

Context - Timing of the CFI

As an initial point, Post Office wishes to emphasise that the Call for Input was not included in [Ofcom's work plan for 2025/26](#) and is taking place at the busiest time of year, when Postmasters are working flat out to cope with the demands of the Black Friday and pre-Christmas peak period.

To inform this response, Post Office conducted an online survey of its Postmasters to gather feedback on some of the schemes highlighted in the Call for Inputs (see [Postmaster CFI survey verbatim feedback, November 2025 in Appendix 1](#)). Despite being extraordinarily busy at this time of year, Postmasters welcomed the opportunity to contribute to shaping future thinking ahead of a wider consultation. While the survey sample size was limited due to the timing, (33 responses), the feedback received is highly relevant and reinforces Post Office's concerns about implementing any poorly considered scheme in haste. Postmasters are socially and community-minded and remain committed to protecting the affordability of the universal postal service, which serves as a vital lifeline for many.

Targeted discount schemes of the nature contemplated would have direct implications for Postmasters (who could be directly involved in administering elements of most of the schemes considered), and for Post Office itself (who could be involved in deployment of some of the systems and processes necessary to administer it).

Given the time of year and unscheduled nature of this Call for Inputs, Post Office asks that Ofcom remains open to receiving further, more detailed representations in response to the matters raised in this Call of Input, after the closing date.

Subject to the above caveats, Post Office provides the following initial responses to the questions raised.

1. Affordability – general points

- 1.1 On the issue of affordability, Post Office has repeatedly raised concerns about the increasing unaffordability of USO services, especially the prices of First Class services where prices have doubled in four years¹ (58.8% in real terms). A **price cap on First Class services** is becoming increasingly important to maintain a six-day USO service.

"The current price levels especially for 1st class are having a detrimental effect on our stamp sales". Postmaster CFI survey verbatim feedback, November 2025.

- 1.2 Second Class stamp prices have risen 31.8% over the same four-year period (4.5% in real terms). This lower rate of increase in prices has undoubtedly helped to maintain affordability levels. **Second Class services should remain within a safeguard price cap** to prevent a repetition of the experience of rapid and steep price increases seen with First Class services.

"First class letter postage is now too high for many of our customers. Second class must remain an affordable option for all". Postmaster CFI survey verbatim feedback, November 2025.

- 1.3 Post Office could support a targeted scheme for vulnerable customers and/or an expansion of Freepost services for certain customers (e.g. for users with certain medical conditions where regular use of post is needed), but on the explicit condition that such a scheme and/or Freepost expansion should be **in addition to**

¹ Rising from 85p in April 2021 to £1.70 in April 2025

- and not instead of** a safeguard price cap of First Class and Second Class services.
- 1.4 A great disservice continues to be done to customers who face **ongoing poor quality of service and repeated increases in price**. Customers are increasingly unhappy about this poor bargain.
- "Customers are paying more and getting a poorer service". Postmaster CFI survey verbatim feedback, November 2025.*
- 1.5 Ofcom appears to prioritise Royal Mail's financial sustainability over affordability and service quality. A **more balanced approach** is needed to ensure customers are treated fairly.
- 1.6 The concerns about chronically poor service standards are not a local or isolated issue – they reflect a **nationwide problem**. In the latest published quality of service figures to 30 September 2025² not a single Postcode Area in a total of 118 met the required quality of service standard of 91.5% First Class items delivered within a working day.
- 1.7 The current regulatory incentives for service quality improvement are not working. Even with a recent record £21 million fine, it is again clear that **penalties are providing an insufficient incentive** to induce Royal Mail to make the investment necessary to improve quality of service. A much stronger incentive is needed.
- 1.8 Post Office joins with other stakeholders who are **advocating for any above-inflation price increases for First Class and Second Class services to be conditional upon Royal Mail having met its service targets**, especially now that those targets will be reduced with effect from April 2026.
- 1.9 Post Office also repeats its call for a 'Delay Repay' type of scheme to provide direct compensation to customers whose letters and parcels are delayed.
- 1.10 Post Office would reiterate that **online discounts are inaccessible to many vulnerable customers, who often rely on in-branch transactions**. This creates a pricing gap that disproportionately affects those unable or unwilling to use online services, raising affordability concerns. We urge Ofcom to review this practice and consider removing or limiting the price difference between in-person and online purchases of identical USO services.
- "The direction of travel is that this will lead to cutting out the Post Office, putting many under risk of closure with added downside of loss of shops in vulnerable communities". Postmaster CFI survey verbatim feedback, November 2025.*
- 1.11 As a related point, now that Royal Mail owns a 49% in Collect+ and has started a programme of opening own-branded retail outlets (Royal Mail Shops), Ofcom should give serious consideration to **requiring that all USO services bought in-person are sold for the same prices** no matter the ownership of the outlet from which they are purchased. This will be an **important safeguard to avoid undue preference** in favour of own-brand Royal Mail Shops and to **prevent undue discrimination** against those customers who purchase the same USO services at a higher price from another retail outlet, such as a Post Office branch.

² <https://www.internationaldistributionsservices.com/media/12934/quarterly-quality-of-service-and-complaints-report-2025-26-q2-final.pdf>

2. With the limited time available at this busiest time of year, Post Office offers the following responses to the questions in Ofcom's CFI.

Question 2.1: Do you agree with our proposed objectives for this review? Please state your reasons and provide evidence to support your view.

- 2.1.1 Post Office **does not disagree with the four objectives** but would recommend a fairer balance among them.
- 2.1.2 The four objectives might be paraphrased as follows: 1) ensure affordability, especially for vulnerable customers; 2) protect users where market forces do not; 3) take account of cost recovery when applying caps and targeted schemes; and 4) minimise the impact of affordability measures on Royal Mail's financial sustainability.
- 2.1.3 Post Office recognises the need for Royal Mail to maintain financial sustainability and agrees this is an important consideration but, as noted above, is concerned that the fourth objective (Royal Mail's financial sustainability) continues to be given undue weight, at the expense of the first two (affordability and user protection).
- 2.1.4 The substantial USO reforms permitted under Ofcom's July Statement were designed to support Royal Mail's financial sustainability. It is incumbent upon Royal Mail to implement these measures promptly to achieve the anticipated cost savings and thereby mitigate upward pressure on prices.
- 2.1.5 The priority for the upcoming price control review should now be on **protecting users by assuring affordability and linking price increases to meeting service targets**. In other words, Ofcom should now give much greater priority to the first two objectives.
- 2.1.6 As Royal Mail is in a **monopoly position in relation to letter delivery**, it is clear that the second objective (protection of users) becomes critical when considering how to assure affordability. Without intervention from Ofcom, there is no incentive for Royal Mail to control its monopoly prices.
- 2.1.7 There are three further objectives Post Office would invite Ofcom to consider.
- 2.1.8 First, is ensuring that there is no **discrimination against users of USO services who cannot or do not transact online**. Vulnerable people, notably people over 65, those with a disability or limiting condition, rural residents and people on low incomes are **disproportionately represented in the group of "off-line" users**.
- 2.1.9 The second additional objective would be to prevent **discrimination in pricing** of USO services purchased in person, where preferential pricing is available to users who transact in retail outlets in which Royal Mail has a material or controlling interest.
- 2.1.10 The third suggested objective to consider is ensuring that, in the absence of market forces, users' interests are protected by pricing measures that incentivise the attainment of regulated quality of service targets.

Question 2.2: Do you agree with our planned approach to this review? Please state your reasons and provide evidence to support your view.

- 2.2.1 Post Office accepts that parcels will fall outside the scope of the upcoming review, given Ofcom's 2024 decision to remove parcels from the safeguard cap control. Should, contrary to Ofcom's expectations, competition fail to protect users for USO parcels under 2kg, Post Office would urge Ofcom to remain ready to step in and reimpose a safeguard price cap on parcels if prices increase to unaffordable levels.
- 2.2.2 Post Office is encouraged that the review will consider³ both (a) the potential widening of the letter services that fall under specific affordability measures, given the significant increase in First Class prices; and (b) imposing restrictions on prices if service quality targets continue to be missed. Post Office fully supports these features of the review.
- 2.2.3 **Excessive pricing can have calamitous effects on postal services.** Ofcom cites Denmark as an example of a country with higher prices than those charged by Royal Mail. It is highly relevant that PostNord Denmark ceased to have any USO in 2024 and will stop providing any letter services after 2025. This serves as a **very clear warning** as to why allowing unfettered increases in letter prices can be ruinous for universal postal services.
- 2.2.4 Post Office also supports Ofcom's proposal that the review consider appropriate affordability measures generally.
- 2.2.5 However, Post Office strongly disagrees with the possibility that a targeted scheme might lead to the removal of price controls entirely, if Ofcom were to assess that scheme was likely to be effective. **Any targeted scheme must be in addition to and not instead of safeguard price caps.**
- 2.2.6 It would be premature to depend solely on a targeted scheme before users have experienced it and provided feedback. Its impact on affordability and overall effectiveness will only become clear over time.
- 2.2.7 Post Office remains firmly in favour of **retaining a safeguard cap on Second Class letter and large letter service and of extending the cap to cover First Class letters and large letters** (and potentially parcels in the event of market failure).

Question 3.1: Do you agree that our approach to assessing the affordability of universal postal services should be similar to the approach we have taken previously? Please state your reasons and provide evidence to support your view.

- 3.1.1 Post Office notes Ofcom's proposal to continue to rely upon a "significant detriment" test to assess affordability. This proposed measure of affordability is whether users forego spending on post or other essential items as a result of the price of the postal services. **This test does not go wide enough.** In reality, affordability will also be assessed by users and reflected in their purchasing behaviour of postal services. Users will assess if something is so expensive compared with its cost that it becomes unaffordable.
- 3.1.2 While Post Office would support the inclusion of a "significant detriment" test as one test within a significantly wider test for affordability, that wider test should

³ Paragraph 2.44

also **assess the level of prices with reference to the costs of providing the USO services themselves** and comparing those prices with the costs and prices of comparable bulk mail (including Access) services.

3.1.3 As Post Office stated in its June 2025 response to USO Reform consultation⁴:

*"Ofcom's current approach to assessing affordability of postal services by comparing the relatively small amount spent on post with the much higher expenditure on other goods and services, such as food, gas, electricity and telecommunications, is wholly inappropriate. **To do so is to effectively remove any meaning from the affordability requirement of primary legislation.** The test is not one of comparable affordability. **Affordability should be assessed for postal services in their own right and should take into account only the nature of the services, the cost of providing those services and the prices charged to other customers for a near identical service (including bulk mail customers and those who purchase services online).** Otherwise USO services, which are supplied on a monopoly basis and comprised 28% of Royal Mail's revenue in 2023/24, could be set at almost any level irrespective of the underlying cost of providing the service if their affordability is to be assessed on a comparable basis."*

3.1.4 The majority of costs are in final sortation at the inward mail centre, sequencing and delivery and are almost the same for bulk and USO mail, yet USO retail prices are much higher. To see if USO services are affordable, by comparison with bulk mail (including Access) services, **any assessment of affordability should also include a review of comparable upstream costs** (i.e. the costs of clearance or collection, initial sortation at the outward mail centre and transport to the point of handover at the inward mail centre)⁵ **of USO and bulk mail services and compare those costs with the price differential between the USO services, on the one hand, and bulk mail (including Access) services prices on the other.**

3.1.5 Such an exercise would not only assist in assessing affordability by reference to the cost of providing the USO services, but it would also provide a safeguard that Royal Mail is not pricing USO services at an abusively high level. The established two-part test for identifying abusive excessive pricing is to establish (a) whether the difference between the costs incurred and the price charged is excessive, and (b) if so, whether the price was unfair either in itself, or when compared to competing products.

3.1.6 To give an approximate illustration of how **USO prices are disconnected from costs and represent poor value for money** - making them increasingly unaffordable and, potentially, excessive - we have used data from Ofcom's 2023/24 Monitoring Update⁶ to produce a very high level, basic illustration of the issue. Ofcom will have access to much more granular data and operational processes to be able to perform a more accurate comparison.

⁴ <https://www.ofcom.org.uk/siteassets/resources/documents/consultations/category-1-10-weeks/consultation-review-of-the-universal-postal-service-and-other-postal-regulation/responses/post-office-limited.pdf?v=403935> – answers to Question 2.1

⁵ To the extent that downstream costs are different from those incurred for bulk (including Access) mail, this should also form part of the assessment.

⁶ https://www.ofcom.org.uk/post/market-performance/monitoring_reports

Illustration:

The First Class stamp price for a letter in April 2023 was £1.10 (though noting that this increased in October 2023 to £1.25).

Downstream costs

In the 2023/24 period, the average Access price for letters and large letters (which covers final sortation and downstream delivery of 4.678 bn items for revenues of £1.667 bn) was £0.34 per item. This covers letters and large letters and includes items sent on both a next day (D+2) and fourth day (D+5) delivery service.

Upstream costs

Assuming that this downstream activity is the same for both USO and Access mail, this leaves £0.76 per item for upstream collection and initial sortation (£1.10 minus £0.34). The average Access mail upstream price was £0.03 per item (£134 million total Access operator revenue from 4.678 bn items) but, unlike most USO mail, this is collected in bulk (reducing collection cost per item) but includes large letters (increasing the costs of collection). Even if Royal Mail's estimated upstream costs for letters were five times the average Access mail upstream prices, they would be £0.15.

Mark-up

*This means that the price for the upstream service effectively **marks up the upstream cost by c.300%** to £0.61 (£0.76 - £0.15).*

*If the whole end-to-end service cost of £0.49 is considered (£0.15 upstream plus £0.34 downstream), the £1.10 represents **more than a 120% mark-up**.*

A much deeper assessment of the price to cost correlation would be needed to assess if USO mail is being priced at excessive (and unaffordable) levels but, using these very rudimentary measures, there does appear to be an excessive level of mark-up, potentially leading to growing unaffordability issues. This merits deeper consideration.

- 3.1.7 To further illustrate the point, when the first Access prices were first agreed, in 2004, the Access price for delivery was £0.13. This generated a 15 pence (115%) differential when compared with a First Class price of £0.28. In 2023/24 there was an average £0.34 pence Access price which, when compared with £1.10 for a First Class letter, is a 76 pence differential (224%).
- 3.1.8 Post Office strongly supports the inclusion of First Class letters and large letters within the assessment of affordability and recommends that the impact of First Class price increases on the extent of down-trading to a slower Second Class service should be evaluated as an indication of increasing unaffordability of First Class services. First Class and Second Class letter services now have a price differential of 49% (£0.87 v £1.70) compared with 22% in 2021 (£0.66 v £0.85). **An assessment of the extent of migration** will give important additional insight into user behaviour and the affordability levels of First Class services and could demonstrate the growing need for a safeguard price cap on First Class prices.

SME affordability

- 3.1.9 Post Office does not accept the premise that if affordability is ensured for those facing "significant detriment", then SMEs will also find the pricing affordable. As SMEs will typically be spending significantly more per item on mail compared to

larger account customers, there should be a separate assessment of whether pricing of USO services can be passed through to their customers and, if not, to what extent the pricing levels are creating affordability issues for SMEs.

Question 3.2: Do you agree with our initial observations from our preliminary analysis of the latest ONS data and market research? Please state your reasons and provide evidence to support your view.

- 3.2.1 For the reasons stated in section 3.1, assessing affordability of USO services by reference to other household expenditure has the effect of trivialising low overall postal expenditure as to render the affordability requirement meaningless. It is a foregone conclusion that, by using those total household expenditure data, USO services will always be affordable by that measure. This cannot be what was intended by Parliament in imposing an affordability requirement in the Postal Services Act 2011.
- 3.2.2 *Affordability* is not a defined term in the legislation, nor is it defined in the EU Postal Services Directive. In the Explanatory Notes⁷ to the Postal Services Act 2011, there are several references to the requirement for affordability. Importantly, at paragraph 184, the Explanatory Notes state:
- "Ofcom must ensure that the prices that are set are affordable, take account of the costs of providing the service or part of a service, and that they incentivise the service to be provided efficiently."*
- 3.2.3 There is clear reference to **taking account of costs**. It is also explicit within these Explanatory Notes that the pricing level of USO services may be constrained to incentivise efficiency. Such requirements only make sense if related to Royal Mail's own costs. Contained in the same sentence as the requirements for affordability (and ostensibly a complementary - and not a conflicting - requirement), these two requirements for cost-orientation and efficiency would not make any sense if the affordability requirements were to be linked to overall household expenditure and not to Royal Mail's own costs.
- 3.2.4 Consequently, **Post Office does not agree that the ONS data and market research are the only appropriate sources of relevant data**. They are relevant to the existing "significant detriment" test of affordability. As stated above, the test should be widened to consider pricing in relation to the services themselves including, and as required by primary legislation, ensuring that an account is taken of costs and of the need to incentivise efficiency.
- 3.2.5 Customers who do not suffer "significant detriment" are increasingly saying that they find USO prices to be unaffordable. By this **they mean that they are far too expensive or that they represent very poor value for money particularly when viewed against a backdrop of persistently missed service targets**.
- 3.2.6 Post Office would urge Ofcom to conduct wider research to examine these increasingly widespread reactions and to adopt a wider test for affordability to include a requirement that, to be affordable, the services represent fair value for money taking into account price-to-cost analysis of USO and bulk (including Access) services.

⁷ At paragraphs 4, 159 to 161 <https://www.legislation.gov.uk/ukpga/2011/5/notes>

Question 4.1: Do you have any comments on whether a targeted discount scheme could be used to address affordability concerns in post?

- 4.1.1 As stated above, a targeted scheme would address only the most serious affordability concerns and should, therefore, be in addition to and **not instead of a safeguard cap** which should apply generally to First and Second Class letter and large letter services (and parcels, too, if market forces do not provide users with adequate protection). Above-inflation price increases should be **dependent on Royal Mail having met its regulated service targets**.
- 4.1.2 Ofcom's residential postal tracker research indicates that Postmasters facilitate the sale of postal services for 68% of surveyed users. **Given the high proportion of stamps sales effected through Post Office branches, a targeted scheme would impact Postmasters, and this would have to be taken into account in the processes, timing and remuneration involved.**

Question 4.2: Do you have any specific comments or evidence relating to the key elements and principles of a potential scheme set out in this section?

- 4.2.1 Post Office provides preliminary feedback on the potential schemes under consideration. It is important to emphasise, given the timing of this unscheduled Call for Inputs, that these comments represent initial observations only. Post Office reserves the right—along with Postmasters—to submit further, more detailed or alternative views as additional evidence and feedback become available.
- 4.2.2 In evaluating the introduction of any proposed scheme, Post Office believes that certain overarching principles should apply:
- i. **Accessibility:** As the scheme is intended for vulnerable customers, it must be designed to meet their needs. For example, restricting applications to an online-only process risks excluding individuals without reliable internet access or those lacking digital capability. To ensure equitable access, a paper-based application option should be provided. However, it should be noted that completing forms in a Post Office branch would increase counter transaction times and impose additional costs on Postmasters.
 - ii. **Eligibility:** While Post Office can facilitate in-branch identity verification, it does not have the processes in place to confirm eligibility for the scheme. Responsibility for determining and administering eligibility rests with Royal Mail and the Department for Work and Pensions (DWP).
 - iii. **Fulfilment:** Postmasters must be fairly remunerated for the time and effort required to support the implementation of this initiative.
 - iv. **Fraud Prevention and Risk Management:** Any discounted or free stamp scheme may be susceptible to misuse and therefore requires strict quotas for each eligible applicant. Clear processes for detecting and addressing fraudulent activity must be established. These measures could, however, result in challenging conversations within branches, and appropriate guidance should be provided to support staff in managing these situations.
 - v. **Advertising and Customer Awareness:** A comprehensive, multi-channel advertising campaign should be implemented to ensure broad awareness of the scheme. Clear and accessible information packs could and should be provided by Royal Mail at Post Office branches for customers inquiring about the scheme.
 - vi. **Complementary:** To uphold the principle of affordability, which is fundamental to a universal service, any proposed scheme should operate as an additional measure rather than a replacement for existing safeguard price caps.

Free ordinary stamps

- 4.2.3 If Royal Mail were to manage applications, verify eligibility, and distribute free ordinary stamps to qualifying customers, the process would be relatively straightforward for online users. However, free stamps present a higher risk of being resold or given away compared to stamps purchased at a discounted price. Postmasters have expressed concerns that such a scheme could be **susceptible to abuse or fraud**, citing past instances where Royal Mail's own staff attempted to sell their free bonus Christmas stamps.

"The problem with this is that there is a possibility that these stamps if put physically in people's hands could be sold to others." Postmaster CFI survey verbatim feedback, November 2025.

- 4.2.4 There is likely to be a stigma in using an identifiable free stamp, which could reduce use and take-up compared with using free ordinary stamps.
- 4.2.5 If free stamps for eligible customers were also to be available in-branch, the issues of proving eligibility, proving identity and logging take-up of entitlement, as described below, would apply.
- 4.2.6 While free ordinary stamps issued direct by Royal Mail to eligible customers would appear to be the simplest solution, it is the one that is most open to abuse, and this will **reduce the number of sales transactions carried out in branch which would negatively impact Postmasters' remuneration**. The majority of Postmasters who responded to our Postmaster CFI survey (67%) were not in favour of such a scheme and this loss of remuneration would need to be addressed.

Sale of ordinary stamps at a discount

- 4.2.7 If a targeted scheme involves selling ordinary stamps at a discount over the counter, Postmasters will need to accurately record transactions and be fairly compensated, including for any in-branch validation of eligibility. Post Office and Royal Mail IT systems would require updates to verify eligibility and track redemption per customer. Managing data protection and confidentiality during in-branch eligibility checks could pose challenges. Post Office also agrees with WIK's view that take-up may be reduced due to customer discomfort in proving eligibility in person.
- 4.2.8 There would also be revenue protection issues for Royal Mail if customers used a discounted stamp against a non-eligible service.

Sale of special discounted stamps in branch

- 4.2.9 In addition to the points noted at section 4.2.7, separate stocks of discounted stamps would need to be produced, stored and delivered to all branches on time and in sufficient quantities. There are consequences either way if the discounted stamps could be used against only specific services or used in part-payment against any other services – this would be unworkable in branches.
- 4.2.10 If the discounted stamps can only be used for specific services and formats (e.g. First Class and Second Class letters and large letters) but not other USO services (e.g. parcels or Signed For or Special Delivery), this will likely lead to customer confusion, which Postmasters would be required to deal with. This involves greater time at the counter and thus cost per transaction. Again, this is unworkable from a branch perspective and would significantly increase transaction time which

would need to be compensated. If the stamps are not used correctly, how would the Postmaster challenge this, for example?

- 4.2.11 Alternatively, if the discounted stamps could be used in part-payment of any Royal Mail services, this would require clear processes to attribute the appropriate value and involve over-the-counter advice. The redemption of discounted stamps against payment for a label for a higher-cost service (rather than paying the excess through the purchase of additional stamps) would involve processes for destruction or reallocation of discounted stamps. **All this would increase transaction time and Postmaster cost and add another layer of complexity to an already complex process.**
- 4.2.12 There is an added complication because the value of the discount changes over time. If the stamps have a value on them, this could cause accounting and audit issues.
- 4.2.13 As noted above, for some users, there would be a stigma in using a special discounted stamp which would reduce take-up, use and the effectiveness of any scheme.

In-branch verification of initial entitlement

- 4.2.14 If the nature of any scheme required Postmasters and their staff to verify entitlement to the discounted or free stamps, processes would need to be devised and implemented in-branch and the additional transaction times would need to be adequately remunerated.
- 4.2.15 Computer systems would also need to be updated to allow the redemption of discounts to be logged to keep track of use of the entitlement and to prevent abuse.
- 4.2.16 There would also be serious issues about data protection and confidentiality to overcome if customers had to present information about their status in a branch.
- 4.2.17 If certain benefits were to be the criteria adopted for eligibility, Post Office does not consider it appropriate for Post Office and its Postmasters and their staff to have access to such sensitive DWP data.
- 4.2.18 Accordingly, Post Office could not recommend the use of a discount or free stamp scheme where verification of entitlement takes place in branch. Post Office could however be involved in ID verification without entitlement.

In-branch verification of identify of entitled customers

- 4.2.19 If the eligible customers were issued with a photo-ID card proving entitlement to the discount, Postmasters would need to verify identity and log redemption events. This would increase time-at-counter and would need to be fairly remunerated. Specific photo ID proving eligibility would be the most efficient method though there would need to be ways of verifying the authenticity of the ID.
- 4.2.20 Without photo ID, the risk of abuse is much higher. It would also be a much more time-consuming process to verify the identity of the person presenting the card or reference number without photo ID.
- 4.2.21 Processes would also need to be designed and implemented to deal with instances where a customer was unable to present their Photo ID card or other proof of

eligibility. All additional time entails a cost for Postmasters and an impact on other users.

Eligibility

- 4.2.22 As stated above, Post Office maintains its position that affordability is a requirement for all users and that the "significant detriment" test is not wide enough.
- 4.2.23 Post Office does not offer a view on those users who should be entitled to a targeted scheme. There is a paradox, however, that the greater the take-up of a targeted scheme, the higher the cross-subsidy from customers paying the full price. This is yet another reason why affordability safeguards should extend to all customers.
- 4.2.24 As noted earlier, there is a further impact on Postmasters. Where services are provided free of charge or at a discounted rate, this will result in Postmasters receiving lower remuneration as a result of the lost sale of a full price service. The greater the take-up of any scheme, the greater the reduction in that remuneration.
- 4.2.25 The key issue for Post Office on the issue of eligibility is that any Postmaster activity should be limited to verifying the identify of an individual who has already had their eligibility confirmed by Royal Mail, rather than verifying eligibility itself. Post Office notes that users voiced concerns about Post Office, Postmasters and their staff having access to DWP data.
- 4.2.26 Proving identity of the eligible user should involve the minimum of additional time in-branch.
- 4.2.27 Post Office is working with Royal Mail and other stakeholders to establish a system whereby users without a fixed address can receive mail. How this group would be able to establish their eligibility to a targeted scheme should also be taken into account.

Relevant services

- 4.2.28 First and Second Class letter and large letter services are the most obvious services for the scheme. Should users of USO parcels services not be protected by competitive market forces, parcels might also be eligible.
- 4.2.29 Post Office does not offer a view on whether free or discounted stamps can be used against other services but notes the issues identified above around attributing the correct value where a discounted service is used as part-payment for another service.

Promotion of a targeted scheme

- 4.2.30 Post Office accepts the principle that a scheme would need to be promoted to ensure take up. In light of the high proportion of users who access postal services through a branch, promotion in-branch (and through other locations and media) would be sensible. This might include displaying and distributing application forms.
- 4.2.31 Where promotion of a targeted scheme involves the use of space in a branch or use of any human or physical resources, Postmasters should be adequately remunerated.

Fixed or variable budget model

- 4.2.32 Post Office recognises the benefit to Royal Mail, in terms of greater financial certainty, of having a fixed budget model.
- 4.2.33 However, a variable budget model would be less confusing for users. They would know what discount to expect, and Royal Mail would bear the uncertainty of take-up being higher or lower than expected. As noted above, the complication of a fixed budget is that a guaranteed minimum level of discount with the possibility of higher discount levels later (if the discount budget was not likely to be used up) could lead to implementation and process issues which would increase complexity and user confusion. Furthermore, as increased discounts may not come until January to March, it would be too late for customers whose spend on postal services is typically higher in the period before Christmas.

Freepost

- 4.2.34 Post Office recognises that it is already possible to expand the number of Freepost addresses and for the relevant organisation to bear the costs of paying for the service. Such an extension would not impact Post Office's position that all First and Second Class letter and large letter services should be subject to a safeguard cap and the introduction of a restriction on applying above-inflation price increases if service targets are missed.

Question 5.1: Do you have any comments on our initial views set out in paragraphs 5.2-5.16 in Section 5 on whether there is a case for Ofcom to move away from its existing approach to price regulation of Royal Mail's letter services based on considerations other than affordability?

Quality of service link

- 5.1.1 Post Office is encouraged that Ofcom will **consider proposals for a price control linked to quality of service**. This is really important for users.
- 5.1.2 Regulatory enforcement for failure to meet quality targets could and should be unaffected. Post Office notes that the incentives of the existing framework appear to be inadequate given the ongoing failure to achieve quality of service targets for USO services. **The increasing level of fines is not resulting in quality improvements.**
- 5.1.3 If Ofcom is concerned about double penalties from fines and price caps, it could revise its guidelines so that future fines consider lost revenue from price restrictions linked to service failures. This approach would ensure customers, not just HM Treasury, benefit from quality-related sanctions, while giving Royal Mail control over its financial sustainability.

Other interventions

- 5.1.4 So long as there is an appropriate safeguard cap on First Class and Second Class services and a linkage between quality of service and the level of price increase, Post Office does not consider there to be a need for Ofcom to implement any of the other measures noted: profitability cap; cost-based charge control; or pre-authorisation regime.

Question 5.2: Do you have any comments on Ofcom's plans to examine aspects of the margin squeeze rule for access prices?

Post Office does not offer a view on Access services.