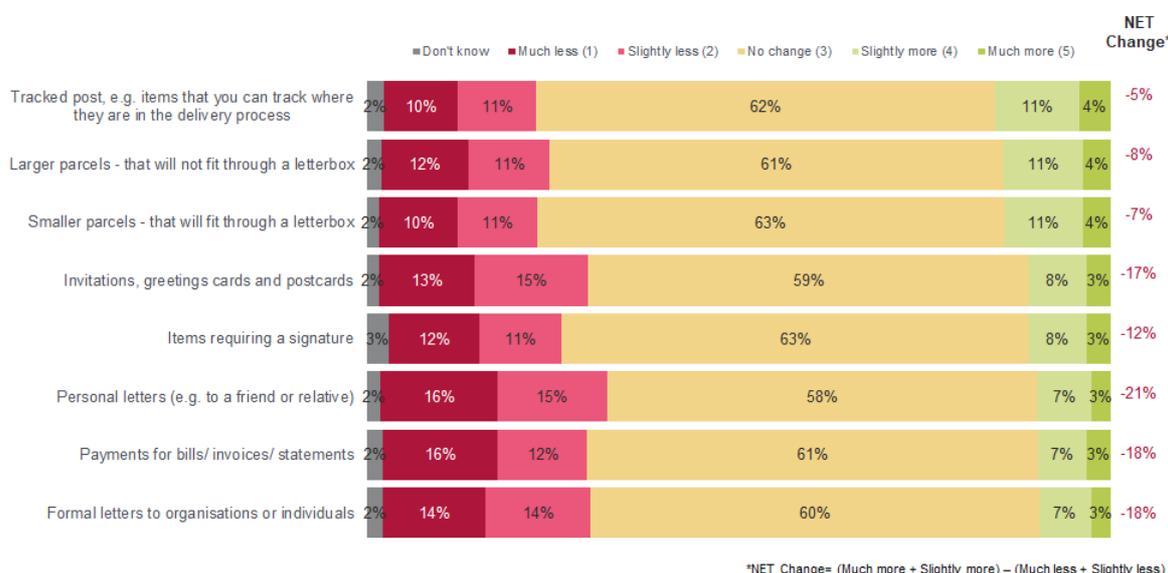
⁸³ Yonder, 2023. [Consumer Survey Research on Post](#), slide 10.

⁸⁴ Yonder, 2023. [Consumer Survey Research on Post](#), slide 18.

⁸⁵ Yonder, 2023. [Consumer Survey Research on Post](#), slide 16.

Figure 5.2: Postal users’ claimed change in frequency of sending different types of post compared to two years ago

Postage sending behaviour vs 2 years ago

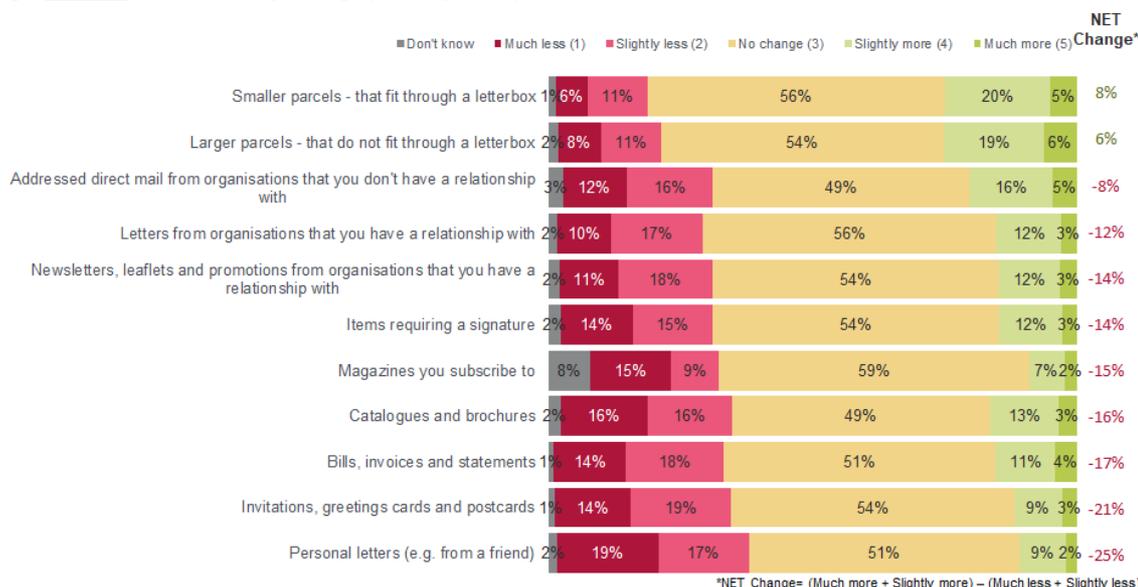


Source: Ofcom Residential Postal Tracker QG3. Thinking about these different types of mail, would you say that you now send them more or less often than two years ago? Or has there been no change? - NET MORE.
 Base: All participants 2022-23 (n=5564)

5.11 The picture is similar when looking at perceived changes in receiving mail compared to two years ago. However, the proportion of postal users saying that they are receiving fewer parcels than two years ago was lower than the proportion reporting that they are sending more – see Figure 5.3 below. Again, there has been a particularly large net decline in the number of personal letters reported to have been received compared to two years ago.

Figure 5.3: Postal users’ claimed change in frequency of receiving different types of post compared to two years ago

Postage receiving behaviour vs 2 years ago (Last 4 quarters)



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Source: Ofcom Residential Postal Tracker QE2. Thinking about these different types of mail, would you say that you now receive them more or less often than two years ago? Or has there been no change?

Base: All participants 2022-23 (n=5564)

- 5.12 Preference for using post as a way of communicating with businesses and other organisations has also declined over time. People are generally less likely to want to interact by post with organisations, including public services like their local authority or tax office than five years ago. The proportion saying they preferred post for communications from their local council or tax office declined from 62% in 2016-17 to 34% in 2022-23.⁸⁶
- 5.13 Most users only rely on receiving letters for receiving important documents (such as hospital appointments, passports and bank statements) when there is no other way to receive them. However, a small minority still prefer to have paper copies of financial statements (e.g. bills and bank statements) rather than digital alternatives due to their need for reassurance, or lack of digital skills and/or online access, and of course, for most people the delivery of important physical items by post such as identity documents (e.g. passports) is essential.⁸⁷

Passport renewals and things like that, you have to use the post... but otherwise, I'll just do it online really... I've pretty much gone paperless.

Mobility restricted, 60s, England



- 5.14 SMEs are also less reliant on letters, with nearly half (47%) reporting that they have moved some communications from letters to other communication methods within the past year.⁸⁸ However, some SMEs still contact some of their customers by letter, particularly those who are not online. Letters are used for direct marketing and invoices, contracts, and reminders for items that require a signature on receipt.⁸⁹
- 5.15 Users increasingly have a preference for using email rather than post, with 69% of residential users saying they prefer to send emails rather than letters whenever possible.⁹⁰ Cost is also an increasing factor, with 60% indicating they send fewer letters now due to the cost.⁹¹ Of those SMEs that have moved away from using post to communicate, 44% point to the cost savings generated.⁹²
- 5.16 Where postal users are sending letters or cards, they are increasingly using Second Class rather than First Class. In particular, more people are using Second Class most of the time (25% in 2022-23), or all of the time (11% in 2022-23, up from 6% in 2015-16) – see Figure

⁸⁶ Ofcom [Residential Postal Tracker 2022-23, QC2](#).

⁸⁷ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 27. See also Ofcom [Residential Postal Tracker 2022-23, QC3](#).

⁸⁸ Ofcom [SME postal user tracker survey 2022-23, QF4](#).

⁸⁹ Ofcom [SME postal user tracker survey 2022-23, QS1a](#).

⁹⁰ Ofcom [Residential Postal Tracker, 2022-23, QC3](#).

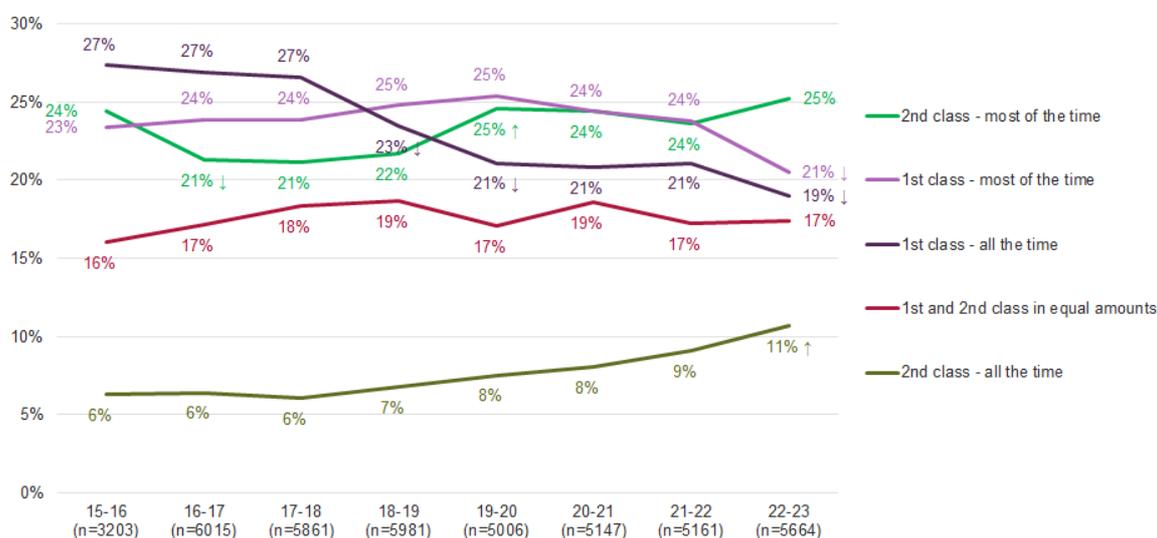
⁹¹ Ofcom [Residential Postal Tracker, 2022-23, QC3](#).

⁹² Ofcom [SME postal user tracker survey 2022-23, QF6](#).

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5.4 below. Fewer people are using First Class all the time compared to 2015-16 (19% vs 27%).

Figure 5.4: Services used when sending letters or cards – trends from 2015-16 to 2022-23



Source: Ofcom Residential Postal Tracker. QH8 (old QF7).

- 5.17 For most users sending letters, the reliability and certainty of arrival is considered more important than speed of delivery, as long as there is a next day option available for occasional use (e.g. Special Delivery). Examples of when a next day option was necessary included greetings cards that the user is late in sending (e.g. for a birthday), and when items are particularly important and/or urgent, but these occasions were considered rare. For this reason, users were typically less price sensitive on these occasions.⁹³
- 5.18 Our qualitative research, conducted in 2019⁹⁴ and 2023⁹⁵, provides us with a clear understanding of the relative importance to users of different elements of the postal service. We found that users firmly assert that reliability is fundamentally important to them. When sending a letter, users need to be sure that it will arrive safely and have reasonable idea of when it will arrive. But there was strong acknowledgement from users that most letters were not urgent, so speed of delivery was rarely critical.
- 5.19 Our quantitative survey research provides further supporting evidence of the primary importance of reliability to users. Affordability and reliability had the highest ranking of postal characteristics by consumers (with 91% and 88% respectively of consumers ranked them important – compared to only 58% ranking Saturday delivery as important).⁹⁶

⁹³ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 31.

⁹⁴ Jigsaw, 2020. [UK Postal User Needs: Qualitative Research Report](#).

⁹⁵ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 31.

⁹⁶ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9.

- 5.20 Our 2020 research also found that, for SMEs, speed of delivery for letters also appears to be less important for SMEs than other factors such as confidence in the delivery time and the price.⁹⁷

Parcels are seen as an essential service, with increasing expectations of convenience and delivery speed

- 5.21 Online shopping and the use of online marketplaces for buying, selling and exchanging new and used items, accelerated by the Covid-19 pandemic and recent cost-of-living pressures, is playing an important role in consumers' use and expectations of the parcels market. Users now see parcels as an essential service, with the proportion of postal users saying that they are receiving fewer parcels than two years ago lower than the proportion reporting that they are sending more (8% net change for smaller parcels and 6% for larger parcels).⁹⁸
- 5.22 The most regular users of parcels in our research also acknowledge that their expectations have increased as competition continues to develop in the parcels market.⁹⁹ While most still use Royal Mail, there is an increasing use of competitors providing next day deliveries and lockers, and those with real-time tracking and convenient drop off/access points.¹⁰⁰

I don't know if dependent is the right word... it's just so convenient and most of the things just make my life easier. So being able to order something rather than think 'oh I'll be in town in three or four days so I might be able to find it [there]'.

Typical user, older, Cardiff



- 5.23 SMEs are also sending and receiving more parcels and tend to use Royal Mail's competitors more often than residential users.¹⁰¹ 30% of SMEs who send parcels said that they use an alternative to Royal Mail as their main provider.¹⁰² Price seems to be a key factor for SMEs in choosing between providers when sending parcels.¹⁰³

⁹⁷ Ofcom, 2020. [Review of postal users' needs](#). p. 27 and p. 37.

⁹⁸ Ofcom [Residential Postal Tracker 2022-23, QE2](#).

⁹⁹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

¹⁰⁰ Ofcom [Residential Postal Tracker 2022-23, Q1 and analysis from Q13 and I4. \(Old QD9\)](#).

¹⁰¹ Ofcom [SME postal user tracker survey 2022-23, QV5a.1 and QN1f](#).

¹⁰² Ofcom [SME postal user tracker survey 2022-23, QV5a.1 and QN1f](#).

¹⁰³ Ofcom [SME postal user tracker survey 2022-23, QD10a](#). See also slide 12 of the [report](#) published alongside our Post Monitoring Report 2023 (QRM3 and QOP2).

Users who are more reliant on post still have similar delivery needs to the majority

- 5.24 As part of our 2023 qualitative and quantitative research, we also sought to understand whether use of, and reliance on, postal services differed for particular groups of users. In particular, the research looked at people with disabilities (such as restricted mobility, being deaf or with severe hearing loss); older people; people without access to the internet; those in a rural or remote location; and people on a low income – these groups were described as ‘vulnerable’ for the purposes of our research.¹⁰⁴ Overall our research found that while some of these groups indicated an increased reliance on postal services, for most groups (with some exceptions) their delivery needs were similar to ‘typical’ users.
- 5.25 Our Residential Postal Tracker also provides some insight into this area. It found that those who are housebound are more likely than average to consider post an essential or important form of communication with friends and family (72% vs 65%). They are also more likely than average to agree that they would feel cut off from society if they could not receive post (64% vs 57%).¹⁰⁵
- 5.26 Our Residential Postal Tracker also indicates that older users are more likely to see post as important. For example, while nearly three in five postal users (57%) report that they would feel cut off from society if they could not receive post, there is significant variation by age: 75% of users aged 75+ agree with this, compared to 44% of those aged 16-24.¹⁰⁶ Similarly, the oldest users are considerably more likely than the youngest users to consider that post is an essential or fairly important channel of communication to communicate with friends or family (77% vs 55%).¹⁰⁷

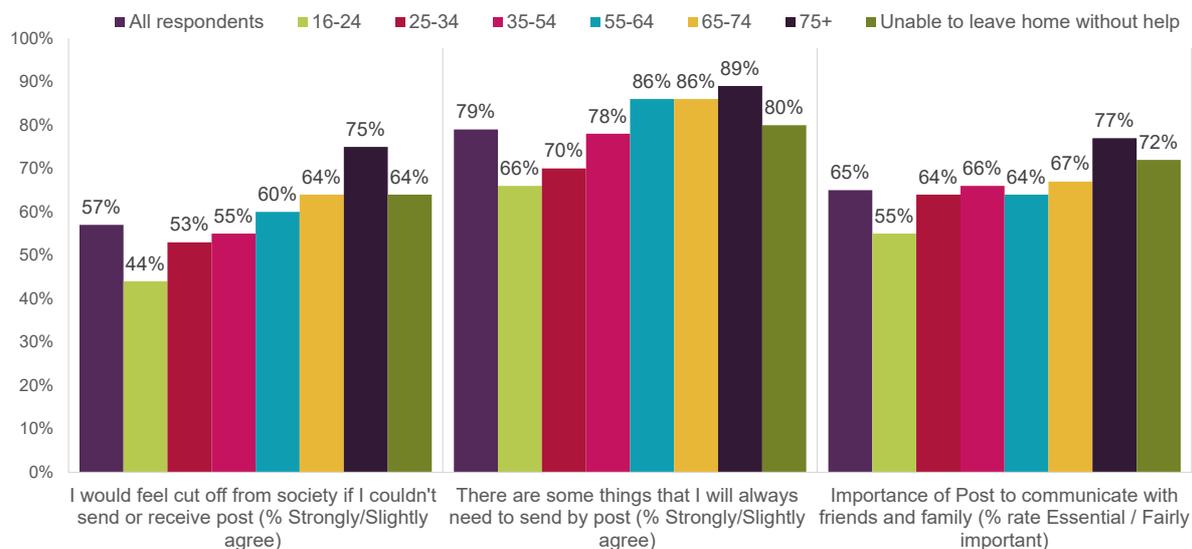
¹⁰⁴ We note that, of course, not all consumers in these groups are vulnerable or would consider themselves vulnerable. However, we have used this term for ease of reference throughout this section.

¹⁰⁵ Ofcom [Residential Postal Tracker 2022-23, QC3 and QC4](#).

¹⁰⁶ Ofcom [Residential Postal Tracker, 2022-23, QC3](#).

¹⁰⁷ Ofcom [Residential Postal Tracker, 2022-23, QC4](#).

Figure 5.5: Stated importance of post by age and mobility



Source: Ofcom Residential Postal Tracker 2022-23. QC3 and QC4.

- 5.27 The 2023 qualitative research looked at which groups were ‘dependent’ on postal services (both letters and parcels), i.e., they would genuinely struggle to get by and take part in society without access to post. Overall, we found that users in the ‘vulnerable’ groups were more likely to consider themselves dependent on postal services, although dependency did not necessarily equate to increased usage.
- 5.28 The research also found that those with no/low internet access or usage and older users were more likely to be reliant on letters. However, those who are deaf or have hearing loss, and those on a low income reported similar levels of reliance to typical users. Reported reliance on parcels in the ‘vulnerable’ user groups was not notably higher than typical users, except for those with restricted mobility.¹⁰⁸
- 5.29 The 2023 qualitative research identified that users in these specific groups could be dependent on post for a number of reasons:
- Those without internet access** are less able to use digital alternatives without support from others, and are more reliant on postal services for ‘official’ letters, for example from a local authority, the NHS or a bank. However, these users were typically happy to use the phone to communicate with companies where possible, or to rely on friends or family to facilitate internet use where required. These users also feel more confident with physical copies of documents. The research also found that this group particularly values sending personal post (for example, letters and birthday cards) as this provides a sense of connection.
 - Users with **mobility issues** typically spend more time at home and are more reliant on communications services in general as a means of connection with others. As they can find it harder to get out to the shops, they are more reliant on online shopping (and

¹⁰⁸ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slides 17 and 18.

therefore receiving parcels that are likely to be business to consumer parcels rather than USO parcels). These users also rely on letters to be notified of hospital appointments or about any benefits they receive. For these users, postal services support emotional wellbeing – they reported, for example, looking forward to deliveries and the human contact provided by a postal worker coming to their door.

- c) Those in **rural and remote areas (and those in Northern Ireland)** have both greater reliance on online shopping and fewer options in terms of alternative parcel providers and may rely more on Royal Mail as a result, though there was no material difference from other groups with respect to letter services they said they needed. They did consider the existence of postal services important in addressing feelings of isolation (e.g. because they often have limited mobile coverage).
- d) **Older users** tended to value the physical nature of letters more than other groups – for example, because they considered them to be more secure and have a lower chance of going missing. They also tended to feel a strong sense of comfort and familiarity with the post, and appreciated the human element of the postal service – for example, with postal workers at their door, or Post Office staff.¹⁰⁹

5.30 Our research (and research by consumer groups) has also found that some vulnerable users are more likely than average to report potential affordability issues – specifically, disabled users and those on the lowest incomes.¹¹⁰ Our 2023 qualitative affordability research identified that while current prices are affordable for most, for a minority of vulnerable consumers, sacrifices needed to be made in order to purchase postal services. This was particularly true for those with certain overlapping sets of circumstances (for example, being on a low income and lacking digital skills or confidence).¹¹¹

5.31 There are also some vulnerable users whose needs may not be being met through current availability of postal services – in particular, in order to benefit from the USO and postal services in general, people need an address where they can safely receive important letters (for example, from government organisations or housing associations). Those without safe access to a fixed address (for example, because they are homeless, or a victim of domestic abuse), may therefore not be able to access all of the postal services they need. We are aware of schemes in other countries which aim to provide a way of receiving letters for people in these circumstances.¹¹²

¹⁰⁹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slides 19-23.

¹¹⁰ Ofcom [Residential Postal Tracker 2022-23, QG2](#). See also section 5 of the [Statement on the Review of the Second Class Safeguard Caps 2024](#).

¹¹¹ Jigsaw, 2023. [Residential Postal Affordability Research](#), section 4.4.

¹¹² For example, in 2019, the USP in Ireland (An Post) launched Address Point. This is a free service that provides a fixed address (which is a selected post office) to receive post for 20 days. Australia Post also offers a free PO Box for victims of domestic violence or a redirection for a period of time.

Most users are willing to consider a slower letter service provided delivery is reliable

- 5.32 Taking into account the above findings on users' changing use of and expectations of post, as part of our 2023 qualitative research we asked people if they were willing to consider changes to the current USO specification.
- 5.33 We found that most users are willing to consider a reduced number of days for letter collection and delivery, because it was felt that most letters are not urgent.¹¹³ Some participants also suggested alternative options such as having a combined First and Second Class (i.e. one delivery speed option), to help keep prices down. The research also identified that receiving letters every 2-3 days would be acceptable for the majority, including most 'vulnerable' groups. Users were also generally happy not to receive post at the weekends as they are unlikely to engage with post during that time. In our 2020 research, users regarded the continued availability of Special Delivery (next day) as essential, particularly in a scenario where there was only a slower, single class letters product offered and we have no reason to consider this has changed.¹¹⁴
- 5.34 The 2023 findings build on our 2020 research which found that a reduction in delivery frequency of letters from 6 days a week to 5 days a week would have a very small impact on users and would continue to meet the needs of virtually all users, including across a wide range of residential demographic subgroups. However, a reduction in delivery frequency to 3 days a week was found to meet the needs of a smaller proportion of users.¹¹⁵ There was limited variation in responses from vulnerable consumers, with the exception of disabled consumers. The 2020 research also found that higher volume letter senders were slightly less likely to say that their needs would be met by a 3 day a week service.¹¹⁶
- 5.35 We also found that change in delivery frequency to 3 days a week would have a greater impact on SMEs than on residential users.¹¹⁷
- 5.36 Our 2023 quantitative research found that the proportion of postal users saying it is important to have letters delivered to their home 6 days a week has reduced since 2020 (63% vs 68%). There was also a reduction in the proportion of postal users who said it was important that letters are delivered to their home on Saturdays (58% vs 63%).¹¹⁸

¹¹³ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9. Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slides 47-49. We note that reduction in speed or delivery days would impact some users meaning there remains a need for a next day service for occasional urgent items – see slide 47.

¹¹⁴ Ofcom, 2020. [Review of postal users' needs](#), p. 75.

¹¹⁵ Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#), Figure 62. Study shows, at that time, letter delivery 6 days per week would meet the needs of 98.1% of users, 5 days a week (excluding Saturday) would meet needs of 96.8%, 4 days a week 90.2% and 3 days a week 84.5%. Modest differentials suggest flexibility is available below current service levels set in the Postal Services Act 2011.

¹¹⁶ Ofcom, 2020. [Review of postal users' needs](#), paragraph 5.54.

¹¹⁷ Ofcom, 2020. [Review of postal users' needs](#), Figure 18.

¹¹⁸ Yonder, 2023. [Consumer Survey Research on Post](#), slide 10.

I think most people would be accepting of a delivery of letters maybe only once or twice a week, but Royal Mail just needs to be transparent about that and say that...and people would just need to get organised.

Typical user, older, Aberdeen



- 5.37 When asked about parcels, however, most users indicated that the current USO requirements for parcels met their needs, and some suggested additional product features to improve convenience. Some users were looking towards ever greater service levels such as collections and deliveries at the weekends and improvements in flexibility of receiving parcels – but they also recognised that the wider market is delivering some of this. Users who were dependent on parcels requested additional features such as an option to register their vulnerability or improvements to ensure a smoother service, while maintaining the parcels USO requirements.¹¹⁹
- 5.38 Users (both typical and in the ‘vulnerable’ groups) now make a clearer distinction between what they need from the USO with regard to letters and parcels, and therefore which changes they would be willing to accept. Most users in the ‘vulnerable’ groups (similar to typical users) were open to reductions in the frequency of collection and delivery of letters, but they were more protective of requirements for parcels.¹²⁰
- 5.39 A minority of users in the ‘vulnerable’ groups were more reluctant to support change to the USO. For instance, those most reliant on letter delivery (for example, older users) referred to the importance of official letters such as those about hospital appointments, and therefore the importance of letter delivery six days per week. Those reliant on parcels due to mobility issues or not having access to alternative providers (such as in Northern Ireland) were also concerned about losing out in the event of potential USO changes.¹²¹

Conclusion

- 5.40 Overall, our research evidence shows that people’s use and expectations of the universal postal service has changed. The key principles of the USO are still valued and post remains an essential service, but people are sending and receiving fewer letters, and parcels are becoming more important. For those items that people still need to send by letter, reliability of delivery (and affordability) is a key priority, whereas speed and frequency of delivery are seen as less critical.
- 5.41 The research indicates that most letters do not need to be delivered the next day and user needs would continue to be met by changes to the specification of the letters USO that

¹¹⁹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slides 32 and 54.

¹²⁰ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 47.

¹²¹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 47.

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involve longer delivery windows, provided the service is reliable and they can have confidence that letters will arrive by the promised date. For parcels, most users indicated that the current USO requirements meet their needs, reflecting how parcels are increasingly important to people's daily lives and the expectations of parcels service levels and product features have risen accordingly.

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

6. Bulk mail

The purpose of this chapter:

- This chapter explains the importance of bulk mail (which is not part of the USO specification) to consumers, large businesses, and to the financial sustainability of the USO.

In brief

- Bulk mail letters are sent by large organisations (e.g. public services and businesses) which send high volumes of letters. Bulk mail is important to consumers as these letters are often highly valued and need to be delivered in a timely way (for example, hospital appointments, fines and court documents). These letters are one of the main reasons that users think a universal and reliable postal service is important.
- While bulk mail is not part of the USO specification (which encourages competition in elements of the service), it is delivered using the USO network and it is important that a national network is in place to convey these letters.
- Bulk mail letters make up the majority of all letters sent and the access market, whereby another operator collects and typically sorts bulk mail before injecting it into Royal Mail's network, accounts for a significant portion of Royal Mail's revenue, which helps to support the sustainability of the USO.
- In line with the trend for USO letters, the volume of bulk mail is also in decline and we expect that to continue. While a complete shift to digital communications is unlikely in the short to medium term, factors such as prohibitive costs or uncertainty and unreliability could accelerate large users' migration plans.
- If the USO specification is changed, for example, in relation to delivery frequency and/or product speeds for letters, Royal Mail is likely to seek to replicate those changes in the bulk mail market, including in the access services it provides. This could lead to changes in large mail users' behaviour and, depending on the extent of any USO changes, we may therefore need to review the access obligations that apply to Royal Mail.
- We recognise the importance of understanding the impact of changes to the USO on large users' behaviour. A reformed USO will still need to meet users' reasonable needs and support the provision of reliable and national bulk mail services.

Introduction

- 6.1 Bulk mail refers to mail sent in large volumes, typically by large organisations. This market is distinct from single-piece mail services, such as those included in the USO.¹²² Royal Mail offers wholesale bulk contracts to large users on a commercial basis and it is also subject to access regulation. This requires it to open its network to other mail operators. These mail operators (or ‘access operators’) are able to collect and sort bulk mail before handing it over to Royal Mail for ‘final-mile delivery’. This means bulk letters are delivered by Royal Mail postal workers on their usual rounds and, for most recipients, are indistinguishable from USO letters.
- 6.2 Bulk mail represents the majority of all letters that users receive. These letters are sent by large organisations and companies and include both commercial communications, such as advertising campaigns or publications, as well as those from government and public services, such as local councils, His Majesty’s Revenue and Customs (HMRC), the Department for Work and Pensions (DWP), the courts and the NHS. These letters are often important because they contain information which must be acted upon or contain an item recipients want to receive (e.g. a new bank card or magazine). Some are also time-sensitive (e.g. hospital appointments, requesting payment by a deadline, or the issuing of a fine).
- 6.3 Bulk mail is an important revenue stream for Royal Mail, both in terms of the wholesale services it offers to large users directly, and from the income it receives from access operators who pay for Royal Mail to deliver through its final mile network. This income supports the financial sustainability of the universal service; as both bulk mail and USO services use the same network, costs can be shared.
- 6.4 Although bulk mail is not included in the USO, because it uses the same delivery network and offers the same frequency of delivery days (currently 6 days a week for letters), the requirements of the USO largely align with how Royal Mail manages and delivers bulk mail. Therefore, any changes to the USO would have an impact on how bulk mail is delivered and Royal Mail is likely to want to emulate any changes to the USO specification to the bulk mail market in order to achieve maximum cost efficiencies.

Regulatory framework – Ofcom’s rules

Current regulation

- 6.5 Ofcom’s current access regime imposes a universal service provider access condition on Royal Mail to provide certain wholesale bulk mail services.¹²³ Royal Mail is required to offer

¹²² The term ‘Bulk mail’ describes large volumes of letters and/or parcels subject to discounts relating to volume, format and pre-sortation. It includes all access mail and bulk mail contracts that Royal Mail has directly with large mail users. It is a separate service from single-piece mail which is defined in the Order as a postal service for the conveyance of an individual post packet to the addressee, for which the price per postal packet is not subject to any discounts (for example, because of the volume of items sent).

¹²³ Section 38 of the Act allows Ofcom to impose a USP access condition if it appears to be appropriate for promoting efficiency, promoting effective competition and conferring significant benefits on the users of postal services (for example, motivation to improve efficiency for the entire network). Ofcom may also impose price controls if there is a risk of the universal service provider setting excessively high prices or imposing a price squeeze.

access at its Inward Mail Centres to other postal operators and customers for certain letters and large letters, which facilitates a routing time (at the retail level) of two working days or later. These services are referred to as 'D+2 access'. 'D+2 access' means collection on 'D', sortation and injection into Royal Mail's delivery system on D+1, and delivery on D+2.¹²⁴

- 6.6 Royal Mail also offers D+5 access products to meet large mail users' requirements for a cost-effective service where there is less time dependency for delivery. These services, introduced in January 2021, defer the mail until there is another item already being delivered to the recipient's address, subject to a maximum of four working days after it enters the network.
- 6.7 To date, we have allowed Royal Mail to have commercial and operational flexibility to set the terms, conditions and charges of its access services, but subject to some important safeguards. These safeguards include a requirement on Royal Mail to provide access on fair and reasonable terms, conditions and charges; to comply with a control to prevent a price squeeze; and publish such information as is reasonably necessary for the purposes of securing transparency as to the QoS of its downstream access services.¹²⁵
- 6.8 We note that our current approach to access regulation has been largely determined by the existence of the USO, notably, the obligations on Royal Mail to support a national network and meet particular QoS standards. Given the obligations on Royal Mail to offer to deliver letters to all addresses across the country 6 days a week, it has aligned its access mail offering. We could, however, mandate particular access products or terms, if there were evidence to suggest that changes to the specification of the USO would have a negative impact on the access market, such as undermining competition, to the detriment of mail users. Similarly, as noted below, if we had concerns about the QoS offered by Royal Mail in relation to access mail, we could introduce specific access performance requirements.

Quality of service targets for access

- 6.9 Bulk mail is not subject to the same QoS targets as USO services. However, access mail, which represents the majority of bulk mail, is subject to commercially agreed service standards. As part of these service standards, Royal Mail is contractually required to deliver 95% of D+2 access mail on the working day following the date it is handed over to Royal Mail and 97.5% of D+5 access mail within four working days after handover. It is liable to pay compensation to access operators if its performance drops below an agreed level (90% for D+2 and 92.5% for D+5).¹²⁶
- 6.10 While we do not set access QoS targets or the terms on which compensation should be paid, we recognise the importance of transparency regarding access performance. Therefore, we require Royal Mail to publish all such information as is reasonably necessary for the purposes of securing transparency as to the QoS it provides in relation to D+2 and

¹²⁴ 'D+X' (e.g. D+1, D+2, D+5) means the total time between the sender sending the postal packet, and it being delivered to the recipient. For example, D+2 refers to the scenario whereby a customer posts a letter on day 1 ('D') and it is delivered 2 days later i.e. on D+2.

¹²⁵ See [USP Access Conditions](#) for the full list of requirements.

¹²⁶ In contrast, Royal Mail's QoS targets are set at 98.5% for Second Class and 93% for First Class.

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D+5 access. This includes a specific requirement for Royal Mail to publish its QoS performance for bulk mail on a quarterly and annual basis.

- 6.11 Given bulk mail makes up the majority of letters sent, to date we have concluded that Royal Mail is sufficiently incentivised to offer and maintain levels of QoS that meet customers' requirements. Nevertheless, we recognise that, as with USO QoS, access QoS has deteriorated in recent years and been impacted by events such as the Covid-19 pandemic and periods of industrial action.¹²⁷
- 6.12 Currently, given Royal Mail's access and USO services are largely processed in the same way, the QoS performance for each aligns, in that a similar trend is seen in USO D+1 and access D+2 QoS results. We note that this could change in future if the specification of the USO were adapted and this may require a review of our broader regulatory regime, including access.¹²⁸

Market developments

- 6.13 As with the letters market more broadly, the volume of bulk mail is in decline and much of this is due to an increase in e-substitution as bulk mailers migrate to digital alternatives.¹²⁹ As Royal Mail's delivery network conveys both USO and bulk mail, this decline impacts on the financing of the USO. Currently, there are a range of market factors that discourage a rapid acceleration in e-substitution (compared to the historical structural decline in volumes), however, these could change in future and an acceleration in e-substitution trends could place further strain on the financing of the USO as currently specified.
- 6.14 Royal Mail is currently the only major end-to-end letter delivery network in the UK. However, competition in the bulk mail market remains strong and there are at least 10 access operators which use Royal Mail's delivery network to compete for large business customers.¹³⁰
- 6.15 A significant majority of all addressed mail is bulk mail and access mail continues to represent the majority of letters sent, (5.1 billion items, representing 70.4% of letters sent in 2022-23).¹³¹ Payments made to Royal Mail by access operators decreased by 6.7% to £1.5bn in 2022-23 (when taking inflation into account), while reported revenues retained by access operators stood at £0.1bn.¹³²
- 6.16 As noted above, Royal Mail introduced a slower D+5 economy access product in January 2021. As of Q4 2022-23, broadly a third of access letter volumes were D+5, with the

¹²⁷ Royal Mail has not met its quarterly access QoS target since Q3 2019/20, the outset of the Covid-19 pandemic, and Royal Mail has not achieved either of its First Class and Second Class quarterly targets since Q1 2020/21. However, QoS performance since before the pandemic for D+2 access services has been, for the most part, consistently above the 95% contractual service level. Since Q1 2016/17, the only other time D+2 access QoS has fallen below 95% for a sustained period is during the final three quarters in 2017/18, which was when the UK experienced severe weather conditions (i.e. the 2018 'Beast from the East').

¹²⁸ These potential implications are discussed in chapter 9.

¹²⁹ See chapter 3 paragraphs 3.7-3.8.

¹³⁰ Based on data for the 2022-2023 [Post Monitoring Report](#).

¹³¹ Ofcom calculation based on Royal Mail's data and access operator returns. Includes election mail and excludes international mail. Ofcom, 2023. [Post Monitoring Report](#). p. 10.

¹³² Ofcom, 2023. [Post Monitoring Report](#). p. 10.

remaining volumes predominantly D+2.¹³³ While we acknowledge that some of this recent movement has been motivated by the fact Royal Mail's QoS has been below target for D+2 since Q4 2019-20, we consider that it is further evidence that many bulk mail items are not time-critical.

- 6.17 An important driver of letter volume decline to date is the migration of bulk mail users to digital methods of communication (i.e. e-substitution), particularly online services/transactions, email and/or apps. As indicated in chapter 3, expansion of faster networks and developments in technology have resulted in improved connectivity and most people use digital communications methods and are comfortable using them.¹³⁴ For example, our Residential Postal Tracker demonstrates that the proportion of consumers that prefer to receive post from organisations continues to decline, and that this decline is significant for correspondence from local councils/tax offices (in 2016/17, 62% of respondents said they would prefer to be contacted by their local council via post, in comparison to 34% in 2022/23).¹³⁵
- 6.18 However, as noted in chapter 3 there remain consumers who do not have access to the internet and those that are not interested in being online or who may lack the digital skills and/or confidence to navigate the internet confidently and safely.¹³⁶ In addition, some consumers prefer to receive particular communications in hard copy via post.
- 6.19 There are also practical barriers that prevent large users from fully migrating to digital communications. These include their ICT system limitations, having customers' email addresses/mobile numbers and/or their consent to use digital channels. In addition, where an occupier of a household is unknown, some items can only be sent to the address (for example, council tax bills, TV licensing letters and electoral roll updates). There also continues to be a need to send physical items such as bank cards, identity documents and hard copy publications, such as magazines. However, while there will be significant demand for some time, we expect volumes to continue to decline as senders and receivers move to digital alternatives (i.e. mobile wallets/corporate apps on smartphones, digital identity solutions, and digital magazine subscriptions).
- 6.20 Many public bodies send a large volume of bulk mail. However, a large number are implementing digital strategies to modernise their operations and make efficiencies. We observe that, as a result of the Covid-19 pandemic, some public bodies rapidly introduced new digital processes to complement those which previously solely involved consumers using post as part of the transaction.¹³⁷ Digital strategies will gradually reduce the volume of letters which public bodies send (and consumers send as part of the transaction) over

¹³³ Ofcom, 2023. [Post Monitoring Report](#). p. 11.

¹³⁴ Chapter 3, paragraphs 3.1-3.3.

¹³⁵ Ofcom [Residential Postal Tracker, 2022-23, QC2](#).

¹³⁶ Chapter 3, paragraphs 3.4-3.5.

¹³⁷ For example, in June 2020 the DVLA introduce an online service for updating addresses on vehicle log books (which could previously only be done by post). It took them six weeks to do this. [DVLA's IT transformation – our story so far](#).

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time, in favour of digital services.¹³⁸ However, public bodies are all at different stages of progress and strategies will take time to implement. Post will also remain an important backstop channel for those who do not want to, or cannot, use digital channels.

- 6.21 As discussed below in chapter 7, countries which today have the lowest volumes of letters per capita and have made the most radical changes to their USO specifications, often first experienced government-led digital transition initiatives to require or support the take up of digital communications. For example, in Denmark, since 2012, all citizens and businesses have been obliged to receive and read communications from public bodies using a digital post system.¹³⁹ In 2018, Denmark moved to delivery once a week for letters, and in 2023 it signalled its intention to discontinue its postal USO (with a few exceptions).¹⁴⁰ Norway introduced a similar digital mail box scheme in 2011 and in 2020 moved to letter deliveries 2.5 days a week.¹⁴¹ Belgium introduced an eBox system in 2019 for government documents and moved to letter deliveries for most letters 2.5 days a week in 2020.
- 6.22 Overall, while we expect the long-term declining trend in bulk letters to continue as large users continue to migrate to digital communications in an effort to reduce costs and align with consumers' changing preferences, we believe that letters will remain an important communications method for large users for the foreseeable future, particularly for public services.
- 6.23 We explore potential options to change the specification of the USO in chapter 9 and consider what the impact of those changes would be on a range of users, including bulk mailers, in more detail.

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

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

¹³⁸ For example, the NHS in England, Scotland, Wales and Northern Ireland are all implementing strategies to make greater use of technology including improving digital communications with patients (often including via an NHS app). HMRC started its Making Tax Digital programme in 2015-16. [Overview of Making Tax Digital](#). 97% of people submit their tax return online. HMRC, 2023. [Self Assessment customers who file early doubles in 5 years](#). The DVLA has plans to further develop its digital services. [DVLA Strategic Plan 2021 to 2024](#).

¹³⁹ See more about the Danish Digital Post system: [About the National Digital Post](#)

¹⁴⁰ PostNord Denmark, 2023. [New postal law results in changes at PostNord Denmark](#).

¹⁴¹ A 2.5 day a week delivery model means that half of addresses receive USO letters on Monday, Wednesday and Friday on week one, and then switch to Tuesday and Thursday the next week, before reverting to the 3 day delivery pattern the week after. This means that each address receives an average of 2.5 deliveries a week. Alternate delivery models are discussed in more detail in chapter 9.

7. International experience

The purpose of this chapter:

- This chapter explains the experience of countries that have already adapted, or are in the process of adapting, the USO specification in their countries in response to changing user needs.

In brief

- Relevant authorities in many countries have recognised that the provision of letter services to original specifications is unsustainable, and that as a result there either needs to be additional funding to maintain the existing service levels, or the specifications need to be updated.
- Countries have responded in various ways. Some have applied and/or increased public subsidies for USPs. In addition to, or instead of, subsidies, others have made changes to the USO specification in terms of delivery frequency and/or product speeds for letters.
- We explore changes made in selected countries. From our engagement with counterpart regulators in several countries, we understand that, despite initial concerns raised when changes were proposed, users have adjusted and their needs appear to have been met by reformed USO specifications. Supporting this, our analysis of publicly reported letter volumes in Sweden, Belgium, Denmark, Italy and Norway found that USO changes have not led to any material change or step changes in letter volume decline beyond historic trends. This suggests that user needs have generally continued to be met, and most users have adapted.
- As countries around Europe and the world adapt the specification of their USO in line with the changing nature of consumer demand, the UK remains one of a small group of countries in which the USP is required to deliver letters 6 days a week and offer a mainstream high-volume next day (i.e. First Class) letters product.

Other countries have responded in a range of ways

- 7.1 Relevant authorities in other countries have responded to the change in demand for both letters and parcels in a number of different ways. They have taken action to meet a number of objectives: to adapt their USO specification to better reflect the needs of users; to help reduce the environmental impact of their USO; and to reduce the financial burden of their USO on their USP. The responses have often been specific to the conditions of each country, the ability of people and businesses to move increasingly to digital

communications alternatives and the extent of political support for considering changes to the USO specification.¹⁴²

Financial compensation paid to the USP

- 7.2 Several countries compensate their USPs financially in the event of an unfair financial burden arising from delivering the USO. Many European countries have in recent years requested approval of state aid to provide to their USPs so that they can continue to deliver services. This includes in Denmark, France, Italy, Poland and Spain.¹⁴³ It is important to note however that there are varying degrees of public (state) ownership of USPs across Europe, and that generally states are more willing to provide financing to state-owned USPs rather than ones which are privately owned.
- 7.3 Some countries are both providing financial compensation to their USPs and looking to adapt the USO specification to better meet the needs of users and USPs. For example, the Norwegian Government compensates its USP for the net cost of the USO (although Posten Norge is 100% state-owned). Since declining mail volumes are expected to continue to cause a financial burden, the level of compensation from the government is expected to increase over time. This has led the Norwegian Government to regularly assess what the appropriate specification of the USO should be and make progressive changes.¹⁴⁴
- 7.4 The regulatory authority in Belgium, BIPT, carries out a net cost calculation exercise which provides a route for BIPT to adjust the USO to avoid the need for subsidies. BIPT regularly reviews the costs of USO provision and if it finds an unfair burden on the USP, or a risk of an unfair burden, the USP can propose adjustments to the USO specification to the government that would avoid any net cost compensation. The USP can also at any time make a non-binding proposal to adjust the USO as user needs change.

Adapting Universal Service Obligations

- 7.5 Another way authorities have responded to the challenges brought by recent developments in the postal market across the world is by adapting the specification of their USOs, so that they better reflect the needs of users and reduce the costs of USPs.
- 7.6 Member States of the EU are subject to the Postal Services Directive (PSD)¹⁴⁵, which limits the scope of changes that can be made to a domestic USO, although exemptions do allow for derogations from certain obligations.¹⁴⁶ Member States have had to have regard to these limitations when amending their USO specifications in response to changes in user needs and developments in postal markets.
- 7.7 The European Regulators Group for Postal Services (ERGP) reports that twenty of its 27 member countries have made some changes to the specifications of their USOs in the past

¹⁴² See annex 5 for more details on the changes that have been made to postal USO specifications in European countries.

¹⁴³ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p. 91.

¹⁴⁴ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p. 91.

¹⁴⁵ Postal Services Directive 97/67/EC, amended by Directives 2002/39/EC and 2008/6/EC.

¹⁴⁶ ERGP, 2023. [Report on the future needs of the USO](#). p 3.

ten years.¹⁴⁷ Furthermore, the European Commission has outlined a prospective study of the European postal sector that will assess the possible evolutions of the postal sector in the wake of recent crises and long-term structural trends, and the possible effects of changes to the EU regulatory framework.¹⁴⁸

- 7.8 To inform this document we have engaged with relevant authorities in countries where they have made changes to their USO, particularly those which have similar challenges and/or market characteristics to the UK. We have heard that, where changes have been made, consumers in several countries initially expressed concern but, as changes have been implemented, few issues have been raised and postal markets have not collapsed. This is supported by analysis we have carried out of letter volumes before and after USO changes in a group of countries, in which we looked for shocks which could point towards extreme reactions by users to USO changes, such as, for example, dramatic cut-back in the use of letters services. We found no indication that changes to USO specifications had significantly affected volumes. Instead, letter volumes maintained their historic rates of decline, indicating neutral attitudes to changes.¹⁴⁹

Changes to delivery speed for letters

- 7.9 Authorities in many countries have changed the products in their USO specifications in recent years. This includes the removal of priority letters (equivalent to First Class) in Denmark, Norway and Sweden in 2018.
- 7.10 In January 2023, La Poste (the French USP) introduced a new catalogue of USO products. This slowed the delivery speed of its main letter product to a D+3 delivery timeframe, reduced from D+2. In addition, La Poste no longer offers a conventional priority letters product. D+1 letter services are now only offered as e-letters – a hybrid product in which the customer orders and submits the contents of the letter via La Poste’s website. This is then printed locally and delivered in physical form the next day. For customers who are not online, La Poste offers the option of sending e-letters from a post office using an automated machine or with the help of an advisor.¹⁵⁰ From October 2023, postmen are also able to scan letters at customers’ homes for delivery via e-letter.¹⁵¹
- 7.11 Many other countries have also reduced or adjusted the required speed of delivery for USO letter products, including Sweden in 2018, Belgium in 2020 and 2022, Norway and Denmark twice each since 2016, and Japan in 2021.

Changes to frequency of delivery for letters

- 7.12 Often in parallel with changes to delivery speed for letters, some countries have changed the frequency of delivery for non-priority letter services to reflect the declining nature of

¹⁴⁷ ERGP, 2023. [Report on the future needs of the USO](#). p 37.

¹⁴⁸ European Commission, 2023. [Slides for Stakeholder workshop on the prospective study of the European postal sector](#).

¹⁴⁹ We reviewed annual reports or official websites/announcements of the designated USPs in Sweden, Belgium, Denmark, Italy and Norway.

¹⁵⁰ La Poste, 2022. [La Poste is modernising its mail-service range to meet new customer needs and reduce its carbon footprint](#).

¹⁵¹ Le Parisien, 21 September 2023. [www.leparisien.fr/economie/consommation/e-lettre-rouge-la-poste-va-permettre-aux-facteurs-de-scanner-les-lettres-urgentes-21-09-2023-RQFJTOSI5C7BJCEACPDW6UFWQ.php](#)

this market. In several of these countries, the USP was previously required to deliver letters 6 days a week. This was then changed to require delivery 5 days a week. This was the case in the Netherlands in 2014, following a request for compensation from PostNL (the Dutch USP) to the Dutch government, which then reduced the requirement for delivery to 5 days a week (Tuesday to Saturday). In Japan, the requirement to deliver 6 days a week was reduced to 5 days in 2021, with the removal of Saturday deliveries.

- 7.13 Norway and Denmark have both reduced the frequency of delivery requirement in steps over time. Both changed from 6 to 5 days in 2016. In 2018, Denmark moved to one day a week delivery for standard letters. And in 2020, Norway moved to 2.5 days a week through an alternate day delivery model. In both countries, the government first introduced digital post systems (in 2011 in Norway¹⁵² and in 2012 in Denmark¹⁵³). This led to steep declines in letter volumes.
- 7.14 Before implementing alternate day delivery, the Norwegian Government commissioned Copenhagen Economics to carry out a study on the effects of changing the USO in Norway, which was published in 2017.¹⁵⁴ The study concluded that the USP would find the alternate day delivery model commercially optimal in the face of declining volumes, and that the impact on users would be very moderate.
- 7.15 Similar changes were implemented in Belgium in 2019. Priority mail, registered mail, parcels, and newspapers are delivered every day to every street or on every postal round. However, non-priority mail (including administrative mail and advertising) is delivered on alternate days to each area. The Belgian regulator, BIPT, conducted qualitative and quantitative user needs research before allowing for these changes, and has observed improvements in the QoS performance of the USP (Bpost) following implementation. Copenhagen Economics reports that Bpost has not noted any noticeable changes in user satisfaction following these changes.¹⁵⁵
- 7.16 The UK, France, Germany and Malta are the only countries in Europe in which the USP is required to deliver letters 6 days a week. Of these, the UK and Malta continue to offer a conventional First Class letters product.¹⁵⁶

¹⁵² www.norge.no/en/digital-citizen/choose-digital-mailbox

¹⁵³ lifeindenmark.borger.dk/apps-and-digital-services/Digital-Post

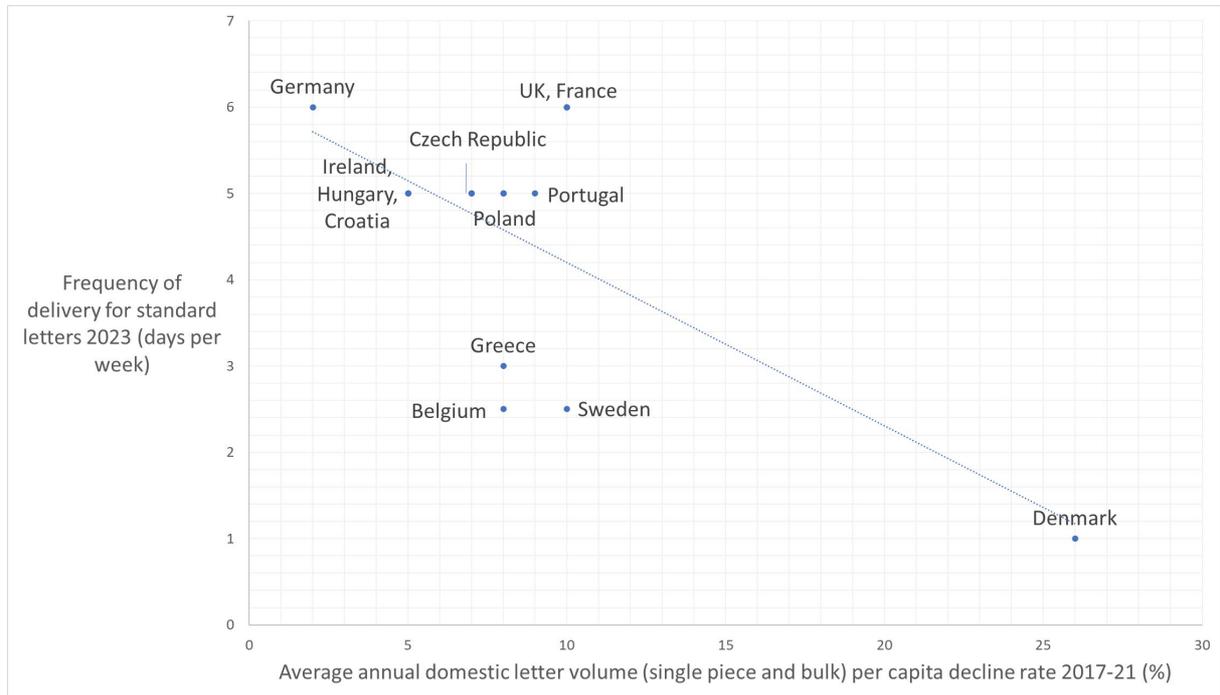
¹⁵⁴ Copenhagen Economics, 2017. [Effects of changing the USO in Norway, Final Report.](#)

¹⁵⁵ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p. 93.

¹⁵⁶ In Malta, the standard domestic letters product is D+1 (equivalent to First Class). There is no slower domestic product. Malta Communications Authority. [Overview of MaltaPost's USO.](#)

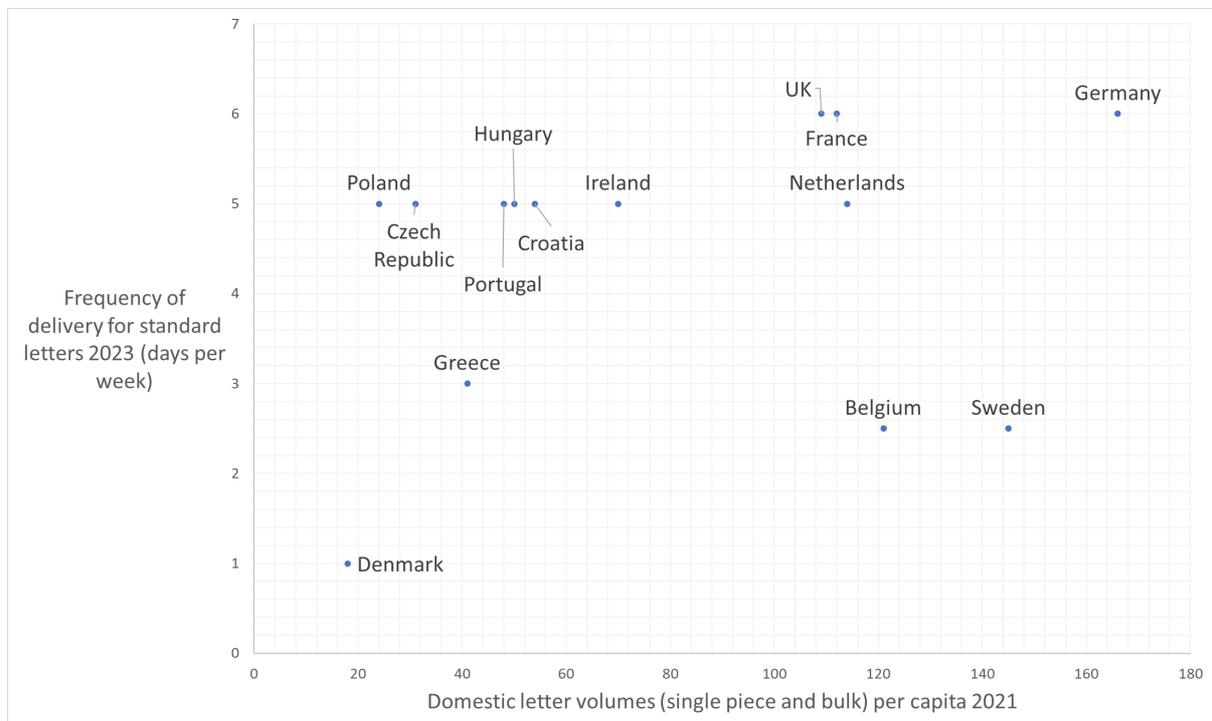
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Figure 7.1 Frequency of letter delivery in select countries vs average annual rate of decline per capita



Source: Copenhagen Economics, Main Developments in the postal sector, November 2022

Figure 7.2 Frequency of letter delivery in select countries vs domestic letter volumes per capita



Source: Copenhagen Economics, Main Developments in the postal sector, November 2022

Changes to quality of service standards

- 7.17 Changes to product speeds and frequency of delivery required by USO specifications have often been accompanied by changes to QoS standards. Many countries have required their USPs to adhere to higher QoS standards when reducing delivery speed and/or frequency, with many pointing to research that consumers prioritise reliability of letters services over speed of arrival (as we have found in our own consumer research). This was the case in France, where the government modified QoS standards when the product speed changes explained above were made (from 94% for D+2 to 95% for D+3). Greece also modified its QoS standards in 2021 from 87% for D+1 and 98% for D+3 to 90% for D+3 and 98% for D+5.
- 7.18 Other countries, such as Germany, have set their USPs comparatively low QoS standards for faster services, relative to the UK, but are now debating greater certainty for a slower service.

Countries actively considering USO reform

- 7.19 Several countries are currently considering changing their USO specifications. Three examples where we can expect change in the near future are set out below.

Germany

- 7.20 The postal market in Germany is unique in that no USP is designated by law. The market is regulated on the assumption that universal service will be ensured by market forces without intervention from the regulatory authority, BNetzA, although Deutsche Post has made a voluntary commitment to provide the universal service. BNetzA also requires adherence with comparatively low QoS standards – 80% for D+1 and 95% for D+2 single piece standard letters, 80% for D+2 parcels – but has limited powers to enforce these QoS standards. USO letters in Germany are delivered 6 days a week.
- 7.21 In early 2023, the German Ministry for Economic Affairs and Climate Action set out key principles for the first significant revision of the German Postal Act in over 20 years. Several of the proposals relate to the provision of USO services. These include adapting the product scope of the USO and extending routing times, recognising the environmental benefits of these changes. The proposals also recognise that consumers value reliability over speed for most letters and suggested increasing QoS targets above 80% for slower delivery speeds.
- 7.22 The Ministry proposed to strengthen the BNetzA's powers to ensure compliance with universal service requirements, in the form of regular quality checks and effective remedial powers where an undersupply of postal services occurs. It also proposed continuous modification of market regulation for parcels and letters, recognising the different competitive conditions for each, with adjustments made separately on a regular basis.

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- 7.23 Draft legislation implementing the proposals was published in December 2023.¹⁵⁷ This includes new QoS standards of 95% for D+3 and 99% for D+4 single piece standard letters.¹⁵⁸

Australia

- 7.24 In March 2023 the Australian Government published a discussion paper on the modernisation of postal services.¹⁵⁹ This outlined the significant deterioration of Australia Post's financial position and projection of growing losses over the next decade. It argued that Australia Post's Community Service Obligations were no longer financially sustainable nor well-targeted to meet the needs of consumers and proposed a wide range of changes to modernise the Australian postal service.
- 7.25 Among the proposals for letter services were allowing for increasing prices to enable Australia Post to recover the actual costs of providing services, relaxing delivery frequency requirements, and deregulating the priority letter service while maintaining a commercial bulk priority letter service. Australia Post is not subject to any regulatory requirements on the delivery of domestic parcels, but the paper discusses improving parcel frequency and delivery reliability.
- 7.26 In December 2023 the Australian Government announced several regulatory changes to be implemented nationally over 12 to 18 months. Under the changes regular letters and unaddressed mail will be delivered every second business day, although parcels, express and priority letters will continue to be delivered daily.¹⁶⁰

Denmark

- 7.27 As discussed above, letter volumes in Denmark have declined faster in recent years than anywhere in Europe, due largely to the mandatory requirement for public institutions to send and receive information from people, and businesses, digitally since 2012.¹⁶¹
- 7.28 In June 2023 a political majority in the Danish Parliament reached an agreement to abolish the postal USO. A few targeted measures still remain, including safeguarding of postal services to island communities, free shipments for the blind, and international mail. The Danish Government will run tenders for the provision of these services, and PostNord Denmark has negotiated a transitional agreement with the Danish Government to ensure continued service until the procurement processes are completed.¹⁶²
- 7.29 The rest of the services currently within the USO are expected to be delivered by the market without the need for regulatory intervention, but the regulatory authority will increase its monitoring of the market to be sure of this. If any shortcomings are identified,

¹⁵⁷ www.bmwk.de/Redaktion/DE/Artikel/Service/Gesetzesvorhaben/novelle-des-postgesetzes.html

¹⁵⁸ In Germany, there remains a priority add on for a standard letter which targets next day delivery. See: [PRIO: Brief schnell versenden mit Sendungsverfolgung | Deutsche Post](#).

¹⁵⁹ Australian Government, 2023. [Postal Services Modernisation Discussion Paper](#).

¹⁶⁰ Australian Government, 2023. [Positioning Australia Post for the Future](#).

¹⁶¹ Copenhagen Economics, 2022. [Main developments in the postal sector \(2017-2021\)](#), p. 44.

¹⁶² PostNord Denmark, 2023. [New postal law results in changes at PostNord Denmark](#).

the Danish Ministry of Transportation will be able to designate a postal operator to provide services.¹⁶³ These changes were implemented on 1 January 2024.

Conclusion

- 7.30 The trends we continue to experience in the UK (decline of letter volumes and the increase in parcels) are common across the world. Many countries have responded by reforming their USO specifications to align them better with the way people are using post today and to address challenges to financial sustainability faced by operators. Specific changes made typically include reducing delivery frequency for letters and/or reducing the speed of delivery for letters.
- 7.31 A common finding from user research in other countries is that users prioritise reliability over speed of delivery for most letters (as we have found in the UK). Our engagement with counterpart regulators, and the continuation of letter volume trends in these countries following changes to their USO specifications, indicate that people's use of post has not been significantly affected by the changes. This suggests that user needs have generally continued to be met by redesigned USO service levels and products.

¹⁶³ Copenhagen Economics, 2023. [A New Stage for postal sector regulation](#). p 1.

8. The financial burden and sustainability of the USO

Purpose of this chapter:

- In this section we consider whether the USO imposes a financial burden on Royal Mail and, if so, whether that burden is unfair.
- This is not a full statutory assessment. Such an assessment would take some time and require the making of regulations and consultations, but we have nevertheless attempted to simulate the approach to that assessment to provide indicative information and context when considering whether, and if so how, the USO should be adapted to be more aligned with user needs.¹⁶⁴

In brief

- To estimate whether the USO imposes a financial burden, we have assessed whether there is a net cost to Royal Mail of complying with the USO. Our approach involves trying to determine to what extent Royal Mail, if it were not the USP, would be financially better or worse off.
- To do that, we have estimated the profits Royal Mail might make if it were no longer required to meet the obligations associated with USP status but at the same time was also unable to benefit from any advantages associated with that status.
- It has been necessary to make a number of assumptions about the commercial and operational decisions Royal Mail would make in these hypothetical circumstances. These assumptions and their potential impact on Royal Mail's revenues and costs inevitably require a significant degree of judgement. Further, we have not taken into account intangible benefits at this stage but would not expect them to make a material impact to our estimate.
- However, based on the analysis and assumptions described in this section and annex 7, we estimate that there may be a significant net cost of complying with the USO, which could be in the region of £325-675m a year.
- We considered whether there were any factors that might make a net cost fair (such as user needs, its transitory nature, or its size) but we have not identified any reasons why this scale of financial burden is likely to be fair.
- If the specification of the universal service goes beyond what is needed by users, then it is likely that some portion of the net cost of the USO would have to be recovered from users via excess prices. This could lead to consumers paying higher prices for USO products than necessary. It could also contribute to the challenges in meeting QoS requirements.

¹⁶⁴ Our analysis in this section is therefore conducted without prejudice to any future statutory process.

- The range produced by our assessment is not intended to estimate the savings Royal Mail could make if the scope of the USO were changed. Rather, it compares Royal Mail's actual profitability to a range of hypothetical scenarios to determine what the level of any financial burden might be.
- We conclude that our analysis provides further evidence of the need to consider changes to the specification of the USO.

Introduction

- 8.1 When considering the appropriate specification of the USO, the net cost (if any) of meeting that specification and the impact that net cost has on the USP and consumers should be taken into account. Any financial burden is likely, to some degree, to be ultimately borne by consumers; for example, through higher prices than necessary for products which may go beyond their needs and/or degraded service quality.
- 8.2 The Act sets out a detailed process that Ofcom must follow to decide whether any financial burden exists and whether it may be unfair for Royal Mail to bear that burden. If we were to carry out a formal statutory assessment, then we would consult on our intended approach to determining whether a financial burden exists, consult on regulations for assessing unfairness,¹⁶⁵ and then also consult on our assessment of the particular case itself, which would be carried out in accordance with the approach and regulations consulted on. That assessment would need to take account of the specific facts and circumstances at the relevant time.
- 8.3 Although at this stage we do not intend to trigger this formal process, we have thought carefully about what it would likely involve in practice.¹⁶⁶ Informed by this, and to support the discussion on the future development of the USO invited by this document, we set out below a summary of the relevant legal framework before discussing:
- a) how we have assessed whether a financial burden exists and estimated its extent;
 - b) how we might assess whether any burden is unfair; and
 - c) the potential impact of this burden on Royal Mail and consumers.

Legal framework

- 8.4 Under sections 44 and 45 of the Act, Ofcom may assess whether the USO imposes an “unfair financial burden” on the designated USP (i.e. Royal Mail). We may carry out such an assessment on our own initiative,¹⁶⁷ or can be directed to do so by the Secretary of State.¹⁶⁸

¹⁶⁵ Ofcom is required by section 45(3) PSA 2011 to make any fairness determination in accordance with regulations.

¹⁶⁶ We recognise, however, that a formal assessment could take a very different shape to the assessment set out in this document, including but not limited to it depending on stakeholder responses to the various consultations we would carry out.

¹⁶⁷ Section 44(1) PSA 2011.

¹⁶⁸ Section 44(9) PSA 2011.

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- 8.5 The first step in this assessment is to calculate whether the USO imposes a financial burden on Royal Mail. There will be a financial burden if providing the USO gives rise to a 'net cost' to Royal Mail, after allowing for any benefits from being the USP and delivering USO services.¹⁶⁹ Essentially this requires us to assess whether the USO gives rise to costs which are greater than any benefits to Royal Mail from providing it. We must consider, when carrying out a financial burden assessment, to what extent, in our opinion, Royal Mail is complying with the USO in a cost-efficient manner.¹⁷⁰ Aside from these points, the Act leaves it to Ofcom's discretion as to how to conduct a financial burden assessment, though we would consult on the carrying out of any such assessment.
- 8.6 If we calculate there to be a net cost then we must go on to determine whether it is fair for Royal Mail to bear the whole or part of the financial burden of complying with the USO.¹⁷¹ We must make regulations setting out how we would carry out that determination.¹⁷² Again the Act leaves it to Ofcom to decide, subject to consultation, how to carry out such a determination.
- 8.7 If, following a formal assessment, we were to find that the financial burden is unfair, then the Act sets out several recommendations that Ofcom may make to the Secretary of State.¹⁷³ These include a recommendation that Ofcom carries out a review of the reasonable needs of postal users.¹⁷⁴ Following such a review, the Secretary of State would be able to modify the minimum requirements of the USO. Ofcom could also recommend that, to meet some or all of the financial burden, contributions be made by postal operators providing services within the specification of the USO and/or all or certain postal users.¹⁷⁵ Of course, while not set out in the Act, it would be open to the Government to decide to meet some or all of the financial burden via public subsidy.

The financial burden of the USO

- 8.8 As set out above, section 44 of the Act allows us to calculate the financial burden on the designated provider which in this case is Royal Mail.¹⁷⁶ To do this, we consider how Royal Mail would run the part of its postal business which provides the universal service (defined as the Reported Business as explained paragraphs 2.10 to 2.13), if it were not subject to

¹⁶⁹ Section 44(4) PSA 2011 refers to these as "market benefits accruing to RMGL from its designation as the universal service provider and the application to RMGL of its universal service obligations."

¹⁷⁰ Section 44(2) PSA 2011.

¹⁷¹ Section 45(1) and (2) PSA 2011.

¹⁷² Section 45(3) PSA 2011.

¹⁷³ Section 45(8) PSA 2011.

¹⁷⁴ Under section 34 of the PSA 2011, Ofcom may also carry out such a review without having first conducted an unfair financial burden assessment.

¹⁷⁵ We could also recommend that we make a "procurement determination", which is a determination that a particular postal operator or operators could provide the USO in a way that would mean no unfair, or a less unfair, financial burden would be imposed (section 45(9) PSA 2011). The Act does not include a specific power for Ofcom to recommend a public subsidy (i.e. a government-funded subsidy).

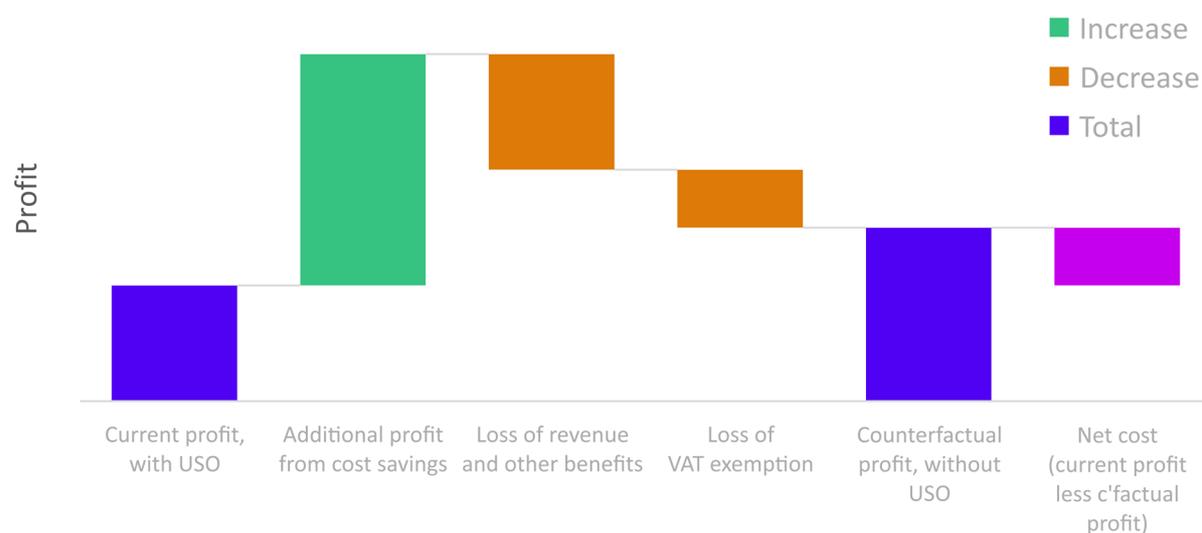
¹⁷⁶ We recognise that the USO may have costs or benefits for the wider USP group, but we do not consider these to be relevant to our net cost calculation. However, such cost and benefits may be relevant for other considerations for example the extent of a compensation for the net cost.

the requirements of the USO.¹⁷⁷ For example, Royal Mail might choose to deliver letters less frequently if it saved more money than it lost by doing so. We refer to this hypothetical scenario as the ‘Counterfactual’.

8.9 These hypothetical changes by Royal Mail would result in cost reductions in some areas of the Reported Business, but also revenue losses due to no longer offering the same range of services with the same specifications or the same prices. There would likely also be attempts by Royal Mail to mitigate these revenue losses (e.g. by offering new products and through pricing changes). We also recognise that Royal Mail could lose some of the benefits of USP status, e.g. the VAT exemption on USO products¹⁷⁸ or any intangible benefits (such as brand value).

8.10 We calculate the total cost reductions and the total revenue losses (including any lost benefits) which would occur in the Counterfactual as a result of all these changes. The difference between total avoided costs and total revenue losses is our estimate of the net cost or net benefit of the USO. This is shown pictorially in figure 8.1 below.

Figure 8.1: How the net cost is calculated



Source: Ofcom illustrative example. Note: bars are for illustrative purposes only and are not to scale.

8.11 The Counterfactual does not indicate which services Royal Mail should in reality offer, nor is it intended to imply what a revised USO might look like, or how much Royal Mail might save if the specification of the current USO was changed. This is discussed in chapter 9. Rather, it hypothesises about the services which Royal Mail would be likely to offer in the complete absence of any USO, in order to calculate the net cost or benefit to Royal Mail of complying with the USO.¹⁷⁹

¹⁷⁷ We do not assume that another provider has any postal obligation placed on it in the USO’s place.

¹⁷⁸ Under the Value Added Tax Act 1994, Royal Mail enjoys an exemption from paying VAT on the universal services it provides.

¹⁷⁹ As we also explain further in Annex 7, the fact that the Counterfactual scenarios are hypothetical scenarios, developed only to aid us in calculating the net cost of the USO, means transition costs including organisational

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- 8.12 If the result is a net cost, Royal Mail would be better off without the USO, and if the result is a net benefit, Royal Mail will be better off having the USO.
- 8.13 This approach has been used in other countries and is often referred to as the ‘net avoidable costs’ approach or the ‘decremental’ approach. We currently consider this approach to be the best approach to obtain an initial estimate of the current financial burden in line with section 44 of the Act, because:
- a) It calculates the current financial burden to Royal Mail specifically by considering Royal Mail’s current network and operation; and
 - b) It takes account of all the market benefits of the USO as well as the benefit of having the USO network in place (e.g. the use of the same network to provide non-USO services such as bulk mail and access and accounts parcels).
- 8.14 This approach also has the following advantages:
- a) It is consistent with the approach we take in assessing the net cost savings of alternative lesser specifications for the USO (see chapter 9); and
 - b) It is practicable given our available resources and current modelling tools.
- 8.15 We discuss other approaches to calculating the financial burden or net cost in annex 7.

Applying our approach

- 8.16 Based on the approach outlined above, we estimate that complying with the USO could give rise to a significant net cost to Royal Mail in the region of £325-675m.¹⁸⁰
- 8.17 This range has been determined by modelling a number of different Counterfactual scenarios for how Royal Mail’s services and prices, as well as its operations, would change if it no longer had the obligations or benefits associated with the USO.
- 8.18 A high-level description of each scenario is set out in Table 8.1, and these scenarios are explained further in annex 7.
- 8.19 Within these scenarios we have used a range of values on some key assumptions and principles (called ‘sensitivity analysis’), such as how elasticities behave with price changes and how revenue might be impacted due to the removal of the current VAT exemption on some of Royal Mail’s products.
- 8.20 We have set out some of the key principles and assumptions in Table 8.2 below, but the cost and revenue models which we have used and all the principles and assumptions we have applied are explained in detail in annex 7.
- 8.21 Our aim is to provide an initial estimate of the range of any financial burden. We do not aim to make any quantitative forecasts about a future financial burden, because such an exercise would currently be too speculative and it is also unnecessary for our purposes in this document. However, we expect that the continued decline in letter volumes is likely to

restructuring and redundancy costs are not relevant to the Counterfactual scenarios, and therefore these costs have not been considered in this exercise.

¹⁸⁰ As explained in annex 7, the net cost is calculated based on the 2021/22 financial year, because we consider this year to be the most appropriate for the purposes of our initial estimate of the current net cost.

increase the net cost in the future, in particular due to the reduction of USO volumes and revenues.

Counterfactual scenarios

- 8.22 Since the net cost calculation involves a large number of business and commercial judgements and assumptions, we have considered and modelled several Counterfactual scenarios in order to arrive at the range above for our estimation of the financial burden.
- 8.23 To identify these scenarios, we have considered the frequency of letter delivery. The frequency of delivery is the most important driver of costs and delivery activities make up by far the largest portion of total network costs. We have identified four scenarios with 3, 2.5, 2 and 1 day(s) frequency of letter delivery informed by the delivery models we have observed in Europe.
- 8.24 To develop these scenarios, we have considered the other key features of the current universal service order¹⁸¹ (such as frequency of parcels delivery, frequency of collection, speed of delivery, affordability etc.) and assessed what changes Royal Mail might make to these features in each Counterfactual scenario.
- 8.25 We have considered the changes that Royal Mail might make to the services it provides, which we assume would include the following:
- Stopping some USO products and features (e.g. stopping First Class as offered now);
 - Changing some non-USO as well as USO products and features (e.g. the number of days it delivers access and bulk letters); and
 - Introducing new products and features (e.g. an express next day letter service delivered as a parcel instead of a First Class letter).
- 8.26 For each of our Counterfactual scenarios we have created a range of results. These ranges account for uncertainty around the prices Royal Mail may set for its products, the consumer response to pricing and operational changes, and the degree of efficiency savings required to bring the current cost base down to that of an efficient operation. The assumptions we have applied and the details of the modelling are set out in annex 7.
- 8.27 The table below sets out the resulting estimated range of net cost in each scenario, together with its main components. The range set out above uses the scenarios below with some sensitivity analysis around the key assumptions we have made.

Table 8.1: Scenarios modelled for net cost calculation, 2021/22 financial year, £ millions

Scenarios ¹⁸²	3 day letter delivery	2.5 day letter delivery	2 day letter delivery	1 day letter delivery
Standard speed	2 nd Class D+3	2 nd Class D+3	2 nd class D+3/D+4	3 rd class D+5/slower
Cost saving	£675m to £750m	£750m to £850m	£875m to £975m	£1125m to £1250m
Revenue losses	£-250m to £-525m	£-275m to £-525m	£-300m to £-550m	£-400m to £-650m

¹⁸¹ [The Postal Services \(Universal Postal Service\) Order 2012 \(legislation.gov.uk\)](https://legislation.gov.uk).

¹⁸² Under all scenarios we have assumed that parcel delivery would remain unchanged.

Scenarios ¹⁸²	3 day letter delivery	2.5 day letter delivery	2 day letter delivery	1 day letter delivery
Net cost	£150m to £500m	£225m to £575m	£325m to £675m	£475m to £850m

8.28 Given these results it appears most likely that, absent the USO, Royal Mail would be likely to reduce the frequency of its letter delivery operation quite significantly. The Counterfactual with the largest net cost is that of 1-day letter delivery.

8.29 However, we recognise that there may be operational limitations which mean that a 1-day delivery operation would in reality be more costly to implement than we have been able to model. We also recognise, as explained below, that our revenue-loss results become more speculative for lower delivery frequency scenarios. We have therefore not simply focused on the 1-day scenario, but have also considered the 2-day scenario when producing our headline range, as we have greater uncertainty over the 1-day result than our other results.

8.30 Our range of net costs of the USO is therefore informed by both the 2-day and 1-day letter delivery scenarios which we consider to be the most likely operational approaches Royal Mail may take absent the USO. We have also considered our analysis of the commercial rates of return of other postal operators (both European USPs and global parcel operators) which we have set out in annex 7. These considerations have led us to limit the upper bound of our range to the mid-point of the 1-day scenario. Overall, this results in a net cost in the range of £325m to £675m.

8.31 As explained in annex 7, the assumptions regarding the lost revenues are less certain and rely on more judgement compared with cost reduction assumptions. This uncertainty increases as the number of delivery days are reduced further in the Counterfactual scenarios. This means that the net costs estimated for the scenarios with lower delivery days are more speculative.

Key principles and assumptions of our modelling

8.32 In undertaking this work we have followed certain principles and made a number of assumptions. Below is a summary of the key principles and assumptions we have made that apply equally across all Counterfactual scenarios. We explain all the principles and assumptions in detail and how we have applied them in annex 7.

Table 8.2: Principles and key assumptions in our counterfactual scenarios

Principles and key assumptions	Explanation
Royal Mail would continue to deliver letters to every address in the UK.	Royal Mail would continue to deliver letters to all addresses as it does now, i.e. maintaining the universality of letter service, because the changes to frequency and pricing would make it commercial for Royal Mail to continue to do so.

Principles and key assumptions	Explanation
Royal Mail would have freedom to set prices.	In the absence of the USO, Royal Mail would have the freedom to set all its prices as it sees fit. This means that there would be no affordability requirements and, as such, no safeguard cap on Second Class stamps. Further, Royal Mail would be able to price items differently depending on where they were being sent, e.g. by surcharging remote and/or rural areas where delivery is more costly. However, we have assumed that Royal Mail would continue to maintain price uniformity for letter products and not start geographically pricing. Although in reality, Royal Mail may choose to differentiate pricing, given the likely affected postcode sectors and volumes, we do not think this would make a material difference to our net cost estimate.
We are calculating the financial burden based on data from the 2021/22 financial year.	Our aim is to estimate the current financial burden, and as such we use the latest most appropriate financial data we have available. Our costs and revenue models therefore use data from the 2021/22 financial year and reflect Royal Mail’s network broadly as it was during that year.
With the removal of the USO, Royal Mail would lose the VAT exemption on those products. We assume it would pass on the resulting price increases to customers.	The VAT exemption on the USO products, and possibly access products, would be removed. Therefore, we have made assumptions around the pricing decisions that Royal Mail might make in response to having to charge VAT on these products. The removal of the VAT exemption would also impact how much VAT could be claimed on Royal Mail’s purchases (fuel, power, fleet, professional fees etc). We have used 2021/22 volume, revenue and cost data to estimate the impact.
The net cost calculation must only include efficiently incurred costs (as per Section 44).	Our cost model is calibrated to Royal Mail’s actually incurred costs. To account for efficiency, we have adjusted both the factual and Counterfactual cost estimates using a range based on the 5-year cumulative efficiency expectations set out by Royal Mail as published as in accordance with our new regulatory reporting requirements. ¹⁸³

¹⁸³ IDS, 2023. [Publication of a five year cumulative expectation for PVEO and Weighted items per Gross Hours \(WIPGH\) measures.](#)

Principles and key assumptions	Explanation
<p>The net cost calculation must include the loss of intangible benefits of USO, but our current estimate does not include intangible benefits.</p>	<p>The USP designation confers a status which could lead or contribute to further commercial benefits for the USP. These benefits include the Royal Mail brand, greater visibility and reach, and greater negotiating and bargaining power. Such benefits are often referred to as ‘intangible benefits’, and should be taken into account in a net cost calculation. We consider Royal Mail’s brand, its greater visibility and reach due to the nationwide infrastructure, and its greater negotiating and bargaining power to be among such potential intangible benefits.</p> <p>These intangible benefits should be taken into account only to the extent that they relate to Royal Mail’s designation and status as the USP. The net cost should then reflect any losses in the value of the USP-related proportion of the intangible benefits in the Counterfactual.</p> <p>Since our current exercise is to provide an initial estimate of the net cost, we have not quantified the intangible benefits. However, given the considerable range of large net costs results, we do not expect that including the intangible benefits would change our key messages set out in this document.</p>
<p>Royal Mail’s access products would continue to be regulated.</p>	<p>We have assumed that Royal Mail would continue to be required to offer access to its network,¹⁸⁴ but that delivery of access mail would be aligned with any changes to the speed and frequency of delivery of Royal Mail’s other product offerings, in order to maximise the cost reductions from such operational changes.</p>

Other approaches to net cost calculation

8.33 There are other options for calculating the net cost of the USO. These are described widely in the literature on this topic. We discuss some of these briefly below:

- Full Counterfactual approach:** the Counterfactual is assumed to be a non-specific postal operator, not necessarily the incumbent USP, setting up a network from the ground up to provide all postal services that make commercial sense to provide, in the most efficient manner. We do not consider this approach to be appropriate for section 44 purposes. Section 44 requires us to assess the financial burden of the USO for Royal Mail as the designated USP and not any other operator. Additionally, given the current

¹⁸⁴ Royal Mail is currently required to allow other postal operators to access its network by the [USP Access Condition](#), imposed under section 38 of the PSA 2011. Ofcom also has a power to impose a general access condition on a postal operator under section 50 of the PSA 2011.

exercise is to simply derive an initial estimate, we consider this approach would be too burdensome to apply here.

- **USO revenue and cost approach:** revenues and costs of providing the USO products are calculated and the difference between them is taken to be the net benefit or cost of the USO. This approach is unlikely to be suitable for section 44, because it does not take account of all the market benefits accruing to the USP, e.g. non-USO products provided by the same network.

8.34 We explain further in annex 7 these approaches and assess their appropriateness in more detail. We consider our net avoided cost approach would likely be the most appropriate option for this call for input. We welcome views on the approach we have chosen and the relevance or usefulness of other approaches.

Unfairness of the financial burden

8.35 Although we are not formally carrying out the exercises set out in section 44 and 45 of the Act, we consider here how we might approach the question of whether imposing a net cost on Royal Mail would be unfair.

8.36 The fairness of a financial burden must be decided on a case-by-case basis and in accordance with regulations to be made by Ofcom. We must do this having regard to our duties, and in particular our duties to ensure that any regulatory interventions, including imposing a universal service obligation, are proportionate. We must also consider these interventions in light of our duty with regard to the financial sustainability of the provision of the universal service. Finally, we must have regard to the impact of such interventions on competition.

8.37 There may be circumstances where we consider it fair for Royal Mail to bear a financial burden, given user needs.

8.38 If our approach is fully applied (i.e. taking account of all costs and benefits), and it results in a net cost, then as a starting point, imposing that financial burden on Royal Mail is likely to be unfair. This is because such a financial burden results from imposing requirements on the USP which limit its commercial freedom and impact its ability to generate a commercial rate of return, even after taking into account all the benefits associated with being the USP.¹⁸⁵

8.39 Factors which we are likely to take into account in considering fairness also include:

- a) whether the burden were transitory and likely to be reduced or eliminated over an appropriate period, e.g. due to expected changes in the market or changes in the specification of the USO; and
- b) the materiality of the burden.

¹⁸⁵ In particular, ownership of a unique and essential national asset. One might assume that, at the time of privatisation, the market would have considered that the burden imposed by the USO at that time did not exceed the value of being the USP. However, there is no reason to consider that this remains the case now and, in addition, investors may have expected the USO to evolve with user needs.

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- 8.40 With these factors in mind, we note that our initial estimate of the current financial burden set out in this chapter is significant. We also consider that this financial burden is likely to increase in the future, mainly due to the continued decline in letter volumes.
- 8.41 In the light of this – and based on our duties referred to above or otherwise – while there may be arguments for Royal Mail to carry some level of financial burden from the imposition of the USO, we have not identified any reasons why a net burden of the order we have estimated is likely to be fair. However, we welcome stakeholders’ views and evidence in relation to this.

Impact of net cost

- 8.42 As explained above, we have estimated that providing the USO imposes a significant net cost on Royal Mail. This impacts both Royal Mail and consumers.
- 8.43 We note in chapter 2 the challenges for Royal Mail with regard to its financial sustainability. Clearly the financial burden of the USO makes a material contribution to those challenges, but we recognise that there are also other significant contributing factors. For example, Royal Mail has struggled to meet its obligation to deliver its USO services efficiently as it has regularly failed to meet its efficiency targets over the years since privatisation. This has meant that Royal Mail’s costs are higher than they otherwise could be, which has in turn had a negative effect on its financial sustainability. We continue to actively engage with Royal Mail to address this issue, among others.¹⁸⁶
- 8.44 Our focus on net cost is not to excuse any shortfall in Royal Mail’s financial or operational performance but rather to recognise that the net cost of the current USO materially impacts Royal Mail’s financial and operational performance, and the specification of the USO is outside of its control.
- 8.45 This has implications for consumers. If the obligation to deliver universal services is beyond a level that is needed by users (as suggested in chapter 5), then it is likely that the net costs of that obligation (or at least part of them) would have to be recovered from users via excess pricing. In other words, it could lead to consumers paying higher prices than necessary for USO products. Further, this net cost limits Royal Mail’s capacity to invest and restructure its network to respond to customer needs (such as reliability in letter delivery and more service options in parcels), and its capacity to innovate and remain competitive (which is ultimately detrimental to consumers).
- 8.46 Further, we observe that Royal Mail is also experiencing difficulties in delivering the current obligation to meet the QoS targets we set.¹⁸⁷ We expect Royal Mail to resource its

¹⁸⁶ In February 2023, as part of our statement setting out [Changes to Royal Mail’s regulatory reporting requirements](#), we decided to strengthen our monitoring framework in relation to reporting on efficiency of the universal service. We require Royal Mail, every five years, to provide a detailed confidential forecast containing certain efficiency metrics over a five-year period and publish two measures of its efficiency expectations from that forecast. Royal Mail will also be required to publish annually its progress against those expectations.

¹⁸⁷ Ofcom, 2023. [Royal Mail fined £5.6m for missing delivery targets - Ofcom](#)

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service to a level necessary to meet its obligation. However, we recognise that the extent and the net cost of the obligation could contribute to the challenges in meeting QoS levels.

- 8.47 As we have explained in this chapter, we consider that the net cost we have calculated may represent an unfair financial burden on Royal Mail. This lends further support to the case for considering changes to the specification of the USO. In the following chapter, we discuss the options for changing the USO and adapting it to better reflect users' needs.

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

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

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

9. How the USO could adapt to better reflect changing needs of users

The purpose of this chapter:

- In this chapter we explore a range of potential options for adapting the specification of the USO and consider how these options might meet users' evolving needs, including those of residential customers, SMEs and large mail users. We also consider the financial impact on Royal Mail, as well as the possible environmental impacts of the different options.
- As part of this document we are not consulting on specific changes to the USO but instead have assessed a range of options and are seeking stakeholder input on the likely impact of these options or whether there are others that should be considered.

In brief

- The potential options we set out rely on Royal Mail remaining the USP and the core principles of the USO (universality, affordability and uniform pricing) being maintained. They are based on our research into user needs, market trends and the experiences of reform in other countries.
- The options we have assessed include (i) a reduction in frequency of delivery for letters, (ii) changes to speed of delivery for most mail and (iii) amending the current QoS targets for existing services.
- Our analysis of the evidence suggests that adapting the USO specification to meet user needs is preferable to maintaining the existing specification given this does not appear sustainable without substantial subsidy from industry or the state.
- We consider that changes to delivery speed and/or delivery frequency for letters could still continue to meet users' needs (based on the evidence discussed in chapter 5) while offering scope for significant cost savings. Should there be changes to services in future, we consider it important that QoS targets should also be set at a level to ensure reliability and high-quality services to meet users' needs.
- We also note that the options we have assessed could be implemented in combination. For example, a reduction to 3 days a week delivery for letters may also require the removal, or material modification, of the current First Class letters product as the delivery speed would no longer be achievable without material changes to Royal Mail's current methods of letter delivery.¹⁸⁸

¹⁸⁸ There may be other options for next day delivery which are more aligned with parcel delivery than existing letter products.

- We note that making changes to the specification of the USO presents an opportunity for improved reliability and greater innovation and offers potential for Royal Mail's environmental impact to be reduced.
- If the specification of the USO is changed, then we may need to review other aspects of our regulatory framework, in particular our approach to QoS regulation, and our approach to ensuring that services are accessible and affordable to all consumers.

Introduction

- 9.1 In this chapter we reflect on a range of evidence to explore the options available to adapt the USO specification in relation to letters so that it better reflects users' reasonable needs. We have considered the implications of potentially changing the USO from a range of viewpoints:
- a) **The degree to which users' needs would be met** – we consider how significant the impact would be on mail users in terms of the extent to which their needs would continue to be met by a changed service. We reflect on the impact on the average residential user and on SMEs, as well as those that are more dependent on mail (given the volume of letters they send and receive) and 'vulnerable' users (which as discussed in chapter 5 includes a range of groups, including those living in a rural or remote areas, those with mobility issues, or those who are digitally excluded).
 - b) **We also consider the impact on large mail users** across a range of sectors (for example, banking, advertising, publishing).
 - c) **The financial impact on Royal Mail** – we have included an assessment of the estimated net cost savings that could be achieved if the specification of the USO were changed. The cost saving estimates we present for these options are distinct from the calculations in chapter 8, which represent the cost savings that could be achieved if Royal Mail was no longer subject to the USO, and it decided to restructure its operations as a wholly commercial entity. We note that for all of the options we have assessed, there will be an impact on volumes and revenues as well as costs, resulting in revenue losses as well as cost savings. This is because Royal Mail's product offerings and in some cases its prices would need to change to (i) adapt to the operational changes associated with reduced speed or reduced delivery days; and (ii) mitigate any volume and revenue losses. Where possible, we have included indicative figures which are based on our own modelling (see annex 7 for more information). The stated figures are presented as a range and are intended to give a sense of the relative savings that could be achieved depending on the extent of any changes. There could be significant variance in the savings achieved depending on the operational choices made by Royal Mail and, importantly, the estimates do not take account of transition costs.
 - d) **The potential environmental impacts** – we have also considered the impact of changes to the USO on Royal Mail's emissions. While, as noted in chapter 3, Ofcom does not have any statutory functions or duties in relation to environmental sustainability, the net zero agenda is an area of increasing significance to policymakers and Royal Mail has committed to achieve net zero by 2040.

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- 9.2 We have limited our assessment to those scenarios where Royal Mail remains the designated USP. We note the inherent advantage of using Royal Mail's established network and the significant costs, both financial and environmental, involved if another operator, or several operators, were to try to duplicate it. In addition, given the cost of providing the current USO and the structural decline in letter volumes we consider it is unlikely that other operators would be willing to take on the role as currently specified.¹⁸⁹
- 9.3 We have not considered changes to the specification of the USO for parcels. This is because we do not currently believe that there is misalignment between users' needs and the parcels requirements (either in relation to delivery frequency or product speeds). Our research has found that people have become more reliant on parcels due to the growth in online shopping and selling on online marketplaces. Speed of delivery is generally more important for parcels than letters, and when asked about the current parcels USO, users often suggest weekend delivery and additional product features which would provide greater convenience. However, the objective of the USO is to provide a good quality, basic service, and increasing competition in the parcels market (which we expect to keep growing) is already delivering for consumers beyond the USO requirements. For example, Royal Mail delivers USO parcels on Saturdays. There are also commercial (non-USO) parcels products offered by Royal Mail and its competitors which include Sunday delivery and other product features.¹⁹⁰
- 9.4 We have only assessed changes to the USO specification for letters that we consider will maintain the three fundamental principles of the USO discussed in chapter 4 (universality, affordability and uniform pricing). For example, we have not assessed the impact of options which would remove uniform pricing in favour of distance-based pricing, or options which limit universality by introducing geographical variation in service levels (such as different minimum delivery day requirements in rural and urban areas), or options which require delivery to a central point (e.g. lockers) instead of to the door.
- 9.5 The options we therefore cover in this chapter are:
- a) a reduction in the frequency of delivery for letters;
 - b) changes to delivery speeds for letters;
 - c) changes to the current QoS targets alone; and
 - d) subsidy to maintain the current USO (via public subsidy or from an industry fund).
- 9.6 In addition, we also consider the potential need for additional support for certain user groups with particular or special needs and how we might need to manage the transition between the current USO and any revised obligations.

¹⁸⁹ Over an extended period of time, were the specification of the USO to be gradually reduced and the trends in letter volumes and user needs reported in chapters 3 and 5 continue, other operators may become more capable and more interested in meeting the requirements of the USO (in whole or in part). We note that the Act (s.35) anticipates the ability to procure USO services and that some countries have moved to, or are considering moving to, procurement for aspects of USO services (see chapter 7).

¹⁹⁰ We appreciate that non-Royal Mail parcel operators do not offer universal pricing or equal terms across all areas of the UK (e.g. Northern Ireland and the Highlands and Islands of Scotland).

Potential options for changing the USO

Changes to frequency of letter delivery

- 9.7 Royal Mail is currently required to offer to deliver USO letters to all addresses across the UK 6 days a week, from Monday to Saturday.¹⁹¹
- 9.8 There are a range of options for reducing the current delivery frequency for letters: from a relatively modest reduction to 5 days a week, through to a significant reduction to 1 day a week. Some options also involve an alternate day delivery model. This is where different addresses receive regular deliveries on different set days of the week. For example, a 2.5 days a week delivery model would mean half of addresses receive USO letters on Monday, Wednesday and Friday on week one, and then switch to Tuesday and Thursday the next week, before reverting to a 3 day delivery pattern the week after. This means that each address would receive an average of 2.5 deliveries a week.
- 9.9 When considering a reduction in delivery days for letters, we have assumed that Royal Mail's mail collections obligation would remain in line with the current USO requirements (i.e. 6 days a week for letters). This is because collections account for a relatively low proportion of Royal Mail's network costs, and so it is likely that the benefits of maintaining the current minimum standards for collection frequency are likely to outweigh any potential costs savings that could be made by collecting items less frequently.
- 9.10 We also assume that Royal Mail's parcel delivery requirements would remain unchanged at 5 days a week for collections and deliveries, but that it would continue to deliver USO parcels and Special Delivery items on Saturdays commercially.
- 9.11 A reduction of delivery days below 5 would make the delivery speed of Royal Mail's current First Class product unachievable. However, the evidence suggests that consumers value access to faster services (similar to the existing First Class D+1 service). Therefore, as part of assessing this option we have assumed that we would maintain a requirement on Royal Mail to offer a next day product for letters. Our expectation is that this could be managed in a similar manner as Special Delivery but without certain features such as insurance and priced above today's First Class product but at a lower price than Special Delivery.
- 9.12 Changes to the specification of the USO will have an impact on the provision of bulk mail services. In order to maximise cost efficiencies linked to any changes to the USO, Royal Mail is likely to want to reflect any USO changes in its bulk services, particularly changes to the frequency of USO letters delivery. For example, if the USO specification were changed to require a minimum of 5 delivery days for letters, Monday to Friday, then it is likely that Royal Mail would seek to replicate the change for bulk mail too.
- 9.13 As noted in chapter 6, Royal Mail is currently required to offer D+2 and D+5 access services. D+2 services are processed as First Class mail once they have entered Royal Mail's network. This means that, absent broader changes to our access regulation, Royal Mail would effectively still have to operate a First Class service for the majority of access mail

¹⁹¹ See [DUSP Condition 1 \(ofcom.org.uk\), 1.4.1](https://www.ofcom.gov.uk/consult/condocs/dusp/dusp_141/dusp_141.pdf)

and would not be able to fully realise potential cost savings even if certain changes to the USO specification were made. In order to ensure that Royal Mail could benefit from the maximum network and cost efficiencies presented by any reform of the USO, we may also need to modify the current access conditions on Royal Mail.

- 9.14 Finally, if any changes were made to the minimum number of delivery days, it is likely that we would need to review our QoS framework to ensure that Royal Mail was sufficiently incentivised to deliver a high-quality and reliable service.

Impact on residential and SME users

- 9.15 As set out in chapter 5, our research demonstrates that residential users and SMEs value certainty and reliability over speed and are generally open to a reduction in delivery days for letters.¹⁹²
- 9.16 Our 2020 Review of postal users' needs found that 97% of both residential and SME users would consider their needs met if the USO was reduced to 5 days delivery for letters (Monday to Friday). In comparison, we found that 98% and 97% of residential and SME users considered their needs met by the current USO requirement of 6 days letter delivery. This research also found that 79-85% of residential users and 62-78% of SME users would consider their needs met by a 3 day delivery service.¹⁹³ However, this research was commissioned prior to Covid-19 and the disruption caused by prolonged industrial action in 2022. We note that there has since been a shift in residential and SMEs' use and reliance on post as indicated by our ongoing Postal Trackers and our 2023 qualitative research.¹⁹⁴ Therefore, it may be that a higher proportion of users would consider their needs to be met with a 3 day delivery service, and we would expect this to be the case in the future as letter volumes continue to decline.
- 9.17 Our 2023 qualitative research indicates that most users, including those that are more dependent on post, were open to the idea of reforming the USO and, in the interest of keeping prices down and only paying for what was required, were often spontaneously willing to reduce its specification in relation to letters. This was, however, on the understanding that a faster service would remain for the occasional urgent items.¹⁹⁵
- 9.18 Most were willing to accept fewer delivery days a week, noting that they rarely needed to receive letters urgently. The research found that a reduction to 4 or 5 delivery days would meet the needs of most users, but also indicated that receiving letters every 2 to 3 days would be acceptable for the majority of respondents, including most vulnerable groups. Some dependent users, particularly those who rely on post for hospital appointments,

¹⁹² Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slides 48-49. Ofcom, 2020. [Review of postal users' needs](#). Chapter 5.

¹⁹³ Ofcom, 2020. [Review of postal users' needs](#). Figure 18.

¹⁹⁴ These trends are summarised in chapter 5 paragraphs 5.10-5.20.

¹⁹⁵ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 47.

were less supportive of change, and sought reassurance that they would not miss important communications as a result.¹⁹⁶

- 9.19 As noted in chapter 7, some other countries have chosen to reduce delivery days more radically. For example, in Denmark, prior to 2024, the delivery frequency for standard USO letters (D+5) was one day a week, although there remained the option of a premium non-USO express service, which was delivered alongside parcels 5 days a week. The universal postal service in Denmark ended on 1 January 2024 (with some exceptions).¹⁹⁷
- 9.20 We do not consider that a reduction in delivery days to one day a week would be possible in the UK in the foreseeable future without some coordination by government to ensure that communications from all public bodies could be sent (and received) digitally. It is also likely that the postal service would need to be used as a backstop for consumers who do not want to, or who are unable to, use a digital system.
- 9.21 Our 2020 research did not consider the impact on mail users of a reduction to one day a week and participants in our 2023 qualitative research did not proactively raise this as an option.
- 9.22 With regard to Saturday deliveries, our 2023 qualitative research found that Saturday delivery did not need to be included as most respondents said they were unlikely to engage with letters on a weekend.¹⁹⁸ Similarly, our 2020 research showed that while there was no strong preference among residential users as to what day should be ‘dropped’, if Royal Mail moved to a 5 day delivery model, SMEs had a preference for Saturday deliveries to be stopped rather than a weekday (this is likely to be because workplaces are typically closed on Saturdays).¹⁹⁹

Impact on large users

- 9.23 As noted above, we consider that, in the interests of achieving maximum network and cost efficiencies, it is likely Royal Mail would want to replicate any changes to the minimum requirements for USO letter delivery days in its bulk mail services. This would require us to make changes to the access conditions on Royal Mail.²⁰⁰
- 9.24 We also note that large mail users are not a homogenous group and different sectors have different needs.
- 9.25 As part of our 2020 research, we conducted interviews with large mail users, including banks, utilities and public bodies, to explore how a reduction in letter delivery days could impact them. A reduction to 5 days was generally considered to be acceptable for large

¹⁹⁶ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 47.

¹⁹⁷ See chapter 7, paragraphs 7.28-29 for more information.

¹⁹⁸ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 49.

¹⁹⁹ Ofcom, 2020. [Review of postal users’ needs](#). p. 47.

²⁰⁰ This would be dependent on the scale of the change. If the USO delivery days requirement was reduced to 5 days and Royal Mail chose to no longer deliver on Saturdays, then USP access condition 3.1(gg), the definition of “working day”, would need to be amended to exclude Saturdays as well as Sundays and public holidays. For a more significant reduction, it is likely that more comprehensive amendments would be required to remove the obligation to provide D+2 access services.

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mail users, although the removal of Saturday deliveries did present issues for some publishers and advertisers who valued Saturday delivery. That subset of large mailers would prefer a weekday delivery to be removed rather than Saturday. In contrast, other bulk mailers planned for their letters to arrive during the week when their offices and customer service teams were generally better staffed.²⁰¹

- 9.26 We note, however, that any changes to the specification of the USO (and corresponding changes to the access conditions on Royal Mail, if required) would not prevent Royal Mail from continuing to offer commercial products, such as a commercial Saturday delivery bulk mail service, depending on demand.
- 9.27 If the minimum delivery requirement was reduced to 3 or 2.5 days a week, it is likely that Royal Mail would look to re-specify its standard access service given it would not be able to achieve maximum cost savings if it were still required to deliver a D+2 access service (which is equivalent to a First Class USO service). At a minimum this would require us to amend the access conditions on Royal Mail to remove the obligation on it to provide D+2 services. This would also involve the consideration as to whether access operators require an additional regulated slower access service or simply require Royal Mail to engage with stakeholders and provide access to its network on fair and reasonable terms, with appropriate safeguards (for example, to prevent margin squeeze). We would, however, need to engage with Royal Mail and other industry stakeholders before consulting on any specific reforms.
- 9.28 There would also be added complexity given some households would receive deliveries on different days of the week. Therefore, again, if bulk mailers require items to arrive on a particular day of the week, senders may need to adjust their production process and operations to reflect the fact that not all addresses will receive mail on the same day or use a premium service (such as Special Delivery or a relevant commercial service) to guarantee delivery on a specific day.
- 9.29 As noted above, currently Royal Mail offers a standard D+2 product and an economy D+5 product (introduced in January 2021) to access operators. As of Q4 2022-23, broadly a third of access letter volumes were D+5, with the remaining volumes predominantly D+2.²⁰² While we acknowledge that some of this recent movement has been motivated by the fact Royal Mail's QoS performance has been significantly below target for D+2, we consider that it again indicates that many bulk mail letters are not time-critical and suggests that many large mail users would not be unduly impacted by a reduction in the number of delivery days a week for letters.
- 9.30 We note, however, that the increased complexity and costs which bulk mailers may experience due to having to adapt their systems and mailing practices, could result in large mailers questioning their use of letters as a key method of communication and result in an acceleration of the move towards digital alternatives. This would not necessarily present issues for such mailers but could have implications for customers if they did not want to, or

²⁰¹ Ofcom, 2020. [Review of postal users' needs](#). p. 52-53.

²⁰² Ofcom, 2023. [Post Monitoring Report](#). p. 11.

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could not, use digital channels. Similarly, any significant reductions in bulk mail volumes would have an impact on Royal Mail's revenue.

Financial impact on Royal Mail

- 9.31 The greater the reduction in delivery days for letters, the greater the reduction in costs, primarily through reduction in delivery costs, which is the main driver of Royal Mail's cost of providing these services. It could also lead to savings in processing and logistics by increasing the time available for posted items to reach the delivery office.
- 9.32 Our modelling suggests that a reduction to 5 day a week delivery service could have achieved a net cost saving of approx. £100-200 million (cost savings of approximately £150-200 million and a revenue loss of approximately £0-50 million) in 2021/22. A reduction to a 3 day delivery model could have achieved a net cost saving in the range of £400-650 million (approximately £550-700 million cost savings and a revenue loss of approximately £50-150 million). We would expect cost savings and revenue losses of a similar order of magnitude each year, though they will change based on changes in volumes and in Royal Mail's baseline operations. Royal Mail would be able to make further operational savings if it switched to a 2.5 day alternate day delivery model, but we consider that these would be modest and so the likely saving would be in a similar range to the estimate for a reduction to 3 days.

Environmental impact

- 9.33 As is the case with costs, the greater the reduction in delivery days, the greater the potential savings in emissions. Fewer delivery days would reduce the number of journeys required to delivery addresses, in turn lowering the distance driven by vans when this mode of delivery is used in the final mile. The efficiency of each journey should improve as vans are more likely to be fuller on delivery days, although there may be a point at which more vans are required to cater for more letters on those days.
- 9.34 Royal Mail has stated that a move to Saturday parcel-only delivery (so a 5 day letter service) could take approximately 22,000 of its delivery vans off UK roads and reduce overall emissions by around 10%.²⁰³ Reducing delivery days to 2.5 or 3 would presumably achieve substantially greater emissions savings in the same order of magnitude of 10% per day.
- 9.35 Removing Saturday deliveries specifically would mean no requirement for Friday night flights – these flights are currently necessary to deliver some First Class items posted on Friday the next day. As mentioned below, flights make up a small but significant proportion (5%) of Royal Mail's domestic mail emissions and Royal Mail is trying to reduce its reliance on them for both cost saving and environmental reasons.²⁰⁴

²⁰³ See Royal Mail, 2023. [Response to Scottish Parliament Economy and Fair Work Committee's Call for Views on Royal Mail service changes.](#)

²⁰⁴ Royal Mail, 2023. [Environmental Societal and Governance \(ESG\) Report 2022-23.](#) p. 17.

Reduction in delivery days: initial view

- 9.36 Our analysis suggests that delivery frequency for letters could be reduced and still meet the needs of the majority of mail users. The more significant the reduction, the greater the cost savings for Royal Mail and the greater the reduction in emissions.
- 9.37 On the basis of the information we have to date, we currently consider that the majority of residential users would not be significantly impacted by a reduction to 5 delivery days for letters. However, we consider that, given the structural decline in the letters market, the evidence on consumer preferences for certainty over speed and the absence of material changes in demand evidenced in other countries after changes in delivery patterns have been introduced, a reduction to a 2.5 or 3 day delivery model may meet users' reasonable needs.
- 9.38 Some bulk mailers, particularly those that need to send items within a set timeframe or to arrive on a specific day (such as certain publishers) would be more adversely impacted if the minimum days requirement is reduced. It is likely that they would need to revise production timelines if possible, or to switch to commercial alternatives, which will likely cost more. We note, however, that the purpose of the USO is to act as a safety net to provide a good quality, basic postal service to those whose needs might not be met by the wider competitive market. These bulk mailers would also be free to negotiate with Royal Mail to develop new commercial products with more frequent delivery if it is in both parties' interests to do so. As noted in chapter 6, we could, however, mandate particular access products or terms, if there were evidence to suggest that doing so would promote efficiency, effective competition or confer significant benefits on postal users.

Changes to delivery speeds for letters

- 9.39 The current USO specification requires Royal Mail to offer mail users two speeds of delivery: a priority service, where items are delivered within one working day of collection (D+1); and a slower standard service, where items are delivered within three working days of collection (D+3). This requirement is set out in the Universal Postal Services Order and DUSP Condition 1 and could be changed by Ofcom, following a user needs review and consultation.²⁰⁵
- 9.40 This obligation is currently met by Royal Mail through the provision of its First and Second Class services, both of which are currently high-volume products.
- 9.41 The requirement to provide a priority service imposes a substantially greater burden in terms of cost and environmental impact (see below) than the standard service. Accordingly, a key option for reducing costs would be to move the overwhelming majority of letters that are currently sent using First Class (D+1) to Second Class (D+3). While this could be achieved by removing the obligation for a priority service, it might also be achieved by Royal Mail positioning its First Class product closer to its Special Delivery product (and therefore increasing the price) by encouraging consumers to default to the standard service.

²⁰⁵ Section 30(3) of the [Postal Services Act 2011](#).

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- 9.42 An alternative option would be to maintain two classes largely in their current form and relative prices but lower the delivery speed of both. For example, Royal Mail could offer a 2 day priority service (D+2) and a slower 5 day standard service (D+5), giving users more choice both in terms of speed and price.
- 9.43 As discussed in chapter 7, many countries have already modified their USO specifications to either no longer require a D+1 letters service and/or reduce the speeds of their priority and standard products. This change was made in Denmark, Norway and Sweden in 2018.²⁰⁶
- 9.44 An alternative approach is that adopted by the French USP (La Poste) in 2023 which replaced its traditional priority service with a priority e-letter service where customers upload letters/documents to La Poste online via their own device or at a post office (using an automated postal machine or with the help of an advisor). La Poste then prints these out at the local delivery office and they are delivered by postal workers the next working day.²⁰⁷ Given this is a recent change, the implications are unclear. However, it shows the potential for innovation in this space.
- 9.45 In assessing the impact of supporting Royal Mail to move the greater majority of mail to a D+3 service or, alternatively, reducing both existing speeds for First Class and Second Class, we have assumed that, in order to achieve cost efficiencies, Royal Mail would seek to align the delivery speed of its bulk mail services, which would require changes to access conditions on Royal Mail.²⁰⁸
- 9.46 We would note that our consumer research, as set out in chapter 5, suggests there remains a high level of consumer demand for a D+1 product option to be available to convey urgent items.²⁰⁹ Therefore, in our modelling, we have assumed that even where most mail is transported through a Second Class D+3 service, Royal Mail would be obliged to offer an affordable priority service – we expect this service would be offered at a higher price than the current First Class service (but at a lower price than the current Special Delivery service, as it would likely not include all elements of the Special Delivery service such as insurance or the need to arrive by a specified time of the day).
- 9.47 We also note that if any changes were made to delivery speeds, we would also need to review our QoS framework to ensure that Royal Mail was sufficiently incentivised to deliver a high-quality and reliable service.

Impact on residential and SME users

- 9.48 Our consumer research suggests that speed is not the sole motivator for users that send First Class letters and a range of factors inform this choice. In particular:
- a) our 2020 Review of postal users' needs found that, for those participants that used First Class, when asked about their reasons for using First Class, most of the responses had little to do with speed and factors such as habit, a small price differential with Second

²⁰⁶ Norway moved from 6 to 5 days letter delivery in 2016 and subsequently removed its priority service from the USO in 2018. In 2020 it reduced to an alternate, 2.5 day, delivery model.

²⁰⁷ La Poste Groupe, 2023. [La Poste is modernising its mail-service range to meet new customer needs and reduce its carbon footprint.](#)

²⁰⁸ See paragraphs 9.12-9.13.

²⁰⁹ Chapter 5, paragraphs 5.17 and 5.33.

Class, perceptions that First Class offered a higher QoS and signalling effects on the receiver were often more important;²¹⁰

- b) our 2023 qualitative research found that those using First Class say they do so out of habit as much as a need for speed or, again, with a perception that they offer greater certainty of delivery;²¹¹
- c) our 2022-23 Residential Postal Tracker found that 17% of those respondents that used First Class stamps all or most of the time, did so because of a perception of greater security. Similarly, 18% thought that the item would be less likely to get lost/would be treated more carefully if sent by First Class, rather than Second Class, mail.²¹² We note, however, that there is no expectation or requirement for Royal Mail to provide more care or higher quality/reliability for First Class items, and no operational reason as to why this should be the case;²¹³ and
- d) our latest affordability research also suggests that Second Class services are increasingly being chosen as an alternative, particularly given cost-of-living pressures and recent increases in the price of stamps.²¹⁴

9.49 Our 2020 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).²¹⁵ 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.²¹⁶ This again suggests that many users may not require the speed that the product offers when choosing to send items First Class or at least may not need the speed in most cases.

²¹⁰ Ofcom, 2020. [Review of postal users' needs](#), p. 26-27. Ofcom, 2020. [Qualitative research](#) p.18-19.

²¹¹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 29.

²¹² Ofcom [Residential Postal Tracker, 2022-2023, QH9](#). The survey found that a range of reasons were given for using First Class stamps "all or most of the time". 60% cited "Speed of Delivery" as a factor. Other reasons given included "What stamps I had to hand" (22%), the value of the item (20%), a perception of greater security (17%), that the item is less likely to be lost/ will be treated more carefully (18%). And 8% said that they didn't want the recipient to think that they would not use a 1st Class stamp.

²¹³ The QoS obligations for First Class services require 93% to arrive on time. For Second Class services the target is 98.5%. Royal Mail is also subject to additional 'Mail integrity' requirements (set out in [Essential Condition 1](#)) which apply to all postal items that it conveys.

²¹⁴ Ofcom [Residential Postal Tracker, 2022-2023](#). Our Tracker research shows that users are switching away from First Class to Second Class usage (QH8) and cost has increasingly become the reason for choosing to use Second Class stamps all/most of the time (QH9). Ofcom's 2023 postal affordability research also identified switching from using First Class to Second Class as a common behaviour in response to greater sensitivity to the price of postage within the context of wider concerns about the rising cost of living. This switch was driven by both the price difference between First and Second Class becoming more pronounced, and by a perceived fall in the QoS for First Class.

²¹⁵ Ofcom, 2020. [Review of postal users' 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.

²¹⁶ These figures were slightly lower for SMEs, at 92% and 87% respectively. In both scenarios (a reduction to D+2 and D+3), we assumed that a premium next day delivery service would remain part of the USO.

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- 9.50 This is also borne out by the approach to the USO in Belgium, where Bpost (the USP), is required to offer priority (D+1) and standard (D+3) products.²¹⁷ The standard service (D+3) was reintroduced in 2019 (it had been removed from the USO in 2006) in recognition of the fact that, typically, users do not need to send urgent letters. While the priority (D+1) service remains, the majority of letters are now sent using the standard service (in 2021, 16% of letters were sent First Class in comparison to 84% Second Class).²¹⁸ While to some extent this split can be explained by the price differential between the two products, we note that it also confirms that the majority of letters sent by Belgian users can be sent using a non-priority, slower service.²¹⁹
- 9.51 As noted above, our 2020 research and 2023 qualitative research also examined the factors that were most important to users and highlighted that, particularly for letters, certainty and reliability were valued over speed.²²⁰
- 9.52 Our evidence therefore suggests that Royal Mail's current Second Class product (D+3) meets most of the needs of residential and SME users and that they do not regularly require a First Class D+1 service, in that it is not essential that items arrive on the next working day. We note, however, that there is evidence of some consumer need for a D+1 service to be available on the occasions where users need to convey urgent items.²²¹ Therefore, even if more mail was sent using a D+3 service, there would still be the need for an affordable D+1 service to enable the next day delivery of the occasional urgent letter (though clearly in considering affordability we would take account of the frequency of use).²²² We also note that our 2023 qualitative research found that respondents were more willing to pay a premium to send these less frequent priority items.²²³
- 9.53 We note that if the majority of mail moved to D+3 or slower this may not be compatible with the maintenance of the existing affordability safeguard cap on Second Class (the potential conflict is also noted in Section 7 of our Statement on the Review of Second Class Safeguard Caps 2024²²⁴). Accordingly, the safeguard cap is not included in the modelling

²¹⁷ The Belgian UPS, currently Bpost, is required, by law, to deliver at least 93% of priority domestic mail with D+1 and at least 97% within D+2. It is subject to an additional management contract with government to deliver 95% of both priority and non-priority within the prescribed deadlines (D+1 and D+3 respectively). And to deliver at least 97% of both priority and non-priority mail within the deadlines plus one day (D+2 and D+4 respectively).

²¹⁸ IBPT, 2023. [Décision du Conseil de l'IBPT du 18 avril](#). p.8.

²¹⁹ Bpost rates for 2023 show a difference of €0.81 (43%) between priority and non-priority stamps. See "[Bpost New stamp and parcel tariffs from 1 January 2024](#)".

²²⁰ Ofcom 2020. [Review of postal users' needs](#). p. 38. Jigsaw, 2023. Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups, slide 31.

²²¹ Chapter 5, paragraphs 5.17 and 5.33.

²²² We note that for our 2020 [Review of postal users' needs](#), in the scenarios where the speed of delivery was reduced to a single D+2 or D+3 class, we assumed that a premium next day delivery service would remain as part of the USO. Similarly, our 2023 Qualitative research (Jigsaw) found that respondents were willing to accept a reduction in delivery days or a reduction to one class as long as a faster/more frequent service remains for the occasional urgent items (slide 47). Section 5 of our [Statement on the Review of Second Class Safeguard Caps 2024](#) includes some analysis of the factors we take into account when considering the 'affordability' of postal services, including the frequency of use and the costs involved in providing the service.

²²³ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

²²⁴ [Ofcom, 2024. Statement on the Review of Second Class Safeguard Caps 2024](#).

for this option. However, if an affordability intervention is still required this will come with a cost which we have not at this time sought to estimate. We discuss this further at the end of this section.

Impact on large mail users

- 9.54 As with the option of changes to the number of delivery days, we anticipate that, in response to any changes to delivery speeds for USO services, Royal Mail would also seek to alter the speed of delivery for its bulk mail services to achieve a more efficient service.²²⁵ At a minimum, this would require us to amend the access conditions to remove the obligation on Royal Mail to provide D+2 access services given these are broadly equivalent to Royal Mail's First Class USO service. As above, this would also involve the consideration as to whether access operators require an additional regulated slower access service or simply require Royal Mail to engage with stakeholders and provide access to its network on fair and reasonable terms, with appropriate safeguards. Any changes to the access conditions will require engagement with industry and Royal Mail, however, and we would consult on any proposed changes.
- 9.55 As already set out, broadly a third of access letter volumes currently use Royal Mail's D+5 economy access product, indicating that a significant amount of access mail is not time critical.²²⁶ Letters sent using this service are unlikely to be affected by a reduction in speed for USO products.
- 9.56 Moving to a slower delivery could, however, affect large mail users that rely on faster deliveries, such as publishers of weekly magazines. Senders of such items may need to adapt their business practices to send earlier where possible, or use more expensive premium services such as Special Delivery (next day) or a similar less highly specified next day delivery product. We anticipate that some volume of mail may be lost as large mail users switch to digital communications in order to reduce costs. The remainder, however, we expect would switch to alternative access products, including the existing economy products, or to a commercial next day letter service.

Financial impact on Royal Mail

- 9.57 Our 2020 research suggested a significant impact on Royal Mail's revenues if First Class were removed from the USO, as we estimated that a substantial number of users would simply choose to no longer send First Class rather than switching to a D+3 service or a premium alternative. However, the structural decline in the letters market and the evidence on consumer preference for certainty over speed suggests that demand would remain robust even if First Class services were removed or modified. It is likely that most mail users (both residential and bulk) who are easily able to migrate to digital communication channels have done so (though there will continue to be a steady decline over time). Similarly, the letter volume trend data from other countries that have reduced or revised the product speeds available for letters does not show an accelerated decline in volumes following reform.²²⁷

²²⁵ See paragraphs 9.12-13 for more information.

²²⁶ Ofcom, 2023. [Post Monitoring Report](#). p.11.

²²⁷ See chapter 7, paragraph 7.8 for more information.

9.58 Our cost modelling suggests that, if Royal Mail were to operate with the majority of existing First and Second Class volumes delivered through a single D+3 product, it could potentially have achieved net cost savings of £150-£650 million in 2021/22 (cost savings of approximately £300-700 million and the potential loss of revenues would be around £50-150 million) if the changes had been in place at that time. We would expect cost savings and revenue losses of a similar order of magnitude each year, though they will change based on changes in volumes and in Royal Mail's baseline operations. We have presented this as a large range, given the extent to which those savings could be realised is heavily dependent on Royal Mail's ability to restructure its operations and delivery pattern including with respect to D+1 services, and the decline in volumes through e-substitution or users deciding to no longer send particular items by post.

Environmental impact

- 9.59 A reduction in delivery speeds could enable Royal Mail to reduce its use of air freight with substantially lower volumes of letters having the next day delivery requirements that necessitate flights. Transporting mail by air has the highest carbon footprint per tonne of any other transportation type and accounts for around 5% of Royal Mail's domestic mail. Royal Mail has indicated that 18 flight routes, equating to 30,000tCO₂e, or 50% of its current air emissions, could be removed if it achieved flexibility in delivery windows at the destination office.²²⁸ This relates to being able to make final deliveries later in the day, thereby enabling greater use of slower forms of transport by rail and road.
- 9.60 In August 2023, Royal Mail stopped flights of its dedicated mail delivery aircraft to Jersey and did the same for the Isle of Man in October 2023. Instead, inbound and outbound mail is carried by existing ferry services. The Isle of Man Post Office said its research demonstrates the vast majority of its customers will not be affected by this move and has stressed the importance of striking the right balance between customer needs, cost-efficiency, and environmental responsibility. This shift is projected to reduce CO₂ emissions by over 600 tonnes annually.²²⁹
- 9.61 As mentioned in chapter 3, our Residential Postal Tracker indicates slower speeds may be supported by many residential customers for environmental reasons.²³⁰ In addition, Ofcom's SME Postal Tracker found that just under a third of SMEs would be willing to use a parcel provider that operates in an environmentally friendly way even if items take longer to deliver, while just over a third disagreed.²³¹
- 9.62 In Norway, Posten (the Norwegian USP) has not been required to offer overnight letter mail services since 2018, enabling it to remove almost all its air-based transportation thereby reducing emissions.²³² In Sweden too, the move to D+2 enabled PostNord to reduce emissions from flights, down by 26% during 2018.²³³ In France, by 2030, the replacement of La Poste's First Class 'red stamp' letter with its priority 'red e-Letter' and

²²⁸ Royal Mail, 2023. [Environmental Societal and Governance \(ESG\) Report 2022-23](#), p. 17.

²²⁹ Isle of Man Post Office, 2023. [A UK Guaranteed Next Day Service To Be Maintained For Priority Mail - IoM Post](#).

²³⁰ Ofcom [Residential Postal Tracker 2022-23, QC3](#).

²³¹ Ofcom [SME postal user tracker survey 2022-23, QN13](#).

²³² Copenhagen Economics, 2022. [Main Developments in the Postal Sector \(2017-2021\) Volume 1 and 2](#).

²³³ PostNord, 2023. [How we reduce our environmental impact](#).

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the standard ‘green letter’ (with a 3-day delivery), is estimated to save 60,000 tonnes of CO₂ a year, representing a 25% reduction. This will be achieved by halting the use of air transport in France, more efficient truck loading, and by printing of e-letters closer to the recipient’s address, thus reducing the need for transport.²³⁴

- 9.63 However, it should be noted that some First Class mail would likely switch to other existing and potentially new products, as well as other providers, which would transfer emissions elsewhere for processing and logistics, before feeding back into the Royal Mail network for delivery via the access system.

Delivery speed for letters: initial view

- 9.64 Our analysis suggests that Royal Mail could achieve significant cost savings and reduced emissions if the majority of users were incentivised to migrate from a D+1 to a D+3 service. The extent to which those savings could be realised, however, is dependent on how successfully Royal Mail could restructure its operations.
- 9.65 Given the evidence discussed in chapter 5 (indicating that certainty and reliability are more important than speed of delivery for most users) we consider that slowing the speeds of delivery for the majority of USO letters products would be likely to continue to meet the needs of most residential users, particularly if Royal Mail was obliged to continue to offer a priority service to convey a low volume of urgent items.
- 9.66 We note that some bulk mailers that need items to arrive quickly to ensure they remain timely, such as weekly current affairs magazines, would need to change their business practices if possible, or switch to other commercial products.

Reducing Royal Mail’s quality of service targets

- 9.67 As set out in chapter 2, Royal Mail is currently subject to a number of QoS targets for its USO services (as set out in DUSP Condition 1).²³⁵ There have been ongoing issues with Royal Mail’s QoS performance in recent years.²³⁶ Its QoS was severely impacted by the Covid-19 pandemic as well as the industrial action in 2022 but, more recently, its performance has continued to be well below target which has been causing significant disruption to mail users across the UK. We are very concerned about Royal Mail’s continued under performance and will be continuing to hold Royal Mail to account for this, including taking further enforcement action if appropriate.²³⁷
- 9.68 In this section, we consider the impact on users of reducing the current QoS targets but without changing any other aspect of the letters USO specification. We could, following consultation, make changes to the levels of the QoS targets Royal Mail is currently subject to, as well as to the wider QoS regime.

²³⁴ La Poste Groupe, 2023. [La Poste is modernising its mail-service range to meet new customer needs and reduce its carbon footprint.](#)

²³⁵ [DUSP Condition 1](#)

²³⁶ See Ofcom’s [Post Monitoring Report 2022-23 interactive data](#) for full QoS results and comparison with previous years.

²³⁷ Most recently, on 13 November 2023, we announced our decision to fine Royal Mail £5.6 million for its failure to meet a number of its QoS performance targets for 2022-23. See Ofcom, 2023. [Royal Mail fined £5.6m for missing delivery targets.](#)

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- 9.69 Royal Mail's QoS targets are arguably more stretching than its European counterparts. For example, in Poland the comparable delivery targets for the USP are 82% for D+1 and 94% for D+3. In both Germany and Italy, the respective USPs are required to deliver 80% of D+1 mail the day after it has been collected.
- 9.70 In practical terms, a reduction in QoS targets would have limited impact for the majority of deliveries. For example, if the QoS target for the current specification of First Class services were reduced to 80%, the majority of First Class items would continue to arrive on D+1, and these items would be delivered Monday to Saturday. However, the lower target would allow Royal Mail to miss its target for a higher proportion of First Class mail (20%). This would allow greater flexibility across the network, with collections, processing and logistics activities better able to adapt to any fluctuations in the volume of First Class mail, thereby reducing costs and helping to improve efficiency.

Impact on residential and SME users

- 9.71 Our 2020 Review of Postal Users' needs found that generally mail users value reliability and certainty in terms of when a letter will arrive and would not welcome a reduction in QoS.²³⁸ This was also emphasised during our 2022 Review of Postal Regulation which found there was broad support from stakeholders, including Royal Mail, for our proposal to maintain our QoS targets at their current levels.²³⁹ Our latest residential tracker survey results also tend to suggest that QoS is important to users and that the recent decline in Royal Mail's QoS has had a negative impact.²⁴⁰
- 9.72 In our 2023 qualitative research, we found that while most letters are not urgent, reliability is valued; residential users select post as a trusted source of sending and receiving items, and when sending an item individuals reported the need to be sure it will get there and have a reasonable idea of when it will arrive.²⁴¹
- 9.73 We note that in Germany in December 2023, the Federal Ministry for Economic Affairs and Climate Action, which is responsible for the postal sector, published draft legislation implementing reform proposals.²⁴² This includes new QoS standards of 95% for D+3 and

²³⁸ See Ofcom, 2020. [Review of postal users' needs](#). p.70-71. While our conjoint analysis suggested that a reduction in QoS across both First and Second Class services would meet the needs of the majority of residential and SME users, the [2020 Quantitative report](#) indicated that certainty is important to users, with 90% of residential participants (p. 76) and 93% of SME participants (p. 94) considering it important that 90% of post is delivered on time (QE6). Similarly, while the [2020 Qualitative market research](#) found low user awareness of the existence of QoS standards and the levels that apply, when they were explained, research respondents felt that they were important and would become more important if other aspects of the service were reduced (p.36).

²³⁹ Ofcom, 2022. [Review of Postal Regulation Statement](#). p.94-95. See also, Royal Mail, 2022. [Response to Ofcom's Review of Postal Regulation – Consultation, December 2021](#). p.34.

²⁴⁰ This survey coincided with a period where there was strike action and QoS performance continued to be below target. It found an increase in dissatisfaction with Royal Mail's overall service, a decline in perceived value for money, a shift towards Second Class in reported use of stamps and some indications that the perceived importance of the postal service has declined. While price increases and cost-of-living pressures may have also contributed to these findings they tend to suggest that QoS is important to users, and that declines in QoS have a negative impact.

²⁴¹ Jigsaw, 2023. [Understanding the needs of postal service users: A report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

²⁴² BMWK, 2023. [Novelle des Postgesetzes – Bundesregierung beschließt Gesetzentwurf](#).

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99% for D+4 single piece standard letters moving away from the current obligation of 80% for D+1 services. The commentary in the consultation on the proposals published in January 2023 noted that “...the requirement that providers must deliver 80% of the letters they transport on the next business day as an annual average is hardly very helpful. The recipient does not know whether their letter is among the 80%. Requirements providing for longer routing times and greater reliability would better serve the needs of users while making the universal service more sustainable.”²⁴³

- 9.74 Overall, our research and the experience of other countries suggest that most users would be content for a letter to take longer to arrive as long as they had confidence that it would be delivered within that specified timeframe. This suggests that there is greater user support for a higher QoS standard over a longer time period than a quicker, but less reliable, service.

Impact on large mail users

- 9.75 As part of our 2020 research, we engaged with a range of large mail users to understand the likely impact of changes to the USO specification. In relation to QoS levels, we found that many valued reliability and knowing on which day mail would arrive with a high degree of certainty. This was so that they could ensure they were appropriately resourced to deal with consumer contact, or they were sending letters timed to arrive at a set interval. For example, when banks issue and send replacement bank cards, they typically aim for a gap between arrival of the card and the PIN code to minimise the risk of fraud.²⁴⁴
- 9.76 Therefore, any reduction in reliability and certainty could result in some large mail users switching to alternative premium products to ensure a guaranteed service level or, where practical, it may encourage them to further explore alternatives such as switching to digital communications.

Financial impact on Royal Mail

- 9.77 Cost savings could be achieved if we were to lower the First Class and Second Class QoS targets. This is because Royal Mail would be able to process and distribute some items more slowly, allowing it to reduce the number of items sent on planes and the volume of overnight traffic. In our 2020 research, we estimated that Royal Mail could achieve relatively modest savings of £75-125m per year in 2018/19 terms, based on a scenario in which Royal Mail was only required to deliver 80% (rather than 93%) of its First Class mail within the D+1 timeframe.²⁴⁵ However, we noted that these cost savings could be offset by revenue losses primarily due to customers switching to digital communications due to the reduction in certainty.

Environmental impact

- 9.78 Depending on the extent of any changes to QoS targets there may be some emissions savings. For example, as noted above, Royal Mail may be able to reduce the volume of mail sent by plane or overnight. It may also be able to make more efficient use of the space in

²⁴³ German Federal Ministry for Economic Affairs and Climate Action, 2023. [Key principles set out by the Federal Ministry for Economic Affairs and Climate Action for a revision of the Postal Act.](#)

²⁴⁴ Ofcom, 2020. [Review of postal users' needs](#), p. 72.

²⁴⁵ Ofcom, 2020. [Review of postal users' needs](#), p. 73.

delivery vehicles for routes where mail is not delivered on foot. While we have not quantified these emissions savings, we anticipate they are likely to be very small.

Reducing quality of service targets: initial view

- 9.79 Given our consumer research suggests that residential users value reliability and certainty over other attributes, such as speed, and the financial and environmental impact of reducing QoS targets would be minimal, we do not consider that lowering QoS targets is an attractive option. Other options, discussed in more detail above, would allow a reduction in the specification of the USO while also maintaining the incentives to deliver a high-quality service. They would also achieve more significant cost savings.

Subsidising the current USO

- 9.80 A final option we have considered is maintaining the current specification of the USO but establishing a mechanism to compensate Royal Mail for any unfair financial burden resulting from providing the USO. As set out in chapter 8, we have estimated that providing the USO (as currently specified) imposes a significant net cost on Royal Mail in the region of £325-675m in 2021/22.
- 9.81 As explained in chapter 7, a number of international USPs are entitled to state subsidy, particularly where it has been established that the costs of providing the USO are considered to be unfair. For example, in Greece, if the verified net cost of providing the USO is considered to be an unfair financial burden, Hellenic Post (the Greek USP) is compensated from the state budget. In France, changes to the USO, launched by La Poste in January 2023, have been supported by a government compensation package. La Poste will receive between €500 and €520 million a year, depending on its QoS results.²⁴⁶
- 9.82 An alternative model that has been adopted in other sectors is an industry fund whereby operators that meet a defined set of criteria (such as a particular turnover threshold) are subject to an industry levy. For example, in the UK, in relation to telecoms, a framework is in place which would enable the a fund to be created to support USPs for broadband and fixed line telephony services, BT and KCOM (in the Hull area), through a levy on other communications providers for any unfair costs involved in providing a universal service.²⁴⁷
- 9.83 The Act explicitly identifies the option of an industry fund to contribute towards the cost to the USP in providing the USO if it is deemed to be an unfair burden.²⁴⁸ The nature of the postal sector in the UK, however, means that it is difficult to see how such a fund would be established.
- 9.84 As noted in chapter 3, Royal Mail is the only major operator that delivers end-to-end letters in the UK. While the access market exists, it is very competitive, and requiring access operators to contribute to a subsidy for Royal Mail letter delivery would likely distort competition in the upstream market for bulk mail, particularly as margins for access operators are narrow. Similarly, a requirement for parcel operators to contribute to the cost of the USO would likely distort competition in the supply of parcel services, which is

²⁴⁶ Arcep, 2022. [Universal Postal Service](#).

²⁴⁷ Ofcom, 2020. [Statement: Compensating providers delivering universal services](#).

²⁴⁸ Section 46 of the PSA 2011.

highly competitive. The majority of parcel revenues comes from non-USO products. Therefore, it is not clear why it would be appropriate for revenues from such services to be used to fund USO letters or, more generally, why competitors' parcel revenues should be used to support a letters USO. We note that, before 2022, Poczta Polska (the Polish USP) was, in theory, funded via contributions from the USP and competitors. In reality, no operators were able to compete with the USP on letters and parcels on a large scale and therefore Poczta Polska was the only contributor. Since 2022, the USO in Poland has been subsidised by the Polish government.

- 9.85 The Act also identifies the option of postal users, or a certain class or postal users, contributing to the cost of providing the USO if it is deemed to be an unfair burden for the USP (in isolation or in combination with an industry fund).²⁴⁹ As noted above, one of our motivations for considering changes to the specification of the USO is to prevent any excess costs being passed on to consumers. Therefore, we do not consider it to be a appropriate option to collect funds from postal users to support the current USO.

Subsidy: initial view

- 9.86 While subsidy does present a potential way of maintaining the current USO specification, our assessment is that the current USO letters specification goes beyond that required to meet reasonable users' needs. Therefore, adapting the USO specification is likely to be preferable to using subsidy to maintain the existing levels of service and products, although this would ultimately be a decision for government.

Providing additional support for certain users

- 9.87 To ensure that the needs of vulnerable people and those who may be more reliant on post are met, Royal Mail is currently required by the USO to:
- a) offer an 'articles for the blind' service. This is a free First Class product for particular items when sent to blind and partially sighted people (and which is a minimum requirement of the universal service set in the Act).²⁵⁰
 - b) have, and review annually, a statement of arrangements to ensure that users who are blind, partially sighted, infirm through age, chronically sick or disabled are able to post letters and parcels using the universal service regularly and, as far as possible, without significant cost to those users.²⁵¹
 - c) have, and review annually, a statement of arrangements for rural and remote users who live over ten kilometres away from an access point which is capable of receiving postal packets up to 20 kilograms and registered mail.²⁵²

²⁴⁹ Section 46 of the PSA 2011.

²⁵⁰ A free articles for the blind service is a minimum requirement of the universal postal service as set out in s31 PSA 2011. Ofcom's Universal Service Order requires this service to be First Class and specifies the items eligible to use the service. More information about the service Royal Mail offers can be found on its '[Articles for the blind](#)' webpage.

²⁵¹ See DUSP Condition 1.8.4 and Royal Mail, 2023. [Statement on the arrangements for arrangements for users of postal services who are blind, partially sighted, infirm through age, chronically sick, or disabled.](#)

²⁵² See DUSP Condition 1.8.3 and Royal Mail, 2023. [Statement on the arrangements for the users of postal services whose premises are not within 10 kilometres of an access point capable of receiving postal packets up to 20 kilograms and registered mail.](#)

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- 9.88 This means that customers deemed to be vulnerable due to their age, a health condition or disability, and those that live in a rural or remote location, are able to hand 'letterboxable'-sized mail carrying the appropriate postage directly to Royal Mail postal workers when their delivery is being made. Royal Mail also offers a 'Parcel Collect' service, where it will pick up barcoded parcels from an address for a fee and customers have the option for Royal Mail to print the postage label on their behalf.²⁵³
- 9.89 We also have a duty to ensure postal services are affordable and in support of this we have imposed a price cap on certain Second Class items since 2012.²⁵⁴ For customers who are financially vulnerable, Royal Mail also offers (on a voluntary basis) a concessionary pricing scheme for its redirections service. This is targeted specifically at those who receive Universal Credit or Pension Credit.²⁵⁵ The scheme was refreshed in 2021, expanding eligibility and increasing the level of discount.²⁵⁶
- 9.90 As noted in section 7 of our statement on Second Class Safeguard Caps 2024²⁵⁷, we cannot assume that the existing affordability safeguard caps are compatible with a revised approach to the delivery of the USO (and in fact our modelling of some of the options for change where the bulk of mail moves to Second Class or slower speeds excludes the caps). However, this does not mean that affordability protections are not required and, as part of looking at the future development of the USO, alongside any changes to service specifications, it is also appropriate to consider new options to ensure access and affordability for users that need it. There are models for such schemes in other countries – for example, in 2014, Australia Post introduced a scheme enabling people that hold certain types of federal government-issued concession cards to apply for a 'MyPost Concession card'. This entitles the holder to buy up to fifty half price stamps a year. Those eligible include pensioners, veterans and those that receive particular state benefits.²⁵⁸
- 9.91 In the telecoms sector, we have placed requirements on landline and broadband providers to offer priority fault repair to customers who rely on these services for health and mobility reasons, and to maintain lists of customers that are entitled to extra support. For practical reasons, and given the range of existing services for such users, there is no equivalent requirement for Royal Mail to maintain a list of vulnerable users. However, we have taken action to improve the experience of disabled consumers by introducing new requirements on all parcel operators, including Royal Mail, to have policies and procedures in place to ensure the fair and appropriate treatment of disabled consumers.²⁵⁹

²⁵³ Royal Mail's '[Parcel Collect](#)' webpage.

²⁵⁴ We recently published our [decision on the Second Class safeguard caps](#) that will be in place from April 2024. We have decided to retain a cap on Second Class standard and large letters but remove the cap from Second Class parcels given we think that competition in this market appears to be effectively constraining Royal Mail's ability to raise prices, therefore ensuring that they remain affordable.

²⁵⁵ Royal Mail's '[Concession Redirection](#)' webpage.

²⁵⁶ Ofcom, 2022. [Statement: 2022 Review of Postal Regulation](#). pp 82-90.

²⁵⁷ Ofcom, 2024. [Statement on the Review of Second Class Safeguard Caps 2024](#)

²⁵⁸ See Australia Post's '[Concession stamps](#)' webpage.

²⁵⁹ Ofcom, 2022. [Consumer Protection Condition 5](#). Royal Mail, 2023. [Policy for the fair and appropriate treatment of disabled consumers](#). Royal Mail, 2023. '[Royal Mail introduces new options for customers with accessibility needs to avoid missed deliveries](#)'.

- 9.92 A redesigned USO would give Royal Mail greater financial resources and capacity to provide additional support for particular user groups. In this context, we may wish to consider options for more support to ensure access and affordability for all consumers, for example:
- a) in our statement on the Review of Second Class Safeguard Caps 2024 we noted that, while we have decided to retain our cap on Second Class standard and large letters for the next 3 years, we wish to work with Royal Mail to consider alternatives which might offer a more targeted approach,²⁶⁰ and
 - b) the consumer advocacy bodies have also identified other areas of potential consumer concerns such as support for people during periods when they do not have safe access to a fixed address (e.g. due to homelessness or because they are a victim of domestic abuse).

Transition to any new arrangements

- 9.93 Changing the specification of the USO would take some time and come at a cost to Royal Mail as it would need to restructure its operations. Following this call for input, we will carefully consider all stakeholder input, assess the options and provide an update in the summer. Some of the options for change require legislative change, others could be made through changes to our regulations.
- 9.94 If changes are made to the USO specification, Royal Mail is likely to need time to restructure its operation so it can implement the new service models and/or products and provide a reliable service. Users, including large users and industry, will also need time to prepare for change.
- 9.95 Depending on the specific changes that are made, we may need to consider the impact on stamps consumers have already bought and whether these need to be exchanged (like the recent Stamp Swap Out Scheme for non-barcoded stamps). Any changes to the current service will need to be carefully and clearly communicated so that users, particularly vulnerable users, understand the changes and the effect on how they use the service.
- 9.96 We would also need to consider how QoS obligations might be managed through a transition.

Conclusion

- 9.97 We have assessed a range of options in this chapter which could either be implemented in isolation, or in combination, to modify the USO specification for letters. In our assessment of these options, we have explored how users, including residential customers, SMEs and large businesses, would be affected. We have focussed on those options which would maintain the key principles of the USO.
- 9.98 The evidence indicates that the large majority of letters sent, whether via the USO or bulk mail, do not need to be delivered on the next day. Mail users generally value certainty and reliability over speed. As a result, it appears that quite significant changes could be made to the speed of delivery and/or number of delivery days which would be unlikely to

²⁶⁰ [Ofcom, 2024. Statement on the Review of Second Class Safeguard Caps 2024.](#)

materially inconvenience senders or recipients (if introduced carefully) and still meet users' reasonable needs. In many cases, particularly a reduction in delivery days or speed, it appears it would be large mail users that would be the most affected and they would need to adapt their behaviour to ensure people receive important information in a timely manner.

9.99 Our assessment also indicates it is delivery (rather than collection), followed to a lesser extent by product speeds, that are the main drivers of Royal Mail's costs of providing its services. The table below sets out our net cost savings estimates for the options involving changes to delivery speed and frequency which our assessment indicates would be likely to continue to meet users' needs.

Table 9.1: Potential options for USO reform and annual cost saving estimates (£ millions)

Options	Reduction in letter delivery to 5 days per week	Reduction in letter delivery to 3 days per week	Reduction in speed of delivery for the majority of letters sent to D+3 or slower
Cost saving	£150-200 million	£550-700 million	£300-700 million
Revenue losses	-£0-50 million	-£50-150 million	-£50-150 million
Net cost saving	£100-200 million	£400-650 million	£150-£650 million

9.100 Making changes to the letters USO specification would be likely to improve the financial sustainability of Royal Mail as the USP, as well as reducing Royal Mail's emissions. Royal Mail may also be able to place a greater focus on investing in innovation and providing more support for vulnerable users.

9.101 Finally, these changes alone would not provide the answer to the financial and operational challenges Royal Mail faces. We expect Royal Mail to improve its reliability and resolve any operational issues that have contributed to its current failure to meet its QoS targets. In addition, 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. Action in these areas is vital for Royal Mail to rebuild trust and remain a viable holder of the USO.

9.102 We welcome views from stakeholders on the options we have presented, and our assessment of the likely impacts on users and Royal Mail.

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

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

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

10. Next steps

- 10.1 In publishing this document, we aim to stimulate an informed discussion about potentially changing the USO specification to better align with users' reasonable needs, reduce the net cost the USO imposes on the universal service provider, and help to support the long-term financial sustainability of a universal postal service for the UK.
- 10.2 Our assessment of the evidence indicates that the current USO goes beyond users' reasonable needs for letters and changes are needed to align it more closely with how those user needs have now evolved. This is based on research which demonstrates that consumers' use and expectations of postal services (letters and parcels) has materially changed over the last decade and is expected to continue to do so. Use of letters by both individuals and businesses has been substantially and irrevocably changed by digital communication options, while online shopping is driving a greater reliance and focus on parcels.
- 10.3 The consequences of misalignment between the obligations and users' reasonable needs are significant. We estimate that the USO imposes a considerable net cost on Royal Mail. This, when combined with the evidence of the challenge of achieving profitability and operational effectiveness, raises serious questions as to whether it is a cost Royal Mail should or even can be expected to continue to meet.
- 10.4 Obligations which exceed the reasonable needs of users mean that people could pay higher prices for USO products than necessary. This situation also imposes costs on the universal service provider that undermine its capacity to innovate and invest in new products and services that users want, to reduce its environmental impact and to deliver existing services sustainably.
- 10.5 There are a range of options for change. These include considering the frequency of delivery for letters and/or the speed of letters products and related business products. However, it is clear that delivering on users' clear desire for reliability by securing high-quality services must be the bedrock of any changes to the USO.
- 10.6 We welcome views from all stakeholders on our assessment of the need to make changes to the USO letters specification, and the options we have set out. We recognise that it is important that we fully understand the potential impact of any USO changes on all users. This includes vulnerable users, those in rural and remote areas of the UK's nations, as well as large users who use bulk mail services.
- 10.7 We welcome anyone with views or suggestions on these areas, or any other views on the future development of the postal USO, to submit comments and evidence to: futurepostalUSO@ofcom.org.uk
- 10.8 We encourage respondents to let us know their views within a ten-week window from today until 3 April 2024. During this time, we plan to hold stakeholder events. You can register your interest in attending [here](#).
- 10.9 Following this period, we will carefully consider all stakeholder input, assess the options and provide an update in the summer. Some of the options for change require legislative

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change, others could be made through changes to our regulations and, under any scenario, Royal Mail will need to restructure its network to respond to what people need.

A1. Responding to this call for input

How to respond

- A1.1 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 3 April 2024.
- A1.2 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-1/the-future-of-the-universal-postal-service>. You can return this by email or post to the address provided in the response form.
- A1.3 If your response is a large file, or has supporting charts, tables or other data, please email it to futurepostalUSO@ofcom.org.uk, as an attachment in Microsoft Word format, together with the [cover sheet](#).
- A1.4 Responses may alternatively be posted to the address below, marked with the title of the consultation:
- Future development of the postal USO team
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A1.5 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files; or
 - upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.6 We will publish a transcript of any audio or video responses we receive (unless your response is confidential).
- A1.7 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt of a response submitted to us by email.
- A1.8 You do not have to answer all the questions in the document if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.9 It would be helpful if your response could include direct answers to the questions asked in the document. The questions are listed in annex 4.
- A1.10 If you would like to discuss the issues and questions raised in this call for input, please contact the team by email: futurepostaluso@ofcom.org.uk

Confidentiality

- A1.11 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish responses on the Ofcom website at regular intervals during and after the consultation period.
- A1.12 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.13 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.14 To fulfil our pre-disclosure duty, we may share a copy of your response with the relevant government department before we publish it on our website. This is the Department for Business and Trade (DBT) for postal matters.
- A1.15 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our Terms of Use.

Next steps

- A1.16 We will hold stakeholder events in the first part of 2024 to discuss the evidence and options. Following this period, we will carefully consider all stakeholder input, assess the options and provide an update in the summer.
- A1.17 If you wish, you can register to receive mail updates alerting you to new Ofcom publications.

Ofcom's consultation processes

- A1.18 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in annex 2.
- A1.19 If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.20 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

The future of the universal postal service

Corporation Secretary

Ofcom

Riverside House

2a Southwark Bridge Road

London SE1 9HA

Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

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

Before the consultation

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

During the consultation

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

After the consultation

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

A3. Call for input coversheet

BASIC DETAILS

Document title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

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

Nothing

Name/contact details/job title

Whole response

Organisation

Part of the response

If there is no separate annex, which parts? _____

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

DECLARATION

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

Ofcom aims to publish responses at regular intervals during and after the response period. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the response period has ended, please tick here.

Name

Signed (if hard copy)

A4. Call for input questions

A4.1 We have included a number of specific questions through this document and we would like you to consider these when responding. We have set out these questions below for ease of reference. However, we are not seeking to limit the issues on which respondents may wish to comment and you are welcome to include representations on any issues which you consider relevant.

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

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

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

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

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

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

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

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

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

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

A5. European comparators²⁶¹

	Belgium	Denmark	France	Germany	Greece	Italy	Netherlands	Norway	Sweden
USP	Bpost 51% state-owned / 49% listed	PostNord AB 60% Swedish state / 40% Danish state	La Poste 66% Public Sector Bank / 34% state-owned	Deutsche Post AG 79% listed / 21% Public Sector Bank	Hellenic Post Fully state-owned	Poste Italiane 36% listed / 35% Public Sector Bank / 29% state-owned	PostNL Fully listed	Posten Norge AS Fully state-owned	PostNord AB 60% Swedish state / 40% Danish state
Revenues, £bn (2022)	3.75	2.93	30.19	85	0.24 (2021 excl. subsidy)	10.14	2.95	1.71	2.93
Staff (2022)	34,509 inc. 27,669 contractual personnel & 6,840 statutory personnel	33,592 inc. 25,401 full-time staff and 8,191 temporary staff (plus subcontractors)	238,033 Full time equivalent Employees (plus temporary staff and subcontractors)	600,278 (inc. trainees) / 554,975 full time equivalent	3,184 (2021)	124,939 full-time and 9,980 part-time (plus temporary staff and subcontractors)	35,647 inc. 30,521 full-time and 5,126 temporary staff (plus logistics and delivery subcontractors)	12,750 including permanent and temporary positions and subcontractors	33,592 inc. 25,401 full-time staff and 8,191 temporary staff (plus subcontractors)
USO product changes	Bulk parcels removed in 2018	Priority mail removed in 2018 except for newspapers	Priority letters removed in 2023, priority e-letters added, 'service plus' tracked letters added	None to date	Tracking and electronic stamps added in 2021	Light tracking and slower non-priority letters added in 2015	None to date	Priority letters removed in 2018, banking removed in 2021	Priority letters removed in 2018

²⁶¹ We have compiled this table using information from relevant national regulatory authority (NRA) annual reports and websites, as well as specific questionnaires we have sent to NRAs and meetings we have had on the USO changes and net cost calculations.

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	Belgium	Denmark	France	Germany	Greece	Italy	Netherlands	Norway	Sweden
Frequency of standard letter delivery	Reduced from 5 days to 2.5 days in 2020.	Reduced from 6 days to 5 days in 2016 and then to 1 day in 2018. <i>N.B. USO removed in Denmark on 1 January 2024.</i>	6 days	6 days	5 days	5 days reduced to 3 days in low population density areas 2015-17.	6 days reduced to 5 days (Tue to Sat) in 2014 by government in response to PostNL requesting compensation.	6 days reduced to 5 days in 2016 and then to 2.5 alternate days in 2020 (Mon-Fri).	5 days reduced to 2.5 alternate days in 2021/22.
Speed	Non-priority letters reduced from D+2/D+3 to D+3/D+4 in 2020.	Non-priority letters reduced from D+3 to D+5 in 2016, and D+1 priority mail removed in 2018 except for newspapers.	From 2023: D+1 removed (except for new e-letters), non-priority letters reduced from D+2 to D+3, new D+2 'service plus' letters.	D+1 and D+2 for non-priority letters Parcels D+2 <i>N.B. Changes likely in 2024.</i>	Non-priority letters reduced from D+1 and D+3 to D+3 and D+5 in 2021.	Non-priority mail reduced from D+3/D+5 to D+4/D+6 in 2015, priority reduced from D+1/D+3 to D+1/D+4.	D+1 (next delivery day) for non-priority letters.	Non-priority letters reduced from D+2/D+4 to D+3/D+5 in 2020.	D+1 reduced to D+2 in 2018 (ongoing work to potentially reduce to D+3).
Party initiating the changes	The USP, in line with consumer studies carried out by BIPT.	The Danish Government.	The French Government.	German Ministry for Economic Affairs and Climate Action is in the process of revising the German Postal Act in over 20 years inc. the scope of the USO services.	EETT conducted a study in 2018 on the need for US reform, held a public consultation, and then recommended changes to the Ministry.	In 2015, Poste Italiane submitted a request to implement the alternative day delivery model which AGCOM allowed following public consultation.	The Dutch Government in response to USP's request for compensation.	Norwegian Ministry of Transport and Communications commissioned Copenhagen Economics to conduct study of effects of changing USO.	Official government inquiry into the financing of the USO.

The future of the universal postal service

	Belgium	Denmark	France	Germany	Greece	Italy	Netherlands	Norway	Sweden
Compensation paid for USO	None to date, but direct compensation by government permitted under legislation for unfair financial burden.	A compensation fund operated in 2014-16, but was discontinued. The government paid direct compensation of €30 million in 2020 approved by the EC in August 2022.	During 2018-22 La Poste received €900 million compensation (in form of tax relief). In 2021 the government allocated an annual budget of €500-€520 million to partially compensate for the USO deficit.	None	EETT has been compensated an average of €37 million per year for the net cost of universal service provision for the years 2013-2020.	The government paid compensation of €1.3 billion over 2020-24, with maximum yearly compensation of €262 million approved by the EC.	In 2012, PostNL applied for €107 million compensation for 2011, signalling subsequent requests. In response the government reduced frequency of delivery from 6 days to 5. PostNL withdrew its request.	In 2023 the government proposed to allocate approximately NOK 1,260.6 million for government purchases of unprofitable postal services.	None - The government has had the ability to pay another provider to meet USO if USP cannot fulfil USO, but new government compensation model for unfair financial burden is being considered.
Net cost assessment process	Law requires USP to do assessment and the NRA to review it (from 2018).	N/A	Compensation is agreed through agreement between La Poste and the French government.	N/A	NRA responsible for determination of the net cost, considered to be an unfair burden if exceeds 1% of the USP's income from universal services.	Law requires USP to do the assessment and the NRA to audit it.	Currently no procedure in postal law or regulations but plans to include in future are under consideration by the Ministry.	External assessment carried out annually for the government to consider reimbursement.	N/A

The future of the universal postal service

	Belgium	Denmark	France	Germany	Greece	Italy	Netherlands	Norway	Sweden
User needs review required in legislation before changes	Belgian postal law requires the scope of the USO to evolve in line with user needs with the NRA carrying out a review every four years or so.	No statutory requirement to review user needs when seeking to amend the postal act, and up to Government and Parliament to decide whether a review is needed.	No statutory requirement.	No statutory requirement, but frequent monitoring of the market in accordance with the law (which also provides a mechanism to ensure the provision of a specific universal service, if there is market failure).	At least every six years the scope of the USO could be reformed through a ministerial decision following a proposal by the NRA.	No statutory requirement.	Done under the responsibility of the Dutch government.	No legal requirement, but NRA has conducted own initiative studies.	No legal requirement, but external independent surveys on customer satisfaction and needs carried out every 2/3 years on behalf of NRA.

A6. Legal Framework

A6.1 This annex outlines:

- a) The legal and regulatory framework which applies to the universal postal service, including our statutory duties;
- b) The scope of the universal postal service (based on the minimum requirements set by Parliament and the Secretary of State);
- c) Ofcom's role and powers to change the universal postal service.

Ofcom's duties

Duties in relation to post

- A6.2 Our principal duty under the Communications Act 2003 ("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.²⁶²
- A6.3 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, QoS and value for money.²⁶³
- A6.4 The Postal Services Act 2011 ("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.²⁶⁴
- A6.5 In performing our duty under the PSA 2011, we must have regard to the need for the provision of a universal postal service to be: (a) financially sustainable; and (b) efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.^{265 266}
- A6.6 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.²⁶⁷

²⁶² Section 3(1) of the CA 2003.

²⁶³ Section 3(5) of the CA 2003.

²⁶⁴ Section 29(1) of the PSA 2011.

²⁶⁵ "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.

²⁶⁶ Section 29(3) of the PSA 2011.

²⁶⁷ Section 29(4) of the PSA 2011.

- A6.7 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

- A6.8 There are a number of factors that we must also take into account when exercising our principal duty under the CA 2003.
- A6.9 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.²⁶⁸
- A6.10 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.
- A6.11 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 is reasonably practicable.²⁶⁹
- A6.12 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.²⁷⁰

The legal and regulatory framework of the USO

- A6.13 The specification of the universal postal service is set by a combination of both legislation and regulation:
- a) the minimum requirements of a universal postal service are set in section 31 of the PSA 2011;
 - b) the universal postal service order must reflect those minimum requirements and adds the detailed scope of services that must be offered; and
 - c) regulatory conditions implement the above legislation by imposing binding obligations on the designated USO, including QoS targets for key services.

²⁶⁸ Section 3(3) of the CA 2003.

²⁶⁹ Section 3(4) of the CA 2003.

²⁷⁰ Section 3(6A) of the CA 2003.

PSA 2011 minimum requirements

- A6.14 The services that must, as a minimum, be included in a universal postal service are set by section 31 of the PSA 2011. They include:
- a) At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday (to homes or premises²⁷¹);
 - b) At least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
 - c) A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK;
 - d) A registered items service at affordable, geographically uniform prices throughout the UK;
 - e) An insured items service at affordable, geographically uniform prices throughout the UK;
 - f) The provision of certain free services to blind/partially sighted people; and
 - g) The free conveyance of certain legislative petitions and addresses.

Universal Postal Service Order 2012

- A6.15 Section 30(1) of the PSA 2011 requires Ofcom to make an order setting out a description of the services that we consider should be provided in the UK as part of the universal postal service and the standards with which those services must comply (“the Order”).
- A6.16 The Order reflects the seven minimum requirements and adds requirements about the services and products that must be provided as part of the USO. This includes, for example, First and Second Class, and the Signed For add on to these two speeds of service; Special Delivery Next Day by 1pm; and the following addressee services: redirections; mail retention (Keepsafe); and post restante.

Designated Universal Service Provider Conditions 2012

- A6.17 Royal Mail is the designated provider of the USO. This means that, under the PSA 2011, Ofcom can impose Designated Universal Service Provider (DUSP) conditions on Royal Mail.
- A6.18 These regulatory conditions, which are the means by which Ofcom requires Royal Mail to provide the USO, specify in greater detail aspects of the services that must be provided as part of the universal postal service. For example, they set QoS standards for key services and requirements about the geographic distribution of access points (e.g. post boxes).

²⁷¹ Or such delivery points approved by Ofcom.

Changing the specification of the USO

Modifying the minimum requirements in section 31 of the PSA 2011

- A6.19 Before the minimum requirements can be changed, Ofcom must carry out a user needs review under section 34 of the PSA 2011.²⁷² The Secretary of State may direct Ofcom to carry out such a review, or Ofcom can decide to initiate a review of the extent to which the minimum requirements reflect the reasonable needs of users of postal services in the UK. As part of such a review, Ofcom may consider whether the minimum requirements imposed by the PSA 2011 could be altered so as better to reflect those needs.²⁷³
- A6.20 Ofcom must send a copy of any review conducted under section 34 to the Secretary of State. Following such a review by Ofcom, the Secretary of the State may decide to amend the minimum requirements. The PSA 2011 allows amendments to the minimum requirements to be made by order that is subject to the affirmative resolution parliamentary procedure. This means that it cannot become law unless debated and approved by a vote in both Houses of Parliament. As set out in section 34(6) of the Act, the power of the Secretary of State to amend the minimum requirements by order does not include the power to make ‘different provision in relation to different places in the UK’.
- A6.21 If the UK Government brought forward proposals to Parliament to change the minimum requirements (following a user needs review), Ofcom would need to make any necessary consequential amendments to the Order and the DUSP conditions (as to which see below).
- A6.22 It would also be open to Parliament to amend the minimum requirements using primary legislation.

Modifying the Order

- A6.23 Before changing the Order, as set out in section 30(3) of the Act, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services. This would typically be done as part of a user needs review. Any proposals for change to the Order must continue to reflect the minimum requirements in the PSA 2011, and we would consult on any such proposals before we made any final decisions.

Modifying the DUSP Conditions

- A6.24 Paragraph 1 of schedule 6 to the PSA 2011 states that we may only modify the DUSP Conditions where we are satisfied that the modification: (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

²⁷² There is no requirement for Ofcom to carry out a user needs review in the event of a special administration regime, rather the Secretary of State is able to by order amend section 31, subject to approval (section 82(5) and (6) of the PSA 2011).

²⁷³ Ofcom’s most recent user needs review was published in November 2020.

achieve. Under paragraph 3 of schedule 6, we would have to consult on any proposed modifications.

Unfair financial burden review

- A6.25 As set out in chapter 8, under sections 44 and 45 of the PSA 2011 we may carry out an assessment of whether the USO imposes an unfair financial burden on the designated provider. If we find there to be an unfair financial burden then we may make one or more of several recommendations to the Secretary of State.²⁷⁴ These include a recommendation that Ofcom carries out a review of the reasonable needs of postal users.²⁷⁵ Following such a review, the Secretary of State would be able to modify the minimum requirements of the USO. Ofcom could also recommend that, to meet some or all of the financial burden, contributions be made by postal operators providing services within the scope of the USO and/or all or certain postal users.²⁷⁶
- A6.26 We note that we do not have to carry out a review under sections 44 and 45 in order for the scope of the USO to be modified.

²⁷⁴ Section 45(8) PSA 2011.

²⁷⁵ Under section 34 of the PSA 2011, Ofcom may also carry out such a review without having first conducted an unfair financial burden assessment.

²⁷⁶ We could also recommend that we make a “procurement determination”, which is a determination that a particular postal operator or operators could provide the USO in a way that would mean no unfair, or a less unfair, financial burden would be imposed (section 45(9) PSA 2011).