

Response to Ofcom Call for Input: Review of Postal Regulation – Pricing and Affordability

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Date: 5th December 2025

This submission supports in part Ofcom’s proposed direction shifting from blunt, economy-wide price controls to a precisely targeted affordability instrument with three conditions: (1) a clear, objective definition of eligibility anchored in DWP-verifiable benefits (Universal Credit, Pension Credit and designated legacy equivalents); (2) a simple scheme design that minimises fraud, retail/IT complexity and administrative cost; and (3) an explicit regulatory linkage whereby a targeted scheme enables lifting/removal and replacing the Second Class CPI basket cap from April 2027 to safeguard financial sustainability.

We propose a 50% discount on First/Second Class letters and large letters, excluding Signed For, with a per-user annual usage cap and annual re-verification, delivered through Royal Mail’s app/website and Post Office counters using DWP proof mechanisms. We also propose Scheme Governance provisions, regular Ofcom/Royal Mail cost reviews with a predefined cost threshold that triggers narrowing of eligibility or parameters to preserve cost-effectiveness.

Q2.1 Agreement with Ofcom’s objectives

Position: Agree, conditional on explicit cap removal and replace. Ofcom’s four objectives (i) ensure affordability (esp. for vulnerable users), (ii) protect users where competition is weak, (iii) take account of cost recovery, and (iv) minimise the sustainability impact while incentivising efficiency are the right compass. However, the affordability safeguard should be delivered through a targeted scheme applied universally across the UK for those eligible, and paired with pricing flexibility for Royal Mail.

Evidence: Ofcom’s CFI notes halved letter volumes over the past decade, rising unit costs, and chronic under-performance of the Reported Business against commercial return benchmarks (EBIT ~-6.3% in 2022/23 and 2023/24; breakeven-ish in 2024/25 but still below Ofcom’s 5–10% range). A uniform cap beyond 2026/27 may materially constrain commercial flexibility and risk sustainability. A targeted discount scheme can meet both goals: reach the small cohort with genuine affordability issues while allowing Royal Mail to rebalance the letter basket as usage declines.

Ask: (a) Make lifting/removal and replacing the Second Class safeguard cap from April 2027 an explicit outcome contingent on scheme launch including performance KPIs within the targeted scheme; (b) define eligibility narrowly (UC/PC + legacy equivalents) using standard DWP proof or API; (c) commit to publish an annual affordability & sustainability balance statement so stakeholders can see the trade-offs evidenced.

Q2.2 Agreement with Ofcom’s planned approach

Position: Broadly agree with the staged approach (updated affordability assessment + scheme design options + consideration of wider pricing concerns), with two upgrades: (1) front-load deliverability, cost and fraud testing; (2) embed a funding model that ties scheme

costs to cap removal and replace headroom.

Deliverability and fraud: Cross-sector evidence (WIK-Consult's 50+ scheme review) shows higher misuse and admin overhead where vouchers, physical tokens or complex multi-channel entitlements are used. The Jigsaw qualitative work finds users reject vouchers and home printing, prefer simple DWP proof, and favour a 50% discount that feels worth the effort. We therefore support: real-time DWP proof at point of sale/app; annual re-verification; per-user usage caps; and no tradable tokens.

Funding link: Ofcom suggests using a fixed annual budget for the scheme derived from profit impact of removing and replacing the cap. We support formalising that approach publish a scheme budget, measure actual costs (including fraud prevention and retail/POS IT changes), and adjust the eligibility/parameters if costs breach thresholds (see Scheme Governance below).

Q3.1 Approach to assessing affordability

Position: Retain the established affordability test (significant detriment: cutting back essentials to afford post, or forgoing necessary post due to price), but sharpen focus on cohorts with clear, objective indicators (UC/PC recipients; medically driven high-frequency mailers) and explicitly model the scheme-instead-of-cap counterfactual.

Rationale: Digitisation makes 'sending fewer letters' a weak affordability signal; the tracker/ONS data show low absolute spend and declining reported affordability problems post 2022–2023 cost-of-living peak. Affordability concern persists mainly around First Class prices and specific needs (e.g., medical mailers needing D+1). This supports targeted rather than universal intervention.

Method refinements: (i) stratify analysis by benefits receipt and medical necessity; (ii) control for macro-inflation and substitution to digital; (iii) include sustainability constraints (unit cost trajectory, EBIT benchmarks) in the round so affordability remedies do not undermine the universal service.

Q3.2 Agreement with preliminary observations

Position: Agree with Ofcom's preliminary observations and draw two policy conclusions: (1) target the few, not the many; (2) use a well-governed scheme to unlock cap removal and replace.

Observations endorsed: Household spend on post is small and steady; tracker shows a decline in reported affordability issues since 2021/22–2022/23, with persistent First Class cost sensitivity; Jigsaw's work finds 'every-little-helps' savings matter psychologically, 50% discount has salience, and complexity deters uptake.

Implications: Design a scheme with 50% discount across First/Second Class (letters & large letters) and exclude Signed For, exclude Special Delivery and parcels; require annual DWP proof; impose an annual per-user cap to manage fiscal exposure and arbitrage; and explicitly commit to cap remove and replace so Royal Mail can rebalance prices sustainably.

Q4.1 Targeted discount scheme to address affordability

Position: Yes if, and only if the scheme is the instrument that remove and replace the Second Class cap and is engineered for low friction and low fraud.

Proposed design:

- Eligibility: UC/PC (plus defined legacy equivalents) verified via DWP link/QR/API or letter; minimal discretion; annual re-verification.
- Discount: 50% on First/Second Class letters and large letters, excluding Signed For; exclude Special Delivery and parcels.
- Usage cap: pooled cap (e.g. 18 items/year) across formats/classes to limit arbitrage and budget exposure. If on average users send approximately 12 items per year a pooled cap to 20 items will allow flexibility for those higher end medical needs users.
- Channels: Royal Mail app/website with QR presentation at Post Office counters; phone order fallback for low-digital users; no vouchers/home printing.
- Fraud controls: real-time eligibility check; distinctive product codes in POS rather than special physical stamps; usage ledger; annual re-check.
- Funding: fixed annual budget referenced to headroom from cap remove and replace; annual public reporting of cost per aided user, fraud leakage %, admin cost/share, and user satisfaction.

Why it addresses affordability: It directs meaningful relief to those most at risk without distorting prices for the wider base, and its parameters (cap, discount, scope) can be tuned over time as costs/volumes evolve. The proposed 18-item annual cap is indicative and subject to adjustment based on uptake, eligibility, cost constraints, and sustainability reviews.

Q4.2 — Comments on key elements and principles

Comments on Ofcom's principles (Table 8):

- Target group Agree; keep binary and benefits-linked.
- Promotion, Agree; multi-channel, plain English, leverage DWP, Post Office, Royal Mail DM; mirror telecoms social tariff awareness practice.
- Access Agree; online & offline, free sign-up, clear timelines, annual re-verification only.
- Services & discount application Agree; include First/Second Class and exclude Signed For; same purchase routes as standard services; avoid vouchers/home printing.
- Type & extent of discount Support a single national percentage (~50%) with a pooled cap.
- Fraud controls Account-based entitlements, DWP real-time checks, caps; no tradable tokens.

Additional principle: Scheme Governance and Cost Control (see below) should be a formal principle regular cost reviews and parameter adjustment triggers to maintain proportionality and sustainability.

Q5.1 Broader price regulation of letters

Position: No strong case to broaden ex-ante retail price controls beyond affordability. A scheme-enabled removal/removal and replacement of the Second Class cap, combined with quality enforcement and transparency on efficiency, is superior to wider price regulation

that would add compliance burden and reduce flexibility to manage a declining letters market.

Rationale: Ofcom's own analysis shows the current cap could materially constrain Royal Mail beyond FY26/27. Meanwhile, QoS failings are being addressed through enforcement (recent penalties) and new QoS targets (effective April 2026). Price-rise-conditional QoS would entangle mechanisms and distract from laser-targeted affordability interventions.

Q5.2 — Margin squeeze rule for access prices

Position: Support a focused review of the margin squeeze rule for access prices to ensure access remains contestable and fair without layering on new absolute price controls. Parcels competition appears healthy; attention should remain on targeted affordability in letters and proportionate access regulation.

Scheme Governance and Cost Control

We recommend Ofcom codify a joint governance framework with Royal Mail:

1) Regular Cost Review: Ofcom and Royal Mail to conduct quarterly reviews of total scheme cost including discounts granted, administration, retail/POS IT changes, promotion/awareness, and fraud-prevention costs. Publish an annual summary (cost per aided user; admin cost as % of discounts; fraud leakage %; user satisfaction; uptake by cohort).

2) Threshold Trigger: Define an annual cost threshold (linked to the cap-remove and replace headroom) beyond which parameter adjustment occurs automatically in the next quarter e.g., narrowing eligibility (e.g., UC income-related elements only), reducing item caps, or excluding higher-cost sub-services subject to Ofcom approval.

3) Misuse Guardrails: If measured fraud leakage exceeds a set limit (e.g., >2% of discounted value), trigger enhanced controls (temporary lower per-user cap; more frequent re-verification for affected cohorts; POS rule tightening), with a published remediation plan.

4) Sunset/Refresh: Triennial scheme refresh aligned to Ofcom's affordability review cadence to reassess eligibility criteria, discount levels, and service scope versus updated ONS and tracker evidence and Royal Mail's unit cost trajectory.

Annex A Targeted Scheme Blueprint

Eligibility: UC, PC, and defined legacy equivalents; standard DWP proof (link/QR/API or letter); annual re-verification.

Discount & Scope: 50% off First/Second Class letters & large letters; exclude Signed For; exclude Special Delivery and parcels.

Usage Cap: 18 items/year pooled across formats/classes; parameter adjustable via governance triggers.

Channels: Royal Mail app/website; QR at Post Office counters; phone fallback; no vouchers/home printing.

Fraud Controls: real-time DWP check; POS product codes; usage ledger; annual re-check;

remediation triggers if leakage exceeds threshold.

Funding Link: Scheme budget derived The proposed 18-item annual cap is indicative and subject to adjustment based on uptake, eligibility, cost constraints, and sustainability reviews.