

# The future of the Universal Service Obligation

Making the USO reliable,  
affordable and universal



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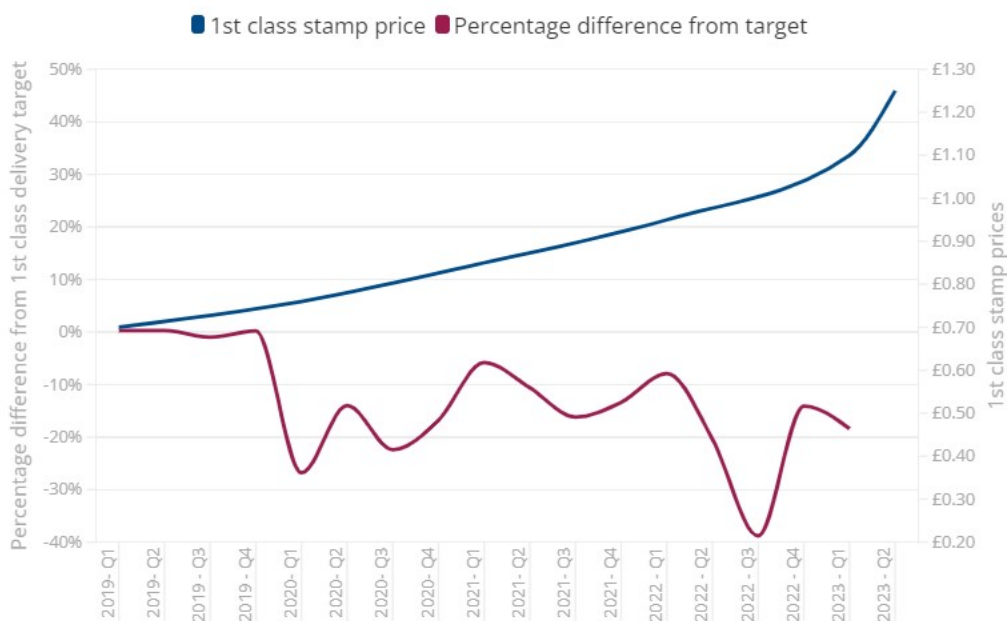
# 1. Summary

Postal services - both in the UK and across Europe - are at a crossroads. On the one hand, post remains a fundamental pillar of our communications network. On the other, we've witnessed a digital upheaval in the way we communicate. Letter volumes have declined as a result and this raises questions about the future form of our postal services.

Ofcom has recently announced that it is reviewing the Universal Service Obligation (USO), which sets out the standards and principles designed to secure access to postal services at an affordable price for everyone. **While it's right that, in an era of digital transition, the financial sustainability of the USO is considered by Royal Mail and Ofcom, this cannot be the sole focus of the discussion.**

The backdrop to the current review is one of ongoing service failures. Royal Mail has missed all its delivery targets under the USO for 4 of the last 5 years, creating significant challenges for the consumers who rely on the service. And in that time prices have almost doubled.

Figure 1: First class stamp price against first class delivery target<sup>1</sup>



<sup>1</sup> Royal Mail, [Quality of Service Reports](#), 2019 - 2023.

Although the UK parcels market is competitive, Royal Mail holds a virtual monopoly over letter post. This makes the targets and conditions set out under the USO central to consumer protection and access to what is still an essential service. And, while some of Royal Mail's challenges may be linked to structural decline in the letters market, **the lack of effective regulation under the current USO means there are also few commercial incentives to actually meet their targets within the current system.**

As the statutory advocate for postal consumers, we've used our insights to set out **3 regulatory priorities for consumers** which we believe should be front and centre during Ofcom's review. These are: reliability, affordability and universality.

**Reliability:** Targets under any revised USO must be backed by a more effective, consumer-focused regulatory system. Under current arrangements, Royal Mail faces few commercial incentives to meet requirements - it has missed annual delivery targets for 4 of the last 5 years, yet has received just 2 fines as a result. The most recent, and highest, still amounts to just 0.05% of that year's group revenue for the company.<sup>2</sup> Enforcement decisions are taken behind closed doors, with Royal Mail the only stakeholder represented. We instead need to move towards a system where consumers are guaranteed a voice in that investigative process, where quality of service standards provide fuller information, and where Ofcom has oversight of a much wider range of letters in the system. We should also be considering the moves by other regulators to link missed targets to consumer compensation - particularly if consideration is being given to reducing requirements on Royal Mail in any way.

**Affordability:** The USO commits to the provision of an affordable postal service, yet the cost of a first class stamp has nearly doubled in 5 years. Royal Mail holds a virtual monopoly over letters and that lack of competitive pressure on prices means proactive regulation is the main source of consumer protection. There are a number of steps we believe could be taken to improve oversight under any revised USO. We would like to see greater transparency in pricing scenario modelling - which is largely negotiated privately between Ofcom and Royal Mail

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<sup>2</sup> Ofcom, [Royal Mail fined £5.6m for missing delivery targets, 2023](#).

Royal Mail, [Financial Report for the full year ended 26 March 2023](#), 2013, page 1. Reported Group revenue for the year ending March 2023 was £12,044m. ( $\frac{£5.6m}{£12,044m} \times 100 = 0.05\%$ ).

at present. We also call for an end to the developing problem of digital exclusion penalties, whereby Royal Mail can charge higher prices for products purchased in person, as opposed to the same product bought online. Finally, we need to see price safeguard caps retained under any future form of the USO, as the most effective and practical measure to guarantee affordable prices for all low income consumers.

**Universality:** While the USO is clearly designated as a 'universal' service, the way provision is set up at the moment prevents this. Under the current model, the USO commits Royal Mail to delivering to every address in the UK. However, this shuts out millions of people who - either temporarily or permanently - are unable to securely access their post at a fixed address. This might be due to homelessness or housing insecurity, or because they are a victim of domestic abuse and have someone intercepting their post. Yet these issues could be resolved - as they have been in other countries - through the provision of an 'address and collect' service. This would give people the option to access post at an alternative location, such as a Post Office. We would like to see any review of the USO used as an opportunity to make sure that the designated universal service provider has to make reasonable provisions to deliver to every *individual*, rather than to every address as now.

## 2. Background

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### The Universal Service Obligation

The 2011 Postal Services Act, which effectively privatised Royal Mail, places a legal duty on the company to continue delivering an affordable postal service to all parts of the country.<sup>3</sup> The Universal Service Obligation (USO) is a fundamental protection for consumers in the postal services market, in recognition of the fact this is a communications channel so many of us rely on.<sup>4</sup>

The Act sets out minimum requirements which Royal Mail - as the sole universal service provider - must meet. These include:

- delivering and collecting letters Monday to Saturday
- delivering and collecting parcels Monday to Friday
- affordable prices that are the same across the United Kingdom

The Act requires Ofcom, as the regulator responsible, to secure the provision of a universal postal service. This means Ofcom sets minimum service standards around things like target service speeds, affordability caps on postage prices, and mail redirections. In doing so, it needs to have regard to the need for a universal postal service to be financially sustainable and to the needs and circumstances of consumers using the service. The Act allows Royal Mail to make a commercial rate of return on USO products - and it exempts USO products from VAT. This serves as a form of public subsidy to Royal Mail as a private business.

### Citizens Advice's statutory role in postal services

Citizens Advice is the statutory advocate for postal consumers in England and Wales. Our role is to make sure postal services meet the needs of consumers - particularly those in vulnerable circumstances - and small businesses. We have on-the-ground insights from our network of 300 local offices, who see first hand

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<sup>3</sup> The Act sets out that Royal Mail should be the Designated Universal Service Provider (DUSP).

<sup>4</sup> The Act makes it clear Royal Mail (as the DUSP) must deliver USO products in a way that's affordable to consumers and geographically uniform. The act also makes provisions for Ofcom to introduce price controls where consumers would otherwise be hit by large price rises. And it allows for Ofcom to introduce Consumer Protection Conditions.

the impact of problems with our postal service - both in terms of the impact on individuals and additional demands on already stretched frontline services. This is combined with years of postal policy expertise in our national team. Together, these allow us to set out what consumers want and need from their postal services.

*"We hear first-hand the detrimental impact letter delays can have on people.*

*"Just the other day I spoke to a client who had missed the deadline to respond to a family court hearing because the letter arrived after the deadline date - it was upsetting to hear the distress and anxiety it had caused them.*

*"This situation is not uncommon, we often hear of the effect letter delays can have on people as we work with them to try to rectify the situation."*

Sian Hiller, Chief Officer, Citizens Advice Edenbridge and Westerham

### 3. Why does post matter?

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The ongoing shift towards digital has changed the way many of us interact with post. It has reduced the reliance on letters for digitally engaged consumers. Yet it remains a vital public service for UK citizens in 3 ways.

**First, even in an increasingly digital world, the majority of UK citizens continue to both send and receive important information via post.** Our latest research found 7 in 10 UK adults received a letter in the last month. And over 24 million (46%) sent important information, like benefits paperwork, court documents or ID in the post in the 6 months leading up to June 2023.<sup>5</sup> Post also remains an important channel for social connection - 57% say they'd feel isolated without the ability to send and receive letters.<sup>6</sup>

Letters are an important part of the UK's national communications infrastructure. Many organisations still communicate primarily or only by post, including hospital appointments, benefits decisions and court proceedings. It also remains the 'channel of last resort' in case of emergencies. When the Government needed to contact all citizens during the Coronavirus pandemic, for example, it sent that message via post. As a result, anyone can receive important post - even if they usually opt for digital communications.

**Second, post remains a lifeline for millions of people who are partially or fully digitally excluded.** The UK has high levels of digital exclusion: 1 in 20 households don't have access to the internet.<sup>7</sup> And a much larger group of people are digitally excluded because they lack basic digital skills. 10.2 million UK adults can't complete a set of 8 basic digital tasks.<sup>8</sup> That's 1 in 5. This group often depends on post for social and economic participation.

Age is an important factor for predicting digital engagement, but it's not the only one. Non-users of digital services are also more likely to have lower levels of educational attainment, have (or have had) a lower socio-economic employment

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<sup>5</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 20

<sup>6</sup> Ofcom, [Residential Postal Tracker](#), 2022, Q3\_5

<sup>7</sup> Ofcom, [Review of Second Class safeguard caps 2024: Proposed price caps for Second Class universal services](#), 2023, page 23.

<sup>8</sup> Lloyds, [Consumer Digital Index](#), 2022, page 38.



status or be in vulnerable circumstances.<sup>9</sup> Digital exclusion is also directly related to geography, with those in rural areas more likely to be affected.<sup>10</sup> Digital exclusion therefore makes existing inequalities worse.

**Third, post is a particularly essential service for people with certain protected characteristics.** Disabled people and people of colour rely more on post, find it more difficult to afford post and are hit harder by negative consequences when their letters are delayed.<sup>11</sup> This is often linked to issues such as low incomes and digital skills, but also to greater interaction with government services and support.

Those who rely on post the most are also hardest hit by negative consequences when letters are delayed. People of colour are nearly twice as likely (23%) to experience negative consequences as a result of letter delays compared to white respondents (13%). Similarly, 21% of disabled people experienced negative consequences as a result of letter delays, compared to 13% of non-disabled people.<sup>12</sup>

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<sup>9</sup> Yates, S. J. et al., [Who are the limited users of digital systems and media? An examination of U.K. Evidence](#), 2020.

<sup>10</sup> Communications and Digital Committee, [Digital exclusion, 3rd Report of Session 2022-23](#), 2023.

<sup>11</sup> Citizens Advice, [Left behind: The need for affordable mail redirections](#), 2022, page 7; Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 20; Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 24.

<sup>12</sup> Citizens Advice, [Royal Mail delays hit an estimated 15.7 million people in the last month](#), 2023.

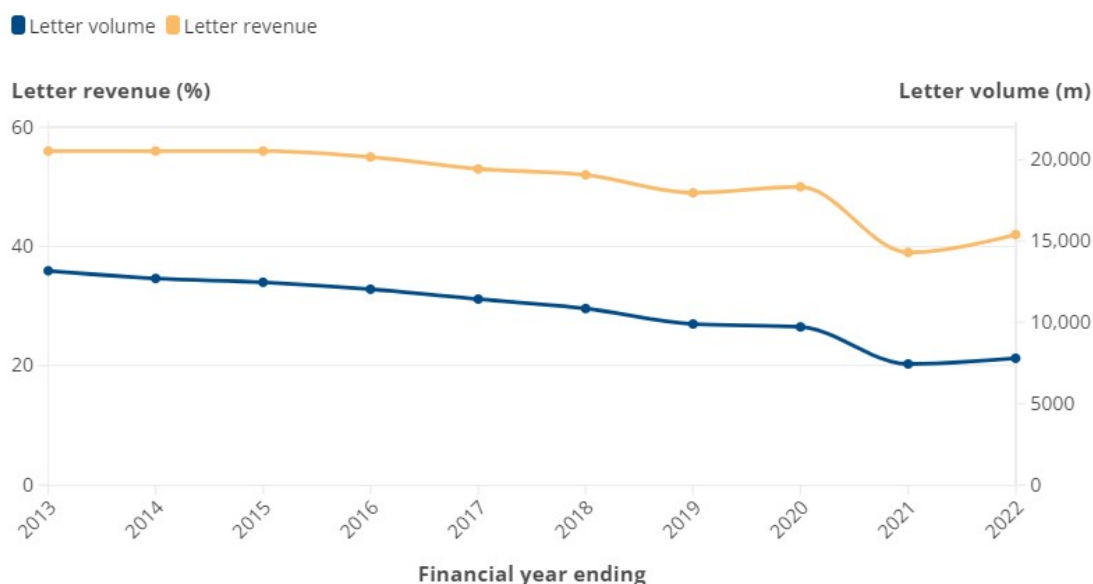
## 4. The changing context for post

A lot has changed since the Postal Services Bill was laid before Parliament in 2010. We set out the most significant shifts below.

### Letter volumes have gone down

The shift towards online communication, both for social contact and regular information such as bills or statements, has led to a reduction in letter volumes. A decade ago Royal Mail delivered over 13 billion letters and in 2022 it delivered 7.8 billion.<sup>13</sup> Despite this reduction, though, letters still represent over 40% of Royal Mail revenue.<sup>14</sup>

Figure 2: Letter volumes and letter revenue at Royal Mail<sup>15</sup>



### Parcel volumes have increased

On the other hand, increased digitisation has driven a big increase in online retail. The UK is now one of the most advanced e-retail markets in Europe. This

<sup>13</sup> Ofcom, [Annual Monitoring Reports, 2013 - 2022](#).

<sup>14</sup> Ofcom, [Annual Monitoring Report, 2022](#).

<sup>15</sup> Ofcom, [Annual Monitoring Reports, 2013 - 2022](#).

has led to a huge growth in parcel volumes - there were almost 5 times as many being sent in 2022 (3.8 billion) as there were in 2012 (784 million).<sup>16</sup>

## The mail mix has changed

While letter volumes have reduced overall over the last decade, this trend has been sharper for letters sent by individuals than for those sent by businesses who send letters 'in bulk'. The consequence of this change has been a steep drop in the proportion of letters which fall under the targets within the USO and a growing proportion of letters delivered under 'access' contracts. This is where an organisation sending large volumes of post arranges for another company to handle and sort letters at the initial stage, then contracts with Royal Mail for last mile delivery.<sup>17</sup> Access mail now accounts for two thirds of the letters market.<sup>18</sup>

Many forms of communication which are crucial for consumers - letters from the bank, the local hospital and the courts - are now delivered by access mail. But these letters aren't regulated under USO rules. That means that much of these vital postal communications don't fall under Ofcom's direct remit.

## How other European countries have responded to changes in the postal world

The UK isn't alone in experiencing changes to its postal volume and make-up. Other countries across the world have reviewed their USO specification in response to a changed national context.

In some cases - particularly in the Nordic countries - this has resulted in a more decisive shift to digital. Both Denmark and Norway have invested in the concept of a 'digital mailbox'. To date, 87% of Danish citizens<sup>19</sup> and 90% of Norwegians of working age<sup>20</sup> are registered. This has resulted in a big drop in letter volumes in both countries, as significant amounts of communication from government and public services can now move online. In June 2023, the Danish Government also

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<sup>16</sup> Ofcom, [Annual Monitoring Update for Postal Services](#), 2022, page 10/ Ofcom, [Annual Monitoring Update for Postal Services](#), 2012, page 8.

<sup>17</sup> House of Commons Library, [Royal Mail and the future of the universal service obligation](#), 2023.

<sup>18</sup> Ofcom, [Annual monitoring update for postal services Financial year 2021-22](#), 2022, page 15.

<sup>19</sup> Agency for Digital Government, [Digital Post User-Data](#), 2023.

<sup>20</sup> Digdir, [Record in the use of digital joint solutions](#), 2023.

decided to abolish the postal USO applying to Post Danmark as the designated universal service provider. This will involve several public tendering processes, in which Post Danmark can participate in the tender process on equal terms to other postal operators.<sup>21</sup>

Other European countries have responded to changes in the postal market by focusing on the potential social value of the USO. The French postal operator, La Poste, has introduced a service where people can pay a small fee to have postal workers 'check in' on elderly or vulnerable friends or relatives, offering an additional source of revenue for the postal service and helping to tackle some of the challenges of an ageing and more geographically mobile society.<sup>22</sup> An Post, the Irish postal operator, introduced 'No Fixed Address' back in 2018 to support homeless citizens. This allows homeless people across Ireland to have a safe place to collect their letters.

The question for the UK is the extent to which any of these trends or initiatives could be applied to our national context. When looking at the Nordic examples, the most striking disparity is the far greater digital divide in this country. 1 in 15 UK adults (6%) have never been online<sup>23</sup>, compared to only 1% of the population in Denmark.<sup>24</sup> And even in countries like Denmark with high rates of digital literacy, there remain concerns about the switch to a digital-only service. A recent review concluded that Europe is currently unable to host a sustainable digital society without exacerbating cross-country inequalities due to substantial differences in internet access and digital literacy.<sup>25</sup> All of this suggests an important role for an effectively managed postal service in supporting people through these changes.

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<sup>21</sup> Copenhagen Economics, *A NEW STAGE FOR POSTAL SECTOR REGULATION? Insights from the latest developments in Denmark*, 2023, page 1.

<sup>22</sup> The New Yorker, *In France, Elder Care Comes with the Mail*, 2019.

<sup>23</sup> Office for National Statistics, *Internet users*, 2020.

<sup>24</sup> Statistica, *Denmark: share of population who had never used the internet 2009-2022*, 2022.

<sup>25</sup> Kessel et al, *Is Europe prepared to go digital? making the case for developing digital capacity: An exploratory analysis of Eurostat survey data*, 2022

## 5. Recognising the limitations of the current USO

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As the postal context has changed, both in the UK and across Europe, we find ourselves at a crossroads. Yet a review is also timely given current gaps in the USO, which provides patchy protection for consumers and limited incentives for service improvement. The following section outlines the failures in the current set-up that need addressing if postal services are to more effectively meet consumer needs.

### Ongoing delivery failures with minimal sanctions

Under the USO, Ofcom sets quality of service targets that Royal Mail should meet. These are particularly important for consumers as Royal Mail, the USO provider, holds a virtual monopoly over letter delivery and so faces no external competitive pressure to tackle poor performance.

Yet Royal Mail has failed to meet its quality of service target for 4 out of the last 5 years. For the past year, the company failed to hit its delivery target in every single postcode area. Our latest investigation found almost 1 in 3 of us (15.7 million people) experienced letter delays in May 2023. And 7.3 million people experienced negative consequences as a result, such as missing health appointments, fines or bills.<sup>26</sup>

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<sup>26</sup> Citizens Advice, [Royal Mail delays hit an estimated 15.7 million people in the last month, 2023](#).

Figure 3: Royal Mail performance against delivery targets<sup>27</sup>

	2018/19				2019/20				2020/21				2021/22				2022/23				2023/2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
% 1C delivered on time (Target: 93%)	92.3	91.4	90.2	92	93.3	93.4	92	93.2	66.2	79	70.6	76.2	87.3	82.4	76.2	79.6	85.1	72.6	54.2	78.9	74.6
% 2C delivered on time (Target: 93%)	98.8	98.6	99	98.9	98.9	98.8	98.6	98.6	93	95.3	91.5	93.9	97.5	95.7	93.8	94.3	96.1	91.3	78.6	94.5	94.3

Ofcom has duly investigated Royal Mail's quality of service for USO post in 2015/16, 2017/18, 2018/19, 2021/22 and 2022/23 (and has chosen not to investigate in several other years in which Royal Mail missed targets).<sup>28</sup> Yet the regulator has fined Royal Mail only twice. The most recent - and largest - fine was just £5.6 million, or 0.05% of the group's revenue for that financial year.<sup>29</sup>

Ofcom's penalty guidelines make clear that fines should help to ensure it is not more profitable for a business to ignore them than to comply with regulation.<sup>30</sup> Yet, fines at this level represent a negligible amount compared to the company's revenue across the 4 years where it has let down consumers and small businesses. The regulator has the power to fine companies up to 10% of their revenue, meaning it could fine Royal Mail up to £1.2 billion.<sup>31</sup> The £5.6m fine is over 200 times smaller than the maximum fine Ofcom could have issued.<sup>32</sup>

We believe this situation is linked to the lack of consumer voice and input into service failure investigations under the current regulatory framework. Ofcom's regulatory enforcement guidelines already require it to operate "with a bias against intervention" - a principle that will clearly disadvantage consumers in a

<sup>27</sup> Royal Mail, [Quality of Service Reports, 2019 - 2023](#).

<sup>28</sup> Ofcom, [Closed cases](#)

<sup>29</sup> Ofcom, [Royal Mail fined £5.6m for missing delivery targets, 2023](#).

Royal Mail, [Financial Report for the full year ended 26 March 2023](#), 2013, page 1.

Reported Group revenue for the year ending March 2023 was £12,044m. (£5.6m / £12,044m)\*100 = 0.05%.

<sup>30</sup> Ofcom, [Penalty guidelines - Section 392 Communications Act, 2003](#).

<sup>31</sup> Ofcom, [Decision finding Royal Mail contravened its quality of service performance targets in 2018/19 and imposing a financial penalty under paragraph 6 of Schedule 7 to the Postal Services Act 2011](#), paragraph 3.12.

<sup>32</sup> Reported Group revenue for the year ending March 2023 was £112,044m. 10% of £12,044m = £1,204m. £1,204m / £5.6m = 215.

monopoly market such as letters.<sup>33</sup> The investigative process itself is opaque - there are no clear benchmarks for assessing the scale of service failures and linking these to an appropriate penalty. And Royal Mail - the subject of the investigation - is also the only organisation represented, with the consumer voice excluded.

Even in cases where specific action has been called for to address service problems at Royal Mail, this has not always been acted on by the regulator. An investigation by the Business Select Committee earlier this year looked into delivery issues at Royal Mail. Following claims to the contrary by Royal Mail leaders, they received evidence from thousands of postal workers suggesting Royal Mail had prioritised its parcel deliveries (where it faces competition from other companies) over letters (where it is the monopoly provider). The committee concluded that the company had “deprioritised delivery of letters as a matter of company policy and that it has systematically failed to deliver against parts of its USO.”<sup>34</sup> They recommended that Ofcom carry out a multi-year investigation.<sup>35</sup> Yet, despite concerns consistently raised by Citizens Advice, Ofcom has so far failed to act on the recommendation to investigate Royal Mail’s performance across multiple years.<sup>36</sup>

## Limited protection from steep price increases

Although affordability is a key priority for postal consumers, it remains a poorly defined concept in postal services. Instead, Ofcom determines ‘affordability’ based partly on financial information and scenarios from Royal Mail that aren’t available to consumer advocates. For example, we recently raised concerns about Ofcom’s proposal to merge a price cap on large and standard second class letters into one ‘basket cap’ weighted by volume. This proposal leaves the door open to above-inflation price increases for standard second class mail.<sup>37</sup> But, as statutory consumer advocates, we haven’t seen the volume shares that would

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<sup>33</sup> Ofcom, [Regulatory Enforcement Guidelines for Investigations](#), p. 3, para 1.2.

<sup>34</sup> Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022–23](#), 2023, page 4.

<sup>35</sup> Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022–23](#), 2023, paragraph 31.

<sup>36</sup> Citizens Advice, [Royal Mail delays hit an estimated 15.7 million people in the last month](#), 2023.

<sup>37</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice’s response to Ofcom’s consultation](#), 2023, paragraph 51.

help us determine this. This means Royal Mail faces reduced accountability for its pricing decisions.

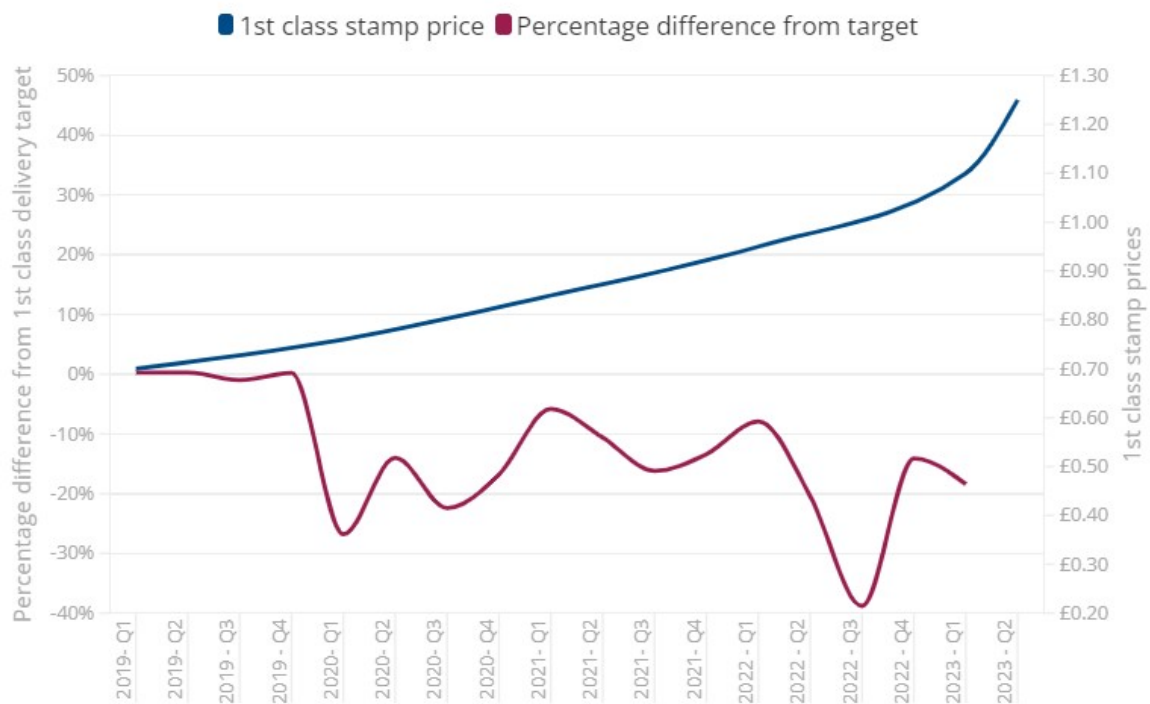
When it comes to enforcing affordability in the letters market, the only mechanism for delivering this is a price cap on certain second class products. This is essential in a monopoly market, where consumers can't shop around. But there are concerning signs that essential products not protected by the safeguard cap are becoming increasingly unaffordable. As a result, consumers are now paying more for less. 46% of letter consumers used first class products in the 6 months leading up to June 2023 because they were concerned their post might not otherwise arrive on time.<sup>38</sup> But the price of first class stamps have increased 87% over the past 5 years. That's 3 times faster than second class stamps.

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<sup>38</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, page 18.



Figure 1: First class stamp price against first class delivery target<sup>39</sup>

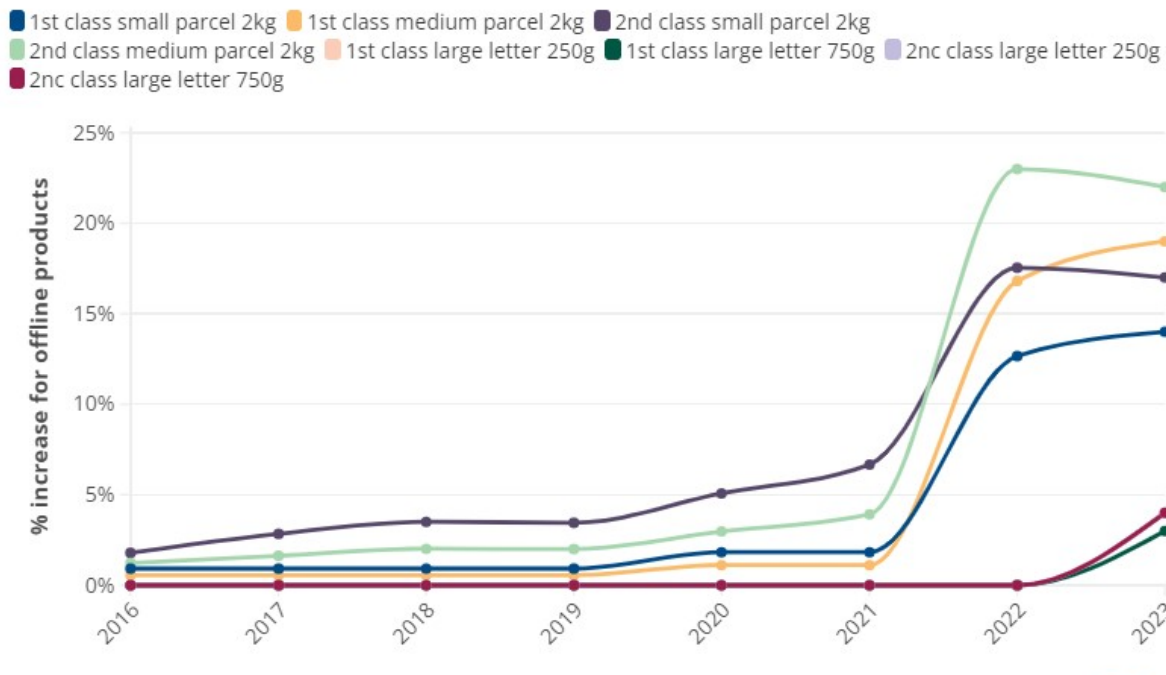


The USO is meant to provide a ‘one-price-goes-everywhere’ service. The legal framework specifically calls out the importance of a geographically uniform price. But, the expansion of online markets and competition between the Post Office Limited and Royal Mail have incentivised Royal Mail to charge less for online consumers than for those buying products in person, i.e. at a post office. With 70% of people buying letter postage and 57% of people sending parcels via the Post Office, it continues to play a vital role as an access point to the universal postal service.<sup>40</sup> But those who most rely on offline purchasing options end up paying more for something which should sit within a universal pricing structure. For example, 2kg 2nd class medium parcels are now 22% more expensive if they are purchased in person.

<sup>39</sup> Royal Mail, [Quality of Service Reports](#), 2019 - 2023.

<sup>40</sup> Citizens Advice, [State of the Sector](#), 2023, slide 13.

Figure 4: Digital exclusion penalty<sup>41</sup>



Until October 2023, this has only been an issue in the parcels market. But the latest price increases mean that letter consumers are hit by this price differential too. In the UK, where 1 in 5 adults lack basic digital skills<sup>42</sup>, we've ended up with a digital exclusion penalty within our national postal infrastructure. As mentioned above, digital exclusion overlaps with different indicators of disadvantage. This should be a concern for both the regulator and the Government.

Ofcom operates with a bias against intervention<sup>43</sup> and therefore has generally proven slow to react when issues around affordability are raised. For example, mail redirections are essential when you move house to protect against fraud and financial harm. Only Royal Mail provides this service. Citizens Advice began highlighting the significant cost of redirection, particularly for low-income households, from 2018. In 2021, Royal Mail finally re-launched a discount scheme for people on certain benefits. But, as of yet, almost 2 years later, there are no official uptake figures from Ofcom to assess how this is working.

<sup>41</sup> The Great Britain Philatelic Society, [Letter and Packet Rates from 2006, 2023](#).

<sup>42</sup> Lloyds, [Consumer Digital Index](#), 2022, page 38.

<sup>43</sup> Ofcom, [Policies and Guidelines](#)

## No guaranteed universal access

Currently, regulation sets out that the Universal Service Provider should deliver to the home or premises of every individual or other person in the UK.<sup>44</sup> But access based on address means it cannot be fully universal. 7 million people were unable to access their post at some point between 2010 and 2020, leading to serious consequences like missing healthcare appointments, employment opportunities and financial losses.<sup>45</sup> This is usually because they don't have a fixed address, they're moving around frequently or they are victims or survivors of domestic abuse, where someone is intercepting their post.

At Citizens Advice, we've helped more people this year with a homelessness issue than we had at the same point in any of the past 6 years.<sup>46</sup> As more people face housing insecurity, it is likely that more are losing access to their post.

Cost of living pressures could also be leaving people vulnerable to post interception for longer.<sup>47</sup> Nearly 3/4 of victims of domestic abuse who were still living with their abuser surveyed by Women's Aid said that the cost-of-living crisis had either prevented them from leaving or made it harder for them to leave.<sup>48</sup> Unless this is addressed postal services cannot be truly universal.

What we would like to see, amid discussions about the future shape of the USO, are steps to rectify these imbalances, creating a model which does far more to protect and support consumer interests. In the next section, we set out some concrete examples of the form this could take.

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<sup>44</sup> Ofcom, [DESIGNATED USP CONDITION 1 SERVICES, ACCESS POINTS, PERFORMANCE TARGETS, NOTIFICATION AND PUBLICATION AND CONTINGENCY PLANNING](#), 2022.

<sup>45</sup> Citizens Advice, [Millions without Mail](#), 2020.

<sup>46</sup> Citizens Advice, [Why access to post is more important than ever](#), 2023.

<sup>47</sup> Citizens Advice, [Why access to post is more important than ever](#), 2023.

<sup>48</sup> Women's Aid, [The cost of living is preventing women from fleeing domestic abuse](#), 2022.

## 6. Citizens Advice's key principles for a new model of the USO

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Our role as the statutory advocate for postal consumers in England and Wales is to secure good outcomes for consumers. We've closely reviewed our own evidence and recent studies, such as Ofcom's review of postal service user needs in 2020.

Reliance on post is changing, and certain issues may be less salient. While the case for small businesses is less clear cut, Ofcom's user needs survey suggests a 5 day letter service would meet most people's needs, for example.<sup>49</sup> But we believe there are 3 key areas - clearly identified as consumer priorities by Ofcom's review and our own evidence<sup>50</sup> - which are not being realised within the USO as it stands. These are: reliability, affordability and universality.

### 1) Reliability

Over the last few years, Royal Mail has been operating in a missed targets culture, where the company persistently misses delivery targets and receives little to no regulatory penalty for doing so. With reliability a key priority for consumers, any revisions to targets or delivery days under a revised USO - particularly anything which reduces requirements on Royal Mail - need to be backed up by more effective, consumer-focused regulation. If consumers' demands for ongoing service failures to be addressed are to be met, USO targets must be supported by clear incentives to meet them, a transparent process of investigation and penalties if they are missed.

**Improved quality of service reporting.** Royal Mail publishes quarterly quality of service reports.<sup>51</sup> Yet there are many things which matter to consumers which aren't currently included:

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<sup>49</sup> Ofcom, [Review of postal users' needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom](#), 2020, page 89.

<sup>50</sup> Ofcom, [Review of postal users' needs: An assessment of whether the minimum requirements of the universal postal service reflect the reasonable needs of the users of postal services in the United Kingdom](#), 2020, page 3.

<sup>51</sup> Royal Mail, [Quality of Service Reports](#), 2007/8 - 2023/4.

- *Scale of delays.* Current reporting indicates whether or not Royal Mail has met its targets for 1st and 2nd class post to be delivered the next working day or within 2-3 days respectively. Yet if - as now happens routinely - the targets are missed, there is no indication of whether that delayed post is arriving a day or a week later than it was expected. This makes no difference to Royal Mail's performance against its target, yet it can have huge implications for consumers affected. We would like to see the potential for barcoded stamps to capture the scale of delays investigated and incorporated into quality of service reporting where possible.
- *Parcels vs. letters breakdown.* The Business Select Committee considered that Royal Mail's prioritisation of parcels over letters had led to a systemic failure to seek to offer a 6 days per week letter delivery service.<sup>52</sup> Given these serious conclusions, it is right to give consumers certainty over whether prioritisation of parcels is driving letter delays. Our data indicates that a consistently higher percentage of customers experienced a delay to delivery of a letter than to a delivery of a parcel.<sup>53</sup> But quality of service reports do not show how letter deliveries compare to parcel deliveries, including tracked items, which were consistently treated as the highest priority.<sup>54</sup>
- *A performance floor for the Christmas period.*<sup>55</sup> Royal Mail is exempt from quality of service targets around Christmas. During this period, Ofcom monitors quality of service but doesn't take enforcement action for performance. Yet there is no floor on quality of service performance during this period. We don't agree that the current approach of effectively waiving targets entirely during this period is an appropriate way to secure good outcomes for consumers.

**Extension of regulation to cover access mail.** Access mail (letters from organisations sending in bulk) are currently sent outside of the USO. This includes a lot of letters which are crucial to consumers, such as letters from the NHS, the Government and essential service providers - and now accounts for

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<sup>52</sup> Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, page 4.

<sup>53</sup> Citizens Advice, [Citizens Advice evidence on letter delays and parcel delays - 31/01/2023](#), 2023.

<sup>54</sup> Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, paragraph 28.

<sup>55</sup> Citizens Advice, [Citizens Advice response to Ofcom's consultation: Review of postal regulation](#), 2022, page 26 - 28.

two thirds of the letters market.<sup>56</sup> Yet it's not directly regulated by Ofcom. Whilst the Postal Services Act 2011 sets out that access mail must be allowed, it doesn't set out clear criteria for what effective delivery looks like. Instead, this is covered by individual commercial contracts with Royal Mail, the only UK wide end-to-end letter provider in the country.

Yet, since Royal Mail holds a virtual monopoly on end-to-end delivery, access providers entering contracts with Royal Mail have little leverage to guarantee service quality (given they cannot shop around). While there have been some steps to improve compensation offered to the sending organisations if delivery contract conditions are not met, this does not extend to affected consumers. We therefore recommend that decision-makers explore bringing access mail more effectively into Ofcom's regulatory remit to help protect consumers. This would mean that Royal Mail would have a regulatory obligation to ensure critical items such as appointment letters and benefits related correspondence arrived on time.

**A fairer, more transparent process for investigations into quality of service failures.** The recent investigation by the Business Committee into Royal Mail's performance called on Ofcom to include evidence from wider organisations when it investigates quality of service failures.<sup>57</sup> We strongly feel that Ofcom's quality of service investigations should include consumer voice, to balance Royal Mail's representation. The current approach where Royal Mail, the subject of the investigation, is also the only organisation in a position to provide context - with no requirement to independently consider the impact of service failures on consumers - isn't tenable.

**Penalties for failure which incentivise improved performance.** At present, Ofcom has chosen to fine Royal Mail just twice in its last 5 investigations of quality of service failures<sup>58</sup> - fines which represented only 0.01% and 0.05% of

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<sup>56</sup> Citizens Advice, [Annual Monitoring Update for Postal Services](#), 2022, paragraph 3.46.

<sup>57</sup> Business, Energy and Industrial Strategy Committee, [Royal Mail Seventh Report of Session 2022-23](#), 2023, paragraph 31.

<sup>58</sup> Ofcom, [Enforcement Bulletins](#), 2016 - 2023.

those years' group revenues.<sup>59</sup> These decisions are made behind closed doors, with little clarity on how an appropriate penalty is determined. This stands in clear contrast to the approach taken by regulators in other sectors. Ofgem, for example, clearly sets out the basic approach and formula it uses to enforce targets for energy companies.<sup>60</sup> This means there is an assumption of a fine where targets are missed, and the regulator's approach to determining how this is set is transparent and open to scrutiny.

Under the fairly lenient and much more opaque process at Ofcom - and with a virtual monopoly in the letters market - there are few commercial incentives for Royal Mail to invest in any efficiencies required to improve quality of service. We believe a more transparent process is needed under any revised USO, with clearer benchmarks against which the scale of shortfall against target can be assessed and guidance on how these translate into an appropriate penalty.

**Linking delivery failures to compensation for consumers.** Regulators across essential services have been considering their approach to consumer protection in recent years, with the FCA bringing in a new 'consumer duty'. One area that would be worth exploring is the steps to better link regulatory penalties to consumer compensation. For example, Ofwat recently ordered water companies to pay back £114m to customers through lower bills after missing targets.<sup>61</sup> And the Treasury has announced that water company fines will be ring-fenced to improve water quality.<sup>62</sup>

For postal services, any financial penalties set by Ofcom currently take the form of fines which go to the Treasury. We would suggest exploring alternatives to this approach. One option would be a financial penalty taking the form of a small

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<sup>59</sup> 2019: Reported Group revenue for the year ending March 2019 was £10,581m.  $(£1.5m / £10,581m) * 100 = 0.01\%$ . Royal Mail, [Financial Report for the full year ended 31 March 2019](#), 2019, page 2. 2023: Reported Group revenue for the year ending March 2023 was £12,044m.  $(£5.6m / £12,044m) * 100 = 0.05\%$ , Royal Mail, [Financial Report for the full year ended 26 March 2023](#), 2023, page 1.

<sup>60</sup> Ofgem, [RIIO-ED2 Final Determinations Core Methodology Document](#), 2022. See, for example, p.108 on final determination of penalties on complaints metric.

<sup>61</sup> BBC, [Water firms forced to pay back customers for poor performance](#), 2023.

<sup>62</sup> Gov.uk, [Water company fines to be channelled into environmental improvements](#), 2023.

reduction in the following year's 2nd class stamp price cap.<sup>63</sup> This would mean the penalty levied was effectively shared between the consumers affected, rather than going to the government - following the approach taken in the water sector. A second - though more complex - option would be some form of auto-compensation already widely used in other sectors. With the recent introduction of barcoded stamps, senders could opt in to register their details and thus get an automatic refund if their post is delivered late.

## 2) Affordability

The USO places affordability conditions on Royal Mail as consumers are unable to shop around, meaning the way this is regulated and monitored is of particular significance. With household finances under huge pressure, the Government has recently called on regulators across various sectors to do what they can to support consumers. Yet the price of a 1st class stamp has gone up 3 times in the last 18 months, now costing almost 100% more than it did just 5 years ago. Below, we set out steps which could be taken under any future model of the USO to better ensure affordability for consumers - now and in the future.

### **Greater transparency around pricing decisions**

There is a general issue around transparency and scrutability when it comes to pricing decisions under the USO, with modelling often withheld from consumer advocates on the basis of commercial sensitivities. To combat this, there should be greater consumer representation in conversations the regulator has with Royal Mail about modelling pricing structures.

Ofcom should also develop a clearer approach to measuring affordability. This must prioritise mitigating against consumer harm and must take into account the full range of evidence available on how low-income consumers engage with the postal market.<sup>64</sup> As part of this, Ofcom could bring postal services into their

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<sup>63</sup> As an indication of what this might mean in practice, we've estimated the cost to Royal Mail of a 1p reduction in the price cap for 2nd class stamps to be around £3m. This is based on [figures from 2019](#), when Royal Mail was forced to repay £60,000 to Ofcom for breaching the price cap on 2nd class stamps by 1p for 1 week.

<sup>64</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.



regular Communications Affordability Tracker to connect the common issues people face across communications markets.<sup>65</sup>

There are opportunities here to achieve a transparent and uniform approach to understanding affordability across sectors - both those that Ofcom regulates and those that are in the remit of other regulators such as the Financial Conduct Authority.<sup>66</sup>

In declining markets, it also becomes especially important to look at affordability for subsets of the population rather than the population as a whole. Ofcom currently uses average spending on post to calculate expenditure as a percentage of disposable income.<sup>67</sup> But, in doing so, they take an average of all households, including those who do not spend anything on post. The figure for the average spend on post among households that use post is 6 times higher than the average for all households.<sup>68</sup> In measuring affordability, Ofcom should therefore look specifically at the experiences of those that continue to rely on post.

### **Retain safeguard caps in a monopoly market**

Royal Mail have said that they want to remove price caps - the only price protection in this essential market.<sup>69</sup> But people can't shop around. So getting rid of the cap would mean that a significant minority of the population could struggle to access this essential service.

First class letters aren't protected by the price cap and have increased 3 times faster than second class products. Even before the latest price increase (it now costs £10.00), 26% of UK adults reported they would find it difficult to buy a book

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<sup>65</sup> Ofcom, [Communications Affordability Tracker](#), 2023.

<sup>66</sup> In order to understand how much available income different consumers are likely to have, it is important to consider a wide range of essential outgoings in order to reflect the lived experience of low-income consumers as accurately as possible. The FCA handbook outlines what expenditure should be considered essential in its recommendations to mortgage lenders. And the common financial statement trigger figures provide a guide for levels of monthly expenditure deemed reasonable depending on household size. These are operated by the Money and Pensions Service and recognised by the FCA. Figures are updated annually.

<sup>67</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.

<sup>68</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, addendum.

<sup>69</sup> Royal Mail, [Response to Ofcom's consultation - Review of Second Class safeguard caps 2024](#), Royal Mail Submission, 2023, page 2.

of first class stamps costing £8.80.<sup>70</sup> Without a safeguard cap, there is no guarantee that this wouldn't also be the situation for consumers of second class letter products. This is especially concerning considering people on low income are more likely to rely on post to send important documents<sup>71</sup>.

A safeguard cap continues to be a proportionate consumer protection in a monopolistic market. It's also the most practical and efficient way Ofcom can keep post affordable. This must be a key principle driving affordability in the USO - now and in the future.

### **A guarantee of uniform pricing and an end to digital exclusion penalties**

Despite the commitment to a single price structure under the current USO, the rise of online purchase options has allowed new penalties to creep into the system for those who are digitally excluded. This means that digitally excluded consumers end up paying more for something which should be part of a universal service.

5 million workers will likely be acutely digitally under-skilled in 2030, according to the Lords Communications and Digital Committee.<sup>72</sup> And digital exclusion is more concentrated in rural areas, due to connectivity issues.<sup>73</sup> Any revised model for the USO must end the current development of a 2-tier system, where consumers in certain areas are more likely to be digitally excluded and therefore have to pay a premium for postal services.

### **Proactive regulation on affordability issues**

Ofcom should also be quicker to act when concerns around affordability arise. For example, the regulator could be more proactive in monitoring how well Royal Mail's concessionary discount scheme for redirections is working - almost 2 years after Royal Mail re-launched their concessionary discount, there are no official uptake figures from Ofcom by which to measure this.

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<sup>70</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, paragraph 36.

<sup>71</sup> Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, page 18.

<sup>72</sup> Communications and Digital Committee, [Digital exclusion, 3rd Report of Session 2022-23](#), 2023, page 6.

<sup>73</sup> Communications and Digital Committee, [Digital exclusion, 3rd Report of Session 2022-23](#), 2023.

And, as part of looking at the future of the USO, Ofcom should commit to reviewing the cost of *all* essential letter products where Royal Mail is the monopoly provider. Where Ofcom sees any issues arise, it should act more swiftly to ensure that consumers are adequately protected.

### 3) Universality

The USO should be universal, yet in its current form it's not. Citizens Advice has highlighted a clear gap in the USO for the millions of people who - temporarily or permanently - don't have a fixed address. Any review of the USO must put this issue firmly on the agenda and secure a truly universal service.

Since 2018, we've worked with industry, regulators, charities and people with lived experience to develop a solution. We're calling this model 'Address & Collect'. This is a service that would allow people who don't have access to their post to collect their letters at a post office.<sup>7475</sup> It would be free and accessible, while also offering a safe and usable correspondence address. It is already in use in several other countries.

Any review of the USO provides an opportunity to make sure that the designated universal service provider has to make reasonable provisions to deliver to every *individual*, rather than to every address as now.

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<sup>74</sup> Post offices continue to be seen as a vital access point for the letters market and they continue to maintain a vital network of 11,500 branches.

<sup>75</sup> House of Commons Library, [Post office numbers](#), 2023.

## 7. Conclusion

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The future of post is at an important crossroads. We're moving into an increasingly digital world and we've seen letter volumes decline as a result. But post still remains an essential service for millions across the UK.

Any changes to the current format of the USO need to do far more to prioritise its purpose of protecting consumers in a monopoly market. At a minimum, the USO needs to guarantee reliability, affordability and universality for consumers.

As a consumer advocate, we do not have access to the level of financial detail needed to reach a judgement on the financial sustainability of the USO in its current form. However, we would raise two points. The first is that any review should look to model the huge commercial advantages, trust and brand recognition that the USO currently offers Royal Mail, alongside any financial inflexibilities it entails. Royal Mail has existed in the UK for over 500 years and has incredible brand recognition as a result - 100% had heard of Royal Mail in YouGov's latest brand tracker.<sup>76</sup> Although it was privatised in 2013, the public view it as a similar organisation to the BBC and the Post Office - both of which are fully government owned.<sup>77</sup>

As well as the intangible benefits that come from being a brand closely linked to our country's history, Royal Mail also receives some tangible benefits from delivering the USO. It gets a 20% VAT exemption on all its USO products, making them more competitively priced.<sup>78</sup> It also has an infrastructure network which stretches across the whole of the UK, which has been built up over centuries.

The second point is around market stability. Royal Mail holds a virtual monopoly on delivering letters. It faces no external competition in standard letters and minimal competition in large letters. And there is also no obvious alternative company with the same scale, infrastructure and assets as Royal Mail. This risks putting Royal Mail into the 'too big to fail' territory. All of these factors mean careful and effective regulation of the company takes on a particular significance.

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<sup>76</sup> YouGov, [Brandtracker: Royal Mail](#), 2023.

<sup>77</sup> Between 22 February and 2 March 2021, Opinium ran an online survey with 4004 UK adults about the role companies can play in society.

<sup>78</sup> Royal Mail, [Information on VAT and postal services](#), 2023.

In this paper, we have set out a number of options to develop an approach to overseeing the USO that better ensures consumer protection. However, we feel the government and regulator should also consider the risks associated with an essential service being monopolised by a single company. A big part of addressing this will be around a more effective regulatory framework under a revised USO - the options for which we've set out above. But the government also needs to be considering future sustainability. These options could encompass the model being explored in other essential utilities to reform firms as "social purpose" companies, with particular requirements to consider the needs of consumers and the wider public<sup>79</sup>; competition (i.e. whether Royal Mail's network could or should be opened up to competitive tender); or public subsidy.

Navigating these decisions will not be easy, but getting them right will make a huge difference, both to the ability of people to rely on this basic pillar of our communications network in coming years and to setting a path for the USO and Royal Mail which will most effectively support consumers during the transition to a more digital world.

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<sup>79</sup> The Guardian, [Severn Trent chief proposes 'social purpose' water firms amid utilities crisis](#), 2023.

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