

Communications Consumer Panel and Advisory Committee on Older and Disabled People's (CCP-ACOD/'the Panel') response to Ofcom's Call for Input: Review of postal regulation - pricing and affordability

Who we are

The Communications Consumer Panel, established by the Communications Act 2003, is a group of independent experts with direct sectoral experience. We ensure the citizen and consumer voice is represented in communications policy development and we have dual membership with Ofcom's Advisory Committee for Older and Disabled People.

The Panel pays particular attention to underserved communities, people with access requirements, and people who may be more susceptible to harm, and the needs of micro businesses, which have many of the same challenges as individual consumers.

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

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

Our response

The Communications Consumer Panel and Advisory Committee on Older and Disabled People (the Panel) welcomes this Call for Input and the opportunity to contribute to this highly important consultation.

The Panel appreciates the thought that has gone into the consultation document, the Jigsaw consumer research and the WIK desk research that has been undertaken to frame the initial thoughts of Ofcom and to give structure to this Call for Input.

The Panel appreciates that this consultation is at an early stage, with this being a Call for Input, but given the size of all three documents, we are surprised that Ofcom has limited the time period in which to respond to a bare month. This is not in line with good consultation principles and practice.

We believe that the Universal Postal Service is an intangible community asset protected by the Universal Service Obligation on Royal Mail and the critical national infrastructure which Royal Mail operates. Changes to the USO may have unintended consequences leading to exclusion and deeper divides in UK society, when seen in the context of digital transition projects led by industry.

We are steadfast in our opinion that Ofcom must ensure that any further migration to digital does not further deprive ever more people of connectedness and inclusion. The regulatory necessity of providing minimum connectedness standards for people who may be

underserved due to unaffordability, inaccessibility, a lack of skills or confidence, geography, or a combination of all those.

The issue warrants sufficient time for all stakeholders to be able to give considered thought to the matter and to provide meaningful input. This is potentially a missed opportunity for Ofcom to receive the depth and breadth of input that would have been useful in forming its proposals. We trust that Ofcom will take this on board in relation to further consultation and also that it remains open to the considerations advanced in stakeholders' responses.

Given the short turnaround time, we set out below our minimum expectations of Ofcom's next stage of the consultation process:

- Additional research must be undertaken to ensure targeting user needs appropriately
- The discount scheme is not, in our opinion, a replacement for price regulation currently in place - our affordability concerns on behalf of postal users remain.
- We find no case for relaxation of the Second-Class price cap.
- We urge Ofcom to reflect on known concerns/difficulties regarding the awareness and take-up of social tariffs in other parts of the communications sector.
- We advise that a full costing exercise should be undertaken covering differing options depending upon how wide eligibility for the scheme is going to be.
- A full analysis should be undertaken by Ofcom of its impact upon all other consumers who will pay for the cross subsidy.
- A full analysis of the impact of the different eligibility options and associated costs upon the sustainability of the USO. What impact it will have if Royal Mail:
 - (a) achieves its operational changes as a consequence of the recent changes to the USO; and
 - (b) fails to achieve its operational changes.
- For all such detail to be included in the next Consultation document produced by Ofcom on this proposal, showing how this reflects the minded-to decision of Ofcom, and to ensure transparency and confidence that it will meet its intended objectives.
- We believe there is a need for a separate, standalone consultation on access and price regulation.

Second Class Safeguard Price Cap

We note that the basis of Ofcom's decision in 2024 limiting the cap on the price of 2nd Class postage to three years rather than five, was because of concerns around the financial sustainability of the universal service. We assume that at that point in time the significant changes to the universal service announced by Ofcom in July of this year, were not part of its thinking. Royal Mail already enjoys full discretion as to how it sets its pricing of 1st Class post, and we have seen significant increases since the relaxation of price controls upon it. The Panel is of the belief that to discontinue any safeguard around the price of 2nd Class postage would at this time be premature and not evidence based.

As the monopoly provider, to most domestic and small and medium sized enterprise (SME) consumers in relation to 1st and 2nd Class mail services and Signed-For, Royal Mail might be best-placed to work out the minutiae of any discount scheme. However, we believe that Ofcom must assert a high degree of scrutiny of any such planned scheme and should monitor and report on its functioning. Ofcom's role should be to establish principles and identify

consumer groups the scheme must protect - and ensure appropriate, rigorous monitoring on implementation.

Ofcom rightly points to the ever-rising costs of delivering the universal service and which are wrapped up in its Reported Business¹. The Panel has previously alluded to the obfuscation that exists without any meaningful analysis being made of the costs of Royal Mail's Universal Service (USO) activities and its non-USO products and services². The latitude

that Ofcom has given Royal Mail in its recent changes to the USO are dependent upon it stepping up to the plate on broader operational and financial challenges. It has been given what it asked for, but it remains to be seen if it can deliver, literally and figuratively. If prices increase and quality of service continues to decline, then inevitably domestic and SME consumers will move to alternative communications methods and that will accelerate the decline of Royal Mail and the end of the USO.

The Panel broadly agrees with the objectives for this review. However, we believe that the objectives of the review should be limited to the affordability of the universal postal service for those who use it and particularly, those who rely on it, and should be purely user focused. As we have highlighted in our introductory points, we believe a separate call for input should be held on funding and access pricing in light of the complexities and need for additional work to inform price concerns.

While we welcome Ofcom's research into the use of post by consumers in other countries, which would be helpful to uncover innovative approaches that may benefit UK consumers, we query Ofcom's inclusion of comparisons with other countries as a means of justifying Royal Mail's pricing strategy. The geography, culture, digital connectivity and cost of living differ quite widely. The comparisons appear designed to highlight the lower price charged by Royal Mail - but we believe the wide variation in product, use patterns and overall context make this meaningless.

Need for improved evidence base with additional user research

We believe that while proving very useful as a starting point, the research that Ofcom has commissioned to underpin this consultation document needs supplemental pieces to better inform any final decision.

In relation to the research commissioned by Ofcom to create a starting point for their Call for Input paper, we would comment as follows:

- Generally, we would like to see more - broader consumer research, that looks at consumer attitudes and impacts covering a wider cohort of potential groups eligible to benefit from the scheme - not just those on Universal Credit and Pension Credit, and in particular older consumers and those in the lower income quartile/social demographic ranges.
- We also believe that the sample should have included respondents that have turned away from using Royal Mail altogether because of issues of affordability and quality of service.

¹ Ofcom Call for Input consultation para 2.25

² See Panel Response to initial Ofcom consultation – [ccp-acod-response-to-ofcom-cfi-on-postal-services-uso-final.pdf](#)

- The Jigsaw research was largely conducted online, thus excluding people not online or who have low digital skills. The only exception was in relation to the 1-hour individual interviews, of which eight of the 20 interviews were conducted in-home with people not online or having low digital skills. However, these were all conducted in England: four in London and the South-East, two in the Midlands and two in the North. The other three Nations were excluded altogether from this.
- The Panel would also query the Jigsaw methodology more generally: the sample sizes appear to be very small upon which to base meaningful proposals, no matter how initial they may be; coverage of all the Nations seems minimal; and the span of age groups does not appear to include many older users of post, who Jigsaw acknowledges tend to use it more.
- Some of the Jigsaw findings do not appear to support the considerations put forward by Ofcom, for example, the inclusion or exclusion of the Signed-For service; free postage for medical items; the social importance of contact beyond “official mail”; in the context of limiting the number of discounted 1st Class stamps, the very frequent use of mail for postal users with medical conditions such as Phenylketonuria (PKU); Freepost and Discounted schemes, both have a place and it shouldn’t be one or the other.
- From the WIK paper, we see no Ofcom acknowledgement that “a targeted discount scheme would not necessarily result in higher processing and delivery costs”³. If eligible consumers sent more, demand could increase under a discount scheme.
- Likewise, WIK also state that costs of sales channels are not necessarily higher under a scheme - higher costs would only be incurred if scheme users purchased from a sales channel with higher costs than before, or if they made more purchases than they would have done before.⁴ Ofcom seem to suggest that they would be higher overall⁵.

Affordability and who should be eligible to receive discounted prices

The Panel acknowledges the approach of Ofcom in defining those who may be most challenged to afford postal costs. We agree with the list⁶ but, depending upon how one defines those groups, would be wary of excluding others who may also struggle, such as postal users with a medical condition, postal users who are largely restricted to their home, postal users who may not be in receipt of state benefits, but nevertheless are on a very tight income. Affordability and personal circumstances - such as health and employment status - can fluctuate.

When considering the expenditure on post by any household, we believe that the yardstick should be based upon disposable income, rather than simply as a percentage of household income. This is particularly true of those in the lowest quartile of income. What may seem like low expenditure, may still have a significant impact upon household finances if the

³ WIK: page 28

⁴ Ibid: pages 28/29

⁵ Ibid para 4.53

⁶ Ibid para 3.13

amount that household has to expend on post is very little. The impact in social terms could be highly significant if a household member is trying to improve their financial circumstances by sending out applications for jobs or is having to send medical tests for screening on a regular basis.

It should also be recognised that for some consumers there will be peaks and troughs in terms of the quantity of mail that they send. For example, a mail out for a charity or, sending Christmas cards. The latter could be particularly true of an older cohort of consumers. The value of this in terms of social connectivity and, in some cases, mental health and wellbeing should not be downplayed. Ofcom acknowledges that those having to send more items frequently face greater affordability challenges⁷.

We agree that postal users in receipt of Universal Credit or Pension Credit would appear to be groups that would most benefit from discounted prices. However, we would highlight the possibility of unintended consequences occurring, if the line is drawn at that neat cut-off point. Certainly, it would be easy to identify eligibility and, with appropriate protocols in place with the DWP, simplify a registration process. We will return to the financing of a postal social tariff scheme later in our response, but the cost of such a scheme would affect those not in receipt of state benefits.

As in Water, Energy and Telecoms, the cost of existing social tariffs, hardship funds or charitable trusts, are met by cross-subsidy from other user-payers. Most consumers are probably unaware that there is an element in their charges that cover this. However, for consumers who just miss qualifying for state benefits, they too may be struggling to meet their postal costs and would in addition to not being eligible to receive a discount, would be funding those who are eligible by paying higher stamp prices passed on to meet the cost of the scheme. We are deeply concerned about the double impact upon this group of postal users.

This would be especially true of older consumers whom we know are more inclined to rely on post for their necessary and social needs. This is mentioned in the Jigsaw research, as is the case that there is a lack of trust in 2nd Class post that is leading more people to use 1st Class, which is more costly and the price of which is unregulated⁸.

We believe that there are lessons to be drawn from the recent change in government policy on Winter Fuel payments which recognised - having first restricted payments to those in receipt of state benefits - that the policy needed widening considerably to mitigate an impact on those who still struggle financially but are not already in receipt of benefits.

It should also not be the case to artificially limit the criteria for eligibility based upon the cost of servicing and paying for the scheme. We do not agree with Ofcom's stance of wanting this to be limited to the fewest possible.

As a starting point, the Panel would like to see it open to all those in receipt of state benefits, those of pensionable age and those with a medical or life-restricting condition. We accept that not all pensioners need a discounted scheme and would urge more research across consumers in general (not just those on Universal Credit or Pension Credit), to

⁷ Ibid para 3.56

⁸ Jigsaw research section 4, pages 25-28

ascertain their need and usage. For example, it could be that more affluent pensioners tend to use the internet more and are less dependent upon post. If they were included in the “all pensioners” group, that could have the effect of them receiving discounted postage but rarely using it, thus making their (adverse) impact upon the scheme minimal. Conversely, it could encourage them to use the post more than they currently do, thus even with discounted pricing actually generating more income for Royal Mail. This needs further exploration.

In relation to SMEs, again we would be wary of oversimplifying the situation and saying that SMEs can usually pass higher postal costs on to their customers. In some instances that may well be true, but many SMEs stick to using Royal Mail and in difficult trading conditions, are apt to swallow rising costs rather than pass them on and potentially lose customers as a consequence.

Ensuring that the Universal Postal Service represents users in all four Nations of the UK and all parts of those Nations

We have already in this response raised our concerns that the voices of postal users in all four Nations of the UK should be reflected in research upon which Ofcom bases its proposals. The nuances of everyday life for postal users in different parts of the UK will more readily impact Ofcom’s thought processes if it does this, not least in understanding the geographical, employment, affordability, banking, and administrative considerations across the UK.

We urge Ofcom to continue to consult consumer advocates such as the Panel, as the statutory consumer panel for this sector, as well as Ofcom’s own Advisory Committees for each Nation, and the Panel’s consumer advocacy partners that commission or hold research and consumer data related to those specific parts of the UK, such as the Consumer Council for Northern Ireland, Consumer Scotland, Citizens Advice Scotland and the Welsh Language Commissioner and Older People’s Commissioner for Wales.

We urge Ofcom to understand that for postal users receiving benefits in Northern Ireland, the Department for Communities should be consulted as well as the Department for Work and Pensions for other parts of the UK and to stay alert to public policy changes that may affect these groups of postal users.

We would also highlight the needs of consumers and SMEs in rural and coastal areas, particularly in areas already underserved in terms of Quality of Service, and in communities that are also less well served by digital connectivity, who may therefore be more reliant on postal services. Many of these areas depend on seasonal employment, leading to fluctuations in disposable income and also potentially between members of a single household.

What letter services should be covered

The Panel believes that 1st and 2nd Class postage and Signed-for should be covered by a discounted pricing scheme. 1st and 2nd Class mail are undoubtedly the main services that consumers need, but nevertheless there are occasions when Signed-for is required for sending original documents that require more careful handling and certainty of delivery. We believe that the suggestion that if 1st and 2nd Class mail were discounted then consumers would have more money to spend on a non-discounted Signed-for service, would simply be

giving a discount to those that need it in one hand, and taking it away in the other. The idea of the scheme is to help those who need help to meet their postage costs, not to make it cost-neutral for them.

We agree to exclude parcels and Special Delivery from the scope of the proposed scheme, where the incidence of necessity is less prevalent.

Level of Discount

The Panel is agnostic as to the level of discount, save that it should be sufficiently meaningful to financially assist those in need of support and should not be so low as to create a barrier to take-up of the scheme (see below). We would agree that a 25% discount is too low and would prefer a 50% discount across a range of USO services to enable flexibility to meet individual customers' needs.

We note in the Jigsaw research that those surveyed thought the scheme should be broad in nature with few restrictions on services or quantity. The Panel would endorse this approach to ensure the greatest flexibility possible to meet individual consumer needs. However, if it was felt that a trial period was necessary to see how this social tariff scheme operated in practice, then a more cautious approach could be taken. For example, Royal Mail could offer a combination of a 50% discount on a fixed number of 1st Class items, 25% discount on a fixed or unlimited amount of 2nd Class items, and a 50% discount on a fixed number of Signed-for items. This should enable a reasonable estimation of the annual cost per eligible person or household, which when multiplied by the anticipated take-up or scope of eligibility, would enable any cross-subsidy to be set. We would prefer to see a budget set based upon the above, reviewable after a 1-year trial. If it appeared that the budget had been exceeded, then Royal Mail should be entitled to adjust its prices accordingly to maintain a cost-neutral situation. We note the lack of consumer appetite in the Jigsaw research for a voucher system, though if digitally provided on something like a credit card, could provide flexibility and be less obvious and potentially stigmatising when purchasing stamps across, say, a Post Office counter.

In relation to those who need to send medical samples on a frequent basis, a discount scheme may not prove to be sufficient, and we consider that such items should be free of charge.

Access to the Scheme

Access should be made as simple as possible with the widest promotion possible through multiple media. As is clear from Telecoms social tariffs, there can be a clear disconnect between the availability of such tariffs, consumer awareness of them and actual take-up. It would be remiss if the lessons from the Telecoms sector were not considered to create the greatest opportunity for actual take-up. Take-up should be actively promoted and not just left to eligible consumers finding out by chance.

Depending upon the scope of eligibility, access or registration to the scheme needs to be tailored to make the process as seamless and easy as possible, while at the same time

ensuring that there is no, or no semblance of stigma attached. If linked to benefit recipients, a process via the DWP would seem the most logical route. However, if the scheme were more widely available then more thought would have to be given as to how that could be rolled out. Potentially a simple registration process online or at a Post Office would seem to be the obvious options, to enable those with and without the internet capability to participate in the scheme.

The Panel would be happy to give this further consideration once the scope of eligibility is more certain. We also agree that an annual renewable process is about right.

We agree with the research findings concerning the ability of consumers who struggle to afford their postage costs being able to purchase stamps either online or in books. Following the research on how people in target groups currently purchase stamps will be key in understanding how to target them and also taking into account postal users with carers/unable to leave home independently.

Realistically, many will struggle to purchase stamps online and we agree that where the household budget is tight, people will only purchase stamps to meet their immediate needs. Nevertheless, for those with potentially a medical condition or being largely unable to leave home independently, the ability to purchase discounted stamps either online or in a book should be available as well as piecemeal.

Cost of the Scheme and Interaction with Safeguard Cap

The Panel believes that any discount scheme should be cost-neutral to Royal Mail. It should not be used as a means of increasing its prices elsewhere across its services and products to bolster the sustainability of the USO through the backdoor. The Panel is somewhat concerned at the references made by Ofcom in its Call for Input linking this proposal with Royal Mail's financial sustainability and the future of the USO.

This proposed scheme should not be a further drain on Royal Mail, but neither should it be seen as a means of addressing those two important factors. The success or failure of Royal Mail in those, lies in its ability to transform its operations now Ofcom has given it considerable licence to do so. For this reason, we consider that the scheme should be closely monitored by Ofcom, independently audited and reviewed after a one-year trial period. There must be complete transparency about the benefits, uptake and cost of this social tariff.

We are also alarmed at the notion of linking this proposed scheme with a reduction or lifting of the 2nd Class price cap. The two should not be dependent upon each other, other than any cross-subsidy element that may need to be added to postage costs more generally. There will undoubtedly be those who will not qualify for eligibility of the proposed social tariff but will nevertheless find paying for their postage a struggle, as we have mentioned earlier in our response.

If the 2nd Class price cap is amended or lifted altogether, then they will struggle more, will be contributing more indirectly through an element of cross-subsidy, and will be paying more for 2nd Class postage if Ofcom gives Royal Mail more freedom to raise its prices for this service. We have already seen what has happened to prices in relation to 1st Class mail. If

Royal Mail is also free to charge what it likes for 2nd Class post, then any discount to struggling consumers is undermined and serves no purpose. The cap acts as a backup to concerns around low take-up of social tariff schemes and likelihood groups may fall through cracks. We firmly believe that this option is one that needs to be considered much later, with relaxation of the safeguard cap considered *only* after evidence supports this and a stringent and transparent review of success measures of the social tariff scheme has taken place.

If this is allowed to happen, and in the context of poorer quality of service and a continuing inability of Royal Mail to transform its business, notwithstanding several large fines imposed

upon it by Ofcom, public confidence will all but evaporate and with it the Universal Postal Service.

Pricing

The Panel is surprised that Ofcom has included this section in its consultation document. We believe it warrants a far more in depth and separate consideration, rather than being tacked on to an initiative that should be all about consumer needs and affordability rather than Royal Mail's productivity and financial sustainability.

The Panel does not propose to go into any depth on the options put forward by Ofcom at this juncture. Suffice to say, that all have their strengths and weaknesses. Some give no incentive to be productive or meet quality of service targets, which should be of a concern to Ofcom. Other options do not constrain costs or would reward Royal Mail for achieving what they are supposed to be achieving under the present and future regimes, and which consumers are already paying for. Far more analysis should be undertaken and more consideration given to how Royal Mail cannot just plug the gap in declining mail volumes but actually look to initiatives that might grow volumes (for example, the Australian Christmas stamp initiative).

Summary of our conclusions

- We strongly believe that Ofcom will not be in an informed position to consult upon proposals, until additional consumer research is undertaken to ensure they are targeting user needs appropriately. This should include the groups of consumers that we have highlighted, across all four UK Nations, including postal users in rural and coastal areas.
- We believe that Ofcom should listen to the evidence and insights provided through all of its robust, independent research when making proposals and that it should listen to the contributions of stakeholders representing postal users across the UK, ensuring meaningful, timely input that influences user-focused change.
- The discount scheme is not, in our opinion, a replacement for price regulation currently in place - our affordability concerns on behalf of postal users remain. We urge Ofcom to reflect on known concerns/difficulties regarding the awareness and take-up of social tariffs in other parts of the communications sector.



Communications Consumer Panel

Advisory committee for older
and disabled people



Panel Defnyddwyr Cyfathrebiadau

Pwyllgor Cyngori Pobl
Hŷn ac Anabl

- We find no case for relaxation of the Second-Class price safeguard cap, and we believe that postal users who need to send regular medical samples in the post should be able to send them free of charge.
- We advise that the full analysis we advise on page two of this response should be undertaken by Ofcom and the results set out on the next consultation document Ofcom publishes on postal regulation.
- We believe there is a need for a separate, stand-alone consultation on access and price regulation.
- We advise Ofcom to consider its role in preserving an inclusive, sustainable communications sector, by looking not at each sub-sector in its silo but considering its capacity to serve the spirit of the regulation it enforces and delivering its aim to make communications work for everyone. To do this, Ofcom must consider the impact not only of proposing an action in one sector that affects one group of consumers in a particular way but ask itself whether that decision will deepen exclusion that that groups of consumers is already facing, due to decisions made by Ofcom or those it regulates in other parts of the communications sector.