

The Rt Hon Liam Byrne MP
Chair, Business and Trade Select Committee

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BY EMAIL ONLY

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Dear Mr Byrne,

Ofcom call for input – *The future of the universal postal service*

I am writing to you as Ofcom has this morning published a call for input, requesting views and evidence on [The future of the universal postal service](#).

Postal services remain a vital communications tool for many people and businesses. However, the way which people use these services has changed substantially since the Postal Services Act was passed in 2011 while the legal obligations on Royal Mail, as the designated universal service provider, have largely remained the same.

Our call for input intends to stimulate an informed discussion about options for changing the specification of the postal universal service obligation (USO). The document sets out evidence that suggests the USO needs to change to meet the needs of consumers and to ensure it can continue to be affordable and financially sustainable in the future. In doing so, it incorporates analysis of the changing postal market, people's expectations of a universal postal service, and international experience; an assessment of the financial burden and sustainability of the USO; and explores a range of options for adapting its specification.

Our key findings include that:

- The letters market is in structural decline, with letter volumes halving from approximately 14 billion between 2011/12 to seven billion in 2022/23, with the rate of decline accelerating in recent years.
- Many people still rely on letters but needs have changed. While there are some things that still need to be sent by letter, our research shows that people prioritise reliability when receiving letters, whereas speed and frequency are seen as less critical. This is also true for large mail users, such as public bodies and large businesses.
- There is an increasing risk of USO obligations becoming financially and operationally unsustainable. We estimate that net cost to Royal Mail of the USO obligation to be between £325m-£675m in 2021/22.^{1 2}

¹ We have not carried out a formal assessment as set out in Section 44 of the Postal Services Act 2011, but we have considered alternative estimation options in arriving at our provisional position.

² This range is based on the profits that we have calculated Royal Mail could have made if it had not been subject to the USO and had commercial freedom, compared to its actual position in that year (though the range includes the loss of the VAT exemption benefit).

- If the USO is not modernised, it may also become increasingly difficult and more expensive for Royal Mail to provide a reliable service, while people could expect to pay higher prices than necessary for the services they receive.
- The UK is not alone in needing to respond to these challenges; across Europe and more widely, universal postal obligations are being reformed to ensure a viable postal service that meets people's needs and is fit for the future.

We have set out – and are seeking input from all stakeholders on – a range of options for redesigning the USO. While we have not expressed a preference nor are we proposing a specific change, our call for input offers our initial analysis on these options, including the likely impact on people and businesses, as well as the financial sustainability of Royal Mail and the environmental impact.

We are clear that any changes to the USO must not result in a downgraded quality of service. Any changes must improve on existing levels of reliability and protect people who are reliant on postal services. Further, access to postal services must remain affordable.

We also note that changes to the USO will not on their own provide the answer to the financial and operational challenges faced by the Royal Mail. We expect Royal Mail to improve its reliability and resolve any operational issues that contributed to its failure to meet its delivery targets in 2022/23, while continuing work on transforming its network and operations, and improving efficiency. As the regulator, Ofcom will continue to hold Royal Mail to account for poor performance and we will not hesitate to take further enforcement action where this falls below the acceptable standard.

We welcome responses to our call for input until 3 April 2024 – during which time we will also conduct a series of engagement events across the UK. Following this, we will carefully consider all stakeholder input, assess the options and provide an update in the summer. Some of the options for change require legislative change and are therefore a matter for Government and Parliament to decide others could be made through changes to our regulations; and, under any scenario, Royal Mail will need to restructure its network to respond to what people need.

We would welcome any views which the Committee has on the future of the Royal Mail as part of our process. I would be grateful if this letter could be shared with all members of the Committee.

Yours sincerely,



Lindsey Fussell

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