

Review of Second Class safeguard caps 2024
Proposed price caps for Second Class universal services

Post Office response

1. Post Office and its goals

To many, Post Office is synonymous with the universal postal service. It is the only place where anyone and everyone in the United Kingdom can access universal postal services and, as such, Post Office has unique experience of dealing face-to-face with consumers of postal services in the UK. We serve up to 10 million customers a week in c.11,500 Post Offices, and the majority of transactions over the counter are letter and parcels transactions.

Post Office wants to see a regulatory regime that ensures the provision of an affordable universal postal service which meets the evolving needs of consumers and small businesses; supports the maintenance of the nationwide Post Office network which is indispensable to the provision of the universal postal service; benefits consumers and promotes fair competition.

2. Executive Summary

Post Office accepts the proposal to continue to apply price caps only to Second Class universal postal services but has deep concerns that the price cap proposals will not adequately ensure affordability for important customer groups, notably financially vulnerable customers, those who are less digitally confident (including those without online access, who are often in poorer socio-demographic groups), people aged 65+, people with disabilities (or an impacting / limiting condition) or for marketplace sellers.

Post Office has evidence that people who do not purchase postal services online are increasingly experiencing affordability issues. There is a risk that some of the proposals, notably the basket approach to standard letter and large letter price-cap setting, will worsen this.

For parcels, smaller marketplace traders and a significant minority of individuals may face affordability issues if the safeguard cap is removed, and competition does not deliver in the way Ofcom anticipates. A cap on Second Class parcels up to 2kg should continue and the level of the cap be reduced from current levels to ensure, both, affordability and that customers derive the benefits of competition.

Post Office has a further concern that the proposed pricing flexibility within a basket that combines standard and large letters could be used by Royal Mail to divert customers from in-person to discounted online transactions, with the risk of undermining the delivery of the universal service. Any acceleration of this trend of online discounting will put increasing financial strain on the Post Office branch network and its ability to perform a crucial role in delivering a universal service.

Post Office repeats its request for Ofcom to impose a condition on Royal Mail requiring it to offer all universal services for the same price irrespective of whether they are purchased in-person or online.

3. Responses to Ofcom consultation questions

Question 1: Do you agree with our assessment that our proposals will not discriminate against any groups with protected characteristics?

In relation to the Equality Impact Assessment, Ofcom identifies the three main groups of people with relevant, protected characteristics as: older people; people in ethnic minority groups and people with disabilities.

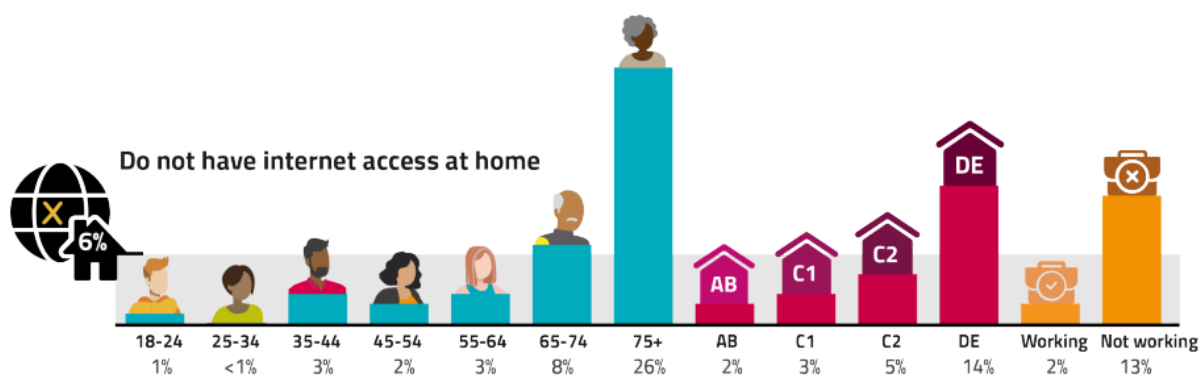
Need for a more granular approach

Where a group with protected characteristics has an above-average inability, or unwillingness, to access services online, the research on affordability should examine the impact on the members of those groups who do not (for whatever reason) access services online.

Digital exclusion

Those most at risk of digital exclusion will continue to be older people; the most financially vulnerable; those not working; people living remotely; and people impacted by a limiting condition. User choice, cost issues, and a lack of skills or confidence are also contributory factors in digital exclusion. And while digitisation has many benefits, for some this has created a “new inequality, a limiting of options, choice, and control.”¹

Ofcom’s recent digital exclusion research highlights internet access by key demographics.² Six percent of respondents to Ofcom’s Media Literacy tracker survey did not have internet access at home, impacting older customers and those who are more financially vulnerable the most.



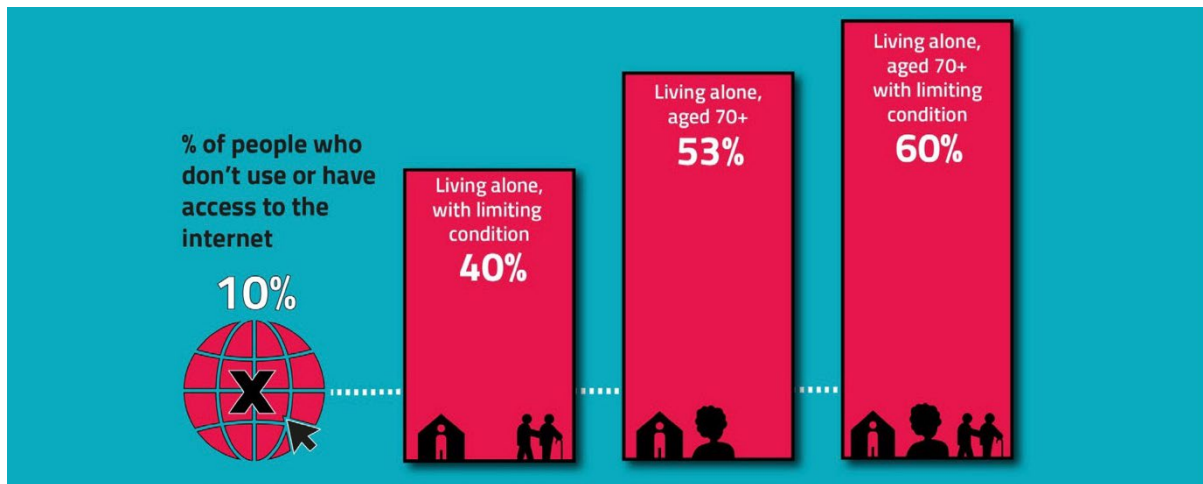
Source: Adults’ x Literacy Tracker 2021, CATI Omnibus Survey (2021).

Older people are defined in the consultation as those aged 55+ which would include many people who are still working. Treating all people aged 55+ as a single group of “older people” fails to identify and evaluate the impact of the proposals on those aged 65+ and 75+.

¹ Age UK report [the-impact-of-the-rise-of-online-banking-on-older-people-may-2023.pdf](#) ([ageuk.org.uk](#))

² Ofcom report [Digital exclusion: a review of Ofcom's research on digital exclusion among adults in the UK](#)

Ofcom notes that people in the 55+ age group are “significantly less likely than average to report affordability issues”. If “older people” were split into the same age groups as used in Ofcom’s digital exclusion research, Post Office’s expectation is that there would be a material increase in the proportion of older people in the 65+ and 75+ age groups reported as experiencing affordability issues.



Source: Use of Communications Survey: Digital Exclusion Analysis (2020).

For Ofcom to discharge its statutory duty under the Equality Act 2010 s.149, Post Office is of the view that, when evaluating affordability issues, Ofcom should examine more closely the impact of the proposals on those people aged 65+ and 75+ who cannot (or do not) access services online, to ensure that the proposals do not discriminate against these people and, also, to ensure that affordability is set at the appropriate level. In the absence of this more granular analysis, there is a potential risk that the proportion of older people experiencing affordability issues is under-reported and that this group may be discriminated against and/or that affordability is not set at an appropriate level.

Similarly, people with disabilities (or an impacting / limiting condition) are more likely than average to be unable to access online services. Ofcom has found that 18% in this group do not have access to a connected device in their household. It would, again, be instructive to split the results from this group between those with and those without access to online services.



Source: Use of Communications Survey: Digital Exclusion Analysis (2020).

This additional analysis is particularly important for two reasons. First, the research was carried out at a time of unusually high inflation which may have skewed the responses about the affordability of postal services, given the unusually high level of concern about other, much larger items of expenditure. As inflation drops, it is likely that higher levels of concern about the affordability of postal services would be reported. Second, a basket price control would allow Royal Mail new flexibility to fund discounts for services purchased online by increasing prices for the same services when purchased in-person, further exacerbating affordability issues.

Standard letter and large letter prices are currently the same whether they are bought in-person or online. To allay potential concerns about affordability, should Ofcom decide to allow Royal Mail more flexibility by creating a basket control for standard and large letters, Post Office would strongly urge Ofcom to impose a requirement that pricing for all universal services should be the same irrespective of whether they are bought in-person or online.

Question 2: Do you agree with our assessment under the Welsh Language Policy Making Standards?

Post Office notes the Welsh Language Policy Making Standards but does not seek to offer any evidence on whether the proposals would meet the requirements.

Question 3: Do you agree with the objectives we propose to use for our review of safeguard caps?

Ofcom has outlined three objectives which we address below.

3.1 Affordable

Vulnerable customers: Post Office agrees that affordability, particularly for vulnerable customers, should be a key objective. However, as noted in our answer to Question 1, particular attention should also be paid to sub-groups and those who do not access services online. These groups of people are more likely to be reliant on communications via post.

Deeper analysis on affordability should be conducted on those who are less digitally confident; in the DE demographic or not working. Post Office has a concern that Ofcom is failing to identify the affordability effects on those who are most vulnerable and, in particular, those who do not transact online. Ofcom has recognised in its Postal Residential Survey³ that no face-to-face interviews were conducted and accepted that “online methodologies tend to underrepresent low/non internet users”. That 250 telephone interviews were conducted is unlikely to have compensated for this skew. It is welcome news that face-to-face interviews have been resumed in 2023 but this serves to highlight the risk of relying on 2022 data which is likely to have under-recorded affordability concerns.

Citizens Advice recently found⁴ that more vulnerable groups use Post Offices more often. Accordingly, and as stated above, Post Office expects that the affordability test may not be satisfied when more granular analysis is carried out.



Source: *State of the Sector report* (citizensadvice.org.uk).

SMEs: While being an important backstop for the most vulnerable and excluded groups, Post Office continues to stimulate and facilitate economic activity at a national, regional and local level. It is a key enabler of small and medium businesses - 43% say they would not be able to continue functioning without the Post Office. The proposals need to take proper account of this important customer group.

Post Office’s view is that it is not appropriate to assume that “if a universal service is affordable for vulnerable customers, then it will automatically be affordable for the wider set of postal users”⁵.

³ https://www.ofcom.org.uk/data/assets/pdf_file/0020/254702/Ofcom-Residential-Postal-Tracker-Technical-Appendix.pdf

⁴ [State of the Sector report](https://citizensadvice.org.uk) (citizensadvice.org.uk)

⁵ Paragraph 3.8

Marketplace sellers post significantly more postal items than individuals. The aggregate effect of increases in parcels prices can, therefore, have a material effect on the affordability for that important customer group.

Their businesses typically have low margins⁶ and an increase in parcels prices could quickly render their activity unprofitable. This would negatively impact this customer group, their own clients, and postal volumes. Post Office would recommend that affordability for this important group of customers should also be given due consideration as part of any affordability assessment.

In relation to parcels, in particular, in the event of market failure and a loss of external, competition-driven pricing constraints for parcels, Ofcom may have to take urgent action *ex post* to impose a safeguard. It is preferable to anticipate this and retain a cap on Second Class parcels prices. We further believe that the cap is currently set too high. For more detail, please see our further points in answer to Question 13 below.

Post Office's unparalleled physical reach means that nearly three in ten SMEs use one of its branches at least once a week – and 51% use it at least once a month. SMEs use postal services almost every time they visit their local Post Office and greatly value the convenience of having a Post Office nearby – 84% say it is important to have access to postal services nearby (regardless of carrier)⁷.

3.2 Consumer protection

Consumer protection is also a key objective. The removal of a safeguard cap on parcels services is undesirable as it is likely to lead to significant price rises for single-item parcels where there is limited competition. It removes important consumer protection.

3.3 Account of costs

Post Office accepts the principle that the costs of providing a service are a relevant consideration.

There is a tension, however, where the costs are not efficiently incurred because, if the price cap is set too low, Royal Mail risks under-recovery while customers benefit unfairly from Ofcom's approximation of a competitive market. For standard letters and large letters, no such competitive market exists so setting the level in such a monopoly environment is a largely, theoretical exercise. People costs are the majority of costs and Royal Mail itself has recently acknowledged that its wages are 18 – 40% above market norm⁸ so this begs the question as to how to set a price cap based on efficiently incurred costs without, automatically, causing Royal Mail to price them at a loss.

On the other hand, if the cap is set too high, customers will pay the price for Royal Mail's inefficiency and there will be little incentive for Royal Mail to achieve efficiency, to the detriment of customers.

⁶ [UK average SME profit by size 2022 | Statista](#)

⁷ [part-and-parcel-the-economic-and-social-value-of-post-office.pdf \(postoffice.co.uk\)](#)

⁸ <https://committees.parliament.uk/oralevidence/12541/pdf/> Q57

3.4 Conclusion on objectives

Post Office recognises that, when setting price caps, Ofcom has statutory duties that are in tension, including, for example: securing the provision of a universal service for prices that are affordable (at a uniform tariff throughout the UK); having regard to the need for the service to be financially sustainable (with a reasonable commercial rate of return) and for Royal Mail to become efficient within a reasonable period; securing sufficient access points (including Post Offices) to meet reasonable user needs; furthering the interests of citizens and consumers; and having regard to the needs of persons with disabilities, of the elderly and of those on low incomes.

Affordability is the third requirement of the universal service itself⁹, and Ofcom's overarching duty is to ensure the universal service¹⁰, so highest priority needs to be given to achieving affordability with *regard being given* (a lesser duty) to financial sustainability. That balance is not being achieved with these proposals. Too much weight is being attached to financial sustainability and too little to ensuring affordability.

Post Office has expressed its concerns above, and repeats them here, that affordability concerns for certain groups of customers are already evident. If purchasing services in person, rather than online, is more expensive, this can only increase those affordability concerns. Accordingly, any measures that could lead to Second Class universal postal services being more expensive when purchased in person than when they are bought online can only act to make services less affordable. If this continues to be allowed, it calls into question the appropriate discharge of this primary duty.

For reasons of affordability, Post Office again urges Ofcom to require Royal Mail to sell all universal services (and not just Second Class services) for all formats for the same price irrespective of whether they are purchased in person or online. Currently, standard letters and large letters are sold at the same price, but parcels services are not. For example, at the time of writing, small and medium First Class and Second Class parcels are between 50p to £1.00 more expensive when purchased in person.

Question 4: Do you agree with our analysis of the market in relation to Second Class standard letters and large letters?

Post Office supports¹¹ the findings that there are no obvious or effective constraints on the upper level of Second Class standard letter and large letter pricing.

It is this absence of constraint which gives rise to Post Office's concern about the possible effect of adopting a basket approach to letters and large letter pricing. Please see our response to Question 12.

⁹ Postal Services Act 2011, s.31 Requirement 3(1)

¹⁰ Communications Act 2003 s.6A

¹¹ Post Office notes that Ofcom has not conducted a market analysis to competition law standards.

Question 5: Do you agree with our analysis of the market in relation to Second Class parcels up to 2kg?

Although the trend is for fewer letters and large letters to be sent in the UK, these still account for a significant proportion of Post Office income from Royal Mail products.

Post Office is concerned that the proposed safeguard price cap changes will drive further disintermediation due to channel pricing, resulting in an acceleration of:

- 1) the proportion of Royal Mail parcels that are purchased online through its "Click & Drop" online website and app and dropped off in-branch; and
- 2) volumes bypassing Post Office altogether – particularly through Royal Mail's doorstep parcel collection service, "Parcel Collect", and Royal Mail's new automatic redelivery and safe place delivery preference services.

For further detail of these concerns, please see our answer to Question 13 below.

Question 6: Do you agree with our approach to assessing affordability of postal services?

We have highlighted concerns about affordability in our responses to Question 1 about possible discrimination against older people and people with disabilities (or an impacting / limiting condition) and Question 3. As stated above, we would urge Ofcom to undertake more granular analysis of these groups to assess affordability concerns more accurately.

Citizens Advice research recently found that those that rely on post to send important communications are disproportionately impacted by rising costs, with two in five of those claiming Universal Credit (39%) finding it difficult to afford second class stamps at February 2023 prices¹².

And at the same time, the Cost of Living Crisis means that many who were previously able to access digital services, can no longer afford to do so. "A million people disconnected their broadband in the last year because they couldn't afford it."¹³

Particular attention must be paid to the risk of continuing to allow Royal Mail to sell universal services for more expensive prices when they are purchased in person. Post Office's repeated request is that all universal services be available for the same price, whether purchased in person or online.

Question 7: Do you agree with our assessment of the affordability of Second Class postal prices?

¹² [Citizens Advice responds to Royal Mail raising stamp prices - Citizens Advice](#)

¹³ [One million lose broadband access as cost-of-living crisis bites - Citizens Advice.](#)

Our concerns on affordability are set out in our responses to Questions 1 and 3.

It is concerning that Ofcom recognises that “postal services may be unaffordable for some even if their prices were reduced significantly” and that “a small proportion of consumers are likely to face affordability issues at current prices, and that the increased cost of living is likely to have worsened these issues”.

Given Ofcom’s primary, legal duty to ensure the provision of the universal service at affordable prices, it is not clear how Ofcom can reconcile these statements with its proposal to allow a continued increase in price caps for standard letters and large letters and giving Royal Mail total flexibility to increase Second Class parcel prices.

Question 8: Do you agree with our analysis of the impact of the caps on the financial sustainability of the universal service?

As stated in our response to Question 3 (section 3.3), we have concerns that inefficiency may be being passed on to customers if Ofcom treats sustainability of the financing of the universal service (to which it must have regard) as a priority to its primary legal duty to ensure that the universal service is provided at affordable prices.

Our particular concern is that affordability for people buying universal services is already not being assured, particularly among those who purchase services in person. Affordability concerns will be exacerbated by continuing to permit any differential between in-person and online purchases of universal services.

Absent a requirement that all universal services be available at the same price, whether purchased online or in person, there is a clear risk that affordability issues will increase, especially for older people and people with disabilities (or an impacting / limiting condition), lower income / unemployed and, potentially, also for marketplace sellers. In other words, those least able to afford it will pay the most.

Question 9: Do you agree with our proposal for the structure of the safeguard cap to be based on a single basket which includes Second Class standard and large letters?

Post Office does not support the proposal of a single basket for standard letters and large letters. Instead, each should be separately price-controlled.

Standard letters have a single weight limit of 100g and should continue to be separately regulated. Customers use letters for many purposes but often these are non-avoidable e.g. sending of birthday or Christmas cards. For these services, the price is inelastic and there is no competition. As such, Royal Mail’s standard letter prices should be separately capped to ensure these remain affordable.

For large letters, there are differing requirements and SMEs are more likely to use these services to send goods e.g. for Marketplace sellers. What is affordable should be assessed differently to reflect the different demand profile.

Furthermore, while it may previously have been more appropriate to include large letters and parcels together (since both formats have multiple weight-breaks), the inclusion in the same basket of a single-weight standard letter service and multiple-weight large letter services could lead to price rebalancing which permits the inelastic pricing of standard letters (i.e. ability to increase prices profitably) to be exploited, at the risk of decreasing affordability, in order to subsidise more commercial large letter services. This would be at the expense of some of the most vulnerable consumers.

Further still, if the flexibility were to be available to further discount services purchased online from the prices for in-person purchases, affordability would be further reduced.

To address this risk of decreased affordability of services bought in person, Post Office urges Ofcom to require Royal Mail to make all universal services available at the same price whether purchased in person or online.

Question 10: Do you agree with our proposal to set the basket cap for Second Class standard and large letters at current prices plus CPI?

The test should be based upon affordability.

As there is already evidence of services not being affordable and, in light of both (a) the steep increase in inflation and (b) the proportion of volumes passing through the Second Class service, Post Office is not able to agree that current prices should continue to rise in line with inflation.

While such a proposal would provide regulatory certainty to Royal Mail, it is likely to generate relatively little additional revenue but does increase the risk of a growing number of people who have affordability concerns. On balance, the affordability concerns must take precedence.

Question 11: Do you agree with our proposal to set the cap for five years?

Post Office accepts that, ordinarily, five years is a reasonable period to provide sufficient regulatory certainty but would raise two caveats.

First, it would mean that pricing matters would, again, be considered at a different time (by April 2029) from the review of the overall regulatory framework (by April 2027) when it may be more suitable to consider both at the same time.

Second, if Ofcom implements its proposals unchanged and does not require parity of pricing for in-person and online sales for universal services, then as a safeguard,

there should be an ability to re-open the pricing settlement to allow a review in the event that there is evidence that differential pricing is increasing affordability concerns or is undermining Post Office's branch network and Ofcom's duty to secure the provision of sufficient access points.

Question 12: Do you agree with the structure of the basket set out in Annex 5 in which stamp prices are weighted by volumes of each service type based on the volumes measured two years prior to the control?

If the large letter services are price-controlled separately from standard letter services, this approach would be acceptable for large letters.

For the reasons stated in our response to Question 9, Post Office opposes the creation of a single, standard letter and large letter basket control.

Question 13: Do you agree with our proposal to remove the safeguard cap from Second Class parcels up to 2kg?

Post Office does not agree with this proposal.

Instead, a cap of Second Class parcel prices should be retained, and the level reduced to ensure both (a) affordability and (b) that customers receive the benefits of a competitive market. This is not currently happening.

To illustrate the point, Royal Mail offers a Tracked 48 small parcel service for items weighing up to 2kg (online) for £3.29, which is cheaper than the small parcel Second Class (an untracked service), for which the price is £3.49 when purchased in person. As the Tracked 48 price includes VAT, it means that the ex. VAT price is £2.74. This is even below the online Second Class price of £2.99. This shows that, even under the current price cap level, customers of Second Class parcels services are receiving an inferior service, without tracking, but paying more for it.

The additional risk in removing the price cap on parcels, or continuing to set it at too high a level, is that customers of Second Class parcels services, and in particular those who purchase services in person, will face increasing prices, and increased affordability issues, if Royal Mail is able to use the additional pricing flexibility to fund increased discounts for its Tracked 48 service.

Finally, if the price cap were removed, in the event of market failure, Ofcom would be required to intervene *ex post* and reintroduce a price cap. This creates regulatory uncertainty and increased consumer harm. It is preferable to maintain a cap and to reduce it to a level that meets the affordability requirements of the universal service.

Question 14: Do you consider that there is value in developing a targeted scheme focussing on vulnerable customers? If yes, your views on characteristics of such a scheme including target groups, nature of support and delivery options.

Post Office does not see merit in a targeted scheme and strongly opposes one.

Any such scheme would be a poor and wholly ineffective substitute for setting the price cap at a level that ensures affordability for all citizens, including the most vulnerable. These groups rely more on post as a means of communication. For example, Citizens Advice found that older people (65+) and those who are digitally excluded are more likely to send letters than others.¹⁴ These people's concerns should not be treated as an outlier statistic or glossed over as an inconvenience.

There is no justification for setting the price cap at a level that makes universal services unaffordable for them simply because these same people face other affordability issues and greater cost pressures than for postal services. It is Ofcom's primary legal duty to ensure that the universal service, itself, is affordable and accessible. This duty cannot be discharged by putting in place schemes that seek to put a "sticking plaster solution" on those who report the greatest affordability concerns.

In any event, rather than address the affordability concerns, a scheme would worsen them. By setting the price cap above the true affordability level i.e. one which ensures a universal service available for everyone including the most vulnerable, Ofcom would create an inefficiency incentive for Royal Mail. This, in turn, could exacerbate affordability issues if higher costs are passed on to higher prices.

There is also a risk of regulatory failure if any reliance were placed on a scheme. Were it not to be successful, there would be a need to tighten affordability measures more generally, after the event, which would lead to greater regulatory uncertainty. Instead, the price cap should be set at a level that ensures affordability.

From a practical perspective, a scheme would be complicated and, potentially, costly to set up and administer. There is no guarantee that it would reach the target groups, assuming they had been accurately identified in the first place.

As stated above, those who experience affordability issues are disproportionately also those who do not access services online. Ofcom's duty must be to set a level of pricing cap that ensures affordability for everyone. As stated previously, to achieve affordability Ofcom should require Royal Mail to price all its universal services at the same price, whether purchased in person or online.

Question 15: Do you have any other comments on the proposed modifications to the relevant DUSP conditions through which we propose to implement our proposals?

Aside from the general points made above, we do not have specific comments on the proposed drafting modifications.

¹⁴ [State of the Sector report \(citizensadvice.org.uk\)](https://citizensadvice.org.uk)