



Review of the literature and policy on the UK postal market



For Consumer Scotland
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1 Introduction

Background

- 1.1 Consumer Scotland commissioned EKOS Ltd to undertake a literature and policy review of the UK postal market, with the research undertaken between March 2023 and August 2023.
- 1.2 This main report sits alongside two briefing papers on the letters and parcels market which have been published as separate documents.
- 1.3 The research findings and issues for further consideration will be used by Consumer Scotland to inform its advocacy work in relation to the postal market in Scotland, and for ongoing discussions with stakeholders.

Study aims

- 1.4 The main aims of the literature review of the UK postal market were to:
 - Identify and evaluate existing research and policy interventions relating to the UK postal market
 - Identify what work has been done in this area
 - Identify where progress has and has not been made
 - Consider where future activity might be focused
 - Identify gaps in the existing research and policy landscape
 - Provide a list of the type of data Consumer Scotland could collect on an ongoing basis to monitor the success of the postal market in serving the needs of consumers in all parts of Scotland
 - Provide recommendations for consideration by Consumer Scotland and for engagement with stakeholders

Report structure

1.5 This report comprises the following chapters, including:

- **Chapter 2** which provides an overview of the study scope and method
- **Chapter 3** which describes the two postal market segments, introduces the main stakeholders and operators involved in the UK postal market, and briefly sets the scene in relation to consumer issues
- **Chapter 4** which provides more detail on the regulatory framework for the UK postal market, an assessment of the quality of service provided by Royal Mail, and related consumer issues
- **Chapter 5** which covers the main drivers of change within the UK postal market and current issues
- **Chapter 6** which outlines wider issues relating to the parcels market that do not necessarily fit within any of the previous chapters, and related consumer issues at each part of the journey
- **Chapter 7** which provides an overview of Post Office Ltd, the role and contribution of the Post Office network, and related consumer issues
- **Chapter 8** which presents our overall conclusions and issues for further consideration based on the evidence presented in the preceding chapters and discussions with stakeholders

2 Study method and approach

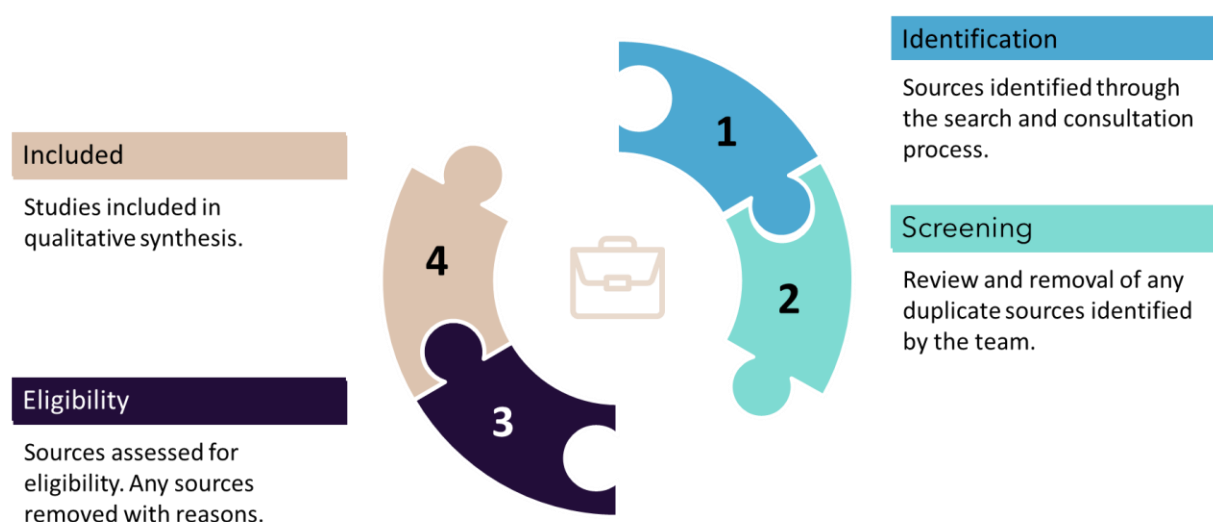
Introduction

2.1 This chapter provides a brief overview of the study scope, method, and approach.

Literature review

2.2 A literature review comprised the main element of the research. The literature review included four stages comprising: identification; screening, eligibility; and included, as outlined in **Figure 2.1**.

Figure 2.1: Literature review process



2.3 Key points to note about the scope of the literature review include that:

- The timeframe of interest was the ten-year period 2013 to 2023
- The geographic focus was primarily Scotland and the UK, albeit international examples were of interest in relation to the potential application within a UK postal market context
- It was important to consider the extent to which current policy initiatives meet the needs of consumers in vulnerable circumstances and small businesses

- There was interest in identifying any research undertaken on the environmental impacts from the delivery of postal and parcel services and the actions consumers could take in relation to this policy area

2.4 In summary, the process involved:

- Searching organisation websites for relevant articles, documents, publications, and briefing papers – including for example Scottish and UK Parliaments, Scottish and UK Governments, Consumer Scotland, Citizens Advice, Citizens Advice Scotland, The Consumer Council for Northern Ireland, Ofcom, Post Office Ltd, Royal Mail Ltd, Chambers of Commerce, and Federation of Small Businesses
- Accessing relevant academic sources for relevant published academic literature

2.5 A rich and diverse range of source materials were identified and categorised under broad headings, including but not limited to: independent research reports; research briefing papers; consultation documents, statements, and responses; strategic, action and work plans and programmes; annual reports; debates, speeches and minutes of meetings; and press and news articles.

2.6 All document sources were logged and categorised by the study team in Microsoft Excel and provided to Consumer Scotland. This captured information such as: name of source material; organisation who published the source material; date published; type of source material; and weblink.

2.7 Given the timescales for the research, the search and reporting process had a defined timescale for completion – there may be additional sources of material available not captured in our log and/or other sources which have become available since preparing this report. We are confident, however, that our search process was comprehensive and wide enough to identify relevant and up-to-date material.

2.8 All sources used are within the agreed timeframe (2013 to 2023), with the exception of a few key pieces of legislation and research published prior to 2013 that helped to set the scene in relation to, for example, existing consumer issues in the postal market.

2.9 While all source material is relevant and valid, they are not equally so. Some source material by its very nature is more relevant and reliable. The evidence presented in the report relies primarily on accepted sources, including:

- Published information, statistical and performance data from government and other credible public, private and third sector websites

- Published independent research (for example, which used representative samples of adult consumers in the UK)
- Material from other websites that also served as a source for, and/or supported, other information and data

2.10 The evidence base has been used to help broaden our understanding of the postal market in the UK – not least through providing a useful synthesis of previous and current knowledge, making connections between different sources, identifying any areas of debate, and identifying gaps in the research. There appears to be more source material relating to the parcels market when compared to the letters market, and therefore the potential for a knock-on impact for consumers. Increased source material in this area is reflective of several factors which characterise the parcels market:

- The significant growth in online shopping over the last decade, and which was accelerated during the pandemic
- There is much more competition in the parcels market
- Barriers to entry of the parcels market are relatively low, and there are a number of large operators in this space
- Growth of the Consumer to Anywhere (C2X) market (for example, marketplace sellers such as Vinted)
- That there is limited regulation of the parcels market, with the exception of Royal Mail

Consultations and stakeholder workshops

- 2.11 The literature review was supplemented by targeted stakeholder engagement. Several remote and in-person consultations were undertaken with representatives from organisations including Citizens Advice, Consumer Scotland, Scottish Government and The Consumer Council for Northern Ireland.
- 2.12 Two workshops with stakeholders from across the UK postal sector took place on 27th June 2023 to discuss the findings of the research, their implications, and to examine ways forward. A total of 20 individuals from across 12 organisations and committees attended either in person or joined online, with most people attending both workshops. Attendance figures exclude representatives from Consumer Scotland and EKOS. **Appendix A** provides a list of organisations that attended the workshops and the agenda. The feedback from the stakeholder events has fed directly into the final chapter of this report and briefing papers, and a summary note of the event has been shared directly with attendees.

3 Overview of UK postal market

Introduction

3.1 This chapter:

- Sets the scene for the research and provides details of the postal market segments (letters and parcels). While the letters market and parcels market operate differently (for example, in terms of level of competition), the two market segments are by their very nature interrelated
- Describes the main stakeholders and operators involved in the UK postal market
- Briefly sets the scene in relation to the evidence base on consumer issues

3.2 A key source of information for this chapter is the UK Parliament, House of Commons Library, Postal Services Research Briefing (May 2022) which brings much of this information together in one document [1].

UK postal services

3.3 Royal Mail had a monopoly over the UK postal market for many years. This changed in January 2006 when the market was opened up to competition. Royal Mail was formerly a public corporation and following the passing of the Postal Services Act 2011 was subsequently privatised [2].

3.4 The Post Office Limited, is now a separate business and remains entirely owned by the UK Government, from which it currently receives an annual subsidy of £50 million.

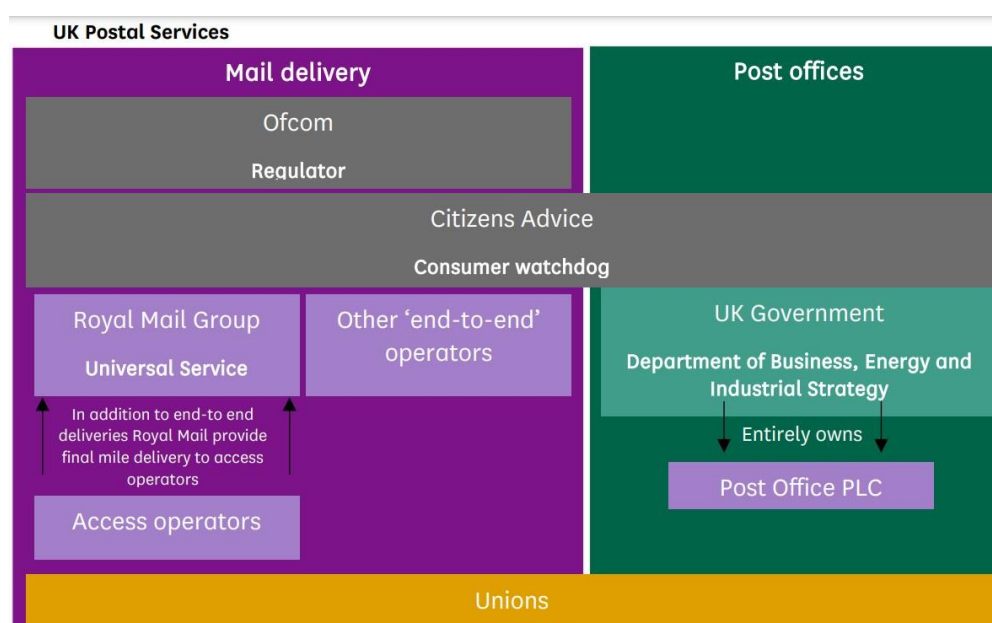
3.5 Postal services are generally a reserved matter to the UK Parliament. It is not a devolved matter to the administrations in Scotland, Wales, and Northern Ireland. This limits the extent to which the Scottish Parliament and Scottish Government (and its devolved nation counterparts) can make decisions that could improve the way the postal market serves consumers who live and work in different parts of the UK.

Postal market segments

Letters market

- 3.6 Ofcom designated Royal Mail as the universal service provider in March 2012, and the company is the largest operator in the UK letters market [3].
- 3.7 The UK letters market is fully open to competition, and there are two forms of competition in this market, including:
- **End-to-end competition (also known as direct delivery)** – this is where a postal operator undertakes the entire process of collecting, sorting and delivering letters without the need to access Royal Mail’s network
 - **Access competition** – this is where an operator other than Royal Mail collects and sorts the letters but then hands over final delivery to Royal Mail – and Royal Mail is obliged to open its network to access operators [4]
- 3.8 Royal Mail operates a near monopoly over final mile letter deliveries in the UK [5] – Ofcom notes that letter users “rely almost exclusively on Royal Mail’s universal service” [6] [page 22].
- 3.9 **Figure 3.1** illustrates mail delivery services in the UK.

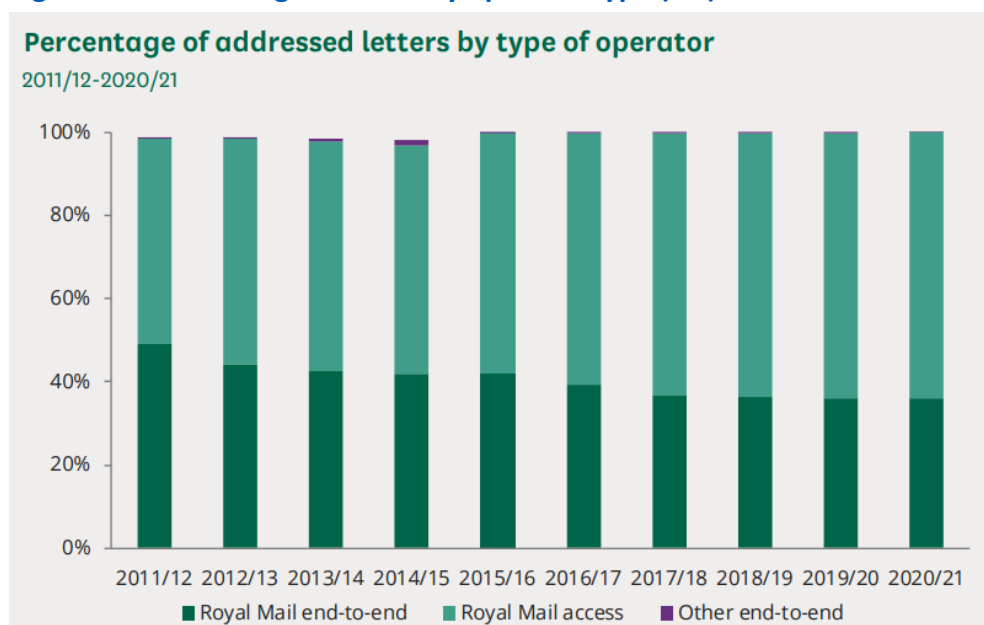
Figure 3.1: UK mail delivery services



Source: UK Parliament, House of Commons Library, Postal Services Research Briefing, 11th May 2022

- 3.10 Growth in the proportion of letters handled by access operators has been slow over the last decade. The latest data shows that access operators handled 64% of total UK letter volumes in 2020-2021 - up from circa 50% in 2011-2012, **Figure 3.2**.

Figure 3.2: Percentage of letter by operator type (UK) – 2011-2012 to 2020-2021



Source: UK Parliament, House of Commons Library, Postal Services Research Briefing, 11th May 2022

- 3.11 Levels of competition are extremely limited - Royal Mail continues to handle the vast majority of UK end-to-end deliveries (99.95% in 2020-2021) [7].
- 3.12 The main change (and resulting small growth) in end-to-end deliveries occurred between 2011-2012 and 2015-2016 – Whistl (the UK's second-largest postal company after Royal Mail) entered the letters market in 2012 and looked to compete with Royal Mail. Despite Whistl's initial growth, the company withdrew from the end-to-end market in 2015. At that time, the company reported a lack of available capital to continue its growth, and this hindered Whistl's ability to compete with Royal Mail's market position.

Parcels market

- 3.13 The parcels market is made up of two main segments, as described below [8] [page 4].
- 3.14 First, the **Consumer to Anywhere (C2X)** segment which comprises purchasing postage for sending parcels on a single piece basis (that is excluding those using bulk contracts). C2X senders are typically residential consumers who send:

- Parcels to friends and family

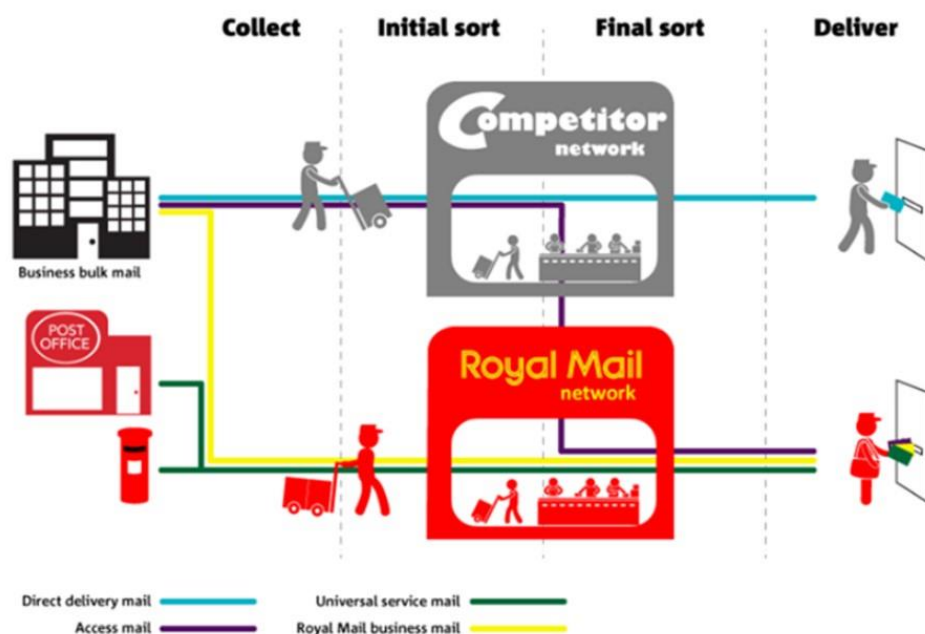
- A parcel – for example, returning an item they have bought online
- A parcel to someone who has purchased an item from them, often using marketplace selling - buying and selling second hand has surged in popularity in recent years, and there are numerous online second hand marketplaces and platforms to choose from (for example, Vinted, Gumtree, eBay, Amazon Marketplace)

3.15 C2X may also include small businesses that do not send enough parcels to benefit from a bulk contract.

3.16 Second, the **Business to Consumer (B2C)** segment which is for bulk contracts for parcels and is often, but not exclusively, online retailers who use parcel services to deliver products to consumers.

3.17 **Figure 3.3** below from Ofcom shows the forms of competition in the UK postal market.

Figure 3.3: Competition in the UK postal market



Source: UK Parliament, House of Commons Library, Postal Services Research Briefing, 11th May 2022

3.18 Much of Royal Mail's competition is in the parcels market rather than in the letters market – although Ofcom reports that Royal Mail is "by far" the main player in the C2X parcels segment and that Royal Mail faces "limited competition, particularly for lower weight parcels" [9] [page 43].

- 3.19 As touched on in **Chapter 4**, unlike its competitors Royal Mail is bound by the Universal Service Obligation and this limits the extent of freedom the company has. This makes it more difficult for Royal Mail to be fully competitive in the parcels market. Royal Mail, through its transformation programme, continues to explore ways to change how the company operates to shift the balance of its focus towards the growing parcels market.

Main operators

International Distributions Service and the Royal Mail Group

- 3.20 International Distributions Service (IDS) provides postal and delivery services across extensive networks. It consists of two main operations:
- The UK-based operation includes Royal Mail and Parcelforce Worldwide (known as Royal Mail)
 - The international operation, General Logistics Systems (GLS) [10]
- 3.21 The Royal Mail Group defines its purpose as “to connect customers, companies and countries” and its ambition “to build a more balanced and diverse parcels-led, international business” [11] [page 2].
- 3.22 The Universal Service Obligation is a defining feature of the UK postal market. Royal Mail operates throughout the UK as the Universal Postal Service operator and is the UK’s largest postal operator. The company is the only postal operator that provides UK wide end-to-end letter delivery services and is the UK’s sole designated universal service provider [12].
- 3.23 The Universal Postal Service is essentially the “one price goes anywhere” principle of affordable postal services to all UK addresses. It requires Royal Mail (as the universal service provider) to deliver letters to every address in the UK (over 31 million addresses across the UK), six days a week, at a uniform price, and parcels five days a week. The legal basis for the Universal Postal Service is the Postal Services Act 2011 and the Universal Postal Service Order which sets out the minimum requirements which Royal Mail must deliver [13].
- 3.24 The UK Parliament, House of Commons briefing - Royal Mail services and the COVID-19 pandemic (April 2022) [14] – and the Ofcom Work Plan 2022-2023 describes how the postal sector contributed to providing key services during the coronavirus (COVID-19) pandemic [15]. This included delivering vaccination and shielding letters, COVID-19 tests, and PPE items. Royal Mail was also a partner in the government’s COVID-19 testing programme and collected and delivered testing kits. In December 2021, demand for lateral flow tests increased due to the Omicron variant, and Royal Mail doubled its capacity in order to deliver almost 900,000 COVID-19 tests per day.

- 3.25 More information about Royal Mail, regulation, performance, and consumers issues is set out in **Chapter 4**.

Post Office Limited

- 3.26 Post Office Ltd is a limited company; separate from the Royal Mail Group; and entirely owned by the UK Government. Post Offices have long provided a wide range of essential face-to-face services to rural and urban communities across the UK, including within deprived areas, for over 380 years. It is the biggest retail network in the UK and essential to the nation's infrastructure for postal, financial and government services [16].
- 3.27 At the end of March 2022, there were reported to be 11,635 Post Office branches open across the UK with 99% of the public within three miles of a Post Office and 90% within one mile [17]. The Post Office network continues to play a vital role in rural and urban communities alike. The same Post Office Ltd Network Report notes that there were over 1,330 Post Office branches in Scotland which represents 11% of the total number of Post Offices in the UK.
- 3.28 Post Office Limited receives an annual subsidy from the UK Government (confirmed until 2025), and the accessibility of the Post Office network is guaranteed and safeguarded through six access criteria [18]. In 2021-2022, the Post Office Ltd met five of the six criteria, and only missed the target for the number of postcode districts in which 95% of the population are within six miles of their nearest Post Office.
- 3.29 Post Offices were among the few outlets allowed to remain open during the pandemic and national lockdowns [19]. Other outlets included for example, supermarkets, pharmacies, and banks. In order to remain open Post Offices implemented public health guidance for social distancing to ensure consumers, including consumers in vulnerable circumstances, were still able to pay bills, access cash and other essential services [20]. A number of Post Offices closed during the pandemic, and many reduced their opening hours [21]. As services shifted online during the pandemic, the Post Office continued to be an important lifeline for many, including for people in rural areas and those who were not able to use the internet.
- 3.30 As part of the Post Office Ltd ambition to realise its Intent to 2025 [22] three priorities were set for 2022-2023, comprising:
- Rebuilding trust – focused on remedying the past
 - Improving branch profitability – the priority for the present
 - Transforming technology – to help realise a better future [23]
- 3.31 More information about Post Office Ltd, Post Office branches, the role and value of the Post Office network, and consumer issues are presented in **Chapter 7**.

Other parcel operators

- 3.32 The parcels market has changed significantly in the last decade, including in more recent years as a result of market pressures such as the pandemic and the UK's exit from the European Union (EU).
- 3.33 Unlike the letters market, the parcels market is highly competitive and growing. There are several established parcel delivery operators in the UK. Among others, this includes: Royal Mail; Amazon Logistics; DPD; Evri (formerly known as Hermes); FedEx; Yodel; UPS; Parcelforce; and DHL. Royal Mail continues to have the largest market share by volume and revenue [24].
- 3.34 Since March 2020 parcel deliveries significantly increased due to an increase in online shopping largely driven by the pandemic [25]. The pandemic accelerated existing online shopping trends and there is an increased reliance on private parcel market operators to deliver goods. Increases in parcel volumes continued in 2020-2021 as a result, and parcel volumes remain high. The parcels market has evolved rapidly, and many consumers continue to benefit from increased choice and competition in the parcels market.
- 3.35 In relation to UK postal services (letters and parcels), Ofcom focuses much of its regulatory activity on Royal Mail as the Universal Service Provider. While Royal Mail is regulated by Ofcom, there is not currently regulated minimum standards for all parcel delivery operators.
- 3.36 More information about parcel delivery operators and related consumer issues is provided in **Chapter 6**.

Regulators and Other Statutory Bodies

UK Government

- 3.37 The UK Government Department for Business and Trade has responsibility for Post Office Limited, and it is accountable to the UK Parliament. The Department for Business and Trade replaced the Department of Business, Energy, and Industrial Strategy (BEIS) in February 2023 [26]. The Department for Business and Trade has Government responsibility for postal affairs.
- 3.38 The UK Government, together with Parliament, is responsible for legislation on postal services and currently have no published plans for new legislation in this policy area [27].

Ofcom

- 3.39 The Postal Services Act 2011 transferred regulatory powers over postal services from Postcomm to Ofcom. Ofcom is the regulator and competition authority for the UK communications industries including the TV and radio sectors, fixed line telecoms, mobiles, postal services, plus the airwaves over which wireless devices operate and has some powers over video-sharing platforms.
- 3.40 Under this Act, Ofcom has responsibility to monitor the performance of Royal Mail in line with current legislation and must carry out its regulatory activity in a way that secures the Universal Postal Service.
- 3.41 Ofcom sets out the regulatory framework of the postal market, and performs several functions in order to fulfil its regulatory duty, including:
- Monitoring the postal services market and producing an annual report on updates in the postal market
 - Imposing conditions upon Royal Mail as the universal service provider and other postal operators where appropriate
 - Levying fines where Royal Mail or other postal operators fail to meet the obligations imposed upon them via regulatory conditions
 - ‘Naming and shaming’ operators with poor practice [28]
- 3.42 Ofcom also has a duty under the Communications Act 2003 to further the interests of citizens and of consumers, where appropriate, by promoting competition [29]. Where there is a conflict between the two duties, the provision of the Universal Postal Service takes precedence.

Citizens Advice

- 3.43 Citizens Advice has been the statutory consumer advocate for postal consumers in England and Wales since 2014, while The Consumer Council for Northern Ireland carries out this function in Northern Ireland
- 3.44 Citizens Advice, which links a network of separate charity bureaux as a co-ordinating advocacy body, has dedicated teams in bureaux who offer free, independent, and confidential advice on a range of consumer issues, including postal services. Citizens Advice also provides research and delivers projects to:
- Ensure postal services and post offices meet the needs of consumers in a way that is fair and accessible for all

- Help improve the operation of the postal market and the Universal Postal Service for all consumers - this includes a specific focus on consumers in vulnerable circumstances, such as disabled people, older people, and individuals on low incomes
- Ensure consumer needs are represented in decisions on the future of postal services

Consumer Scotland

- 3.45 Consumer Scotland is the statutory and independent body for consumers in Scotland. It was established on 1st April 2022 by the Consumer Scotland Act 2020 [30]. As a Non-Ministerial Office, Consumer Scotland is independent of the Scottish Government and accountable to the Scottish Parliament. This Act provides Consumer Scotland with the general function to advocate on behalf of consumers and represent consumer interests with a view to:
- Reducing harm to consumers
 - Increasing consumer confidence
 - Encouraging public bodies to address consumer matters
 - Promoting sustainable consumption
 - Advancing inclusion, prosperity, and wellbeing [31]
- 3.46 This Act also provides Consumer Scotland with functions to act on behalf of consumers through: advocacy and advice; representation; research and investigation; information; and the recall of goods. Consumer Scotland may also issue guidance to relevant public bodies on the duty to have regard to consumer interests (“the Consumer Duty”). Consumer Scotland is the levy funded consumer advocacy body for postal services in Scotland.
- 3.47 Consumer Scotland’s purpose is “to improve outcomes for current and future consumers” [32] [page 6], and its ambition is “that every consumer can participate in a fair and sustainable economy, confident their needs and aspirations will be met” [page 6]. The agency’s strategic objectives include enhancing understanding and awareness of consumer issues by strengthening the evidence base. Consumer Scotland’s work programmes for 2022-2023 [33] and 2023-2024 [34] provide details of what the agency will deliver, including in relation to the postal market. Both work programmes recognise the important role of the postal market in ensuring that consumers can effectively engage with essential services and markets.
- 3.48 Consumer Scotland’s latest work programme frames its activity on post in the context of the organisation’s cross-cutting themes of the cost of living crisis, consumers in vulnerable circumstances, and climate change adaption and mitigation.

- 3.49 More specifically, the Consumer Scotland work programme articulates areas of work around: affordability of postal services; tackling postal exclusion; the decarbonisation of postal services; access to an effective postal market; and ensuring access to Post Office services in Scotland.

Consumer issues

- 3.50 Consumer issues and problems with the UK postal market is an area that has been talked about and researched for some time and predates the timeframe of interest for this review. Citizens Advice, the Consumer Council for Northern Ireland and Consumer Scotland continue to:
- Advocate on behalf of consumers – making sure that the voice of consumers is heard by postal regulators and service providers
 - Raise awareness of the range of consumer issues that persist as well as on the scale of the problem – for example, through the publication of independent research reports and research briefing papers, responding to relevant public consultations, and participation in groups and fora
 - Propose recommendations and actions that could be undertaken by key stakeholders with a direct role and interest in the postal market (for example, government, regulators, service providers and retailers)
 - Develop and disseminate information, tips and guides to raise awareness and encourage good practice
- 3.51 Many other organisations (for example, the UK Government, Scottish Government, Ofcom) and individuals (for example, Members of Parliament – MPs) have also played an important role in helping to keep the postal market front and centre in people’s minds. Service providers have also been involved in many of the conversations. It is certainly a topic that has received much media interest.
- 3.52 There is therefore a rich body of evidence, insight, and wider sources of intelligence that sets the scene and helps to better understand the extent to which the postal market works well for consumers. For example, there has been various research and consultation exercises undertaken with consumers, including Small and Medium-sized Enterprises (SMEs) over recent years into: trends in the postal market; affordability of the postal service; consumer usage of postal services; consumer needs of postal services, including consumers in vulnerable circumstances; and postal exclusion.

4 Royal Mail regulation, performance, and consumer issues

Introduction

- 4.1 This chapter provides an overview of Ofcom's responsibility for the regulation of the postal market in the UK. It touches on reviews of the regulatory framework, Royal Mail's performance against its quality of service performance targets, and related consumer issues.

Background

- 4.2 On 13th June 2011, The Postal Services Act 2011 received Royal Assent through UK Parliament, which among other things, moved responsibility for regulation of the postal services market from the previous regulator, Postcomm, to Ofcom. This Act replaced the previous licensing regime with a general authorisation regime and came into effect on the 1st October 2011 [35]. This regime change states that "persons may provide postal services without the need for a licence or authorisation, but that Ofcom may impose regulatory conditions on postal operators who do provide postal services" [36] [page 1].

Legal framework

Statutory duties

- 4.3 Ofcom's main statutory duties for postal services are set out in the Postal Services Act (2011), the Universal Postal Service Order (2012), and in the Communications Act 2003.
- 4.4 Section 29(1) of the Postal Services Act 2011 requires Ofcom to carry out its postal functions in a way that secures the provision of a Universal Postal Service. As described earlier, the Universal Postal Service is the principle of "one price goes anywhere" and means that Royal Mail is required to deliver to all UK addresses six days a week at a uniform price.
- 4.5 Ofcom is required by section 29(3) of the Act to have regard to the need for a Universal Postal Service that is:
- Financially sustainable

- Efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times)
- 4.6 Ofcom's primary statutory duty under the Communications Act 2003 is to further the interests of citizens and consumers, where appropriate promoting competition. Section 2(4) of this Act obliges Ofcom to consider other relevant factors whenever possible, including:
- Promoting competition in relevant markets
 - Encouraging investment and innovation in relevant markets
 - Considering the needs of disabled people, older people, and those on low incomes
 - Representing all persons of each part of the UK, including those of minority ethnic groups and those living in rural and urban areas
- 4.7 Section 3(5) of the Communications Act 2003 states that Ofcom, in performing its duty to further the interests of citizens and consumers, must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 4.8 Any Ofcom duties that are deemed to conflict with its remit of securing the provision of a Universal Postal Service, must be dropped with priority given always to the provision of a Universal Postal Service. That is, where there is a conflict between the two duties, the provision of the Universal Postal Service takes precedence.

Universal Postal Service

- 4.9 The Universal Postal Service is made up of three core elements, comprising:
- **The Minimum Requirements** - this describes the services that must, as a minimum, be provided in a universal postal service
 - **The Universal Postal Service Order** - this describes the services that should be provided in the UK as part of the Universal Postal Service and the overarching standards in which those services must comply
 - **The Designated Universal Service Provider** - certain conditions are placed on the Universal Postal Service provider, including satisfying the Universal Service Obligation, meeting performance targets, and publishing certain information, including delivery and collection times, and performance data [37]

4.10 More specifically, the Postal Services Act 2011 (section 31) and Universal Postal Service Order stipulates that the Universal Service Provider (that is Royal Mail) must meet the following minimum requirements:

- At least one delivery of letters every Monday to Saturday and at least one delivery of other postal packets every Monday to Friday
- At least one collection of letters and other postal packets every Monday to Saturday
- A service of delivering postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK
- A registered item service at affordable, geographically uniform prices across the UK
- An insured items service at affordable prices
- Free end-to-end services for legislative petitions and certain services to blind and partially sighted people

The existing regulatory framework

4.11 The current regulatory framework requires Royal Mail to provide “essential” postal services under a system of universal pricing. This includes First and Second Class letters and parcel deliveries, as well as special next delivery services [38].

4.12 Although legislation and Ofcom set out what must be provided under the Universal Postal Service, the regulatory framework allows for autonomy and commercial flexibility in how Royal Mail goes about achieving the objectives. This includes autonomy in price setting (although Ofcom can and does set safeguard caps) and flexibility on operational decisions.

4.13 The regulatory framework sets out several safeguards that the Universal Postal Service provider requires to adhere to, including:

- An active monitoring system to ensure an understanding of the evolving demands of consumers, the adapting market dynamics and the financial sustainability and efficiency of the universal service, and any risks

- A safeguard cap on Second Class letters and parcels up to 2kg to ensure basic universal services are affordable to all – to make sure the universal service remains affordable (and that Royal Mail can recover its costs) Ofcom periodically reviews whether stamp prices should be capped. Ofcom set its last cap in 2019 for five years, and is now reviewing and consulting on prices for the period April 2024 to March 2029 [39]
- Quality of service standards on certain universal service products [40]

4.14 Ofcom has the authority to open cases and investigations and impose financial penalties on the Universal Postal Service provider if quality of service performance targets are not met, or if there are breaches of the legal duties bestowed on the provider. A few examples include:

- Cases and/or investigations opened by Ofcom into Royal Mail's performance against targets, but no financial penalty imposed - for example in 2017-2018 [41], 2020-2021 [42], and 2021-2022 [43]
- Royal Mail was fined £50 million in August 2018, for “abusing its position” by discriminating against Whistl. Whistl was expanding its business to compete directly with Royal Mail by delivering business letters in parts of the UK. Wholesale price increases at the time meant that any of Royal Mail's wholesale customers seeking to compete by delivering letters in some parts of the country, as Whistl was intending to do, would have to pay higher prices in the remaining areas – where it used Royal Mail for delivery [44] [page 1]
- Royal Mail was fined £1.5 million in 2020 for missing its delivery targets for 2018-2019 [45] and an additional fine of £100,000 for overcharging on stamps [46]
- An Ofcom open investigation is looking to resolve a dispute concerning whether Royal Mail responded to a new access service request by Whistl with terms, conditions and charges that were fair and reasonable [47]
- An Ofcom open investigation into Royal Mail's quality of service performance in 2022-2023 [48]

Reviews of the regulatory framework

Background

4.15 Under section 3(3) of the Communications Act 2003, Ofcom regulatory activities should always look to be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed, and any action should represent best regulatory practice.

- 4.16 Ofcom has an ongoing duty under section 6 of this Act to keep the functions it carries out under review. The main purpose of regulatory reviews of the postal service is to ensure that regulation is effective, fit for purpose and does not result in any unnecessary burden. The reviews examine the services provided by the Universal Service Provider to ensure the continuous improvement of standards and that services evolve with changing consumer requirements.
- 4.17 Ofcom has undertaken three regulatory reviews of the postal service – in 2012, 2017 and most recently in 2022.

2012 and 2017 reviews

- 4.18 Ofcom made its first regulatory statement in October 2011 – Securing the Universal Postal Service – after taking over responsibility for regulating the postal sector. This statement sets out Ofcom’s initial proposals for reform of the regulation framework, and a timeline for consultation. The initial statement concluded that “the provision of the universal service is threatened by Royal Mail’s immediate financial position” [49] [page 2].
- 4.19 This statement notes that mail volumes had fallen by over one-quarter from 2006, due in large part to the substitution of letters to electronic methods of communication (for example, emails and texts). Customers had also changed the types of services they use, including a shift away from higher value traditional products to lower value services [50].
- 4.20 Market changes at the time put the financial sustainability of the universal service under severe pressure. It was noted in a 2015 Ofcom report that falling mail volumes directly led to a decline in Royal Mail’s revenue by over 35% between 2006 and 2012 [51]. Furthermore, Royal Mail made a £120 million loss in the financial year 2010-2011, following a £20 million profit the previous year [52].
- 4.21 After a review and consultation period, Ofcom put in place a new regulatory framework for the postal sector in March 2012 which gave Royal Mail more commercial flexibility to make changes to help improve its financial position [53]. This included the flexibility to change prices (which was to be subject to review over a seven-year period), and operational flexibility by removing some of the approvals required to make changes to products and services.
- 4.22 Ofcom put in place three safeguards to help mitigate and monitor the potential impacts of this increased commercial flexibility for Royal Mail, namely:
- **A monitoring regime** – to track Royal Mail’s performance in respect of the universal service, efficiency levels and pricing and competition

- **A cap on the price of Second Class stamps for letters and parcels up to 2kg** – to ensure that consumers in vulnerable circumstances remained able to access a basic universal service
- **Access regulation** – to maintain access competition (that is, other competitors entering the market and bringing down costs for consumers)

4.23 The 2017 review looked at how best to continue to secure an efficient and financially sustainable Universal Postal Service that meets the reasonable needs of users. Ofcom concluded that it intended to “retain the current regulatory approach for a further five years” [54] [page 44], and made the following key decisions, including:

- Continuing to support competition and innovation in the parcels sector
- Tightening rules on access competition
- Focusing mail integrity rules on postal items that do not have additional protection (for example, tracking), but may contain personal information
- Continually ensuring regulation remains appropriate and fit for purpose

2022 review (regulatory framework for 2022-2027)

4.24 The 2022 Review of Postal Regulation aimed to: improve protection for consumers; support the financial sustainability and efficiency of the Universal Postal Service; and promote competition in the postal market.

4.25 Ofcom concluded that “Consequently, we have decided that a root-and-branch review of the framework is not necessary, and so will continue the current approach. Our decisions made in this review to modify the framework seek to strengthen the existing framework, targeting additional regulatory intervention only where we have direct concerns over consumer harm and to allow us to discharge our duties more effectively in relation to the financial sustainability of the universal postal service” [55] [page 3].

4.26 In short, the review determined that Ofcom would:

- Maintain the current overarching regulatory framework, including the price caps on basic universal services and quality of service standards
- Introduce new targeted consumer protections, requiring parcel operators to have policies and procedures for the fair and appropriate treatment of disabled consumers, and issue new guidance on complaints handling

- Continue to ensure that Royal Mail has commercial flexibility so that it can meet the challenges of ensuring a financially sustainable universal service
- Ensure there is a greater understanding of the financial sustainability of the universal service, to ensure Ofcom has the ability to identify and respond to sustainability concerns effectively
- Require Royal Mail to provide and publish a five-year view of its efficiency expectations and report against actual performance
- Provide a stable regulatory framework to support investment by all postal operators and ensure Royal Mail competes on a level playing field

- 4.27 Most of the changes to be made as a result of the review focus on customer complaints. Customers reported they regularly face issues with the delivery of their post and parcels, with disabled people disproportionately impacted. The Ofcom consultation found that it was difficult for consumers to identify who to contact to resolve their issue and many problems were not resolved at all. Indeed, these are issues that are frequently raised in the existing evidence base.
- 4.28 Ofcom has since provided additional guidance for complaints handling, which came into effect on 1st April 2023, as well as new protections for disabled consumers, which will come into effect from 1st November 2023 [56]. The Ofcom guidance for improving customer service, stipulated that customers must be:
- Told who to contact, and by which channels, to make a complaint
 - Told what the complaint process will be, and how long it will take to resolve
 - Dealt with by staff who have received appropriate training in customer service and complaints
- 4.29 Ofcom continues to engage with parcel operators to better understand their plans for improving complaints handling. Ofcom will then report on operators' progress in its future Annual Monitoring Updates.
- 4.30 Ofcom has also set out new requirements for reporting whereby parcel couriers need to establish, publish, and comply with clear, obvious, and effective policies and procedures with regards to the fair treatment of disabled customers. Companies should ensure disabled customers can easily communicate their specific delivery needs to the parcel operator, with couriers obliged to set out how delivery staff on the ground will act on their delivery requests.

Consumer issues

- 4.31 Ofcom's Plan of Work 2023-2024 notes that "Regulation of post continues to be a core element of our work. This includes reviewing whether regulation of the sector needs to change in light of market developments and evolving user needs" [57] [page 8]. Ofcom also notes that "We want to make sure that people and business can access communication services and that nobody is left behind as services evolve" [page 24].

Satisfaction

- 4.32 On a biannual basis Ofcom commissions two surveys which provide data on use of post and attitudes to postal services among residential consumers and SMEs in the UK.
- 4.33 The latest data is for 2022 and was published in March 2023 [58] [59]. A total of 5,161 users (residents) of the postal service completed an online survey and 2,262 SMEs were involved in an individual interview. This is an extensive and routinely updated dataset, and we have extracted some key points – these are presented below and in other chapters of the report. Some but not all of the data is disaggregated at, for example, a Scotland level.
- 4.34 Residents and SMEs were asked to rate satisfaction with various aspects of Royal Mail's service:
- **Table 4.1** presents the residents findings at a Scotland and UK level. Wider findings from the 2022 survey include that in Scotland 85% of resident respondents are very or fairly satisfied with Royal Mail (higher than the UK - 80%)
 - **Table 4.2** presents the SME findings. Wider findings from the 2022 survey include that 82% of SMEs are satisfied with the overall quality of the services received from Royal Mail as a recipient and sender, and 79% of SMEs rate the quality of the mail services provided by Royal Mail in the last 12 months as very high or high
- 4.35 Recent research from Communications Consumer Panel – The struggle for fairness: the experience of consumers, citizens and micro-businesses in remote and rural locations in the UK (July 2023) also found "Participants' positivity towards Royal Mail and their local 'postie' as opposed to other parcel service providers" and that this "highlighted an ongoing reliance on the Universal Service Obligation" and a continuing need to "protect the postal service that rural and remote consumers clearly rely on" [60] [page 4].

Table 4.1: Resident satisfaction with aspects of Royal Mail's service

| | Scotland | UK |
|--|----------|-----|
| Items you send reaching their destination | 85% | 79% |
| Quality of postal delivery to your home (referring to the final stage of the postal delivery service; from delivery van to your letterbox) | 83% | 78% |
| Items being delivered intact/undamaged | 83% | 79% |
| Speed of delivery | 77% | 73% |
| Availability of post boxes | 75% | 76% |
| Accessibility of services | 66% | 70% |
| Availability of Post Office branches | 63% | 68% |
| Product and service innovation | 52% | 55% |
| Cost of postage | 47% | 46% |
| Easy to access information, for example about complaints procedures | 46% | 50% |

Source: Ofcom, Residential Postal Tracker, 1st March 2023

Scotland N=433, UK N=5,161

Table 4.2: SME satisfaction with aspects of Royal Mail's service

| | % |
|---|-----|
| Items being delivered intact/undamaged | 85% |
| Delivery consistency / reliability (for example arrives as promised consistently) | 78% |
| Delivery time (when you receive your mail delivery) | 76% |
| Amount / level of sent post lost | 73% |
| Collection reliability | 61% |
| Collection time of items you are sending | 59% |
| Latest collection time | 57% |
| Price of postage | 53% |

Source: Ofcom, SME Business Postal Tracker, 1 March 2023

N=1,879 (asked of respondents who indicated that they used Royal Mail)

Quality of service

- 4.36 As noted above (**Section 4.34**, **Table 4.1**, and **Table 4.2**), resident and SME satisfaction with Royal Mail is high.
- 4.37 However, consumers do continue to raise concerns about the quality of service they receive from Royal Mail. These concerns relate to the service received through the Universal Service Obligation (that is with Royal Mail as the postal market's designated service provider), and with regards to wider parcel delivery problems (see also **Chapter 6**).
- 4.38 Royal Mail is obliged to meet and report to Ofcom on its quality of service performance targets. This is to ensure that consumers receive an adequate level of service and so that Ofcom can hold Royal Mail to account for any poor performance (for example, through investigations and financial penalties). It also helps to provide transparency to the public and key stakeholders.
- 4.39 **Table 4.3** and **Figure 4.1** presents the performance of Royal Mail against its quality of service targets over the last five financial years (2017-2018 to 2021-2022). Note: the colour red has been used in the table to denote targets that have not been achieved, and green for targets met or exceeded.
- 4.40 A fair assessment is that performance has been poor, and that there is scope for improvement.
- 4.41 Key points to note from **Table 4.3** include that: [61] [62]
- Five targets were not met at all over the five-year period - this includes: USO 1st Class, Postcode Area % Delivered, PCA Target (with confidence interval), Special Delivery and % Of Delivery Routes Completed Daily (USO)
 - Achievement against all indicators, decreased over the five-year period – most notably 'USO Outgoing EU Services D+2' (down 20.6 percentage points) and 'USO 1st Class' (down 17.8 percentage points)
 - The financial year 2019-2020 was the best performing over the five-year period, with four of nine targets either met or exceeded
 - The worst performing year was 2022-2023, where only one target was met, and scores were lower on average than any other year over the five-year period

- For the financial year 2022-23, Royal Mail's performance decreased under every measurement, barring '% Of Items Deemed Correctly Delivered' – up 0.01 percentage points, in comparison to the previous year (2021-22)
- '% Of Items Deemed Correctly Delivered' is the only target that has been met in every year over the past five years

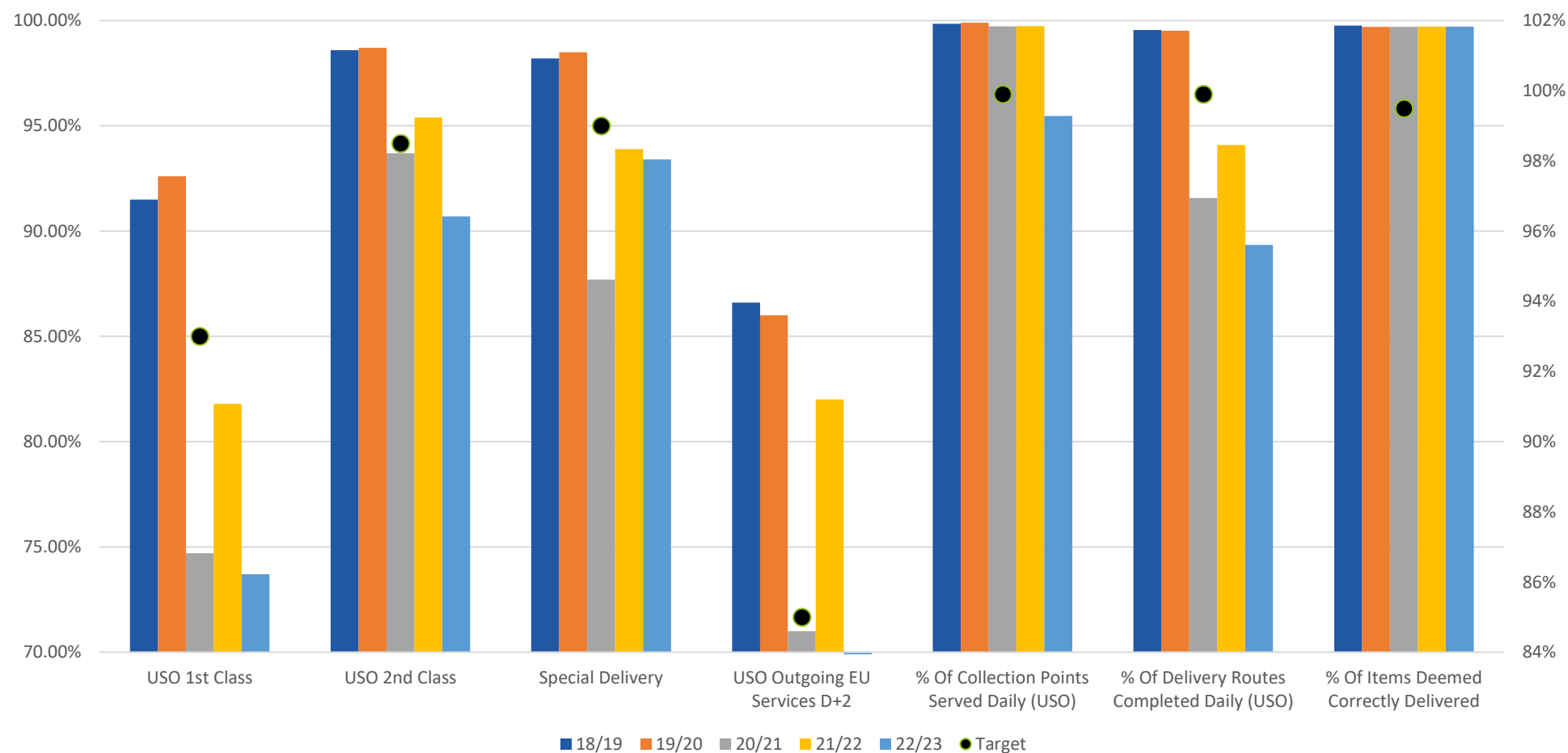
4.42 In comparison to other European countries where “quality of service has remained relatively constant for parcel delivery performance between 2017 and 2021”, the UK was the one of the “only countries that saw a significant decrease in their performance levels” [63] [page 69].

Table 4.3: Overview of quality of service performance against targets (2018-2023)

| Performance target name | | | Results | | | | | |
|--|---------------|--|---------|---------|---------|---------|---------|--------------------|
| Target and description | | | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2018/19 vs 2022/23 |
| USO 1st Class | 93% | First-Class items delivered within one working day of collection (national UK basis) | 91.5% | 92.6% | 74.7% | 81.8% | 73.7% | -17.8 |
| USO 2nd Class | 98.5% | Second-Class items delivered within three working days of collection (national UK basis) | 98.6% | 98.7% | 93.7% | 95.4% | 90.7% | -7.9 |
| Postcode Area % Delivered | 118/118 PCA's | Delivery of 91.5% of First Class mail within one working day of collection in each postcode area in the UK (excluding HS, KW and ZE (118 of 121 UK postcode areas) | 75/118 | 105/118 | 0/118 | 0/118 | 0/118 | -75 |
| PCA Target (with confidence interval) | 118/118 PCAs | 91.5% items delivered day after collection | 105/118 | 117/118 | 0/118 | 0/118 | 0/118 | -105 |
| Special Delivery | 99% | Special delivery items delivered by 1pm the next working day (national basis) | 98.2% | 98.5% | 87.7% | 93.9% | 93.4% | -4.8 |
| USO Outgoing EU Services D+2 | 85% | Items delivered in 3 days | 86.6% | 86% | 71% | 82% | 66% | -20.6 |
| % Of Collection Points Served Daily (USO) | 99.9% | Collection points served daily (6 days per week) | 99.85% | 99.9% | 99.73% | 99.74% | 95.47% | -4.38 |
| % Of Delivery Routes Completed Daily (USO) | 99.9% | Delivery routes served daily (6 days per week) | 99.55% | 99.52% | 91.57% | 94.09% | 89.35% | -10.2 |
| % Of Items Deemed Correctly Delivered | 99.5% | Items correctly delivered | 99.76% | 99.7% | 99.7% | 99.71% | 99.72% | -0.04 |

Source: Ofcom Annual Monitoring Update on Postal Services (2022), International Distributions Services Quality of Service and Complaints Reports

Figure 4.1: Overview of quality of service performance against targets (2018-2023)



Source: Ofcom Annual Monitoring Update on Postal Services (2022), International Distributions Services Quality of Service and Complaints Reports

Note: Targets on the 'Postcode Area % Delivered' and the 'PCA Target' due to a differing target format – that is numerical targets rather than percentage.

4.43 In summary, key points to note include that: [64]

- Royal Mail has regularly fallen short of its quality of service targets – pre-2020, during the pandemic, and in the most recent financial years
- The regulatory emergency period introduced by Ofcom during which Royal Mail was not required to meet regulated quality of service targets in recognition of the challenges presented by the pandemic ended on 31st August 2021 – since then Royal Mail continues to find it difficult to meet its delivery targets
- Consumer advocacy organisations continue to raise concerns with Royal Mail and Ofcom about the detrimental impacts of extended postal delays on all consumers, and in particular consumers in vulnerable circumstances – as reported later, the consumer groups note that without timely postal services, consumers lack access to parcels such as medication deliveries and could miss important letters including NHS appointments, debt repayment notices, and benefits information

Impact of COVID-19 on quality of service

4.44 During the pandemic, Ofcom continued to closely monitor Royal Mail's quality of service and delivery performance. Ofcom opened an own-initiative investigation into Royal Mail's compliance with its quality of service performance targets during 2021-2022 (as it has done in other years – see **Section 4.14**) as the company failed to meet several of its annual delivery targets, **Table 4.4**.

4.45 In its submission to Ofcom, Royal Mail notes that the events associated with the pandemic were beyond the company's control, and that several factors helped to explain why the company missed its targets. This includes:

- Increased and unpredictable staff absences, for example – between November 2021 and January 2022 during the peak of the Omicron variant
- Continued challenges presented by social distancing measures
- Changes in traffic mix (that is an unusually high volumes of parcels and a lower volume of letters) - high parcel volumes and larger parcel sizes resulted in longer rounds for frontline staff, more frequent replenishments of trolleys, and a need to use more vans to increase overall capacity

Table 4.4: Performance against quality of service performance targets in the provision of universal service product (2021-2022)

| Standard | Annual target | Actual achieved |
|--|---------------|--|
| First Class mail delivered within one working day of collection | 93.0% | 81.8% |
| Second Class mail delivered within three working days of collection | 98.5% | 95.4% |
| Completing of delivery routes on each day that a delivery is required | 99.9% | 94.09% |
| In respect of stamped and metered mail, delivery of First Class products within one working day in each postcode area of the UK (apart from three excluded postcode areas) | 91.5% | Did not meet the postcode area target in any of the 118 postcode areas |

- 4.46 When Ofcom concluded its investigation, it noted that had it not been for the impacts of COVID-19, Royal Mail's performance levels would have been significantly higher, and it is possible that it may have met its targets [65]. As such, Ofcom decided it was not appropriate to fine Royal Mail in breach of its regulatory obligations for 2021-2022. Ofcom warned Royal Mail that it cannot continue to rely on the impact of COVID-19 as an excuse for poor delivery performance. In particular as social distancing and isolation measures are no longer in place, absence levels are likely to be much less unpredictable, and parcel volumes have largely returned to pre-pandemic trends. Ofcom also noted there has been time for Royal Mail to learn lessons from the pandemic and that they would be unlikely to consider these factors as exceptional and beyond Royal Mail's control in future.
- 4.47 Citizens Advice report that almost 15 million people were hit by letter delays between mid-December 2021 and mid-January 2022 [66]. Citizens Advice Scotland also hold the view that significant Royal Mail delivery delays (for example over the winter holiday period of 2021-2022) had a negative impact on consumers.
- 4.48 Letter delays continue to be an issue, increased during the pandemic, and continued to rise in 2022 [67, 68, 69] - Citizens Advice estimate 31 million people (60% of UK adults) were hit by letter delays over the Christmas period (2022), and that letter delays over the festive period is becoming a trend. Issues reported around the reliability of postal services include that people have lost legal paperwork, not received prescriptions or medication, or waited longer than expected for energy prepayment meter keys.

- 4.49 Further, Citizens Advice Scotland raised several concerns about Royal Mail's quality of service, including that: [70]
- It did not believe that Royal Mail should be exempt from meeting delivery targets during the Christmas period – Citizens Advice Scotland did not think this was in the best interest of consumers given that this is when many consumers are more likely to use postal services, and call for a specified minimum level of service
 - Consumers often lack prompt and clear information about service issues in their local area
 - Further, some areas of Scotland, particularly rural and island communities, do not always receive the same quality of service in the postal market as larger urban areas. As an example, Scotland's Island communities routinely receive a lower quality of service than mainland UK addresses. Royal Mail is not regulated to maintain quality of service targets for non-mainland addresses (for example, due to additional logistical considerations). Citizens Advice Scotland has previously argued that there should be a regulated minimum quality of service standard for Island communities even if it differs from the mainland target
- 4.50 Statutory advocacy bodies for postal consumers continue to raise concerns with Royal Mail and Ofcom about the detrimental impacts of extended postal delays on all consumers, and in particular consumers in vulnerable circumstances. While consumers are indeed sending less letters nowadays, delays in receiving post may result in important correspondence and documentation being missed from councils, hospitals, and government departments.

Impact of industrial action

- 4.51 At the time of reporting, Royal Mail's latest performance data shows that the company has underperformed against several targets, **Table 4.5** [71].
- 4.52 There were 18 days of strike action in the second half of 2022 [72]. Royal Mail note that nine days of industrial action by the Communication Workers Union (CWU) in the quarter to 4th December 2022 significantly lowered its performance during this period on the back of high absence levels. There was additional industrial action in the run up to Christmas 2022 – although, as noted above, overall performance against targets is measured as an average performance level (on an annual basis) excluding the Christmas period. Continuing strike action was planned for February 2023 over an ongoing dispute on pay and conditions but was called off.
- 4.53 Royal Mail has committed to restoring quality of service as quickly as possible - "Improving quality of service is our top priority. We are committed to accelerating

Royal Mail's transformation and restoring service levels to where our customers expect them to be" [73].

Table 4.5: Performance against quality of service performance targets in the provision of universal service product (2022-2023)

| Standard | Annual target | 2022/23 achieved |
|--|--------------------|------------------|
| USO First Class | 93.0% | 73.7% |
| USO Second Class | 98.5% | 90.7% |
| Special delivery ¹ | 99.0% | 93.4% |
| Postcode area target % (delivered) ² | 91.5% (in 118/118) | 0 of 118 |
| Percentage of collection points served daily ³ | 99.90% | 95.47% |
| Percentage of delivery routes completed daily | 99.90% | 89.35% |
| Percentage of items deemed correctly delivered ⁴ | 99.50% | 99.72% |
| USO outgoing EU services D+2 ⁵ | 85% | 66% |
| Percentage of deliveries by latest delivery time (urban) | - | 98.1% |
| Percentage of deliveries by latest delivery time (rural) | - | 99.6% |
| Percentage of collections at or after final advertised time ⁶ | | 93.5% |

1 The regulatory target is for Special Delivery Guaranteed by 1pm excluding items paid for by customer account. As the measurement system cannot separate account and non-account customers, performance is shown for all Special Delivery by 1pm. Measurement is of live mail and a confidence limit does not apply.

2 The postcode area delivered target is based on 1st Class Stamped and Metered only.

3 Performance is based on collections from post boxes and Post Office branches only.

4 The Correctly Delivered Mail survey measures all items delivered by Royal Mail.

5 Performance between the UK and the 27 EU member states is based on UNEX measurement data and calculated by the International Postal Corporation (IPC). Christmas performance is excluded and therefore the result is not comparable with UNEX results published annually by IPC on behalf of its European members.

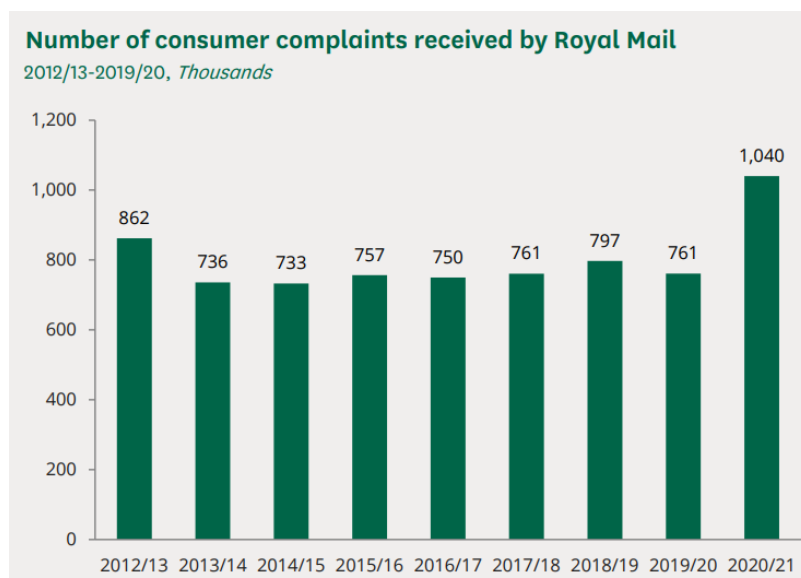
6 Performance is based on collections from post boxes and Post Office branches only.

- 4.54 Ofcom's Plan of Work 2023-2024 notes that it will undertake enhanced monitoring of Royal Mail's performance during 2023-2024, having regard to financial sustainability and efficiency. As noted at **Section 4.14**, Ofcom has since opened an investigation (May 2023) into Royal Mail's missed delivery targets over the period 2022-2023, the outcome of which is still to be determined. Ofcom also took into account the Seventh Report of the House of Commons BEIS Select Committee's 2022-2023 session which sets out concerns that Royal Mail has failed to deliver against parts of the Universal Service Obligation (see **Section 5.35** and **5.36**) [74].

Complaints

- 4.55 While Ofcom regulates the postal industry, it does not investigate individual complaints about postal operators. Any regulated postal operator must have a complaints procedure on its website.
- 4.56 Royal Mail is the only delivery company to have an Ofcom-regulated complaints process. Ofcom's remit is to decide whether there is a legitimate reason in which Royal Mail have either: missed their quality of service targets, or not delivered the level of customer service that would have been expected. Ofcom can then apply fines retrospectively if it is deemed appropriate in the context of the universal service obligations applied to Royal Mail.
- 4.57 Key points to note from **Figure 4.2** include that:
- The proportion of complaints received by Royal Mail increased by 21% between 2012-2013 and 2020-2021 – albeit this includes the COVID-19 period. The number of complaints have typically been in the 700s
 - The number of complaints received by Royal Mail increased by 37% between 2019-2020 and 2020-2021 – largely due to the pandemic and the corresponding growth in parcel deliveries [75]

Figure 4.2: Royal Mail complaints



Source: House of Commons Library, Performance of Royal Mail, 16th June 2021

- 4.58 Ofcom's SME Business Postal Tracker (2022 data) found that 32% of SME respondents (UK level) experienced a problem with the Royal Mail service (as a sender or recipient of mail) in the last six months, and 56% were satisfied with outcome of their complaint (UK, N=1789).

Affordability of postal services

- 4.59 Statutory advocacy bodies for postal consumers continue to raise concerns that many consumers find it difficult to afford postal services and that some aspects of the Universal Service Obligation are increasingly becoming unaffordable – not least within the context of the current cost of living crisis [76, 77, 78].
- 4.60 Statutory advocacy bodies for postal consumers also continue to call for Ofcom to hold Royal Mail more strongly to account – consumers are said to be paying more (for example, stamps and redirections) – but are said to be receiving a subpar service from Royal Mail. These organisations suggest that Ofcom's regulatory approach is hands-off and reactive [79, 80, 81].

4.61 Research shows that it is crucial that postal services are and remain affordable to all consumers, and that core services for consumers are protected. For example:

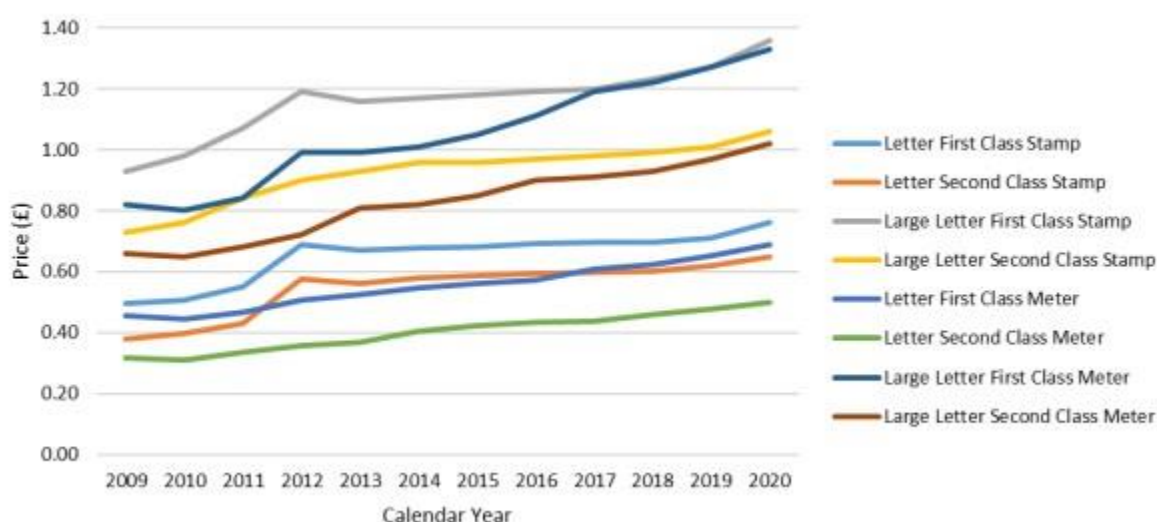
- Ofcom's UK-wide research Review of postal users' needs (2020) confirms that both residential and SME postal users continue to rate affordability of postal services, including Universal Service Obligation products subject to the safeguard caps, as highly important [82]. Further, as noted at **Section 5.12**, Ofcom data (2022) shows that 58% of respondents send fewer letters due to cost – affordability continues to be an important consideration for consumers
- Citizens Advice Scotland research which informed its Today's Postal Market briefing paper (2022) also notes that 87% of consumers and 72% of SMEs in Scotland surveyed consider the single rate delivery to any UK address as the most important feature of the Universal Service Obligation [83].

4.62 In considering this particular consumer issue, Citizens Advice also note that there is not currently a clear, transparent definition of what constitutes affordability for postal service users [84].

Stamps

4.63 Royal Mail's prices for letters and large letters (stamps and metered mail) have consistently risen since 2013, **Figure 4.3**.

Figure 4.3: Royal Mail Universal Service Obligation letter and large letter prices in real terms



Source: Ofcom, Review of postal regulation Call for inputs, 11th March 2021

4.64 Between 2013 and 2020, Ofcom estimates that:

- The real price of a First Class and Second Class letter stamp increased by approximately 13% and 16% respectively
- In nominal terms, this corresponds to an increase of 27% in First Class letter stamps, and 30% in Second Class letter stamps [85]

4.65 Royal Mail has continued to increase its stamp prices since 2020.

4.66 First Class stamps increased by 15p to £1.10, while Second Class stamps rose by 7p to 75p from 3rd April 2023 [86]. Royal Mail notes that these price increases are to help ensure the one-price-goes-anywhere Universal Service Obligation remains sustainable, and are in direct response to:

- The decline in letter volumes - down 25% since the pandemic
- The business facing increasing costs associated with delivering letters six days a week to an ever-growing number of addresses across the UK

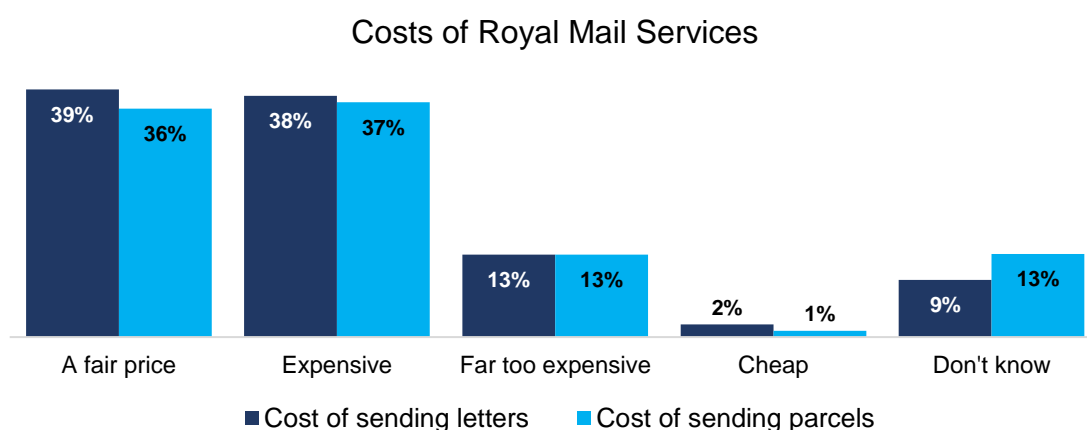
4.67 Citizens Advice, however, responded to the latest price increase announced by Royal Mail as follows: “These record-breaking prices couldn't be coming at a worse time for consumers, who'll now be paying 64% more for a first class stamp than five years ago...nobody should be paying more for this kind of subpar service”.

4.68 Further, research also shows that many consumers do indeed find it difficult to afford postal services.

4.69 Citizens Advice research found that 42% of UK consumers surveyed think the cost of sending letters or parcels is unaffordable [87] - further, this is reported to be more of an issue for those who are finding it ‘very difficult’ to manage financially compared to those ‘living comfortably’, and for disabled people.

4.70 Citizens Advice Scotland research which informed its Today’s Postal Market briefing paper (2022) found that 51% of Scottish consumers and 59% of Scottish SMEs surveyed find postal services expensive [88]. **Figure 4.4** provides a further breakdown by the cost of sending letters and parcels.

Figure 4.4: Scottish consumer views on the cost of sending letters and parcels



Source: Citizens Advice Scotland, Postal Services in Scotland CAS Briefing on Polling on the Universal Services Obligation, September 2021

4.71 Ofcom's Residential Postal Tracker (2022 data) shows that compared to the UK, respondents in Scotland are, however, typically less likely to report affordability challenges with postal services in the last three months, **Table 4.6**. Additional findings from the same Ofcom research includes that:

- In Scotland, 50% of respondents rated Royal Mail's first class service in terms of value for money as very or fairly good (53% UK-wide) (Scotland N=433, UK N=5,161)
- The same proportions were reported for Royal Mail's second class service

4.72 Ofcom's SME Business Postal Tracker (2022 data) found that at a UK level:

- 13% of SMEs recently changed mail service in last 12 months, and by far the main reason for doing so was price increases (65% of those who changed) (N=1,879)
- 65% of SMEs agreed or strongly agreed that postal services in the UK provide good value for money (N=2,000)

Table 4.6: In the last three months, have you had to...

| | Scotland (N=217) | UK (N=2580) |
|---|---------------------|----------------|
| Reduce the number of letters and cards you send so that you can afford essentials? | 17% | 23% |
| Cut back on essentials so that you can afford to send the same number of letters and cards? | 10% | 17% |
| Reduce the number of parcels you send so that you can afford essentials? | 20% | 23% |
| Cut back on essentials so that you can afford to send the same number of parcels? | 12% | 17% |
| NET: Affordability challenges when sending letters and cards | 20% | 28% |
| NET: Affordability challenges when sending parcels | 22% | 27% |
| NET: Had to cut back on post to afford essentials | 23% | 29% |
| NET: Had to cut back on essentials to afford any post | 15% | 22% |
| NET: ANY Affordability challenges when sending any post | 26% | 32% |
| None of these | 74% | 68% |

Source: Ofcom, Residential Postal Tracker, 1st March 2023

- 4.73 A report by the European Commission (2022) found that the price of domestic UK letters is lower than average for EU-27 countries and there has been a lower increase in price of letters between 2017 and 2020 compared to EU-27 (25.7% increase compared to 32.5%) [89].
- 4.74 As described earlier, Ofcom places regulations on Royal Mail, including a safeguard cap on the price of Second Class stamps to ensure basic letter and parcel services are affordable and always available to consumers (and has also fined Royal Mail for exceeding the cap).
- 4.75 Ofcom's outlines the following proposals in its Review of Second Class safeguard caps 2024 consultation document (closing date for responses is 1st September 2023):
- **“Retain a safeguard cap on Second Class standard and large letters.** This is because Royal Mail continues to be a near-monopolist in the provision of letters and we cannot rely on competition to ensure that prices remain affordable without a control on these Second Class letter services

- **Remove the safeguard cap from parcels.** We consider that a safeguard cap on Royal Mail's parcel services is no longer necessary. Competition in this market appears to be effectively constraining Royal Mail's ability to raise prices, therefore ensuring that they remain affordable. Royal Mail will continue to be required to set a single price for these services across the UK
- **Allow the safeguard caps on letters to rise with inflation (CPI), but no higher.** Our evidence indicates that current prices are affordable for most consumers, but that real-terms increases are likely to risk making them unaffordable for more consumers, given the increase in the cost of living
- **Create a single basket cap for Second Class standard and large letters.** This will give Royal Mail slightly more commercial flexibility in setting prices between standard and large letters as long as the basket price (a weighted average) rises no faster than CPI
- **Continue to limit the safeguard caps to Second Class letter services.** We have identified no evidence that there is an affordability concern with respect to other services given the nature of their use and the alternative access provided by Second Class services" [90] [page 1]

4.76 Ofcom intend to publish a statement setting out its final decisions on the safeguard caps by the end of 2023.

Redirections

4.77 As part of the universal service, Royal Mail provides services such as special delivery, metered mail, and redirections. Redirection services allow people to redirect mail from their old address to their new one, and some stakeholders have also raised affordability concerns for this service [91]. Ofcom's own research has also identified issues with affordability [92].

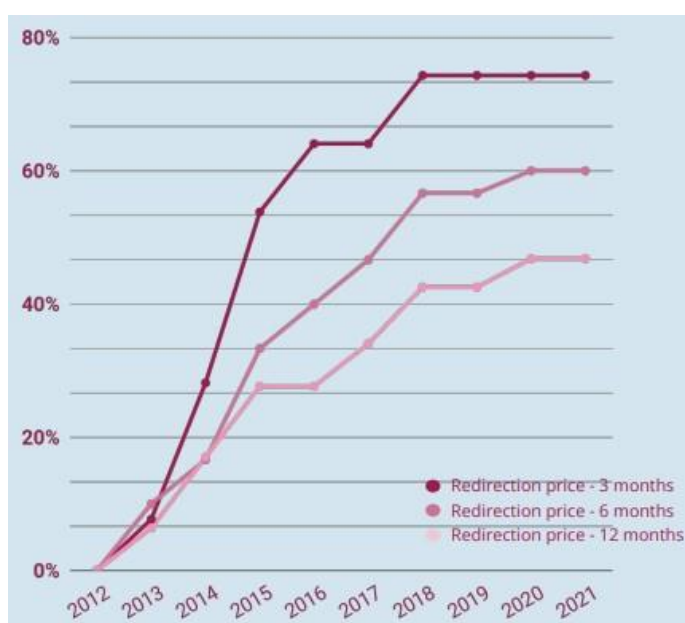
4.78 In 2019, Royal Mail introduced a limited 20% discount on redirections prices for people who rented their home and received either Jobseekers Allowance or Pension Credit. In November 2021, Royal Mail announced expanded concessionary rates for redirection services by providing a deeper discount and wider eligibility criteria [93]. Ofcom estimates 7.2 million people in the UK are now eligible for the discount [94].

4.79 Statutory advocacy bodies for postal consumers welcomed this latest announcement from Royal Mail. For example, Citizens Advice Scotland considered the discount important as it felt some low income households and consumers in vulnerable circumstances were being ‘priced out’ – its own polling at the time of Ofcom’s review found that 61% of respondents in Scotland said redirections were slightly or much too expensive with only 29% believing the standard costs were a fair price, and called for: [95]

- Ofcom to take appropriate action to monitor the uptake of the new concessionary rate to ensure that those who are eligible are aware of the service and can access it
- A concessionary rate on business redirections that could apply to SMEs, charities, and social enterprises who are not eligible for the new concessionary rate (for example microbusiness with less than 10 employees) [96]

4.80 Citizens Advice has also campaigned since 2018 to make redirections fairer, including calling for a redirections discount and highlighting problems with narrow eligibility criteria. Citizens Advice’s latest research in England and Wales on this issue - Left behind - The need for affordable mail redirections (June 2022) - notes that while Royal Mail’s latest discount on redirection makes it more affordable and would help more home movers to take advantage of the security that a redirection offers, the service is still out of reach for many people [97]. Three in ten home movers say they did not redirect their post because of the price [98].

Figure 4.5: Percentage increase of redirections (2012 to 2021)



Source: Citizens Advice - Left behind - The need for affordable mail redirections, June 2022

4.81 Key points to note from this research, as shown in **Figure 4.5**, include that:

- The law sets out that Royal Mail must deliver redirection at an affordable price – Citizens Advice argues that the cost of a three-month redirection has increased by over 70% since 2012 and many consumers do not consider mail redirection value for money
- Redirection is becoming a luxury rather than an essential service that is accessible to everyone who moves - for example, only a minority of home movers use mail redirection, homeowners are more likely to use it than those who rent, and those on low incomes are less likely to do so or can afford the up-front lump sum to access the best value rate. Furthermore, it is not always prioritised as essential when people are experiencing additional costs associated with moving home - this may be further exacerbated by the cost of living crisis
- There is no alternative service for redirection other than Royal Mail – people do not have a choice about who forwards their mail (that is, people can either redirect with Royal Mail or not redirect at all). This means there is no incentive for Royal Mail to reduce prices, innovate or increase quality of service
- The high cost is putting many off redirecting their post, and those on low incomes struggle to afford a redirection the most – for example, it costs £68.99 upfront for 12-month redirection, and the research also found that the discount rate, which is lower for the 12-month redirection, does not incentivise take-up
- People who face harm or disadvantage are much more likely to say the main reason they did not redirect mail was because they could not afford it – this includes people on benefits and disabled people, and those who typically rely on post the most (for example, older people)
- Other consumers in vulnerable circumstances face consumer harm – for example, post can be used as a tool of domestic abuse (abusers can use letters to track the survivor's movements, hide important information from them or control their finances), and some people need to move unexpectedly or quickly or in traumatic circumstances
- Some people opt for a free-of-charge workaround rather than paying for a redirection (that is find ways to handle their post themselves) – but this often does not pay off in the long run, and is not sufficient to avoid losing letters and experiencing consumer harm

- There is low awareness among consumers both of the discount and of the harm they could experience if they cannot get their post after a move – either because they do not think they receive much important mail or they forget about important but less frequent types of mail (even if they do not send a lot of letters themselves)
- A significant proportion of people engaged through the research who had recently moved had experienced harm because of missed letters, including: financial harm (for example late fees or higher payments, legal action, damaged credit scores); missed appointments (for example health related appointments); and personal data or important documents sent to their previous address (for example health records or legal papers)

4.82 Following this research, Citizens Advice recommended that:

- Ofcom should actively monitor take up of the discounted redirections, protect at-risk consumers from rising prices, and re-assess whether redirections are truly affordable
- Royal Mail should promote the new discount and make it easy to apply, and should improve the discount for 12-month redirections

4.83 Further, Citizens Advice highlight that the redirections discount is not protected in regulation – meaning that it is a voluntary scheme. Without action from Ofcom, the discount could therefore be removed or cancelled out by price increases. They also suggested that Ofcom could explore putting in place price controls to protect consumers.

Accessibility of postal services

- 4.84 In addition to ensuring that postal services are reliable and affordable for all consumers, much of the literature emphasises the importance of ensuring that postal services are accessible to all. That is no matter where people live, their income level, personal characteristics, or circumstances, or living situation.
- 4.85 Consistent access to post is considered essential as people rely on postal services to send and receive a range of letters and documentation relating to benefits, employment, financial, health, housing, and legal matters, among other things. Consumers also access postal services to receive and send parcels.
- 4.86 Action to improve accessibility (alongside tackling affordability issues) is considered crucial to promoting a fairer postal market. Indeed, the evidence base calls for more

collaborative solutions to remove the specific barriers that exclude consumers in vulnerable circumstances from accessing post.

- 4.87 Research published by statutory advocacy bodies over the last decade or so continues to highlight challenges for consumers, including consumers in vulnerable circumstances, relating to the accessibility of postal services [99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109].
- 4.88 These briefings and reports highlight a common set of access issues for consumers including:
- The lack of a fixed address
 - Difficulties in using “care of” addresses (that is for people who may move around frequently)
 - The interception of mail
- 4.89 Some people are unable to access post at home, or may face barriers to doing so, (known as post exclusion). Citizens Advice UK-wide research – Millions without mail (2020) estimates that some 7 million people in the UK have been unable to access their mail for some amount of time due to the issues described above [110].
- 4.90 This research touches on the range of problems this can cause for consumers (and in some cases quantifies the scale and impact of the problem). Consumer detriment includes missing out on health care services, benefits, housing and employment opportunities, financial hardship, and debt. Consumers who rely on post the most, and those consumers in vulnerable circumstances are said to be particularly negatively affected (including those groups who are in unsafe, precarious, and non-traditional living situations).
- 4.91 This research shows that post is important to all consumers, but more so for those groups who rely on it the most (for example, disabled people). The research also identifies those consumers who continue to be more negatively impacted by issues such as postal exclusion. For example, the Citizens Advice Scotland Delivering for all report (2021) made specific reference to groups of consumers in Scotland who are negatively impacted by a lack of access, including: asylum seekers and refugees; those who are homeless; survivors of domestic abuse; residents of rural and remote rural areas; and members of the Gypsy/Traveller community [111].
- 4.92 Citizens Advice Millions without mail (2020) also identified marginalised groups of people who are disproportionately affected by issues relating to problems in receiving post (that is groups who are in unsafe, precarious, and non-traditional living situations).

4.93 Taken together, the research highlights specific challenges and barriers for different groups of people, including:

- Asylum seekers, new refugees and homeless people can often face issues as a result of having continuous changes of addresses
- COVID-19 has exacerbated the impact experienced by consumers – for example, many people experienced delays in delivery times; travel restrictions meant that some people were unable to access alternative pick-up points, such as “care of” addresses; and other services such as Post Office facilities and Royal Mail Delivery offices operated reduced hours which restricted access
- Those in the Gypsy/Traveller community experience issues with services being unable or unwilling to hold mail for collection for extended periods, or with site offices operating reduced hours
- Homeless people find it hard to rebuild their lives without a fixed postal address, and that the lack of a fixed address prevents homeless people from communicating with a range of services (for example banks, health)
- People experiencing domestic abuse or coercive control encounter a greater likelihood of mail being intercepted by perpetrators of domestic violence, and some have experience of an agency disclosing their new address to a perpetrator which resulted in the perpetuation of abuse and financial harm. Citizens Advice research found that half of survivors of domestic abuse have their post intercepted by the perpetrator and 40% of survivors who have left the home have had an agency disclose their new address to the perpetrator [112]
- The practice of surcharging on parcels in rural areas continues to disproportionately affect rural consumers, at a time when they experienced greater reliance on delivery services (see also **Chapter 6**)
- Postal services are highly valued and frequently used by disabled people, and post offices are particularly important to disabled consumers – there is also some research on what is important to disabled consumers (and what issues they face) across each stage of the customer journey from ordering online and home delivery to collecting, posting, or returning parcels at an access point (see also **Chapter 6 and Chapter 7**)
- Other groups disproportionately affected are considered to include those who have: slept rough; lived in temporary accommodation; sofa surfed; lived in overcrowded accommodation; lived on a boat; lived in a caravan park; and those in safe, secure living situations

- People who experience problems receiving their post are also more likely to be on a lower income, disabled, younger, from a Black, Asian or Minority Ethnic background and renting

4.94 The Citizens Advice (2020) UK-wide research shined a light on the detrimental impact of postal exclusion, and estimated that:

- 4.7 million people missed appointments with key services because of missed letters
- 3 million people experienced financial losses as a result of missed letters (an average of £850 per person) – for example, it is estimated that survivors of domestic abuse have “lost £7.1 billion in the last 10 years as a result of perpetrators intercepting their post” [113] [page 3]
- 3.6 million people missed at least one healthcare appointment because of missed letters
- 1.8 million people missed out on employment opportunities as a result of missed letters

4.95 The Citizens Advice Scotland Delivering for all research concluded that:

- Despite the shift towards digital services and documentation, all consumers continue to need effective access to postal services
- There are a range of structural issues that cause issues for consumers in vulnerable circumstances access to post – including problems that affect several groups of consumers in vulnerable circumstances (for example, cost of redirection services – albeit as noted above Royal Mail has taken more action to help address this)
- Citizen Advice Scotland suggested there is need for change and recommended a series of actions to improve access to post for consumers in vulnerable circumstances, **Table 4.7**. They also argued that regulators, working with key sectors, have a role to play in championing best practice and ensuring that the needs of consumers in vulnerable circumstances are understood and considered

Table 4.7: Citizens Advice Scotland recommendations, 2021

| Redirection services | <ul style="list-style-type: none"> • Royal Mail should review the affordability of its redirection services. While Royal Mail does offer a concession scheme, we believe this requires further development in order to provide a reduced cost variation for domestic abuse survivors, people who are homeless, and potentially other vulnerable groups such as those on low incomes. We are aware of existing social tariff schemes in other sectors, including the Warm Home Discount scheme and in the broadband market. A similar approach should be examined in relation to post • Ofcom should consider the views of stakeholders who provide comment on the need for affordable redirection services for vulnerable groups as part of the current call for input into its Review of Postal Regulation |
|--|---|
| Using alternative addresses and pick up points | <ul style="list-style-type: none"> • The Scottish Government, COSLA and Local Authorities should consider whether the introduction of similar schemes to the Address and Collect service, Address Point or the Proxy Address service would be of benefit in Scotland, especially for those people who may change addresses on a frequent basis • The Post Office Ltd should consider whether their existing Post Restante service could be made more flexible to meet the Gypsy/Traveller community's needs and whether provision could be made for survivors of domestic abuse to access this service. CAS acknowledges that there are some strategic and operational challenges in doing so including the need for support for Postmasters and the need to incorporate adequate safeguarding measures • The Scottish and UK Government, and regulators such as Ofcom, Ofgem, the Financial Conduct Authority (FCA), and Competition and Markets Authority (CMA) should consider whether the current practices in their sectors in relation to the use of "care of" or proxy addresses adequately meet the needs of vulnerable groups • UK Government agencies, financial institutions, and utility providers should consider whether copies of correspondence can be sent to a nominated person or alternative secure location, with the client's consent, as a back-up • The DWP should review their procedures for updating addresses on their system so that details are updated more quickly, and the system is more accurate, reducing the risk of items being lost |

| | |
|----------------------------|--|
| Remote and rural consumers | <ul style="list-style-type: none"> • There should be greater transparency for consumers and SMEs in remote and rural areas over the cost of surcharging for deliveries • Retailers and parcel operators should examine their current practices, to ensure that they are explaining charges to consumers at the earliest practicable point in the buying process. • Retailers and parcel operators should engage with relevant regulators and consumer advocacy bodies to ensure any charges are proportionate and transparent |
| Gypsy/Traveller community | <ul style="list-style-type: none"> • The Scottish Government and COSLA should consider postal services as part of their work under the Gypsy/Traveller Action Plan to ensure that public services are responsive to Gypsy/Travellers' needs and preferences. This could include consideration of: a) how site users can access post when the site office is closed, particularly over weekends; b) whether postal addresses should be established for each individual plot on a site to allow for deliveries directly to each pitch; and c) whether a more flexible Post Restante service provided by Post Office Ltd would assist in meeting the needs of Gypsy/Traveller communities in relation to postal services |

4.96 Further, statutory advocacy bodies for postal consumers continue to highlight the need for greater use of alternative addresses and pick up points, including calls for government investment in an 'Address and Collect' (or a similar) service to ensure people in unsafe, precarious, or non-traditional living situations have equal access to post [114, 115, 116]. They suggest that this type of service must:

- Enable people who do not have access to their post to collect it
- Be provided at a Post Office
- Be free and accessible for the user
- Provide a safe and usable address

4.97 Statutory advocacy bodies for postal consumers also call for Ofcom to develop a consumer vulnerability strategy for postal services to allow for better monitoring and to support quicker interventions to address issues that affect consumers in vulnerable circumstances.

- 4.98 Similar schemes have been introduced elsewhere. For example, in Ireland, the state-owned provider of postal services, An Post, launched Address Point in 2019 to improve the accessibility of postal services for consumers in vulnerable circumstances [117]. This service was the first of its kind in Europe and offers a free personal fixed address and mail collection service for people who do not have a fixed address, such as Gypsy/Traveller communities and people who are homeless. Just eight weeks after launch, Address Point had secured addresses for 10% of the homeless population (total population estimated at over 10,000) in Ireland [118]. By January 2020, nearly 3,000 people were using the service [119].
- 4.99 In the UK, there is a similar service offered by the Post Office known as Poste Restante [120] – it appears to be aimed at citizens who are travelling around the UK or abroad - designed for travellers, who do not have a permanent address in the location where they wish to receive mail, enabling them to collect their mail free of charge at any participating Post Office Branch in the UK.
- 4.100 Consumer advocacy organisations highlight issues that may limit the impact of the Post Office’s Post Restante service, including that:
- “Homeless people, as well as existing users, should be able to have their post sent to a post office” to widen accessibility – in 2018, Citizens Advice recommended that the Post Office adjust the service accordingly [121] [page 3]
 - Poste Restante service does not normally hold mail for more than 14 days which is too short a timescale for some consumers [122]
- 4.101 These organisations suggest that a more flexible Poste Restante service could improve the accessibility of the service. There could be lessons to be learned from Ireland’s Address Point.

5 Drivers of change in the postal market and current issues

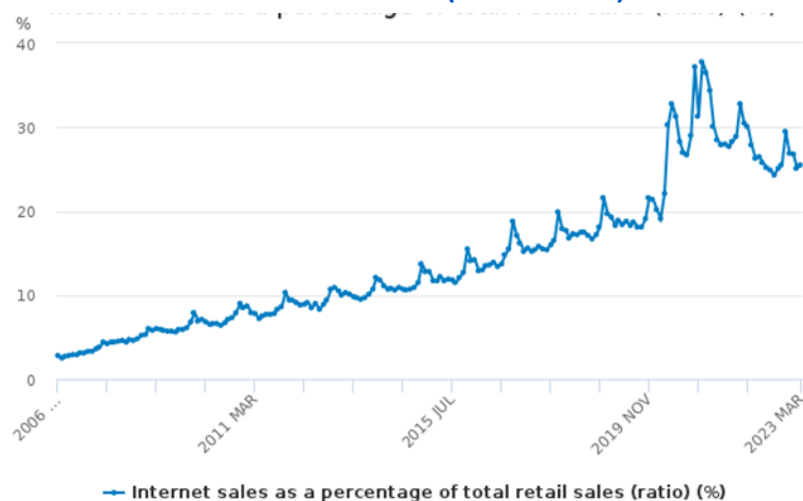
Introduction

- 5.1 This chapter touches on the main drivers of change in the UK postal market over the last decade and current issues. The external factors described below are experienced globally and not unique to the UK postal market.

Growth in online shopping

- 5.2 A key driver of change in the postal market in Great Britain over several years has been strong growth among consumers in online shopping. **Figure 5.1** shows internet sales as a percentage of total retail sales from 2006 to March 2023.

Figure 5.1: Internet sales in Great Britain (2006 – 2023)



Source: Office of National Statistics, Retail Sales Index Time Series (DRSI), Release date 21st April 2023

- 5.3 Key points to note from **Figure 5.1** include that internet sales as a percentage of total retail sales was:
- 10.3% in March 2013
 - 22.1% in March 2020
 - 34.4% in March 2021
 - 25.5% in March 2023

- 5.4 Over the last decade the shift to online retail has created a range of issues that Scottish policy makers will need to consider. Among other things, a Scottish Parliament Information Centre (SPICe) report notes that this includes: the decline and reinvention of the high street; ensuring digital connectivity particularly in remote and rural areas; ensuring our businesses are e-commerce ready via enterprise agency support; and ensuring consumers are not at an unfair disadvantage with delivery surcharges [123].

Impact of the COVID-19 pandemic

- 5.5 During the COVID-19 pandemic, postal services continued to be an essential communication service for consumers. There was a notable increase in online sales in 2020-2021, **Figure 5.1**, reflecting the impact of COVID-19 on consumers shopping habits. The pandemic and resultant lockdowns changed how consumers shop with online shopping becoming more popular.
- 5.6 The same data shows that internet sales as a percentage of total retail sales at this time:
- Was 22.1% in March 2020 (first national lockdown was 23 March 2020)
 - Peaked at 37.8% in January 2021
- 5.7 The data shows that consumers continue to spend more online than before the pandemic. Internet sales as a percentage of total retail sales was 19.1% in February 2020.
- 5.8 While there has been a shift back towards shopping in store since all restrictions have been eased, spending online remains high [124]. The general view is that the shift to online shopping (for some sectors) will be a permanent trend. Citizens Advice UK-wide research found that more than three-quarters of consumers surveyed (78%) planned to shop online more, or about the same amount, after the pandemic [125]. A report by Edge by Ascential also suggests that UK shoppers will do ever more of their shopping online in coming years, with the figure forecast to increase again to 38% by 2026 [126].

Growing demand for parcel deliveries alongside a decline in letter volumes

- 5.9 The way consumers use postal services has indeed changed in the last decade.
- 5.10 Ofcom's Residential Postal Tracker (2022 data) shows that resident respondents in Scotland were personally more likely to receive more post and parcels through the post in the last week compared to the UK as a whole, **Table 5.1**.

Table 5.1: Type of post personally received in last week through post

| | Scotland (N=433) | UK (N=5161) |
|----------------------------------|------------------|-------------|
| All Post | 93% | 91% |
| All letter post | 83% | 81% |
| Small and large parcels combined | 70% | 64% |

Source: Ofcom, Residential Postal Tracker, 1st March 2023

- 5.11 **Table 5.2** provides a broad overview of resident respondents' views (Scotland level) on different types of mail, and whether they now receive them more or less often than two years ago. This shows, for example, that residents in Scotland typically receive more parcels than two years ago, and less invitations, greetings cards, postcards, and personal letters.

Table 5.2: Thinking about these different types of mail, would you say that you now receive them more or less often than two years ago (Scotland level)

| | Much/slightly more | No change | Much/slightly less |
|---|--------------------|-----------|--------------------|
| Invitations, greetings cards and postcards | 9% | 57% | 34% |
| Personal letters (for example from a friend) | 7% | 56% | 36% |
| Letters from organisations that you have a relationship with | 11% | 59% | 30% |
| Bills, invoices and statements | 8% | 54% | 37% |
| Smaller parcels - that fit through a letterbox | 24% | 59% | 15% |
| Larger parcels - that do not fit through a letterbox | 26% | 53% | 20% |
| Newsletters, leaflets and promotions from organisations that you have a relationship with | 14% | 57% | 29% |
| Addressed direct mail from organisations that you don't have a relationship with | 19% | 54% | 32% |
| Catalogues and brochures | 14% | 56% | 36% |
| Magazines you subscribe to | 4% | 66% | 23% |
| Items requiring a signature | 10% | 64% | 27% |

Source: Ofcom, Residential Postal Tracker, 1st March 2023. Scotland: N=328

5.12 Other key findings from Ofcom's Residential Postal Tracker (2022 data) includes that in Scotland:

- 76% of respondents are very or fairly reliant on postal services for sending and receiving letters and cards (UK – 73%) (Scotland N=433, UK N=5,161)
- 78% of respondents are very or fairly reliant on postal services for sending and receiving parcels (UK – 77%) (Scotland N=433, UK N=5,161)
- 62% of respondents agreed with the statement “I would feel cut off from society if I couldn't send or receive post” (UK – 59%) (Scotland N=322, UK N=5,161)
- 56% of respondents send fewer letters by post now due to cost (UK – 58%) (Scotland N=322, UK N=5,161)
- 81% of respondents state that “there are some things that I will always need to send by post” (UK – also 81%) (Scotland N=322, UK N=5,161)
- 64% of respondents prefer to send emails rather than letters wherever possible (UK – 68%) (Scotland N=322, UK N=5,161)

5.13 Citizens Advice's UK-wide Millions without mail research (2020) also emphasises the continuing relevance and essential nature of post, and a few key findings include that:

- 94% of people say post is important to them
- 3 in 5 people say they would feel cut off from society if they could not send or receive post
- 79% of people say post is helpful or essential for managing their day to day lives
- Half of people say they are more likely to pay attention to a bill if it comes through the post
- 2 in 3 people receive some form of communication from health services by post only
- Over one-third of people say post is essential for managing their finances
- By 2030, it is forecast that 4.5 million UK adults will still remain digitally excluded

5.14 Key findings from Ofcom’s SME Business Postal Tracker (2022 data, UK level) includes that:

- 73% of SMEs send letters or large letters regularly (45% for parcels and packets) (N=995)
- 84% of SME respondents use Royal Mail services to send letters and large letters (45% for parcels and packets) (N=1,775)
- A vast majority of SMEs report that the volume of post sent in the last 12 months has either stayed the same or decreased, **Table 5.3**
- SMEs also now send more parcels and packets and less letters, **Table 5.4**, over

Table 5.3: In the past 12 months, has the volume of post your organisation has sent increased, decreased or stayed the same

| | % |
|-----------------|-----|
| Increased | 10% |
| Stayed the same | 65% |
| Decreased | 21% |

Source: Ofcom, SME Business Postal Tracker, 1st March 2023
N=2,000

5.15 **Table 5.5** over provides details of the approximate percentage of SMEs monthly postal spend allocated to different types of post. **Table 5.6**, over, then provides details of important factors for SMEs in choosing a postal provider or service – the top three factors are low cost, delivery within three days, and guaranteed delivery to recipient's door. A similar table for parcels is presented in **Chapter 6**.

Table 5.4: Type of post reported by SMEs as increasing or decreasing

| Type of post | % reporting an increase (N=191) | % reporting a decrease (N=426) |
|--|---------------------------------|--------------------------------|
| Parcels and packets | 53% | 24% |
| Letters | 31% | 52% |
| Large letters | 31% | 26% |
| Transactional mail including - Bulk customer mailings, such as bills, statements, customer packs | 6% | 3% |
| Order fulfilment (sending ordered goods to customers) | 6% | 3% |
| Publications, such as magazines, periodicals, customer newsletters | 4% | 2% |
| Advertising and promotional material, such as catalogues, brochures and direct mail | 4% | 4% |
| Other everyday correspondence, such as invoices, one off bills | 3% | 8% |

Source: Ofcom, SME Business Postal Tracker, 1st March 2023

Table 5.5: Approximate percentage of SMEs monthly postal spend allocated to different types of post

| Agree or strongly agree with following statements | Letters and large letters (N=1,552) | Parcels and packets (N=1,027) |
|---|-------------------------------------|-------------------------------|
| 0-24% | 13% | 24% |
| 25-49% | 8% | 17% |
| 50-74% | 19% | 21% |
| 75-100% | 60% | 37% |

Source: Ofcom, SME Business Postal Tracker, 1st March 2023

Table 5.6: Important factors for SMEs in choosing a postal provider or service for letters

| | % |
|---|-----|
| Low cost | 83% |
| Delivery within three days | 83% |
| Guaranteed delivery to recipient's door | 83% |
| Convenient to post (within 1/2 mile) | 81% |
| Same price to send to anywhere within the UK | 79% |
| Fast delivery | 78% |
| Letter delivery is fulfilled in an environmentally responsible way in Q3-Q4 | 65% |
| Next day delivery option | 63% |
| Daily collection service | 56% |

Source: Ofcom, SME Business Postal Tracker, 1st March 2023
N=1,463

- 5.16 European Commission research has found that the decline in domestic letter volumes in all European countries between 2017 and 2021 (EU; -7% and UK; -10%) has been driven by “digitalisation and evolution of e-substitutes for letter mail” – in countries where digitalisation is relatively more widespread, average annual decline in letter volumes was quite high (for example, 26% decline in Denmark where it is mandatory for public institutions to send and receive information digitally) [127].

Royal Mail

- 5.17 This change in the postal market is further evidenced by declining letter volumes and increasing parcel deliveries as reported by Royal Mail, and in the company’s associated revenue figures, **Table 5.7**.

Table 5.7: Royal Mail UK-based operations (millions)

| UK-based Letters and parcels business | | | | | |
|--|---------|---------|----------------------|---------|---------|
| 2016/17-2020/21 | | | | | |
| | 2016/17 | 2017/18 | 2018/19 ¹ | 2019/20 | 2020/21 |
| Reporting period | 52 week | 52 week | 52 week | 52 week | 52 week |
| Letters | | | | | |
| Volume (millions) | 14,856 | 14,378 | 13,376 | 12,650 | 9,511 |
| Revenue (£millions) | 4,321 | 4,152 | 4,057 | 4,021 | 3,518 |
| Parcels | | | | | |
| Volume (millions) | 1,169 | 1,230 | 1,287 | 1,312 | 1,735 |
| Revenue (£millions) | 3,337 | 3,463 | 3,538 | 3,699 | 5,131 |
| Notes: ¹ Royal Mail re-presented 2018/19 figures to reflect new methodology of allocating UK-based letter and parcel revenue and volume. The 2018/19 results are presented are on the new basis. | | | | | |
| Source: Royal Mail Annual Accounts; 2016/17 to 2020/21 | | | | | |

Source: UK Parliament, House of Commons Library, Royal Mail services and the Covid-19 pandemic, 13th April 2022

- 5.18 The volume of parcels delivered by Royal Mail has grown steadily, but the impact of COVID-19 sharply accelerated this trend due to the physical restrictions that were in place at that time. Key points to note from **Table 5.7** include that:
- Royal Mails letter volumes fell 25% between 2019-2020 and 2020-2021 - there was a corresponding fall in revenue from letters by 13%
 - Parcels volumes, on the other hand, increased by 32% over the same period, with revenues increasing by 39%
 - In the nine months to December 2021, total parcel volumes decreased by 11% on the previous year, with revenues falling by 3.5%. Parcel volumes remained 17% higher than the same period in 2019, with revenues up 32.2%. Letter volumes increased by 6% on the previous year, with revenues up 9.1%. However, letter volumes remained 18% below the same period in 2019, with revenue down 8.4%
- 5.19 In January 2023, Royal Mail provided an updated of its performance, including for the nine months to end of December 2022, **Table 5.8** [128].

Table 5.8: Royal Mail trading update, including for the 9-months to end of December 2022

| Type | Volume (million) | | | | | Revenue (£ million) | | | | |
|---------|------------------|-------|-------|-------|-------|---------------------|-------|-------|-------|-------|
| | 2022 | 2021 | 2019 | 22v21 | 22v19 | 2022 | 2021 | 2019 | 22v21 | 22v19 |
| Parcels | 934 | 1,163 | 996 | -20% | -6% | 3,035 | 3,694 | 2,795 | -18% | +9% |
| Letters | 5,498 | 6,001 | 7,350 | -8% | -25% | 2,629 | 2,801 | 3,058 | -6% | -14% |

Source: International Distributions Services, Trading Update for the nine months to end of December 2022, 26th January 2023.

Notes: Table excludes 2020 figures due to the COVID-19 impacting their relevance in making comparisons across years.

5.20 Key points to note from **Table 5.8** include that:

- Total letter revenue declined 6.1% year on year (2021 to 2022), with volumes for addressed letters down 8%
- Compared to pre-pandemic levels (9 million in 2019-2020) addressed letter volumes were down 25% and total letter revenue down 14.0%, reflecting the change in volume and revenue mix – parcels are now 54% of total revenue versus 48% pre-pandemic
- Total parcel revenue reduced by 17.8% year on year, with volumes down 20% (revenue growth of 8.6% and volume decline of 6% versus pre-pandemic 9 million 2019-2020)

5.21 Over the last few years, Royal Mail has set out its plans for business recovery and intention to continue to transform and modernise its network and ways of working so that the company can more effectively manage the changing dynamics of the letters and parcels markets. That is shifting the balance of its focus towards the growing parcel business. Royal Mail say that it wants to create a more efficient business that is better aligned to the changing needs of customers - and recognise that this requires new ways of working, a more flexible business, and greater use of technology.

5.22 Royal Mail's business recovery, transformation and growth programme has, however, not been without its challenges, including considerable disruption resulting from periods of industrial action over pay and conditions (as well as proposed changes to the way postal staff do their jobs, for example changes to start times).

5.23 In 2022, Royal Mail reported it was losing £1 million a day and threatened to split the domestic and international businesses under a rebranded holding company called International Distributions Services if it could not achieve "significant operational change" [129] [page 1]. Royal Mail's most recent financial results show the company made a loss of £1 billion in financial year 2022-2023 compared to a £250 million profit the previous year [130].

- 5.24 The latest position on negotiations to resolve the long-running dispute between Royal Mail and its staff is that a deal has been reached between Royal Mail and the Communication Workers Union. Core details of the deal include: [131, 132]
- Abandoning the introduction of owner-drivers into the Royal Mail core system, effectively ending the perceived ‘Uberisation’ of Royal Mail
 - Implementing a 10% salary increase and one-off lump sum of £500 for most postal workers
 - Introducing a further payment scheme during the life of this agreement, where if the company reaches operational profit in a financial year, 20% of it will be paid to employees
 - Reducing agency workers in Royal Mail work
 - Confirmation of no compulsory Sunday working
 - Establishing an independent enquiry for suspended or sacked workers
- 5.25 The dispute between Royal Mail and staff represented by the Communication Workers Union has officially come to an end - members of the union have voted by 67% to accept the deal [133].
- 5.26 There are further changes and uncertainty ahead for Royal Mail’s senior leadership team - a new Chief Executive will take up post in October 2023 (the third Chief Executive in five years) [134].
- 5.27 Royal Mail has approached the UK Government and seeks a move to a minimum five-day delivery service for letters (instead of the current six-day delivery service). Royal Mail notes that the universal service comes at “significant structural cost” to the company and considers the proposal necessary to help “protect the long-term sustainability of the one-price-goes-anywhere universal service” [135] [page 4].
- 5.28 Relevant points to note from Ofcom UK-wide research (2020) to inform its Review of Postal Regulation (2022) are set out below [136].
- 5.29 Ofcom report that letter volumes in the UK have indeed fallen by 25% since it’s the pandemic and that over half (53%) of residential users now only send one letter or less per month. The research also found that across the UK, users generally value the minimum requirement of the Universal Postal Service, specifically:
- 67% of residential users and 69% of SMEs agree with the principle of one price goes anywhere in the UK for both letters and parcels

- Affordability is viewed as the most important issue for residential users
- Postal users place a high value on delivery to their door for letters and parcels (rather than alternatives such as delivery to central secure lockers)

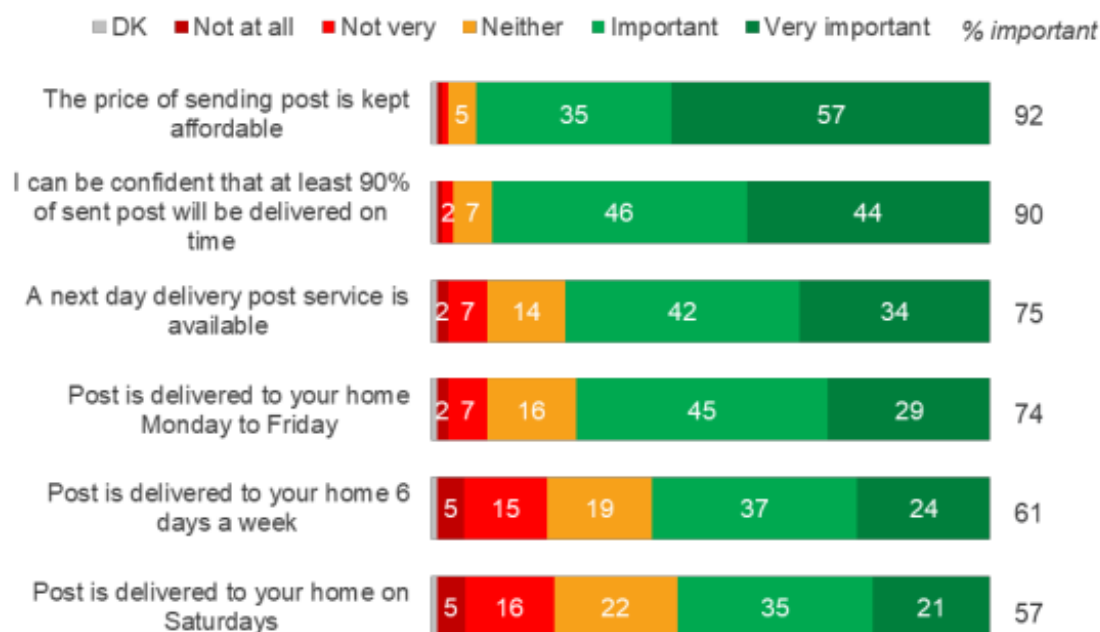
5.30 The same Ofcom research suggests that the universal service generally works well for the vast majority of UK consumers and businesses. For example, Ofcom found that:

- The current Universal Service Obligation, of letter deliveries six days a week, meets the needs of 98% of residential users and 97% of SMEs in the UK
- Reducing the letter service to five days a week (Monday to Friday), but leaving everything else unchanged would meet the needs of 97% of residential and SME users alike
- Reducing the letter delivery obligation to three days a week would have a significantly large impact, with the change only meeting the needs of 62-78% of SMEs and 79-85% of residential users needs
- Reducing the letter delivery requirement to five days a week would reasonably reflect the needs of users. It could also allow Royal Mail to make potential net cost savings of approximately £125-£225 million per year (2022-2023 terms) - assuming it made modifications accordingly to its operational delivery model
- For parcels, 98% of residential users' needs are met by the current six-day (Monday to Saturday) service - it found that reducing this to a five-day service would make no change (in percentage terms)

5.31 **Figure 5.2** sets out the relative importance for UK residential users across a range of statements relating to the postal market – the most important factors are:

- The price of sending post is kept affordable (92% saw as important)
- I can be confident that at least 90% of sent post will be delivered on time (90%)
- A next day delivery post service is available (75%)

Figure 5.2: Residential Users – “How important is it to you that...”



Source: Ofcom, Review of postal users' needs, 26th November 2020

5.32 The same Ofcom review analysed users' views on making more radical changes to elements and features of the Universal Service Obligation. This found that:

- Replacing the first-class delivery service with a single class service, which would have a two-day delivery speed, which, for context is slower than first class, but faster than second class, was found to not have a significant impact on users' 'acceptability' of the service. However, it notes that the change would have minimal scope for cost savings and could reduce potential avenues for Royal Mail to generate revenue
- Making reductions to quality of service levels, for example reducing the current target of 93% of First class mail arriving the next day, was also considered, however, it was found that customers placed a significant value on the certainty and reliability associated with having high and stringent service levels. Users state they need to know when an item would arrive and be confident that it would arrive on time. Furthermore, reducing these quality of service standards was found to have limited scope for cost savings

5.33 Ofcom in its latest Review of Postal Regulation (2022), states that the “overall scope of the USO remains appropriate” [page 76] while noting that “the requirement for the delivery of letters to homes and businesses six days a week falls under the minimum requirements of the universal service set by Government and Parliament” [page 77].

5.34 The current position is that UK Government:

- Does not have plans to change the statutory minimum requirements as set out in the Postal Services Act 2011
- Emphasises that there is an existing process for the consideration of any changes to the universal postal service – and this would involve secondary legislation and agreed by Parliament [137]

5.35 Interestingly, the House of Commons BEIS Select Committee [138] has been particularly proactive in this regard, and following several meetings with senior members of Royal Mail staff [139, 140, 141] has called for various reports by the end of 2023 and into 2024 to further explore its concerns in relation to:

- Whether Royal Mail operates a policy of prioritising parcels over letters
- Whether it is failing to meet some of its statutory requirements under the Universal Service Obligation
- The tracking of Royal Mail staff to monitor productivity

5.36 Key points to note from the 22nd February 2023 meeting include that the Committee:

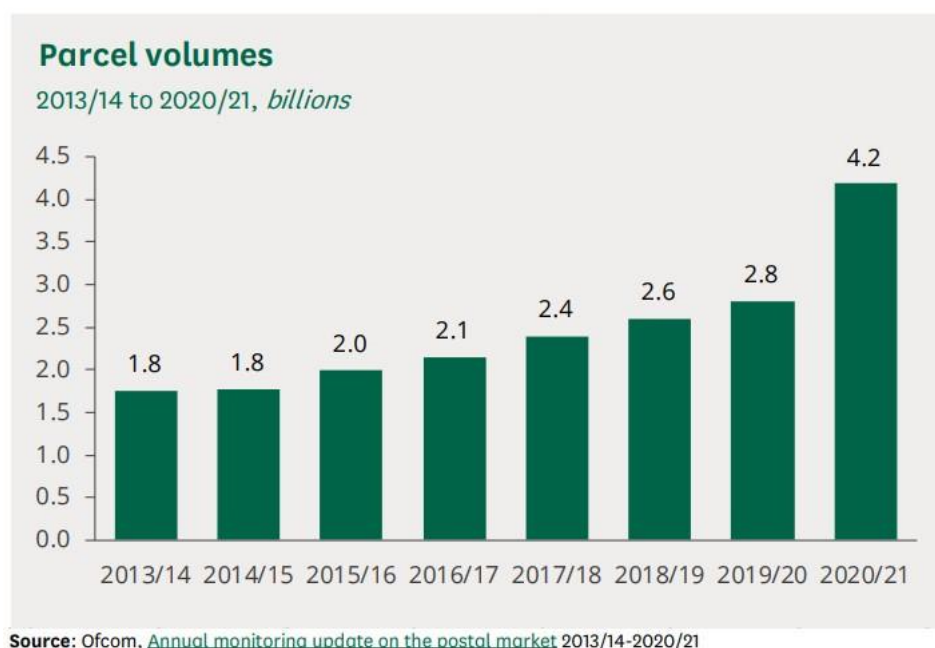
- Called for a formal review of Royal Mail to be actioned by its Board regarding whether the data captured by handheld devices (PDAs) used by delivery staff is being routinely used by Royal Mail as a performance management tool
- Requested that the Information Commissioner conduct an inquiry into the use of PDA data by Royal Mail and to ascertain whether any privacy or personal data rights have been infringed - the Commissioner has been asked to report back to the Committee by the end of 2023
- Called for Ofcom to undertake an enforcement investigation into Royal Mail's delivery of the Universal Service Obligation (that is the deprioritisation of letters) - Ofcom has been asked to report back to the Committee by the end of 2023
- Called on the UK Government to formally engage with Royal Mail, following the outcome of Ofcom's enforcement investigation, to secure the future of the Universal Service Obligation and Royal Mail – Government has been asked to provide an initial report to the Committee no later than the end of 2024

- 5.37 In a European context, UK and Germany are considered “outliers as Europe’s postal services evolve” [142]. There is a difference of views between Royal Mail, who support a move to a five-day delivery service for letters, and the UK Government whose current position is to refuse such changes. In the context of financial sustainability, Royal Mail consider the change to be necessary with an estimated saving of £125 million to £225 million while ensuring that “consumers’ needs will not be affected” [143]. Prior to the March 2023 announcement of stamp price increases, Royal Mail’s chairman, Mr Williams, stated that “first-class stamps will need to increase ‘considerably’ in order to pay for Royal Mail delivery on Saturday” as Royal Mail are “delivering the same amount of letters in six days when it could take five” [144].
- 5.38 Other European countries have modified their equivalent Universal Service Obligation and evolved postal services to meet consumers’ needs and demands. For example:
- France operates a three-day-a-week delivery of letters – in part to help reduce La Poste’s carbon footprint
 - Norway operates a two-day-a-week delivery of letters
 - Denmark only delivers standard class letters once a week
 - Italy operates an everyday service for rural areas [145]

Parcels volumes

- 5.39 The significant structural decline in letter volumes alongside growing demands for parcel deliveries is a feature of the wider trend in the UK parcels market, **Figure 5.3**. Key points to note include that:
- The parcels market experienced significant growth in 2020-2021 - 4.2 billion parcels were sent in the UK – up 48% on the previous year. This compares to an 8% increase from 2018-2019 to 2019-2020
 - Associated revenue was £14 billion – up 34% (compared with 1.7% growth in 2019-2020)

Figure 5.3: Parcels volumes (billions)



Source: UK Parliament, House of Commons Library, Postal Services, 11th May 2022

An evolving and competitive parcels market

- 5.40 The previous chapters note that the parcels market in the UK is highly competitive and growing – there are around 16 major national carriers [146]. The literature identifies several drivers of change.
- 5.41 First, the COVID-19 pandemic and growth in e-commerce. As noted above, online shopping was fast becoming a preferred way to shop for consumers, and the trend was accelerated during the pandemic in direct response to changing consumer expectations, needs, and preferences.
- 5.42 There has also been growth in retailers bringing deliveries ‘in house’. The most notable example is Amazon Logistics which launched in the UK in 2012 and has increased pressure on other delivery operators. Amazon Logistics has since become a sizeable company and one of the largest couriers in the UK.
- 5.43 Market share data published by Pitney Bowes estimates the volumes of parcels delivered in the UK by each carrier and revenue in 2021, **Table 5.9**. This data shows that there was 5.4 billion parcels delivered in the UK in 2021 (up 9% on 2020 figures). This equates to 1,717 parcels being generated every second, and 15 million daily - yearly parcels generated per person rose to 80, up from 74 in 2020, which equates to 192 per household per year.

- 5.44 It should be noted that the data from Pitney Bowes does not match the figure presented earlier of 4.2 billion parcels (see **Section 5.39**) – it has been presented here to simply provide a high-level overview of market share.

Table 5.9: UK parcel volume and share by carrier (2021)

| Carrier | Volume Share | Revenue share |
|------------------------|--------------|---------------|
| Royal Mail | 30% | 27% |
| Amazon Logistics | 17% | 12% |
| Evri (formerly Hermes) | 13% | 12% |
| DHL | 8% | 8% |
| DPD | 6% | 11% |
| UPS | 6% | 8% |
| Yodel | 6% | 5% |
| FedEx | 3% | 4% |
| UK Mail (DHL) | 2% | 2% |
| Others | 9% | 10% |

Source: Pitney Bowes, Parcel shipping index, 2022 (volume share).

- 5.45 Key points to note from **Table 5.9** include that Royal Mail continues to have the largest market share by volume and revenue followed by Amazon and Evri (formerly Hermes).
- 5.46 The same Pitney Bowes data shows that the UK has a considerably higher rate of parcel generation and delivery, on both a per capita and nominal basis, than other comparable European countries (for example, France, Italy and Germany).
- 5.47 There have also been changes within different segments of the parcels market, including that: [147]
- The largest segment of the parcel market is the B2C segment, which Ofcom estimates made up between 70% and 80% of total parcel deliveries in 2020-2021
 - Volumes in the B2C segment increased by circa 60% from 2020 to 2021 due to the impact of the pandemic
 - The C2X and B2B segments both make up approximately 10% each, with both growing at a slower pace than the B2C segment

New models and wider retail trends

- 5.48 New models and wider retail trends are also apparent in the UK parcels market. For example, a driver of change has been growth in ‘Click and Collect’ services, in the use of same day delivery for consumers, and tracking of parcels (and letters).
- 5.49 ‘Click and Collect’ continues to grow in popularity – this is whereby a customer orders a product online and then picks it up in the retail store or from a post office, a purpose-built locker or a different retailer’s store. It is reported to have a number of advantages for consumers, including speed, convenience, and savings on the cost of delivery. The rapid evolution of e-commerce demonstrates the opportunity that exists in growing the B2C e-commerce market. For example, many consumers are willing to pay extra for the quick delivery of their purchases – indeed, quick delivery is highlighted as important in the Ofcom Postal Tracker survey (2022 data) reported in **Chapter 4** and **Chapter 6**.
- 5.50 More consumers are now looking for a tracked service (rather than signed for) – this is not within the Universal Service Obligation, and so attracts VAT.

Continuing increased competition within the parcels market

- 5.51 Competition within the parcels market is expected to continue to grow. This is evident in the following example. Royal Mail PLC and Post Office Ltd entered into a commercial agreement in 2012 when the two companies separated – the Mails Distribution Agreement. This was an exclusive agreement that only permitted the Post Office to distribute parcels via Royal Mail and Parcelforce.
- 5.52 The continuation of this partnership between Royal Mail and Post Office has since been confirmed [148]. Under the second Mails Distribution Agreement which commenced on 21st March 2021 and runs until 28th March 2032, the Post Office is now allowed to work with other parcel companies [149]. This new agreement therefore:
- Secures longer-term access for Royal Mail to the Post Office network
 - Allows the Post Office to continue to sell and accept Royal Mail’s range of postal products
 - Creates greater flexibility for Royal Mail and Post Office – allowing both organisations to remain agile and responsive to the changing ways that customers are buying and sending postal products as well as responsive to the structural decline in letter volumes
 - Should foster continued innovation to provide convenience for customers

- 5.53 This represents a major change from the previous arrangement. The Post Office Ltd reports that the new agreement provides the organisation with the opportunity to pursue and secure new 'Click and Collect' partnerships. This includes with DPD and Amazon, with over 3000 branches successfully launched by the end of 2021 [150].
- 5.54 Further, Post Office Ltd announced an agreement with Evri in June 2022 to trial in-branch sales, parcel pick-ups and drop-offs providing a safe and convenient location for customers to send, collect and return their parcels [151]. This is the first time that Post Offices will sell products for end-to-end delivery with another carrier. The trial uses Evri's ParcelShop self-service device, which have a dedicated area within the Post Office branch to enhance the customer experience. It was anticipated that this would take place in 50 Post Offices before Christmas 2022. Wider benefits of this partnership are anticipated to include:
- Encouraging people to return to their local high street
 - Reducing the environmental impact of vans making multiple stops to drop off parcels [152]
- 5.55 While Citizens Advice agree that the new arrangement could be more convenient for consumers, they also note that it is "possible that an increase in the number of postal products on offer could be confusing and increase the likelihood of purchasing an inappropriate product" [153] [page 10].

Environmental sustainability and net zero

- 5.56 Governments around the world continue to take action in response to the climate emergency in response to the United Nations (UN) Framework Convention on Climate Change [154] and the goals of the Paris Agreement [155]. The 2008 Climate Change Act is the basis for the UK's approach to tackling and responding to climate change [156]. This Act commits the UK Government to reduce greenhouse gas (GHG) emissions by at least 100% of 1990 levels (Net Zero) by 2050. In 2019, the UK became the first major economy to pass laws to end its contribution to global warming by getting to net zero by 2050. Scotland, Wales, and Northern Ireland are covered by the Climate Change Act and also have separate climate change policies.
- 5.57 Environmental sustainability and net zero have become more important from a legislative and policy perspective, as well as in the choices and spending decisions that consumers make. There has been increased consumer awareness of the importance of protecting and preserving the environment in recent years [157, 158, 159].

- 5.58 Ofcom's Residential Postal Tracker (2022 data) asked some questions in relation to this issue, and the findings are presented in **Table 5.10**. While consumers in the UK are broadly supportive of parcel delivery companies who operate in an environmentally responsible way even if the items take longer to deliver, support declines when factors such as increased cost and increased cost/takes longer to deliver are thrown into the mix. Consumers in Scotland are also less likely to agree with each statement.

Table 5.10: Percentage of residents who agree or strongly agree with following statements

| | Scotland (N=217) | UK (N=2,580) |
|--|---------------------|-----------------|
| I would be willing to use a parcel provider that operates in an environmentally responsible way even if the items take longer to deliver | 40% | 43% |
| I would be willing to pay more for a parcel provider that operates in an environmentally responsible way | 26% | 33% |

Source: Ofcom, Residential Postal Tracker, 1 March 2023

- 5.59 This consumer trend is set to continue to grow as consumers:
- Try to shop in more environmentally friendly ways
 - Take a company's social and environmental sustainability efforts into consideration when making their purchase decisions – for example, by shopping for brands with ethical environmentally sustainable values
 - Expect companies to take action through a commitment to reducing their carbon footprint and aligning their offerings with changing consumer behaviours, expectations, needs and preferences
- 5.60 All sectors of the economy continue to explore ways in which they can improve their environmental sustainability and to reduce the environmental impact of their operations, including the postal market. Indeed, transport is the largest polluter in the UK, and wider environmental concerns relate to, for example excessive use of packaging materials in some cases [160].
- 5.61 Environmental sustainability was first mentioned within the Ofcom Annual Monitoring Update Report on the Postal Market in 2018-2019 [161]. Since then, environmental sustainability has featured in all Annual Monitoring Update Reports. These reports emphasise consumers increased interest in, and value placed on, sustainability credentials when using delivery services.

5.62 Key developments in this space include policy initiatives, such as:

- Low Emission Zones (LEZ) and Ultra-Low Emission Zones (ULEZ) which have been or are being introduced in cities across the UK, including in Scotland [162]. Glasgow was the first one in Scotland (1st June 2023)
- Some local authorities in England are introducing clean air zones [163]

5.63 Other developments introduced by parcel operators as part of their Corporate Social Responsibility (CSR) and Environmental Social Responsibility (ESR) includes, for example:

- The setting of, and reporting on, environmental sustainability targets to reduce GHG emissions
- An increased focus on last-mile delivery and making this a more sustainable option for parcel delivery (for example, electric courier services, bicycles, e-bikes)
- Many parcel delivery operators are growing their electric vehicles (EVs) fleet
- The use of more renewable energy and fuel sources
- Sustainable packaging

5.64 Areas of work that parcel delivery operators are undertaking in this space (see also **Appendix B**) include that:

- Yodel is developing a net zero carbon depot in Huyton - this facility will be built to net zero carbon standard and will include solar panels and EV charging points
- Amazon has made the shift to using renewable energy across 85% of its business and delivered over 100 million parcels to its customers using zero-emission vehicles
- Royal Mail is trialling new innovations for zero and reduced emissions deliveries including drones for remote locations, micro electric vehicles, and a programme to optimise on-foot deliveries with a van delivering to a central point, serving a number of posties on foot

5.65 Sustainability will continue to be an area of focus for parcel delivery operators given the UK's net zero target for 2050 (Scotland's target – 2045) [164] which includes plans to decarbonise the entire transport system.

- 5.66 This is further evidenced by stakeholders at a recent European Commission workshop - stakeholders ranked climate change and environmental degradation (that is, ecological awareness and responsibility) as one of the top three megatrends that will be most relevant to the postal sector over the next 10-20 years [165].
- 5.67 Research published by the European Commission also reports that “most emissions in the postal value chain stem from transport and energy use in buildings. For example, based on our estimation of the distribution of the carbon emissions of leading Nordic postal operators, we found that 85 per cent of CO2 emissions are related to transport and buildings” [166] [page 293].
- 5.68 The same research also notes that “operators are working to integrate new environmentally friendly reforms into their value chains to encourage decarbonisation in their delivery. These reforms typically focus on (i) setting emission targets for their own (Scope 1 and 2) and subcontracted (Scope 3) initiatives, (ii) using renewable energy in buildings, and (iii) renewal and electrification of the delivery fleet” [167] [page 294].

Innovation and digital technology

- 5.69 Over the past decade, parcel delivery companies have focussed on how digital technology can drive innovation in their operations and to drive service and productivity improvements. This has largely been driven by increased competition within the parcels market [168]. Rising consumer expectations also continues to encourage innovation within the parcels market [169].
- 5.70 In 2013-2014, innovative approaches included nominated delivery days for parcels and the use of Click and Collect services [170]. Since this time, technology has changed, and digital technologies continue to evolve significantly.
- 5.71 The Ofcom Annual Monitoring Update on the Postal Market 2021-2022 outlines that the main innovations in the parcels market now focus on: parcel management services (such as shipping price checkers and print-at-home labelling options); parcel lockers; and home collections [171]. Some examples of this in practice includes:
- Tracking time spent on outdoor delivery routes to understand how to make routes more efficient to support demand
 - Tracking delivery options
 - Automated hubs

- Drone technology and automated delivery robots powered by Artificial Intelligence (AI)

5.72 Areas of work that parcel delivery operators are undertaking in this space (see also **Appendix C**) include that:

- Royal Mail tracks time spent on outdoor delivery routes to understand how to make routes more efficient to support demand – for example, Postal Digital Assistants Outdoor Actuals, Auto Hours Data Capture, and Final Mile Optimisation
- The Orkney I-Port operation has been launched by Royal Mail and drone firm Skyports to distribute letters and parcels between the islands – this is the UK's first drone mail service
- Evri has used AI to develop a parcel vision software aimed at proof of delivery pictures taken by delivery drivers. The software detects pictures which do not clearly show parcels left in a safe place, and flags up that the picture should be retaken
- DHL (Evri and DPD) have incorporated what3words technology into their deliveries as an easy way to describe any precise location – the technology has divided the world into three metre squares and given each one a unique identifier made from three words [172]. The partnership with DHL retail partners offers consumers the ability to save their what3words address to their profile in the app, so they can specify a precise delivery address or location

5.73 Citizens Advice, however, note that the use of innovations such as Click and Collect or parcel lockers “is often tied to specific delivery companies and can depend greatly on location, leaving rural communities significantly less well served” [173] [page 65].

5.74 From a letter perspective, barcoded stamps replaced regular stamps from 1st August 2023 [174].

6 Parcel delivery and consumer issues

Introduction

- 6.1 As highlighted throughout this report, the parcel delivery market has grown and evolved over the last decade, not least due to the pandemic and resulting growth in online shopping alongside changes in the way we work (for example more home or hybrid working). The shift to online shopping and increased reliance on parcel delivery is also reported to reflect wider factors such as the location and physical accessibility of shops, because online shopping may be cheaper and more convenient, or that it is the most suitable (or only) option for some consumers [175].
- 6.2 Citizens Advice helpfully identify four stages of the consumer journey in the parcel delivery market, namely: [176]
- Ordering
 - Delivery
 - Complaint
 - Returning
- 6.3 It is important to note that consumer issues that arise at different stages of the journey typically rest with different stakeholders – for example, retailers (ordering stage), parcel delivery operators (delivery stage), etc.
- 6.4 The Citizens Advice and wider research base shows that there continues to be a range of consumer issues at each stage of this journey which have a detrimental impact on all consumers in some way, including those who may be more reliant on online shopping (for example, disabled people). Citizens Advice Scotland note that “The cause of such detriment can be attributed to cost, reliability, and availability” [177] [page 10].

Consumer choice on parcel delivery companies

- 6.5 Before setting out wider consumer issues within the parcels market, there is some research that sets out the factors consumers and SMEs consider important when choosing a postal and parcel delivery provider or service.
- 6.6 Ofcom Residential Postal Tracker (2022 data) highlights the relative importance residents place in choosing a postal provider or service. **Table 6.1** provides a breakdown at a UK and Scotland level.

- 6.7 The top five factors for UK residents in choosing a postal provider or service at a UK level relate to reliability of delivery (for example, delivery to recipient's door, proof of dispatch/delivery, guarantee that the parcel will arrive on time), and low cost.
- 6.8 Ofcom's SME Business Postal Tracker (2022 data) also sets out the factors SMEs in the UK consider important in choosing a postal provider or service for parcels, **Table 6.2**. Low cost and a range of factors relating to reliability of delivery are also important for SMEs.

Table 6.1: Important factors for residents in choosing a postal provider or service

| | Scotland (N=217) | UK (N=2,580) |
|---|---------------------|-----------------|
| Delivery to recipient's door | 87% | 86% |
| Low cost | 84% | 83% |
| Proof of postage/dispatch | 83% | 83% |
| Proof of receipt/delivery | 80% | 83% |
| Guarantee that the parcel will arrive on time | 77% | 80% |
| Same price to send to anywhere within the UK | 78% | 79% |
| Ability to track the delivery | 74% | 78% |
| Fast delivery | 74% | 77% |
| Convenient options for the recipient to accept the delivery | 58% | 75% |
| Convenient options for me to drop the parcel off | 76% | 74% |
| Insurance against damage or loss | 70% | 70% |
| Daily collection service | 70% | 71% |
| Ability to choose an express or next day service | 59% | 63% |
| Ability to select a specific date/time for delivery | 57% | 62% |
| Options for people receiving parcels with specific needs from the delivery company, for example relating to limited mobility or a disability. | 58% | 61% |
| Convenient options for the operator to pick the parcel up from me | 58% | 60% |
| Parcel provider operates in an environmentally responsible way | 56% | 58% |
| Option to deliver items to a location other than the home (e.g. a local shop, or a locker) | 47% | 55% |

Ofcom, Residential Postal Tracker, 1 March 2023

Table 6.2: SMEs - important factors in choosing a postal provider or service for parcels

| | % |
|---|-----|
| Low cost | 91% |
| Delivery to recipient's door | 91% |
| Guarantee that the parcel will arrive on time | 90% |
| Proof of postage/dispatch | 90% |
| Proof of receipt/delivery | 89% |
| Ability to track the delivery | 86% |
| Fast delivery | 86% |
| Same price to send to anywhere within the UK | 85% |
| Convenient options for me to drop the parcel off | 81% |
| Convenient options for the recipient to accept the delivery | 79% |
| Insurance against damage or loss | 79% |
| Ability to choose an express or next day service | 74% |
| Parcel provider operates in an environmentally responsible way | 67% |
| Daily collection service | 62% |
| Option for people receiving parcels with specific needs from the delivery company, for example relating to limited mobility or a disability | 59% |
| Ability to select a specific date/time for delivery | 55% |
| Convenient options for the operator to pick the parcel up from me | 55% |
| Option to deliver items to a location other than the home (for example a local shop or locker) | 39% |

Ofcom, SME Business Postal Tracker, 1st March 2023
N=778

Structure and complexity of the parcels market

- 6.9 Previous UK-wide research undertaken by Citizens Advice – The market which isn't delivering - How the parcels market is failing consumers (2019) helps us to understand why consumer issues in the parcels market persist [178].
- 6.10 Findings include that:
- The structure and complexity of the parcels market limits the choice of consumers about their parcel delivery options

- Online retailers decide which company delivers the parcel, and the contract is between the retailer and parcel delivery operator for a service. Therefore, consumers are often not aware of who will deliver their parcel until the purchase is complete
- Consumers are not able to choose their preferred parcel delivery company or avoid a company that they have had a prior bad experience with
- The Consumer Rights Act 2015 says that the retailer is responsible for when things go wrong, unless a consumer has specified a safe location and it goes missing/damaged, then responsibility lies with them [179] – consumers can, however, still find the contractual arrangements confusing. For example, it can be difficult to know who to contact about their parcel - the retailer or delivery company

6.11 Similar points are raised in Citizens Advice Scotland research and a wider issue related to more limited competition in rural areas, and that only Royal Mail does not apply geographic pricing. Citizens Advice Scotland suggest that as “the parcel market is not providing for effective competition in parts of Scotlanddetriment is continuing to be caused to those in the north of Scotland” [180] [page 12-13].

6.12 The Citizens Advice research (2019) concludes that the scale of the problem with parcels was a sign of a broken market and that a broad solution was required. The Chief Executive of Citizens Advice said at the time: “The scale of these problems doesn’t come down just to bad practice - it indicates a wider problem with the parcel market as a whole. Right now parcel companies don’t always act in the best interest of consumers. That’s why we’re asking the Competition and Markets Authority to review this to make sure it works for people using it.”

6.13 Indeed, more recent Citizens Advice research (2021) concludes that that there has not been much improvement, and call for ‘an end-to-end overhaul for the parcels market’, including that: [181]

- Ofcom should extend penalties to all delivery firms (that is, not just Royal Mail) to make sure that they take appropriate measures to keep mail safe
- Ofcom should extend consumer protection rules to cover all delivery companies (that is, not just Royal Mail) to ensure all consumers receive the same level of service if something goes wrong
- The remit of the newly announced Single Enforcement Body should be widened to include the power to determine working status – Citizens Advice also noted that delivery drivers often have insecure employment conditions which can lead to poor practice

- 6.14 The point around extending consumer protection rules to all delivery companies and the potential requirement for further regulation to ensure minimum standards across the parcels market and to prevent ongoing detriment and disadvantage being caused to consumers is also raised by other statutory advocacy bodies for postal consumers [182, 183].

Parcel delivery issues

- 6.15 The research shows that a majority of parcels are, however, delivered successfully.
- 6.16 UK-wide research presented in Ofcom’s 2022 Review of Postal Regulation Statement found that “most people say that they do not experience any issues with parcel deliveries or only experience issues occasionally. In the context of receiving parcels, our B2C parcels consumer research found that in the three months leading up to the research, half said parcels were delivered mostly without issues, and just under half said parcels were delivered without any issues. Only 3% of respondents said they often experienced issues with parcel deliveries” [184] [page 147].

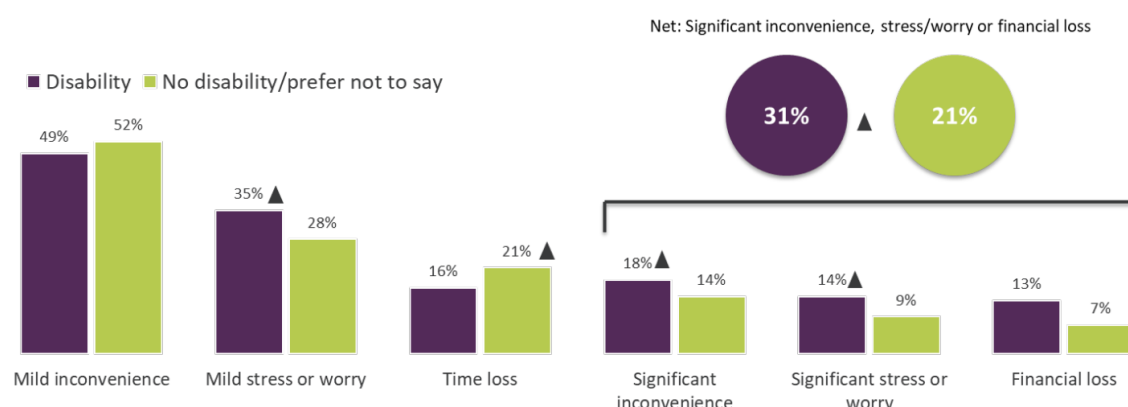
Figure 6.1: Top 10 issues experienced by consumers with postal delivery



Source: Ofcom, 2022 Review of Postal Regulation Statement, 18th July 2022

- 6.17 However, when presented with a list of issues with deliveries, “64% of parcel receivers recognised they had experienced at least one issue... the main issues experienced were parcel delays (31% of all respondents), damaged packaging (18%), parcel left exposed to atmospheric conditions (17%) and parcel not being delivered (16%)” [page 148], **Figure 6.1**.
- 6.18 Further, many found the process of making a complaint, or contacting the parcel company, very challenging. Only two in five consumers had their issue partially resolved after establishing contact with the complaints department, with 10% reporting their problem remained completely unresolved.
- 6.19 The same Ofcom document highlights that disabled customers are more likely to experience significant problems with parcel deliveries than consumers without a disability. **Figure 6.2** shows the disproportionate impact these delivery issues have on disabled people.
- 6.20 The Citizens Advice research (2019) also found that disabled consumers are more likely than non-disabled consumers to experience parcel delivery problems. Key points to note from this research includes that:
- Many disabled people shop online, and do so regularly, because they face barriers when shopping in physical stores or find it difficult to interact with staff – home delivery is therefore often the most suitable or only option
 - Two in three disabled people experienced a parcel delivery problem in the past year – and the main problems are that disabled people are not given sufficient time to answer the door and the parcel may be left in a location which they cannot get to
 - Issues often arise as disabled people are not able to inform delivery companies about their accessibility needs – and therefore reasonable adjustments are not made (see also **Figure 6.3**)
 - Parcel delivery problems cause stress and anxiety for disabled people and can exacerbate existing health conditions

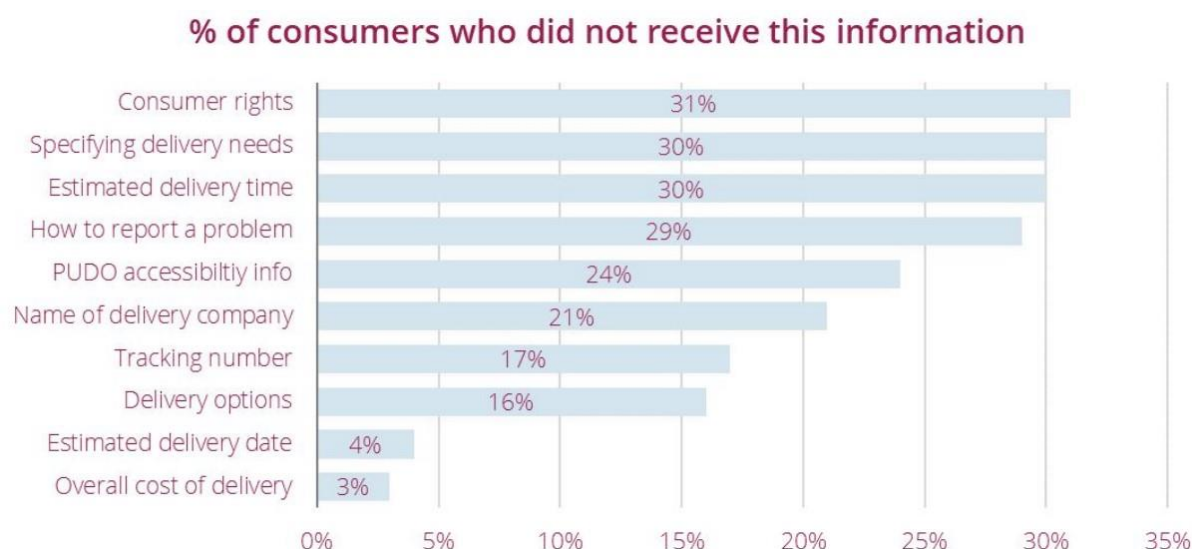
Figure 6.2: Impact of delivery issues (B2C)



Source: Ofcom, 2022 Review of Postal Regulation Statement, 18th July 2022

- 6.21 Similar to the Ofcom research, the Citizens Advice research (2019) also found that a majority of parcels are actually delivered successfully. However, a large proportion (59%) of online shoppers surveyed report that they had experienced at least one problem with parcel delivery in the previous 12 months [185]. The same research found that “the information provided (when ordering) isn’t always sufficient to meet consumer needs”, and that it is “less common for people to receive information about consumer rights, whether they can specify additional needs and how to report a problem” [page 7], **Figure 6.3**.

Figure 6.3: Ordering online



Source: Citizens Advice research, The market which isn’t delivering: How the parcels market is failing consumers, 2019

- 6.22 Citizens Advice research estimates the financial cost of parcel problems to consumers. The Citizens Advice 2019 research estimates that UK consumers lost at least £85 million because of parcel problems between December 2018 and 2019 [186]. The average cost to the individual to fix a parcel problem was estimated at circa £16. The additional costs to consumers includes making telephone calls, replacing damaged or lost items, and travel costs associated with returning the item in person or dropping it off at a depot.
- 6.23 The same research describes the range of parcel problems consumers experience, **Figure 6.4**. The most common issues reported by consumers are that they received a ‘sorry you were out slip’ when they were home and the parcel arrived late.

Figure 6.4: Delivery problems



Source: Citizens Advice, The market which isn't delivering: How the parcels market is failing consumers, December 2019

- 6.24 Wider points of interest from this research relates to the additional issues consumers face when they experience a parcel delivery problem, for example:
- A vast majority of online shoppers who had experienced a parcel delivery problem said it impacted them in some way (80%)
 - 10% incurred a financial cost in trying to resolve a parcel delivery problem – and the average spend on travel or fuel costs was £10.30
 - Around one-fifth (21%) lost time due to a parcel delivery problem – on average it took two hours to fix a problem

- Over half of people who tried to address their most recent parcel problem experienced further issues – for example, difficulty finding contact information, a slow response or having to chase up their complaint on more than one occasion (**Figure 6.5**)
- For one in six people, a parcel delivery problem had caused stress or anxiety – and was especially disruptive for disabled people
- Only one in three people who contacted the delivery company were satisfied with how the problem was addressed
- Interestingly, many consumers (six in 10) who experienced a parcel delivery problem did not try to resolve their most recent issue. While time constraints were a factor, some felt that they had complained previously, and it was not worth the hassle

Figure 6.5: Complaints problems reported by people who experienced a parcel delivery problem



Source: Citizens Advice, The market which isn't delivering: How the parcels market is failing consumers, December 2019

- 6.25 At a Scotland level, some 2021 data from Citizens Advice Scotland highlights similar issues: "From our polling, of those who did make a complaint with the operator after experiencing a parcel delivery issue (n=100), 61% of respondents said they were either quite or totally dissatisfied with the response received, compared to 21% who were either quite or totally satisfied. This would imply that the current complaint metrics that operators are using are not meeting consumers' needs" [187] [page 16].

6.26 More recent research from Citizens Advice (2021) continues to highlight the scale of the problem, with key points to note including that: [188]

- Five and a half million (one in ten people) have had a parcel lost or stolen in the last year
- In a single week, almost seven million people (13% of all UK adults) experienced a parcel issue relating to driver pressure – this includes the driver leaving before the customer could get to the door, or leaving the parcel in an insecure place like a doorstep or bin
- In a single week, almost three million people (6% of all UK adults) missed a parcel because they did not have time to get to the door. This figure rises to 8% for disabled people or people who have a long-term health condition and 9% of parents with young children
- Redress systems (such as compensation) continue to be complicated and difficult to access – 88% of people that attempted to resolve an issue experienced an issue. Further, one in three consumers who had an issue said they took no action as they did not think it would make a difference

6.27 Citizens Advice also report that its own analysis (April 2021) found the websites of four out of the 15 largest parcel companies provide consumers with no online information about how to complain about a delivery problem [189]. Where information is available, details are often difficult to find or some of the language and framing of information about how to complain is not particularly consumer friendly. This position may have changed since that time.

6.28 Indeed, the UK-wide research presented above in Ofcom's 2022 Review of Postal Regulation Statement highlights similar consumer issues (that is difficulties in making complaints, causing stress and worry). See **Section 6.18** to **Section 6.19**.

6.29 Despite The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013, which provides consumers the right to return items they no longer want (for any reason) up to 14 days from when the goods were received [190], Citizens Advice (2019) research also found that:

- Many consumers who had returned a parcel to retailer in the last 12 months found the returns process difficult – the most recent returns problems are outlined in **Figure 6.6**
- Half of online shoppers had their refund either delayed or denied because of their most recent returns problems

- 42% of online shoppers said that they have not returned something because there was not a convenient place to do so
- Only 23 of the 39 top online retailers in the UK offer Pick-Up Drop-Off (PUDO) points returns to consumers

Figure 6.6: Most recent returns problems



Source: Citizens Advice, The market which isn't delivering: How the parcels market is failing consumers, December 2019

Parcel surcharging

- 6.30 The consumer issue of non-proportionate or unfair parcel delivery surcharging or location-based delivery surcharges is long-standing, and there is also considerable research on this topic. Parcel surcharging and the lack of transparency about the costs of delivery to affected areas is a source of frustration for consumers, including SMEs, in remote and rural areas. But the issue is not limited to remote and rural areas.
- 6.31 Citizen Advice Scotland research - The Postcode Penalty - How some online retailers are disadvantaging Scottish consumers (2012) estimated that at least one million Scottish consumers face surcharges, late delivery, or are even refused delivery when they try to make an online purchase [191].

6.32 Key points to note from across the existing research base [192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202] includes that:

- Consumers living in the Highlands and Islands of Scotland and Northern Ireland are most acutely affected by unfair and excessive parcel delivery surcharging and are said to be paying a “premium” for home delivery. Citizens Advice research (2019) found that the average surcharge above the England and Wales average is: 30% in Central Scottish Highlands; 41% in Northern Ireland; 43% in Rural Scottish Highlands; and up to 51% in Scottish islands
- Some consumers say that they do not receive any information about location surcharging at the time of making an online purchase - more information is considered necessary to allow consumers to understand the reason for any surcharge and why some areas experience higher costs than others. That is, information around parcel surcharging could be more transparent and this may require cross-sector collaboration
- Consumers in these areas can be subject to high, disproportionate, and/or at times inconsistent surcharges, longer or slower delivery times, and being subsequently excluded from “Free UK delivery” and “next day delivery” claims on retailer websites. A range of factors are said to be important considerations for delivery companies, including logistics (for example, lower delivery volumes) and uniqueness of geography (for example, difficulties accessing destinations and long distances for drivers to travel)
- Some parcel delivery charges are reported to not accurately reflect the true costs of delivery. Various factors are reported to be at play, including: the use of third-party couriers that drives up costs; rogue traders who unfairly raise prices; that it has become standard industry practice to raise prices unduly for certain areas or postcodes; and that current postcode mapping does not always accurately reflect location information
- Parcel purchasing has a wide range of potential implications and knock-on effects for consumers living in those areas affected by parcel delivery charges. For example, additional costs, it makes price comparison difficult, it reduces and restricts choice, consumers are prevented from realising the potential benefits of online retail, some consumers abandon purchases and/or go without items (rather than pay a surcharge), and some consumers are put off from shopping online

6.33 SPICe has gone a step further and estimated the additional cost to Scotland of parcel delivery surcharges relative to the rest of the UK. The data shows that the additional cost to Scottish consumers was:

- £36.3 million in 2017 [203]

- £38.1 million in 2018 [204]
- £40.1 million in 2019 [205]
- £43.1 million in 2020 [206]

- 6.34 Not all of the SPICe briefings refer to the number of people in Scotland that this issue affects – however, the 2018 briefing estimated that circa 510,000 Scottish adults are impacted by delivery surcharges. This is around half the figure estimated in the 2012 Citizens Advice Scotland research (see **Section 6.31**).
- 6.35 The SPICe briefing notes that the average additional annual cost per Scottish adult impacted by delivery surcharges is estimated at circa £75 – while it affects parcels of all sizes, the majority of the additional cost relates to parcels that are 30 kilograms (or more). In addition to the size and weight of the item, other research, including that of The Consumer Council for Northern Ireland, notes that many different factors affect online delivery surcharges, including type and size of retailer, lack of control over delivery costs, parcel operators used, and handling charges [207].
- 6.36 The evidence produced by SPICe clearly shows that the additional cost to Scotland of parcel delivery surcharges relative to the rest of the UK has increased in recent years. The estimate for 2020 is an increase of 19% since the original costing in 2017. SPICe note that there are a number of factors at play, including the continuous growth of online shopping and the uprating of prices for inflation.
- 6.37 Research published by Highlands and Islands Enterprise (HIE) also acknowledges the disadvantages that consumers in remote and rural Scotland can face [208]. A range of factors are said to be at play in making the cost of living in remote rural Scotland far greater than elsewhere in the UK, including the higher prices households are required to pay for food, clothes, and household goods. While the HIE research recognises that higher retail costs may be a common feature of remote rural areas (for example, as goods are more expensive to transport to these areas), they and Citizens Advice Scotland emphasise that it is important to “ensure that delivery charges are fairly set, whereas at present they often seem to be arbitrary, not necessarily affecting actual costs” [page 24].
- 6.38 The same research suggests that a balance needs to be struck between communities prioritising “maintaining local suppliers over making remote delivery more attractive” [page 25]. The HIE report notes that retail costs could potentially go down if delivery networks are improved and charges reduced. Further, it proposes that imaginative solutions are needed, including those that use technology to join up delivery networks and aim to reduce charges that are higher than they need to be.
- 6.39 Citizens Advice Scotland also emphasises issues related to the uniqueness of Scotland’s geography in making a case for protecting and securing the Universal Service Obligation and highlights challenges these consumers face in the parcels market.

- 6.40 For example, data available from the Scottish Government shows that rural Scotland accounts for 98% of the land mass of Scotland and 17% of the population are resident there – and that 6% of Scotland’s population is defined as “remote rural” (higher than the England comparison) [209]. Also, these consumers pay more for deliveries and wait longer for them to be delivered [210].
- 6.41 More recent Citizens Advice Scotland research undertaken with Scottish consumers – Postal Services in Scotland CAS Briefing on Polling on the Universal Services Obligation (2021) – highlights ongoing issues around parcel surcharging. This research found that: [211]
- 59% said parcel deliveries should cost the same across Scotland, even if that means that most people pay slightly more, rather than allowing for geographical surcharging to occur
 - An additional 14% believed it was unfair that rural mainlanders were paying higher costs but felt it was reasonable for islanders to pay slightly more
 - Only 10% thought it was fair that both island and rural residents pay extra to keep prices low for everyone else
 - Among those who thought it was fair that some consumers and businesses should pay extra for parcel delivery, the most common response was that a fair extra cost could be 10% or less
 - Interestingly, the majority of those surveyed (67%) did not believe they had been surcharged for parcel deliveries – however, where this was felt to have happened (19%), a range of negative impacts were reported including that:
 - A majority were either put off buying online altogether or frequently put off from ordering online
 - Around one-quarter responded by finding the item elsewhere
 - Few (7%) were willing to pay the surcharge

Customer satisfaction

- 6.42 Research shows variable levels of consumer satisfaction with regards to the quality of service delivered by parcel operators. Taken together, this suggests that consumers continue to experience an inconsistent level of service.
- 6.43 Citizens Advice, Ofcom and Which? have all published data, albeit methodologies are likely to differ. In each of the three sources, Amazon and DPD are in the top three position for consumer satisfaction. Depending on the source, Royal Mail or DHL take up the other top three spots.

- 6.44 Citizens Advice has published two annual parcels league tables (2021 and 2022) which compares the five largest parcel delivery companies in the UK (by estimated parcel volumes) against four criteria: customer problems, accessibility, customer service, and trust, **Figure 6.7** [212, 213]. The 2022 research was undertaken with UK adults who had received a parcel in the previous month, and compared Royal Mail, DPD, Yodel, Amazon Logistics and Evri.

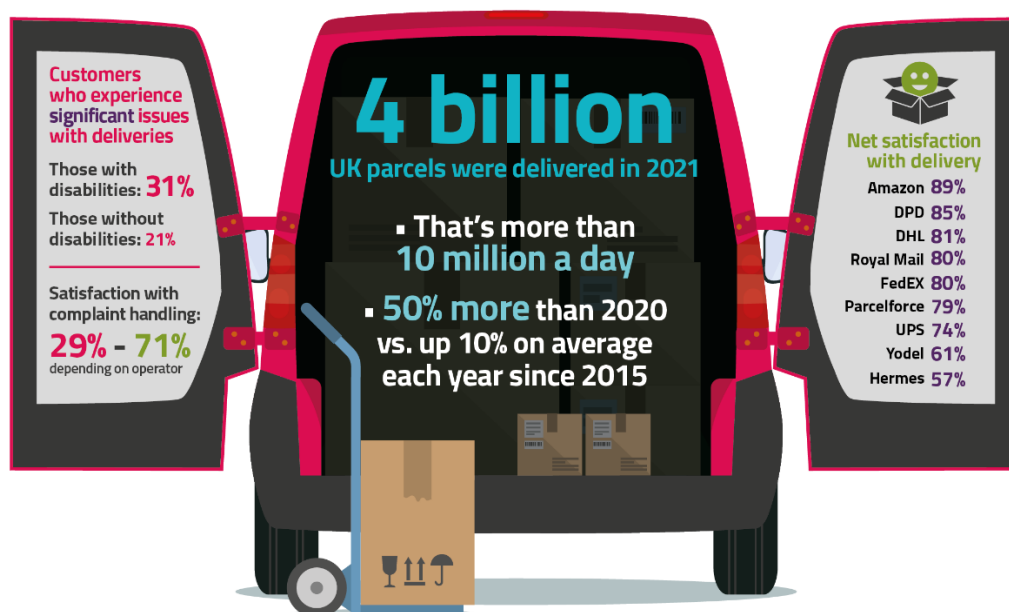
Figure 6.7: Parcels league table 2022

| | Company | Cost | Customer problems | Accessibility | Customer service | Trust | Overall score |
|-----|---------------------------|------|-------------------|---------------|------------------|-------|---------------|
| ▲ 1 | Royal Mail | £££ | 3.00 | 2.00 | 3.13 | 4.33 | 3.00 ★★★★★ |
| ▼ 2 | Amazon Logistics | N/A | 2.80 | 1.80 | 3.20 | 4.33 | 2.75 ★★★★★ |
| ● 3 | DPD | £££ | 2.00 | 2.40 | 2.30 | 4.00 | 2.25 ★★★★★ |
| ● 4 | Yodel | £££ | 2.00 | 2.00 | 1.70 | 2.33 | 2.00 ★★★★★ |
| ● 5 | Evri* *formerly Hermes | £££ | 1.80 | 1.80 | 1.80 | 2.33 | 1.75 ★★★★★ |

Source: Citizens Advice, Parcels league table 2022, November 2022

- 6.45 Key points to note from **Figure 6.7** include that:
- Royal Mail achieved the highest overall score in the league table for 2022
 - None of the top five parcel delivery companies, however, score above a three out of five
 - All parcel companies score less than three on accessibility
 - Consumers continue to experience problems at an unacceptably high rate
- 6.46 Ofcom (2021) published net satisfaction rates level across the main parcel operators to help improve transparency and drive higher customer standards, **Figure 6.8**. Interviews were undertaken with a nationally representative sample of adults across the UK. Net satisfaction ranges from a low of 57% (Hermes) to a high of 89% (Amazon) [214].

Figure 6.8: net satisfaction with parcel delivery (2021)



Source: Ofcom, Stronger protections for parcel customers, 9th November 2021

- 6.47 Which?, the UK consumer champion, has also undertaken research and asked adult shoppers in the UK about their delivery experiences in 2022 [215]. **Table 6.3** presents the findings. Similar to the Citizens Advice research, Which? research also found that consumers were most satisfied with Amazon, Royal Mail and DPD.

Table 6.3: Which? research – best and worst delivery companies

| Company | Satisfaction |
|---------------------------------|--------------|
| Amazon | 89% |
| Royal Mail | 86% |
| DPD | 79% |
| Evri (formerly known as Hermes) | 76% |
| FedEx | 74% |
| Yodel | 72% |
| UPS | 70% |
| Parcelforce | 70% |
| DHL | 64% |

Source: Which?, Best and worst delivery companies, 15th December 2022

- 6.48 Which? has also published survey findings which asked consumers to rate online marketplaces – the 2022 survey asked 4,000 people in the UK about buying and 4,000 about selling using ten of the most popular second hand marketplaces [216].

- 6.49 **Table 6.4** provides a high-level summary of the findings, with more detail available by criteria (for example, buying – postage options; selling – flexibility of delivery options). Customer score is based on satisfaction using the marketplace and likelihood of recommending it.

Table 6.4: Which? Best and worst places to shop second hand online

| Company | Combined score – buying and selling |
|----------------------|-------------------------------------|
| Vinted | 75% |
| Facebook Marketplace | 68% |
| Gumtree | 68% |
| eBay | 67% |
| Freecycle | 67% |
| Amazon Marketplace | 64% |
| Depop | 61% |
| Nextdoor | 59% |
| Shpock | 59% |
| Preloved | 56% |

Source: Which?, Best and worst places to shop second hand online, 6th March 2023

What has been done?

- 6.50 The parcels market and the extent to which it serves consumers well has been the topic of much discussion, debate, and research over the years at a UK and Scotland level. The research findings continue to show that when consumers face a parcel delivery problem it is often not a quick, easy or straightforward process to resolve. In addition, while all consumers can be adversely affected by this issue, it can be more acute for consumers in vulnerable circumstances who may rely more on online shopping.

Consumer and operator rights

- 6.51 There has been a range of activity undertaken and guidance provided by the statutory advocacy bodies for postal consumers (and others, for example Which?) to increase awareness and understanding among consumers of their and the operators' rights and responsibilities regarding post and parcel delivery [217, 218, 219]. This has largely been with a view to making it easier for consumers to get things sorted when something does go wrong.

Complaints handling and accessibility needs

- 6.52 Citizens Advice, Citizens Advice Scotland and The Consumer Council for Northern Ireland research typically concludes that the parcels market is not working well for consumers with problems at each stage of the journey. As such, work continues to be undertaken to help improve and ensure equal access to parcel delivery for disabled consumers and best practice complaints handling.
- 6.53 Citizens Advice along with Citizens Advice Scotland and The Consumer Council for Northern Ireland for example jointly published the Best Practice Guide for Parcel Complaints (2019) to support parcel operators create complaints handling processes that are clear, concise and easy to navigate [220]. Citizens Advice noted in 2021 that this guide “has been shared with parcel delivery companies but as yet it appears that only one (Hermes) has made any alterations to their contact and complaints processes in line with these principles” [221] [page 90]. The position may have changed since this time.
- 6.54 Citizens Advice has also called for action by parcel delivery companies to: [222]
- Enable disabled people to specify their accessibility needs and pass these onto the driver making the delivery
 - Clearly publish accessibility information about their PUDO points online – so that consumers can choose from a range of locations and fits in with their schedules and other commitments
- 6.55 The issue has, however, not been fully addressed, and as noted in **Chapter 4**, more recent developments include that Ofcom has tightened regulation for UK parcel delivery companies by:
- Providing additional guidance for complaints handling which was introduced April 2023
 - Setting out new requirements for reporting whereby parcel couriers need to establish, publish, and comply with clear, obvious, and effective policies and procedures with regards to the fair treatment of disabled customers – this will be introduced in November 2023
- 6.56 The changes proposed by Ofcom for the regulatory framework period 2022 to 2027 will take time to bed in - time will tell what impact they will have for consumers, or whether Ofcom may be required to take enforcement action or further tighten regulation.

Parcel delivery surcharging

- 6.57 There have been various debates, discussions, inquiries, and meetings (as well as many questions asked by MPs) on parcel delivery surcharging at a UK Parliament [223, 224, 225, 226], Scottish Government [227] and Scottish Parliament [228, 229, 230] level over the years (and prior to 2013).
- 6.58 Below, we set out what action has been taken historically – however, the current UK Government view remains that regulation is not necessary in this area [231].
- 6.59 The Scottish Government and partners developed The Statement of Principles (2013) to assist retailers promote best practice when dealing with sales over the internet. There was a “soft update” to the Principles in 2018 as information from the Advertising Standards Authority (ASA) was included [232].
- 6.60 The UK Government subsequently adopted the Parcel deliveries: best practice guide (2014) which identified principles to ensure retailers' delivery services meet the needs of customers who live in remote communities [233].
- 6.61 These guides both recognise that government cannot address the issue of unfair parcel delivery surcharging on its own, and that collaboration and commitment is needed by all those with a part to play to achieve change (for example, government, regulator, retailers, parcel delivery operators).
- 6.62 The Scottish Government subsequently developed the Fairer parcel deliveries: action plan (2018) which sets out the following eight actions to reduce: unjustified delivery discrepancies for people across Scotland; and justified discrepancies by trying to tackle some of the underlying challenges inherent in rural and remote delivery:
- “We will develop an interactive data hub to allow users to measure the fairness of delivery pricing to improve transparency and drive behaviour change
 - We will develop the Scottish Parcel Delivery Map to understand consumer experiences and target interventions
 - We will celebrate best practice by retailers and parcel delivery companies
 - We will work with industry to explore how to increase the impact and reach of the Statement of Principles (see **Section 6.63** and **Appendix D**)
 - We will make it easier for consumers to know and exercise their rights
 - We will improve the accuracy of postcode classification tools

- We will establish the Improving Consumer Outcomes Fund to explore new approaches to tackling long-standing consumer issues, including misleading and unfair delivery charges in remote and rural areas of Scotland
- We will shape UK Government action to further strengthen consumer protection” [234] [page 6]

6.63 The Scottish Government commissioned an independent review of the Statement of Principles for Parcel Deliveries (2020) to explore reach and impact [235]. The report made nine recommendations for the Scottish Government, Citizens Advice Scotland, and other key stakeholders to consider and undertake further work to improve awareness, reach and impact (**Appendix D**).

6.64 The Scottish Government also prepared A Progress Statement on Fairer Deliveries for All: An Action Plan (2020) to provide an overview of the actions that the Scottish Government and partners have taken forward and are working on to make fairer deliveries for all [236]. In part, the evidence base in the Progress Statement was to help provide Scottish Government with the necessary evidence to make the case for regulation to the UK Government.

6.65 **Appendix E** provides an extract from the progress of action points described in the Progress Statement (2020). It is clear from this document that progress has been made but that there is more to do. Some key developments reported, for example:

- An online data hub and interactive parcel delivery map was developed and hosted on the www.fairdeliveries.scot platform – this operated for a couple of years and subsequently closed in January 2023 [237]
- The Scottish Government published independent analysis – An econometric analysis of postal delivery pricing in Scotland (2020) – to help address the lack of robust evidence of delivery pricing in Scotland and to conduct an econometric analysis as a first step towards benchmarking when and where delivery charges are fair and unfair in Scotland [238]
- Menzies Parcels developed – Highland Parcels – to provide a unique service to customers in the Highlands and Islands of Scotland to avoid unfair parcel surcharging. It allows users to create an online account and have their parcel sent to Menzies Parcels’ central belt address. Menzies Parcels will then deliver the parcel to the user’s local depot without the usual surcharges associated with rural and remote areas [239]
- The Delivery Law UK website (launched June 2018) provides a one-stop shop for advice and reporting on delivery surcharges, restrictions, and free delivery [240]

- The Consumer Protection Partnership identified parcel delivery surcharging as a priority project in 2018 – albeit Citizens Advice note that “Ofcom have only recently taken action, sharing findings from information requests to parcel operators in December 2020” [241] [page 2]
- The Scottish Government continues to fund the Consumer Advice Scot website which provides a “one-stop shop” for practical and impartial advice on resolving consumer problems, including delivery issues, and information is shared with regulators where appropriate [242]
- The Scottish Government works with resolution organisations, such as Resolver, to ensure that they are also aware of routes available to any of their clients complaining about parcel delivery charges [243]

6.66 Although there have been no further Progress Statements since the 2020 report, it is acknowledged that the newly established Consumer Scotland would play an important role in representing the views of consumers and tackle the most serious consumer issues in Scotland.

6.67 Statutory advocacy bodies for postal consumers continue to call for further regulation to ensure minimum standards across the parcels market and prevent ongoing detriment and disadvantage being caused to consumers. The UK Government view remains, however, that regulation is not necessary in this area [244].

7 Post Office Limited, the network, and consumer issues

Introduction

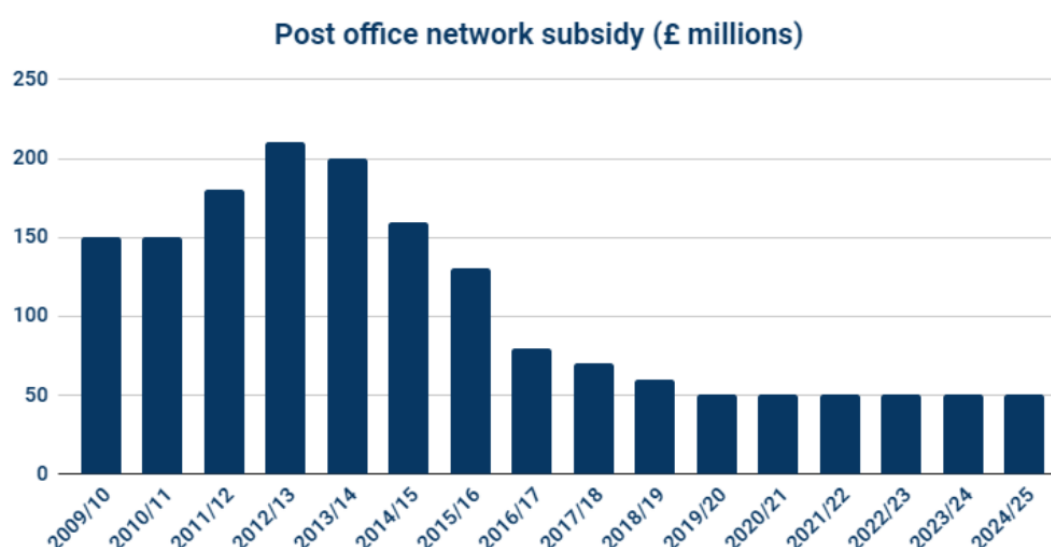
- 7.1 This chapter provides an overview of the Post Office Ltd and draws on relevant research to consider the scale, accessibility, value, and the future of the Post Office network. It also sets out related consumer issues.

The Post Office network

Funding

- 7.2 The Post Office Ltd currently receives an annual subsidy of £50 million from the UK Government. In 2022, the UK Government announced that the subsidy would continue at the same level until 2025, **Figure 7.1** [245].
- 7.3 As part of the UK Government's ambition for the Post Office Ltd to become self-sufficient, the Post Office network subsidy has decreased from its peak of over £200 million in 2012-2013.

Figure 7.1: Post Office network subsidy (£ millions)

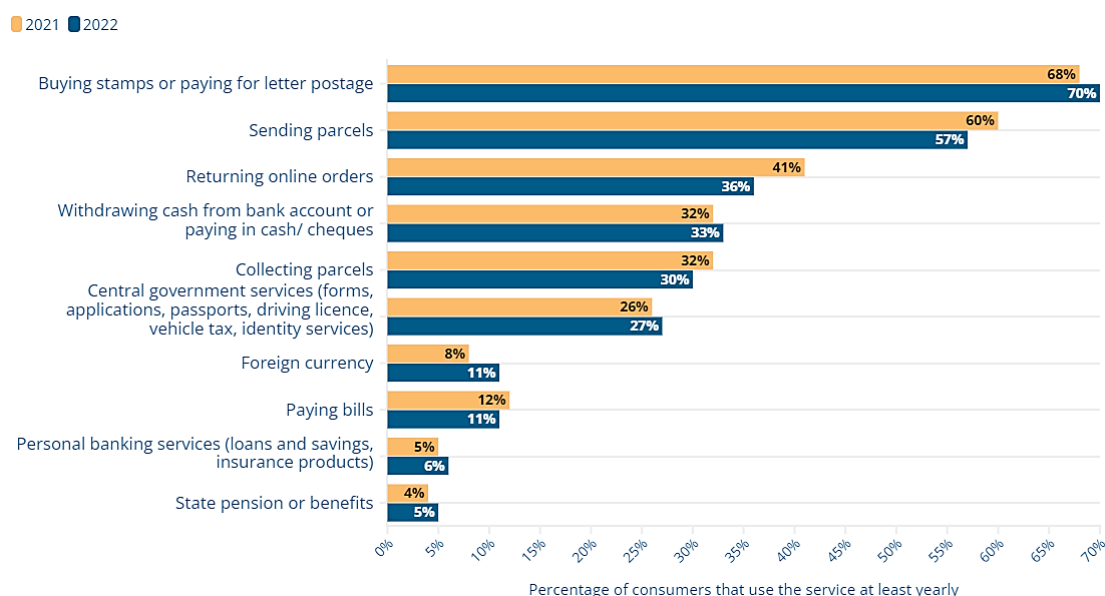


Source: Citizens Advice, The government has announced it will continue to subsidise rural post offices, but is it enough to save them? 31st March 2022

Post Office services and users

- 7.4 Post offices have long provided a wide range of essential face-to-face services to rural and urban communities across the UK, including within deprived areas, for over 380 years. It is the biggest retail network in the UK and essential to the nation's infrastructure for postal, financial and government services [246]. This includes providing access to postal services (letters and parcels), cash services, government benefits, renewing driving licences or passports, travel insurance and foreign currency.
- 7.5 Indeed, the Post Office network allows “customers to access over 170 different products and services within branch or online” covering: [247] [page 9]
- Mail – a range of Royal Mail Group Limited and Parcelforce Worldwide services are available from Post Office branches nationwide, for example Local Collect, Drop and Go, and online returns
 - Financial services – including banking, foreign exchange, bill payments, and savings and investment products
 - Services for customers on behalf of government departments and councils – including applications, payments, identity verification, data capture and information services
- 7.6 While mail services account for the majority of services used at the Post Office, **Figure 7.2** shows that a significant proportion of consumers in England and Wales also access various financial and government services demonstrating the value of Post Offices' range of services.
- 7.7 Similarly at Great Britain-wide level, Citizens Advice research from 2020 found that “consumer banking at post office counters [had] doubled in the past three years [2017 to 2020], and 1 in 4 people (25%) have now used Post Office banking” [248] [page 2].

Figure 7.2: Consumers' use of Post Office services (2021 and 2022)



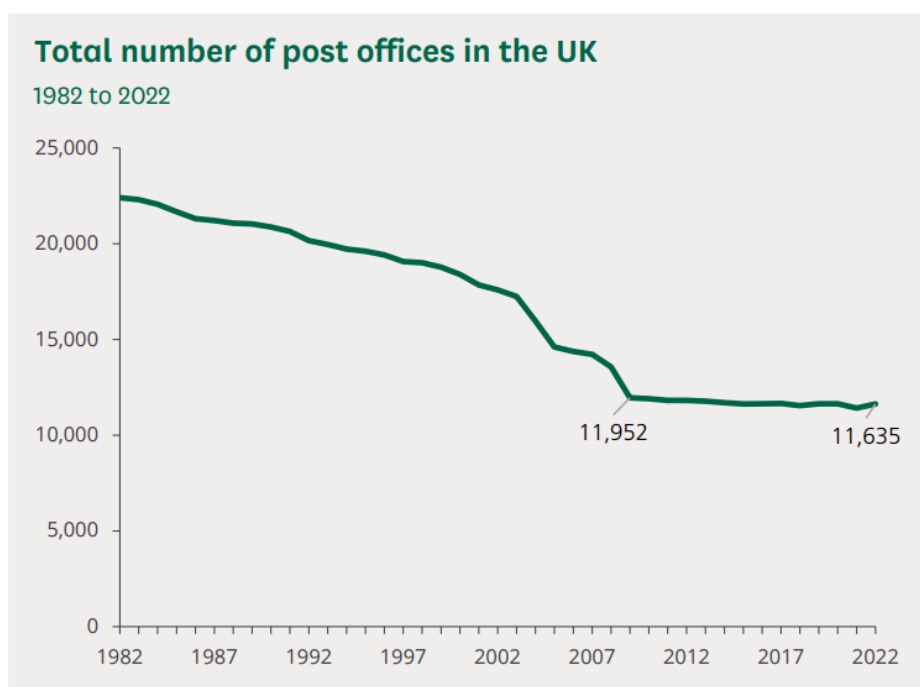
Source: Citizens Advice, Post - the state of the sector [slide 13], 9th March 2022

- 7.8 In 2022, 86% of people in England and Wales used a post office in the last 12 months – this tended to be frequent visits as 42% visited a post office at least once a month and 18% once a week [249].
- 7.9 For England and Wales, research also shows that consumers in vulnerable circumstances use the Post Office the most with the most frequent users being people who use the internet infrequently (25%) and people with health conditions (23%). Services which are accessed particularly by consumers in vulnerable circumstances include letter postage, accessing cash or paying bills [250].

Number and location of Post Offices

- 7.10 The post office network has a wide and extensive reach and remains a vital anchor organisation in high streets. At the end of March 2022, there are reported to be 11,635 branches open across the UK [251].
- 7.11 While the number of post offices in the UK has remained relatively stable since 2009 (over 11,950 branches in 2009), there has been a longer-term decline since the 1980s, **Figure 7.3**. The number of branches is, however, back at around its pre-pandemic level.

Figure 7.3: Total number of Post Offices in the UK (1982-2022)



Source: Post Office Ltd

Notes: Care should be taken in interpreting the data given discontinuities in the data in the period 2005-2007 (see appendix)

Source: UK Parliament, House of Commons Library, Post Office Numbers, 9th January 2023

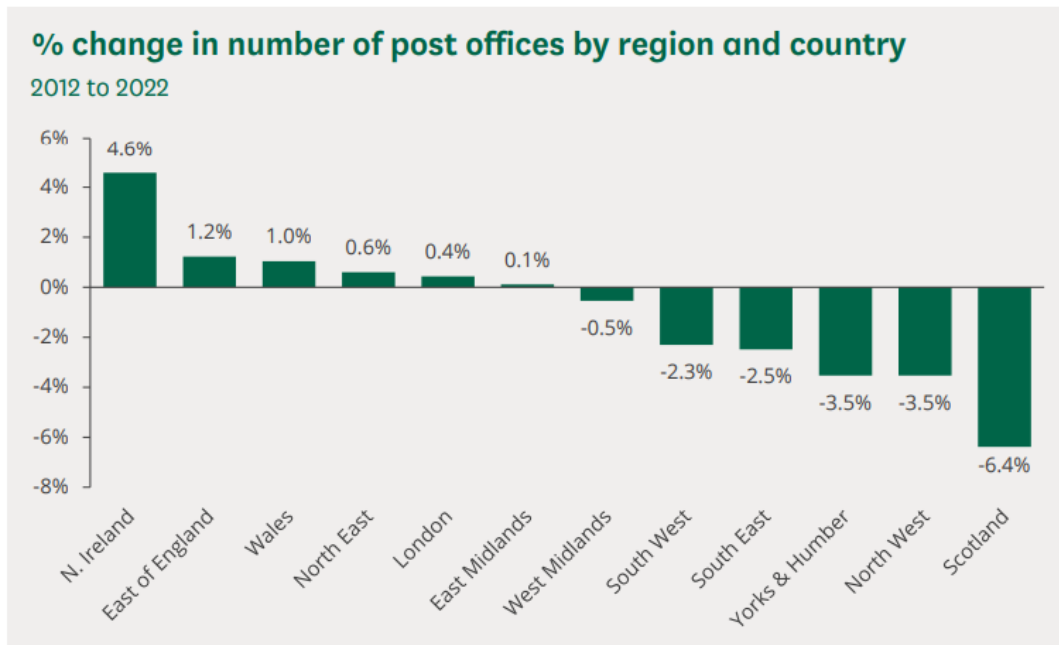
- 7.12 At the end of March 2022, there are reported to be over 1,330 post office branches in Scotland, **Table 7.1** - this represents 11% of the total number of post offices in the UK. Scotland has experienced the greatest decline in the number of post offices between 2012 and 2020 compared to the UK as a whole and its regions, **Figure 7.4** [252]. Similarly, in the last three years, the number of post offices in Scotland reduced by 2.8% (this is equivalent to almost 40 fewer branches). This has the potential for consumer harm (for example, a lack of access), including for consumers in vulnerable circumstances.

Table 7.1: Total number of Post Offices in Scotland (2020-2022)

| | 2020 | 2021 | 2022 | Net change 2020-2022 | % change 2020-2022 | Net change 2021-2022 | % change 2021-2022 |
|----------|--------|--------|--------|----------------------|--------------------|----------------------|--------------------|
| Scotland | 1,372 | 1,321 | 1,334 | -38 | -2.8% | 13 | 1.0% |
| UK | 11,638 | 11,415 | 11,635 | -3 | 0.0% | 220 | 1.9% |

Source: UK Parliament, House of Commons Library, Post Office Numbers, 9th January 2023

Figure 7.4: Percentage change in number of Post Offices by region and country (2012-2022)



Source: Post Office Ltd

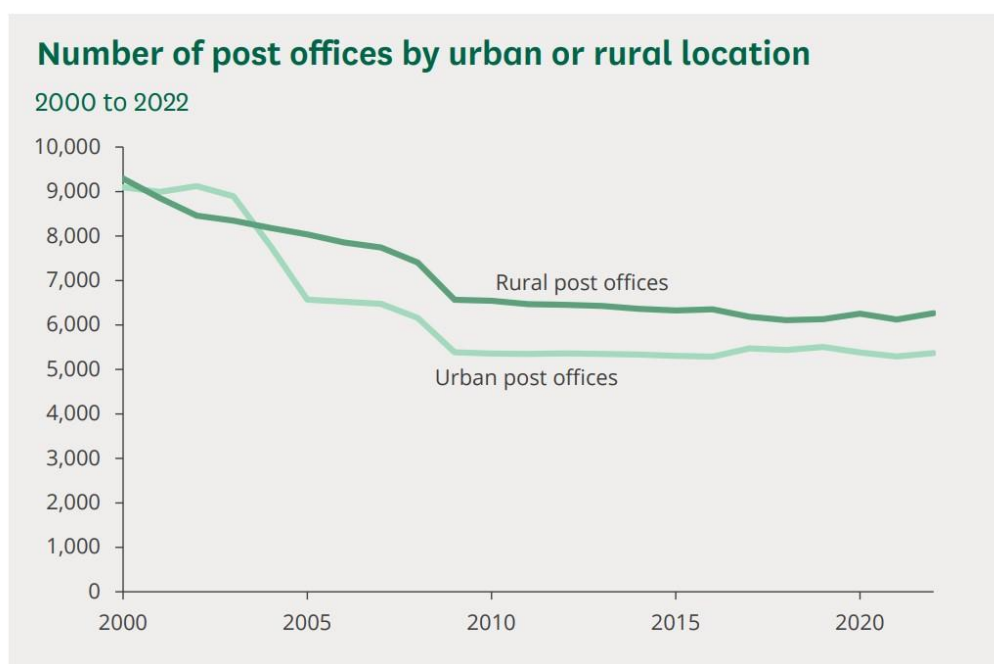
Source: UK Parliament, House of Commons Library, Post Office Numbers, 9th January 2023

7.13 There are slightly more Post Offices in rural areas than urban areas in the UK, **Figure 7.5**. Key points to note from the data is that:

- At the end of March 2022, there are reported to be 6,265 post offices in rural locations in the UK (54% of the Post Office network)
- There are 5,370 post offices in urban locations (46% of the network)
- The number of rural and urban post offices has remained relatively stable since 2009

7.14 Albeit Citizens Advice research (2022) reports that “rural residents in Britain are nearly four times as likely to see a closure than urban residents. Post offices that temporarily close in rural areas also stay closed for a long time. This is a particular concern, as people living and working in rural areas are more dependent on the network” [253] [page 7].

Figure 7.5: Number of Post Offices by urban or rural location (2000 to 2022)



Source: Post Office Ltd

Source: UK Parliament, House of Commons Library, Post Office Numbers, 9th January 2023

Type of Post Offices

- 7.15 There are three different contract types available to Post Office branches – these are crown, agency, and outreach branches, **Figure 7.6**. The majority of the UK network is agency branches (83%) followed by outreach services (16%) and a small number of crown branches (1%) [254].
- 7.16 Post Office Ltd UK-wide research (2023) reports that “while the vast majority of branches operate on a franchise basis, each branch is supplied, served and supported by Post Office – through a significant supply chain infrastructure, field teams and support functions – so that branches can, in turn, serve and support their communities” [255] [page 8].
- 7.17 Over the period 2012 to 2018, Post Office Ltd conducted a Network Transformation Programme (NTP) across the UK to modernise and restructure the business. As noted in the Future of the Post Office Network report (2019), “the NTP introduced new modernised Post Office models — ‘Local’ and ‘Main’ models...[and] Post Office Ltd state that around 8,000 branches will transform to either one of these models” [256] [page 18].

- 7.18 Both local and main models, as described in **Figure 7.6**, reflect the UK Government's ambition for Post Office Ltd to operate without subsidy in the future implementing a shift to retail models [257].

Figure 7.6: Post Office contract types

| Post Office Contract Types | | |
|----------------------------|---------------------------------|--|
| Contract Type | Branch Type | Description |
| Crown | | Branches that are directly managed by the Post Office Ltd. They are normally situated in the centre of large towns and offer the complete range of post office services. |
| | Local | A branch where the post office is fully integrated in a retail outlet, such as a convenience store, petrol station or pharmacy. They have longer opening hours than other types of post office branch but do not provide the full range of post office services. |
| Agency | Main | A branch, like a local, that is integrated into a retail outlet. These branches are larger and have dedicated post office counters. Main branches are therefore able to offer a wider range of services than post office locals. |
| | Former Franchised Crowns | Modernisation plans are seeing franchise partners such as WHSmith take over the running of some Crown Post Office branches. Most franchised branches have relocated to premises nearby. |
| | Traditional models | A branch where a subpostmaster runs a post office as an independent business. Some subpostmasters run small retail business alongside their post office business. Many traditional branches are being converted (or were converted) to newer style branches as part of the network transformation programme. |
| Outreach | Hosted | A neighbouring subpostmaster will visit the village and provide service for a set number of hours a week and will offer the service from village hall or public house or local shop. |
| | The Mobile Post Office | Mobile vans visit over 250 villages in the UK at set times and on certain days of the week. These Mobile Post Offices offer almost all of the Post Office services. |
| | Partner Services | Post Office offers services through a partner - for example a local shop. It means that customers can access over 80% of Post Office services, usually whenever the partner's business is open. This is distinct from the 'Local' models. |
| | Home Services | This is a service for very small communities and enables customers to order a reduced range of Post Office products and services over the telephone. The products may either be delivered to a customer's home by the core subpostmaster or are available for collection by the customer at a local Drop-in Session. |

Source: UK Parliament, House of Commons Library, The Post Office, 18th October 2021

- 7.19 While the total number of Post Office branches in the UK has remained relatively stable over the last decade, there are varying trends when the different type of branch is examined, **Figure 7.7**.
- 7.20 The data shows that there has been a growth in outreach services (+88%) and a decline in the number of full-time, permanent agency (-8%) and crown (-69%) post offices between 2012 and 2022 [258].

- 7.21 Outreach services are typically part-time and used in rural areas and smaller communities to help achieve the access criteria. The challenging retail climate is a factor which has led to the rise of outreach services as “they are used when it is not possible to open a full-time branch due to lack of premises or retailers in the local area” [259] [page 11].

Figure 7.7: Number of post offices in the UK by contract type

| Number of post offices by contract type 2012 to 2022 | | | | |
|---|-------|--------|----------|--------|
| | Crown | Agency | Outreach | Total |
| 2012 | 373 | 10,428 | 1,017 | 11,818 |
| 2013 | 373 | 10,342 | 1,065 | 11,780 |
| 2014 | 350 | 10,255 | 1,091 | 11,696 |
| 2015 | 326 | 10,172 | 1,136 | 11,634 |
| 2016 | 315 | 10,062 | 1,266 | 11,643 |
| 2017 | 285 | 9,935 | 1,439 | 11,659 |
| 2018 | 262 | 9,768 | 1,517 | 11,547 |
| 2019 | 191 | 9,814 | 1,633 | 11,638 |
| 2020 | 126 | 9,812 | 1,700 | 11,638 |
| 2021 | 118 | 9,646 | 1,651 | 11,415 |
| 2022 | 117 | 9,617 | 1,901 | 11,635 |

Source: Post Office Ltd, Network Reports - data is for March in each year

Source: UK Parliament, House of Commons Library, The Post Office, 18th October 2021

Developments

- 7.22 Innovative new products and services at the Post Office include ‘Drop and Go’. This is a “fast-track service that enables business owners to drop off their mail at Post Office counters without queuing, scanning, weighing or labelling, so that they can instead focus on serving their customers” [260] [page 15].
- 7.23 Benefits include that “this new lighter branch format focuses on meeting the growing demand for the convenient return and collection of online shopping” [261]. [page 7] As stated in Post Office Ltd.’s Priorities 2022-2023, it was anticipated that “by April 2023, [the Post Office Ltd] expect to have around 400 branches operating as Drop and Go formats” [262].
- 7.24 Consumer advocacy organisations highlight that the model provides a smaller range of services, such as prepaid parcel collection and returns and bill payment services. On the one hand, the new model may help to make running a post office less resource-intensive, it does not however, provide a wider range of mail, banking, government, and parcel services [263].

- 7.25 Within **Chapter 5** of this report – Drivers of change in the postal market and current issues – there is further detail on the Post Office’s developments in an evolving and competitive parcels market. A good example is the changes to the second Mails Distribution Agreement (which allows Post Offices to work with other parcel companies over and above Royal Mail and Parcelforce).

Accessibility of Post Offices

- 7.26 The Post Office network continues to play a vital role in rural and urban communities with a “near-universal geographical footprint (that) is considerably wider than most other businesses” [264] [page 9].
- 7.27 The accessibility of the Post Office network is “guaranteed and safeguarded through Post Office’s (six) access criteria”, **Figure 7.8** [265] [page 9]. Criteria includes, for example, accessibility for 99% of the UK population to live within three miles of a Post Office. Safeguarding and achieving the six access criteria is a requirement for the Post Office to receive its £50 million annual funding subsidy from the UK Government.

Figure 7.8: Performance against accessibility criteria (2017/18 to 2021/22)

| Performance against accessibility criteria 2017/18 to 2021/22 | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Minimum requirement | 2017/18 performance | 2018/19 performance | 2019/20 performance | 2020/21 performance | 2021/22 performance |
| Total population within 3 miles | 99% | 99.7% | 99.7% | 99.7% | 99.6% | 99.7% |
| Total population within 1 mile | 90% | 92.8% | 92.7% | 92.7% | 92.5% | 92.7% |
| Deprived urban population within 1 mile | 99% | 99.6% | 99.4% | 99.4% | 99.3% | 99.3% |
| Urban population within 1 mile | 95% | 98.3% | 98.2% | 98.3% | 97.8% | 97.8% |
| Rural population within 3 miles | 95% | 98.7% | 98.7% | 98.7% | 98.0% | 98.2% |
| Postcode districts with <95% of population within 6 miles | 0 | 7 | 3 | 7 | 12 | 9 |

Source: Post Office Ltd: The Post Office Network Reports

Source: UK Parliament, House of Commons Library, Post Office Numbers, 9th January 2023

- 7.28 A fair assessment is that performance against the access criteria has been good. All targets have in the main been met over the period 2017-2018 to 2021-2022. The only target not met in each year is the number of ‘postcode districts in which 95% of the population are within six miles of their nearest Post Office’. There was a slight drop in performance between 2019-2020 and 2020-2021 due to the pandemic which had a knock-on impact on the viability of some branches.

- 7.29 As required by the Postal Services Act 2011 (Provision 11), the Post Office's Network Report (2022) reports on how accessible the Post Office is for specific groups of consumers. This includes: small businesses; disadvantaged individuals; individuals on low incomes; disabled people; and individuals over the age of 65 [266].
- 7.30 Using the minimum requirement from the access criteria outlined above, Post Office Ltd is meeting its targets for the proportion of these groups living within one (90% or above) and three miles of a Post Office branch (99% or above), **Table 7.2**.

Table 7.2: Accessibility performance (March 2022)

| Criteria | % of population within 1 mile of a Post Office branch | % of population within 3 miles of a Post Office branch |
|-------------------------------------|---|--|
| Small businesses | 93.05% | 99.72% |
| Disadvantages individuals | 98.52% | 99.92% |
| Individuals with low incomes (<10k) | 97.54% | 99.91% |
| Individuals with low incomes (<20k) | 97.76% | 99.90% |
| Individuals with disabilities | 94.20% | 99.77% |
| Individuals over the age of 65 | 91.72% | 99.60% |

Source: Post Office Ltd, Network Report 2022, March 2022

- 7.31 However, given the changing nature and type of Post Office branches, a range of stakeholders highlight issues with the accessibility of Post Offices. The main concern relates to the growth of part-time outreach services [267, 268].
- 7.32 For example, a BEIS Committee report – the Future of the Post Office Network (2019) – noted a concern that in “cutting back the network to 11,500 branches, too many of these branches are outreach or mobile PO branches which do not provide the full level of services over and above Services of General Economic Interest. We question how national and comprehensive the PO network truly is” [269] [page 51].
- 7.33 Likewise, Citizens Advice published UK-wide research that found “‘temporarily’ closed post offices are usually shut for a significant period of time and the one in three rural post offices that now operate as outreaches are usually only open for a few hours a week” [270] [page 25] – for example, “on average, outreach post offices are open 5.5 hours a week in Britain” compared to 59 hours a week in permanent post offices [271] [page 2].

- 7.34 Another key finding from consumer research is that “a significant and growing number of individuals and small businesses no longer have convenient and easy access to the services they need and are experiencing harm as a result” [272] [page 25].
- 7.35 Citizens Advice suggest that the research “raises questions as to whether the current access criteria is fit for purpose” and call for accessibility of services and products to be included within the access criteria to help provide a more accurate assessment of the accessibility of the Post Office network [273] [page 25].

Value of the Post Office

- 7.36 The Post Office Ltd has published research in recent years (2020 and 2023) to estimate the economic and social value of Post Offices to communities and businesses across the UK [274, 275].
- 7.37 The most recent report (2023) categorises the economic and social value of the Post Office into themes, namely that the Post Office:
- “Generates significant economic activity across each nation and every region of the UK with an unparalleled physical reach that few other businesses can claim
 - Acts as a local anchor to the UK’s high streets, by driving footfall and generating wider nearby economic activity
 - Brings huge social value to communities by providing convenience for consumers and fostering pride in their community – particularly in rural areas
 - Is a face-to-face service that continues to serve as an essential backstop for the most vulnerable and excluded groups in society as the UK becomes increasingly digital” [276] [pages 5 and 6]

Economic value

- 7.38 The same research identifies that economic impact is generated directly, indirectly and induced. For example, the Post Office supports a postmaster (direct) who provides a service to communities and businesses such as helping to post their goods (indirect). These economic impacts can then induce further spend in the economy, for example through staff wages which will increase consumer spend in economy.
- 7.39 The Post Office 2020 report estimates that, in 2020, the Post Office:
- Created £370 million in Gross Value Added (GVA) for the UK
 - Created £9.4 billion in consumer surplus and £3.6 billion in surplus value for small businesses
- 7.40 Post Office Ltd research (2023) estimated that the “Post Office generates an economic impact of £4.7 billion” across the UK each year [277] [page 5]. In Scotland, the economic impact of the Post Office:
- Is valued at £292 million (or £53 per person), around 6% of the UK total
 - Supports over 4,700 full-time equivalent jobs, around 9% of the 50,000 Post Office jobs across the UK [278] [pages 10 and 12]
- 7.41 However, a BEIS Committee report (2019) highlights the challenges and pressures of operating a Post Office in the UK [279]. For example, “these pressures include a fall in income from providing Post Office services which has fallen from £478 million in 2012-2013 to (£392 million in 2021-2022) [280], accompanied by an inability for many sub-postmasters to generate enough income from other sources to compensate. It also includes a deterioration in their working conditions and a lack of support from the Post Office Ltd” [281] [page 24].

Value for businesses

- 7.42 As outlined in previous chapters, access to a Post Office is greatly valued by SMEs in the UK. Post Office research (2023) also found that “nearly three in 10 SMEs use Post Office at least once a week – and more than half use it at least once a month” [282] [page 5]. SMEs “value the convenience that the Post Office network brings to their businesses – worth almost £1 billion per year overall to SMEs, which equates to over £175 per SME per year” [283] [page 5].

- 7.43 In addition to postal services, the financial services offered by the Post Office are important to protect access to cash for SMEs as the number of bank branches has significantly declined – this is summarised in the latest Post Office (2023) report: “with more than 5,000 bank branches closing since 2015, Post Office is also increasingly a lifeline for SMEs by providing essential banking services, such as depositing cash without needing to shut up shop and travel to find a bank in a neighbouring town (if it still has one)” [284] [page 5].
- 7.44 During the COVID-19 pandemic, a Post Office survey (UK-wide) found that “83% of SMEs surveyed agree that the Post Office has been important to their business during the lockdown period” [285].

Social value

- 7.45 Post Office Ltd research (2023) defines social value as including intangible benefits such “as the value of providing vital services that would otherwise not be provided; the value to the community; and the value of providing services to the most vulnerable in society” [286] [page 26].
- 7.46 Post Office Ltd research (2023) calculated that “the annual social value of Post Office as a whole to consumers is as much as £3.8 billion (as of July 2022). In fact, on average, consumers are willing to pay more than £130 for Post Office services per household each year” with consumers in vulnerable circumstances willing to pay around one and a half times more [287] [page 26]. In the context of the cost of living crisis, the report notes that this is likely an underestimate.
- 7.47 The same research reports that the social value of the Post Office is particularly evident during challenging times such as the pandemic and the current cost of living crisis. A Post Office survey (UK-wide) in 2020 found that “39% of respondents said they had gone to the Post Office since lockdown began - significantly higher than the proportion that gone to work (29%) or their bank (21%)” [288].
- 7.48 The Post Office is typically considered the main meeting place particularly in smaller communities and villages. The report highlights that “more than a quarter (around 3,000) of Post Office’s 11,500 branches are considered “the last shop in their village” [289] [page 24]. The Post Office can often be the only source of social interaction providing a “support network for 300,000 vulnerable people” [290].
- 7.49 In the context of a changing retail climate with closures of physical bank branches, Citizens Advice research found that “for many people Post Office banking is the only option left...[with] more than half (55%) of postmasters [saying] there are no bank branches in the community their post office serves, and in rural areas this rises to 3 in 4 (74%). Over 2 in 3 postmasters (67%) who’ve seen a local bank shut say it led to a significant increase in the use of banking services at their post office” [291] [page 2].

- 7.50 In direct response to the cost of living crisis, the Post Office issues vouchers on behalf of the UK Government such that: “between October 2022 and March 2023, post offices are expected to issue around 7.8 million Energy Bill Support Scheme (EBSS) vouchers to 1.3 million pre-pay energy customers – a vital lifeline for those who are being most impacted by the energy crisis” [292].

Environmental sustainability and net zero

- 7.51 As noted above in the Post Office’s Intent to 2025 corporate responsibility statement, two of the priorities – climate action and net zero as well as waste reduction and increased recycling – are directly linked to environmental sustainability [293]. Under the climate action priority, the Post Office states that it implements a range of technologies and initiatives as well as reports on their scope 1,2, and 3 emissions in its annual report.
- 7.52 In Annual Report 2021/22, the Post Office Ltd.’s climate actions and initiatives included: staff and driver engagement programmes (awareness raising and behavioural change); equipment replacement policy; and renewable procurement policy [294]. Measures prioritised for implementation in 2022-2023 included: office space consolidation; maintenance visit policy; and a supply chain review.

Future of the Post Office

Strategic aims

- 7.53 In the context of challenging public finances, the Post Office Ltd has a strategic ambition to become a commercially sustainable retailer – this is known as the Intent to 2025 [295]. As part of this ambition, three priorities were set for 2022-2023, comprising:
- Rebuilding trust – focused on remedying the past in light of Horizon IT Inquiry
 - Improving branch profitability – the priority for the present
 - Transforming technology – to help us realise a better future [296]
- 7.54 In the Post Office’s corporate responsibility statement, four priorities are identified: community prosperity; climate action and net zero; waste reduction and increased recycling; business integrity [297].

Funding, viability, and sustainability

- 7.55 As set out in the Intent to 2025, the Government and Post Office's ambition is for Post Office Ltd to be self-sufficient. The Post Office Ltd consider this approach to be "necessary to free up government funding for other priorities, as well as to ensure the Post Office is in a position to align the interests of postmasters and the business" [298] [page 10].
- 7.56 As noted in the Future of the Post Office Network report, "in order to reduce reliance on state funding and to fill the gap as money for Post Office services has declined, Post Office Ltd introduced a modernisation programme – the Network Transformation Programme – which seeks to facilitate greater opportunities for Post Office branches to increase retail revenue based on PO footfall" [299] [page 17]. As stated earlier in this section, this includes the introduction of modernised retail-focused models known as local and main models.
- 7.57 On the other hand, consumer advocacy organisations identify a need for an ongoing subsidy beyond 2025, although questions are raised around whether the current level of subsidy is sufficient [300, 301, 302].
- 7.58 For example, when the continuation of the subsidy was announced in 2022, this was welcomed by Citizens Advice as it ended the uncertainty for rural post offices dependent on the subsidy and protected services for consumers in vulnerable circumstances. However, they noted that gaps in the network, such as growth in part-time outreach services in rural areas, are likely to continue to grow given that the subsidy was not increased [303]. Indeed, the standstill subsidy budget (£50 million) since 2019-2020 is a decline in real terms.
- 7.59 Consumer advocacy organisations consider further investment in the Post Office network to be essential given that there are various challenges threatening the viability of Post Offices [304]. These challenges are said to include: COVID-19 recovery; cost of living crisis; rising energy costs; and declining retail demand on high streets.
- 7.60 In Scotland, the financial support is particularly important as Citizens Advice Scotland state that "even with the subsidy, the bureau remains concerned that many rural consumers will still struggle to access Post Offices or part-time mobile outreach services" [305] [page 4]. The research cites the impact of some branch closures in the Post Office network in Scotland (prior to 2022) which disproportionately impacted rural consumers.

- 7.61 There is growing pressure on the viability of some Post Offices. In 2022, Citizen Advice research found that there is the equivalent of two post offices closing each week across the UK with rural areas disproportionately affected by gaps in the network [306]. Removal of the subsidy raises concerns that for “some retailers and retail chains who host POs that it is no longer viable” [307] [page 16].
- 7.62 In terms of rising energy costs, the Post Office Ltd reports that “thousands of post offices face a struggle to stay open if the Government does not extend its current support on energy bills beyond the end of March 2023” [308]. The UK Government, however, announced a new ‘Energy Bills Discount Scheme’ for businesses which mean all eligible UK businesses and other non-domestic energy users will receive a discount on high energy bills until 31st March 2024 [309].
- 7.63 Citizens Advice highlight another challenge to achieving the Intent to 2025 of self-sufficiency and subsidy removal as “sub-postmasters also face challenges when it comes to the level of remuneration, they receive for the services they provide, business rates and growing staffing costs” [310].

Post Office consumer issues

Ensuring access to Post Office services

- 7.64 As outlined above, the Post Office is required by the UK Government to meet six access criteria. At the end of March 2022, the Post Office met five of its six access criteria - it missed the target for the number of postcode districts in which 95% of population are within six miles of their nearest post office. This criterion is important as it helps to ensure a minimum level of access for customers living in remote rural areas.
- 7.65 A summary of key points of relevance to the continued accessibility of Post Office services include that: [311, 312, 313, 314, 315]
- It is important to ensure consumers can continue to access affordable prices at post offices (for example, prices for basic products of the universal postal service such as second-class stamps and small parcels) and can access cash services (for example, due to recent bank and building society closures in communities and in light of new legislation to protect access to cash)
 - A significant and growing number of individuals and small businesses are said to no longer have convenient and easy access to the services they need due to the closure or temporary closure of post office branches and increased part-time and outreach provision – this has raised questions on potential gaps in coverage and whether the network is truly national and comprehensive

- The importance of securing reliable access to the post office network in the long-term and protecting vital services for rural consumers. Many rural branches face uncertainty and would not be commercially viable without the public subsidy. Without subsidy these branches are at increased risk of closure which then limits consumer access to vital services
- There is an identified need for ongoing subsidy beyond 2025, although questions are raised around whether the current level of subsidy is sufficient. There has been a standstill budget (£50 million) since 2019-2020 which has declined in real terms
- What does the post office look like in the future, what is its role and what services do consumers (and consumers in vulnerable circumstances) need and want it to provide – and how does this then balance with wider government aspirations for the network to become financially sustainable
- Whether the current access criteria is fit for purpose

7.66 As touched on **Chapter 4**, these issues have several implications for consumers as, despite the shift to digital, everyone still requires convenient and easy access to postal services (for example, to send and receive letters and parcels), and in particular consumers in vulnerable circumstances and SMEs. Research by Citizens Advice – Gaps in the network Impact of outreaches and temporary closures on post office access (2022) – found that: [316]

- The trends in post office closures and outreach provision have resulted in gaps in coverage and uncertainty for the people living in these communities –particularly for rural locations where people and small businesses rely on post office services the most
- Older and disabled people, carers, and people who do not use the internet are also disproportionately impacted by post office closures
- The closure of post offices increases costs and inconvenience for consumers (for example increased travel time and costs)
- From a community’s perspective, the closure of post offices means that places are losing an important community and social hub, essential face-to-face services, and source of support
- While outreach services are vitally important, many consumers find the service inadequate (for example, provision can be too infrequent, opening hours inconvenient, queues can be long, and vital services missing)

Different choices for consumers

- 7.67 There may be different choices for consumers around delivery, such as the return to work may mean consumers are less focused on delivery to addresses and may switch to locker banks or their local Post Offices.

Declining consumer trust

- 7.68 Following a group litigation which concluded in 2019, the Post Office Ltd was found to have wrongfully suspended, terminated, prosecuted, and convicted hundreds of sub-postmasters based on information from a defective IT system. This led to the Post Office Horizon IT Inquiry and is described as “one of UK’s most widespread miscarriages of justice” [317, 318] [page 4].
- 7.69 The scope of the inquiry is to “establish a clear account of the implementation and failings of the [IT] system over its lifetime (a period of over 20 years)” [319]. It will also “consider whether Post Office Ltd has learned the lessons and embedded the cultural change necessary from the findings in Mr Justice Fraser’s judgments [the group litigation] and the impact on affected postmasters” [320].
- 7.70 The inquiry is ongoing and public hearings are scheduled to take place until at least September 2023. The Post Office Ltd established the Historical Shortfall Scheme to compensate eligible postmasters who were affected [321]. By October 2022, the scheme had a total settlement value of over £75 million with 155 eligible claims still awaiting an offer [322].
- 7.71 In December 2022, the UK Government announced a subsequent compensation scheme for postmasters involved in the group litigation whose compensation amount was largely taken up by associated costs of funding their case and/or who were ineligible for the Historical Shortfall Scheme. The Inquiry and compensation schemes highlight the importance of rebuilding trust in the business among consumers.

Rebuilding trust among postmasters and consumers may be made more difficult given that a government adviser (in May 2023) called for the Post Office board to resign. As noted in a Financial Times article on 9th May 2023, this followed a revelation “that senior executives were paid unauthorised bonuses linked to the sub-postmaster scandal – an internal review is being undertaken to establish whether remuneration committee’s bonus policies were in line with corporate governance best practice” [323].

- 7.72 Further, a news article published in July 2023 outlines wider concerns the chair of the inquiry has – Sir Wyn Williams is urging the government to take action and change the law because “full and fair” compensation is being blocked, and he also

criticises the make-up of the scheme set up to pay compensation to those affected [324].

Self-sufficiency

- 7.73 As noted earlier, the UK Government and Post Office's ambition is for Post Office Ltd to be self-sufficient. The changes to the second Mails Distribution Agreement certainly provides greater flexibility for the Post Office to generate additional income. However, this ambition will likely be more challenging to achieve as the Horizon IT Inquiry undoubtedly presents significant financial implications for Post Office Ltd.
- 7.74 It is currently not clear how restitutions are paid for when the Post Office is expected to be self-sufficient and how the costs of restitution may impact delivery of the network. There may also be less willingness for businesses to become a franchise.

8 Conclusions and issues for further consideration

- 8.1 This final chapter presents our overall conclusions and issues for further consideration and is based on a review and assessment of all the evidence and insights presented in the previous chapters. It has also been informed through our consultation and engagement with stakeholders as part of this research.

Conclusions

Identify where progress has and has not been made

- 8.2 In considering where progress has been made, it is important to touch on a defining feature of the postal market in the UK – namely the Universal Service Obligation and Royal Mail as the designated universal service provider. The Universal Service Obligation helps to strike a balance between:
- The continuation of a universal service in the UK – the ‘one price goes anywhere’ principle of affordable postal services to all UK addresses which requires Royal Mail to deliver letters to every address in the UK, six days a week, at a uniform price, and parcels five days a week
 - Furthering the interests of citizens in relation to communications matters and of consumers in relevant markets and, where appropriate, by promoting competition
- 8.3 The financial sustainability of the Universal Service Obligation has been at risk for the past decade or so and appears to be a long-standing concern. Indeed, Ofcom’s first regulatory statement after taking over responsibility for regulating the postal sector in the UK concluded that the provision of the universal service is threatened by Royal Mail’s immediate financial position.
- 8.4 This position has not vastly improved twelve years on.
- 8.5 There continues to be some inherent tensions in ensuring the financial sustainability of the Universal Service Obligation for the future while at the same time meeting the wants and needs of consumers. Indeed, Ofcom noted earlier in 2023 that “the uncertainties and risks around that sustainability have recently increased” [325] [page 24].

- 8.6 Statutory advocacy bodies for postal consumers continue to call for Ofcom to ensure that Royal Mail secures a financially sustainable and efficient service. They state that achievement of this should not be at the expense of:
- Affordable prices
 - A reduction in the quality of service
 - A reduction in coverage
 - The removal of Ofcom safeguards which help make postal services continue to be affordable
- 8.7 Advocacy bodies for postal consumers suggest that Royal Mail could place greater emphasis on infrastructure modernisation (which the company is doing) as a way to increase efficiency and make savings without impacting negatively on consumers. Continuing to protect access to, and ensuring the reliability and affordability of, postal services for all consumers is emphasised as vitally important by these consumer advocacy organisations.
- 8.8 In relation to safeguard caps, Ofcom periodically reviews whether stamp prices should be capped to make sure the universal service remains affordable (and Royal Mail can recover its costs). The outcome of the current Ofcom consultation - Review of Second Class safeguard caps 2024 - will be important in this regard and will be known by the end of 2023. While Ofcom proposes that some safeguards be retained, some changes to current arrangements are proposed. The Ofcom proposals include to:
- Retain a safeguard cap on Second Class standard and large letters
 - Remove the safeguard cap from parcels
 - Allow the safeguard caps on letters to rise with inflation (CPI), but no higher
 - Create a single basket cap for Second Class standard and large letters
 - Continue to limit the safeguard caps to Second Class letter services
- 8.9 The rationale for the Ofcom proposals is that as Royal Mail continues to be the only national scale provider of end-to-end delivery of letters in the UK, Ofcom cannot rely on competition to ensure prices remain affordable. As such it is proposed to retain a safeguard cap on second class letters. Interestingly, Ofcom note that its research now shows that concerns about affordability are driven by broader financial challenges that many consumers are experiencing (that is, the cost of living crisis) rather than by postal prices specifically.
- 8.10 Ofcom notes that competition in the parcels market has and will likely continue to increase and that the safeguard cap limits Royal Mail's ability to raise prices and has led to its prices reducing in real terms.

- 8.11 Ofcom proposes that Royal Mail's parcel services should no longer be subject to a safeguard cap, but that Royal Mail would, however, continue to be required to set a single price for these services across the UK (and that these parcel services would remain subject to the general requirement for universal services to be affordable).
- 8.12 Over the years Royal Mail has been particularly vocal about:
- The structural decline in the letters market
 - The significant annual losses the company has made in recent years - for example, £1 billion during the 12 months to 26 March 2023 compared to profits of £250 million the previous year
 - Its plans to continue to modernise and transform the business, including infrastructure and working practices, to better meet changing consumer needs and shift the balance of focus towards the growing parcels market
- 8.13 Indeed, Royal Mail has:
- Continued to use autonomy and commercial flexibility afforded to it in the regulatory framework to increase prices – for example, Royal Mail prices for letters and large letters have consistently risen in the past decade, and the company report that this has been in direct response to the decline in letter volumes and increased costs associated with delivering letters six days a week to an increasing number of addresses in the UK
 - Recently proposed changes to the Universal Service Obligation in the UK (that is reducing letter delivery from six to five days a week) – however, the current position of the UK Government is that there are no plans to change the statutory minimum requirements.
- 8.14 Such changes have also taken place elsewhere in Europe (that is, a reduction in the number of days a week letters are delivered). Financial and environmental sustainability considerations have been the main drivers. In a European context, UK (and Germany) are now considered “outliers” as Europe’s postal services continue to evolve.
- 8.15 The parcel delivery experience also continues to evolve (for example, in terms of parcel types (typically larger), expectations, and competition. Stakeholders note that technology has driven experience both from consumer demand and supply side, and that the UK is considered ahead of most of Europe in this regard.

- 8.16 Of particular interest to key stakeholders will be the various reports the House of Commons BEIS Select Committee has called for by the end of 2023 and into 2024 following its meetings with senior members of Royal Mail staff to further explore current concerns in relation to:
- Whether Royal Mail operates a policy of prioritising parcels over letters
 - Whether it is failing to meet some of its statutory requirements under the Universal Service Obligation
 - The tracking of Royal Mail staff to monitor productivity
- 8.17 Aligned to Royal Mail's business recovery, transformation and growth programme, periods of industrial action in recent years have, and any future industrial action would, undoubtedly have the potential to have a detrimental impact on the quality of service for consumers (for example, delays to both letter and parcel deliveries). On a positive note, a deal has now been reached between Royal Mail and the Communication Workers Union, and this has also been accepted by members.
- 8.18 There is a further change afoot in Royal Mail's senior leadership team – a new Chief Executive will take up post around October 2023 (the third in five years).
- 8.19 Ofcom, as industry regulator, maintains a bias against intervention, unless the law requires them to intervene. This can also result in some tension and differing views, as touched on below.
- 8.20 Much of the existing source material (for example, research undertaken and/or commissioned by Citizens Advice, Citizens Advice Scotland, and The Consumer Council for Northern Ireland and their consultation responses) typically suggest that Ofcom's regulatory approach is to a certain extent hands-off and reactive, including when compared to its work in other sectors for which it has regulatory responsibility.
- 8.21 Statutory advocacy bodies for postal consumers continue to call for Ofcom to be more proactive and agile in its regulatory approach, including to have stronger oversight of the postal market, given factors such as:
- The importance of postal services and the range of issues facing the market
 - Wider external factors such as the ever-evolving postal market, continuing and emerging trends post COVID-19, Brexit, and the cost of living crisis

- 8.22 Here, the view provided by statutory advocacy bodies for postal consumers is that there is scope for improvement in the regulation of postal services and that Ofcom could achieve this by:
- Placing more importance on securing positive outcomes for consumers, including consumers in vulnerable circumstances (rather than a focus on market dynamics)
 - Ensuring that postal services are universal, affordable, consistent and fair for all
 - Using its powers to provide a safety net for consumers while at the same time promoting competition in the market
- 8.23 Ofcom's most recent regulatory review (2022) concluded that the current regulatory framework is working well and meeting the need of consumers. The changes Ofcom proposed for the regulatory framework period 2023 to 2027 - namely the provision of additional guidance for complaints handling and action to allow disabled people to specify their parcel delivery needs - are considered a positive step by statutory advocacy bodies for postal consumers. Indeed, both continue to emerge as consumer issues within existing and recent research.
- 8.24 Time will tell what impact and difference these changes will have for consumers, or whether Ofcom may require to implement enforcement action or tighten regulations further. The Annual Monitoring Update Reports published by Ofcom and future consumer research will be important sources of intelligence to keep a watching brief on these consumer issues.
- 8.25 Statutory advocacy bodies for postal consumers also welcome Ofcom's assessment regarding the importance of regulatory safeguards (for example, Second Class standard letter safeguard price cap) and mail redirections (for example, Royal Mail widened the criteria for the concessionary offer). However, their overall view, based on research with consumers, remains that Ofcom's approach to regulation is not working as well as it could do for consumers and SMEs.
- 8.26 Post Office Ltd has not been without its share of negative media attention either. Most notably, the implementation and failings of the Horizon IT system, the ongoing Horizon Inquiry which is investigating how hundreds of sub-postmasters became victims of a miscarriage of justice, and more recently on bonuses paid to senior executives.

Continuing consumer issues

- 8.27 The latest research from Ofcom (2022 data) on use of post and attitudes to postal services among residential consumers and SMEs shows that a vast majority of consumers and SMEs in the UK are fairly or very satisfied with the Royal Mail – albeit satisfaction levels vary when aspects of the service are further examined.
- 8.28 More recent research published by Ofcom’s Communications Consumer Panel and Advisory Committee for Older and Disabled People (July 2023) also highlights the positivity in which consumers and micro-businesses in remote and rural locations in the UK hold Royal Mail as well as their ongoing reliance on the Universal Service Obligation.
- 8.29 What is clear from the evidence base is that consumers generally value and rely on the minimum requirement of the universal postal service, and there is widespread support for these to be secured long-term.
- 8.30 The body of existing and recent research and data, however, shows that there are a range of issues that persist across the postal market and the scale of these issues have the potential for considerable consumer harm which requires to be mitigated in some way. In summary the main consumer issues in the postal market can be described as follows.

Letters

- Royal Mail has regularly fallen short of its quality of service targets – pre-2020, during the pandemic, and in the most recent financial year – time will tell whether as the effects of the pandemic decline quality of service levels recover. It is important to bear in mind that several factors are likely to impact on Royal Mail’s performance (for example, logistical considerations, weather conditions, staff absence, industrial action), including mitigating factors (for example, the pandemic)
- The House of Commons BEIS Select Committee is concerned that Royal Mail operates a policy of prioritising parcels over letters and may be failing to meet some of its statutory requirements
- While the letters market has been in decline in recent years, letters help ensure access to a range of important services (for example, healthcare, financial, employment) and help people keep in touch with family and friends – letters remain essential and relevant, and in particular for those groups who rely on them the most (for example, disabled people, people who do not use the internet)

- There are various factors at play that may affect the likelihood of e-substitution for certain customers or mail types. This includes: many users reveal a preference for using physical post over electronic communications for those items they continue to send via post; a lack of e-literacy could be a barrier to some consumers or SMEs using electronic alternatives; and it is likely that there will remain a proportion of letters for which digital alternatives are not a good alternative (for example, due to Government and regulatory requirements for certain types of paper correspondence)
- Postal exclusion continues to have a disproportionate impact on marginalised groups of people, including those in unsafe, precarious, and non-traditional living situations (for example, due to factors such as the lack of a fixed address, difficulties in using “care of” addresses, and the interception of mail). Some services such as Poste Restante (created for those travelling within the UK, for example, on holiday or business) are potentially being used as half measures to help those transient communities but have restrictions on how long you can use the service in one town or city. The use of the service in this way does not address the need for properly developed solutions as highlighted by consumer advocacy organisations
- There are continuing concerns that some aspects of the Universal Service Obligation are becoming unaffordable (for example, among low income households), including postal redirections (and therefore consumers could miss important letters and faced increased risk of identity fraud). Further, a significant minority of consumers cut back on essentials to be able to afford postage stamps. As noted above, Ofcom’s current view is that concerns around affordability is now being driven by consumers broader financial challenges rather than by postal prices

Parcels

- It is important to acknowledge that the majority of parcels are delivered successfully. However, the scale and impact of parcel delivery issues along the consumer journey from ordering to returns appears widespread and affects consumer confidence, trust, and expectations. For example, common issues include: consumers do not receive information on how to specify additional delivery needs; late, delayed, or damaged parcels; consumers are told the parcel has been delivered when it has not; parcels left in insecure locations; consumers not returning parcels because there is not a convenient time or accessible place to do so; and lack of response or resolution
- Service quality in the parcel delivery market is not consistent, poor working practices may pose a risk to the security of mail (for example, increased risk of theft, loss, or damage of parcels), and consumer satisfaction with parcel delivery companies is variable

- Some consumers are also particularly reliant on deliveries and are disproportionately affected by parcel related issues – this includes disabled people, other people with specific access needs, and those who are time-poor
- Consumers face additional problems, cost (time and money) and increased stress and anxiety when they do try to fix a parcel delivery issue – indeed, not all people do as they think it think the problem will resolve itself or that trying to fix it may be too much hassle, not worth it, be too difficult, take too long to fix or that the matter would not be taken seriously
- The scale and impact of parcel delivery surcharging, including in remote and rural areas (for example, reduced service, costs more to have things delivered) – our sense from stakeholders is that some progress has been made in this area, and that it is becoming less of an issue (for example, local solutions). That is not to say the issue of parcel delivery surcharging has gone away. It is still considered an issue, in particular for Northern Ireland and the Highlands and Islands of Scotland - not least due to the growth in e-commerce. Information around parcel surcharging could be more transparent
- While the parcels market has seen considerable growth in the B2C segment in recent years, C2X services will continue to be important for the UK's many micro businesses, SMEs and marketplace sellers
- There is no currently regulated minimum standards for parcel delivery services – this may therefore under-estimate the scale and impact of issues as well as provide little incentive for operators to improve practices

8.31 There are some wider points to note when considering consumer issues with the parcels market, including that:

- The issues consumers experience across the parcel journey typically rest with different stakeholders – for example, retailers (ordering stage), parcel delivery operators (delivery stage), etc – and there is considered to be a lack of awareness among consumers of the complexities of this
- Consumers are said to have unrealistic expectations - consumers are becoming more demanding when it comes to getting their purchases delivered, with growing numbers expecting a service that is both free and fast

8.32 It is also important to touch on environmental sustainability. Action continues to be taken to reduce emissions across the postal market (for example, transport, buildings) and to reduce packaging waste. Progress is being made, but there is more to do on this front, and the postal sector has an important contribution to make.

- 8.33 There will be a need to go further and faster (for example, transport is the worst polluter), and there will be a continued requirement for letter and parcel delivery operators to build on what has been done to accelerate their pathway to net zero. Stakeholders feel that there are gaps in charging infrastructure provision and that there may also require to be updates made to local planning policies or guidance. The intersection between the postal markets and other markets is considered vitally important.

Post office network

- The importance of ensuring consumers can continue to access affordable prices at post offices (for example, prices for basic products of the universal postal service such as second-class stamps and small parcels) and can access cash services
- A significant and growing number of individuals and small businesses are said to no longer have convenient and easy access to the services they need due to the closure or temporary closure of post office branches and increased part-time and outreach provision – this has raised questions on potential gaps in coverage and whether the network is truly national and comprehensive
- The importance of securing reliable access to the post office network in the long-term and protecting vital services for rural consumers. Many rural branches face uncertainty and would not be commercially viable without the public subsidy
- There is an identified need for ongoing subsidy beyond 2025, although questions are raised by consumer advocacy organisations around whether the current level of subsidy is sufficient. There has been a standstill budget (£50 million) since 2019-2020 which has declined in real terms
- What does the post office look like in the future, what is its role and what services do consumers (and consumers in vulnerable circumstances) need and want it to provide – and how does this then balance with wider government aspirations for the network to become financially sustainable

Consider where future activity might be focused

- 8.34 It is clear from the evidence that a cooperative, collaborative, and proactive approach is needed to tackle these consumer issues and to identify practical and workable solutions. Government (UK and devolved nations), regulator, retailers, delivery operators, and consumer advocacy organisations all continue to need to be involved in some way. There may also require cross-sector collaboration.

8.35 Several messages emerge from the evidence base and engagement with stakeholders, including that:

- There are calls (in some quarters) for a more proactive regulatory approach to the postal market, including that Ofcom introduces safeguards and regulated minimum standards for the parcels market - to ensure consumers are adequately protected and to foster a culture of continuous improvement among operators
- Enhanced protection for consumers at higher risk of disadvantage, detriment or harm is considered necessary, including calls for Ofcom to develop a vulnerability strategy, and greater emphasis on the needs of vulnerable consumers by operators
- Accessibility and affordability of postal services continue to be key consumer issues which require to be addressed – and it is important that the Universal Service Obligation remains accessible and affordable to all consumers
- It was acknowledged that it would be important to continually assess the impact of accessibility of post office services, particularly for remote and rural areas who are disproportionately impacted by closures and/or reduction in services
- Information around parcel delivery surcharging could be more transparent
- There is a need to both debunk the myth among consumers that parcel delivery is free and to increase understanding of the complexities of the parcel journey/process. This relates to an earlier point around the increasingly unrealistic expectations among consumers who want their parcel deliveries free and fast (the availability of free shipping continues to drive online purchase behaviour and it becomes a battleground for retailers to offer free delivery). Managing expectations is considered vitally important as is increasing awareness of the true cost of delivery
- From an environmental perspective, various points are raised by stakeholders, including:
 - It could be easier for consumers to specify that they want to have their delivery done so in an eco-friendlier way (for example, sending things out together rather than separately)
 - That there is a tension between sustainability and cost - the net-zero agenda generally looks to reduce the number of miles travelled and this potentially makes delivery more expensive
 - Consciousness around net zero has increased – and a perception that some consumers may be happy with parcel deliveries taking longer in return for net zero impact of delivery

- A tiered pricing model for parcel deliveries – that is options for consumers to pay more for faster deliveries that have net zero impact or paying less if speed of delivery is not important
- That there could be a 'kite mark' (or similar) introduced so that consumers can check and verify parcel delivery operators' green credentials
- That while retailers have fixed carriers for delivery, consumers could have choice over this, including options to select a courier based on its 'green' credentials

Issues for further consideration

- 8.36 Our suggestions for Consumer Scotland and stakeholders to consider further are presented below. These are based on a review and assessment of all the evidence reviewed and insights from our consultation and engagement with stakeholders as part of this research.
- 8.37 It is over a decade since the introduction of the Postal Services Act (2011) which established the regulatory framework for the sector. While Ofcom undertakes periodic reviews of the regulatory framework, the financial sustainability of the Universal Service Obligation remains at risk. There may be a need to consider and review the current legislation and to consult on possible updates to ensure it remains relevant and fit-for-purpose. As postal services are not a devolved matter, any decision regarding whether this is progressed (or otherwise) rests with UK Government and Parliament.
- 8.38 More granular research may be required on how consumers in vulnerable circumstances are affected by the various postal related issues touched on in this review. As vulnerability is not a fixed state – rather it is more fluid, and some consumers are likely to move in and out of vulnerable circumstances – it will be important to continue to build on the existing evidence base to better understand changing needs and preferences of consumers in vulnerable circumstances and intersectional vulnerability.

- 8.39 More concerted action is required to build a workable and joined-up solution to address the issue of postal exclusion across the UK. Such an approach recognises that people are transient and move not just within a country (for example, Scotland) but also across the UK. This may mean legislation at a UK level is required to protect people who are in vulnerable circumstances. In taking this work forward it will be important to consider that groups of marginalised people affected by postal exclusion may require different or tailored solutions (that is, a one-size-fits-all approach may not be appropriate). There are also lessons that could be learned from practice undertaken elsewhere (for example, the early success of An Post's Address Point in Ireland). As postal services are not a devolved matter, any decision regarding whether this is progressed (or otherwise) rests with UK Government and Parliament. There is, however, scope for a broad range of stakeholders, including Consumer Scotland, to work collaboratively to identify what action may be needed.
- 8.40 Continued dialogue is needed to ensure that information around parcel delivery surcharging is more transparent. Taking this work forward will likely require cross-sector collaboration, including the engagement and involvement of retailers. More specifically, the existing research base emphasises that: retailers should not profit from surcharging rural and remote consumers for delivery; and where additional charges are paid, consumers should receive what they are promised (that is, promises such as next day delivery should not be made if they cannot be fulfilled).
- 8.41 The existing research base highlights a possible trend of consumers purchasing decisions being increasingly influenced by the environmental ethos and practices of companies. Future pieces of consumer research could look to explore the role of environmental sustainability in driving online purchase and delivery decisions, how easy (or otherwise) it is for consumers to compare the "green" credentials of parcel delivery operators, and whether comparisons can be undertaken by consumers in a consistent way across operators (that is, comparing like with like).
- 8.42 It will continue to be important to assess the impact of the accessibility of post office services, including for remote and rural areas who are disproportionately impacted by closures and/or reduction in services. An area of future interest could be around how best to ensure a consistent and high quality of service for all consumers, including consumers in vulnerable circumstances. As postal services are not a devolved matter, any decision regarding whether this is progressed (or otherwise) rests with UK Government and Parliament. There is, however, scope for a broad range of stakeholders, including Consumer Scotland, to work collaboratively to identify what action may be needed.

Appendix A: stakeholder events

Consumer Scotland Parcels and Letters Workshops Glasgow, 27th June 2023

Agenda

Parcels

- 9:30-10:05 Welcome and tea/coffee
- 10:05-10:10 Introduction by Douglas White, Director of Policy and Advocacy, Consumer Scotland
- 10:10-10:30 Presentation by EKOS of key findings and for any questions, Nicola Graham
- 10:30-11:00 First workshop session - open discussion of the questions sent prior to the event
- 11:00-11:15 Comfort break, tea/coffee
- 11:15-12:00 Second workshop session – groups split up to discuss the questions for their group
- 12:00-12.20 Feedback from each group
- 12:20-12:30 Close of session

Letters

- 12:30-13:30 Lunch
- 13.30-14:00 Coffee/teas and networking
- 14:00-14:10 Introduction by Douglas White, Director of Policy and Advocacy, Consumer Scotland
- 14:10-14:30 Presentation by EKOS of key findings and for any questions
- 14:30-15:00 First workshop session - plenary discussion of the questions sent prior to the event
- 15:00-15:15 Comfort break, tea/coffee
- 15:15-16:00 Second workshop session – groups split up to discuss the questions for their group
- 16:00-16.20 Feedback from each group
- 16:20-16:30 Close of session

Organisation attendees

Organisation

Consumer Council for Northern Ireland

Citizens Advice

Competition and Markets Authority

EKOS

Consumer Scotland

Evri

MH Carriers

National Federation of subPostmasters

Ofcom

Ofcom Advisory Committee for Older and Disabled People/Consumer Communications Panel

Post Office Limited

Royal Mail

Society of Chief Officers of Trading Standards in Scotland

UK Government, Department for Business and Trade

Appendix B: environmental sustainability

Policy developments

The Low Emission Zone (LEZ) was introduced in London in 2008, and the Ultra-Low Emission Zone (ULEZ) was then introduced in 2019. Additionally, a charge was set to be introduced in October 2020 for heavier vehicles travelling through the LEZ – this was postponed to March 2021 due to the pandemic. These zones and charges directly impact courier services, and thus, solutions have been developed to help keep both emissions and costs low – such as using bicycles and/or on-foot couriers to complete the final steps of delivery [326]. Other cities in the UK have or are doing similar things, including in [Scotland](#). For example, enforcement of Glasgow’s LEZ began on 1 June 2023 with Dundee, Aberdeen and Edinburgh scheduled for 2024.

To improve air quality, [some local authorities in England are introducing clean air zones](#). For example, Bristol City Council launched a consultation on potential clean air zones in the city centre in 2020. Though, around the same time, Leeds City Council announced that they would no longer be proceeding with their Clean Air Zone, following a review which found a shift towards EVs [327].

What operators are doing

Operators are using a variety of methods to improve their sustainability and work with environmental policy within their operations. Most commonly, operators are:

- Setting and reporting on sustainability targets
- Focusing on sustainability within last-mile delivery
- Growing their electric vehicle fleets
- Exploring renewable energy and fuel

Setting and reporting on sustainability targets

Yodel’s [Corporate Social Responsibility Report 2022](#) set out the company’s vision and aims relating to the environment, people and community - “Yodel is on a journey, with a planned carbon reduction plan aimed at net zero in 2035...Our aim is not simply to offset our carbon emissions, but to tangibly reduce our emissions through various activities” [page 31]. The same report notes its achievements including:

- A 32% reduction in carbon emissions since 2016
- Delivery of around 900,000 parcels using pedal power, in partnership with Urb-it
- Switch to 100% renewable energy (electric) at all sites across the UK

Yodel is also in the process of developing a net zero carbon depot in Huyton. This facility will be built to net zero carbon standard and will include solar panels and EV charging points [328]. Other areas of focus for Yodel include examining the potential to switch its forklift truck fleet to electric options, trials using alternative fuel (hydrogenated vegetable oil), and a shift towards alternative energy with trials using solar panels currently underway [329].

Evri released their [Green Dashboard Environmental, Social and Corporate Governance Report 2021/22](#) which sets out progress made against its Environmental, Social and Governance strategy. Evri's environmental targets include: becoming net zero for direct and indirect emissions by 2035; and achieving a 20% reduction in its buildings' energy consumption per parcel by 2030 [330]. Evri's current focus is on its vehicles, buildings and services, and have set out commitments for 2022-2023, including:

- Carrying out energy audits for all their operations
- Increasing the Out of Home electric van fleet to circa 30%
- Doubling the number of EVs servicing the London area

Similarly, DPD has Approved two sustainability targets - to reduce greenhouse gas emissions by 43% by 2030, and to reduce greenhouse gas emissions by 90% by 2040. Alongside this, they have developed a [Green Dashboard](#) which sets out its sustainability achievements, including:

- 2,920 EVs in operation
- 8,571,512 green deliveries year-to-date
- 87,866kWh generated via solar panels year-to-date
- 736 tonnes of waste recycled year-to-date

Amazon Logistics has made three environmental commitments:

- Using 100% renewable energy by 2025
- Making 50% of shipments net-zero carbon by 2030
- Reaching net-zero carbon emissions across their operations by 2040

As of 2021, Amazon had made the shift to using renewable energy across 85% of its business and delivered over 100 million parcels to its customers using zero-emission vehicles [331].

Royal Mail's [Steps to Zero](#) environment strategy sets out the company's ambition to be net zero carbon business by 2040. Decarbonisation ranked as Royal Mail's most material stakeholder issue in its 2022 materiality assessment and is a key focus of the strategy. Royal Mail aims to operate in an environmentally responsible way, reducing the impacts associated with its operations, and playing its part in the transition to a low-carbon future.

The company has committed to:

- Reducing the emissions associated with its business operations
- Working with its suppliers and other partners to encourage the reduction of emissions across the value chain
- Doing its part in meeting the ambitions and commitments set out within the Paris Agreement - and addressing both the physical and transitional risks and opportunities associated with climate change for our business through appropriate mitigation and adaptation

Royal Mail's [Steps to Zero](#) environment strategy sets out the company's ambition to be net zero carbon business by 2040. Decarbonisation ranked as Royal Mail's most material stakeholder issue in its 2022 materiality assessment and is a key focus of the strategy [332]. Royal Mail aims to operate in an environmentally responsible way, reducing the impacts associated with its operations, and playing its part in the transition to a low-carbon future. The company has committed to: [333]

- Reducing the emissions associated with its business operations
- Working with its suppliers and other partners to encourage the reduction of emissions across the value chain
- Addressing the physical and transitional risks and opportunities associated with climate change through appropriate mitigation and adaptation action

Steps to Zero identifies four pillars that underpin Royal Mail's journey to become net zero by 2040 and this is described further in **Table B.1**.

Table B.1: Royal Mail – Steps to Zero

| Pillar | Ambition | Action |
|------------------------|---|---|
| Net zero deliveries | Royal Mail's 90,000 posties walk over a billion steps a day, meaning emissions per parcel are around half that of competitors - the long-term plan is to reduce this from 205gCO ₂ e today to 50gCO ₂ e | <p>13% of Royal Mail's overall emissions are from final mile deliveries and the goal is to reduce this to zero through initiatives including:</p> <ul style="list-style-type: none"> • By Spring 2023, Royal Mail plans to grow to 5,500 electric vans (EVs) - alongside this, Royal Mail is investing £12.5 million in charging infrastructure across the country in 2022 to 2023 • Trialling new innovations for zero and reduced emissions deliveries including drones for remote locations, micro electric vehicles, and a programme to optimise on-foot deliveries with a van delivering to a central point, serving a number of posties on foot |
| Net zero operations | 49% of Royal Mail's emissions are from domestic operations, including transport networks and buildings | <p>Measures to reduce consumption and increase efficiency include:</p> <ul style="list-style-type: none"> • Moving to 100% renewable electricity across the business from 2022 • Reducing the number of domestic flights and road freight and increasing the amount of mail moved by rail • Investing in self-generating renewables with Royal Mail's largest solar panel installation going live at the new Midlands Parcel Hub in 2023 and looking at the potential for solar at over 200 sites across the country |
| Making circular happen | We aim to transform our operations and behaviours to embrace circularity by enabling reuse models and reducing single use items | <p>Action in this area includes:</p> <ul style="list-style-type: none"> • A 25% reduction in waste by 2030 • Helping our customers to embrace their own circular journey via our parcel collect service • Undertaking a strategic review of all our products and trialling new innovations to reduce single use items such as rubber bands, changing the design of our mail bags to eliminate cable ties and increasing the recycled content of our plastic delivery bags |

| | | |
|--------------------------|---|---|
| Collaborating for action | Royal Mail's size, scale and reputation means it can play a positive role leading and championing change - the company is committed to supporting and educating its customers, employees and communities to transition to net zero and drive industry change through innovative partnerships and collaborations | <p>Steps Royal Mail is taking include:</p> <ul style="list-style-type: none"> • Calling for industry-wide reporting on CO2e per parcel so customers can make an informed decision so that customers can make more meaningful and informed choices about their carbon footprints • Collaborating to drive net zero through business and policy – for example communicating a clear message to policymakers about the urgent need to champion electric vehicle adoption and charging infrastructure • Partnering with vehicle manufacturers to look at all commercial vehicles, from vans to articulated vehicles as well as new fuel types, not just electric |
|--------------------------|---|---|

Source: Royal Mail, Steps to Zero

Royal Mail reports that their business “is already the UK’s greenest option for letters and parcels. Our ambition is to reach 50gCO₂e on average per each parcel we deliver. Our current average is 205gCO₂e per parcel, which is already less than half the average reported in our industry”. Further, the same document notes that Royal Mail wants “to shift the debate away from ‘green’ logos and number of electric vehicles, and towards a measure that incorporates all the emissions associated with the journey of a parcel through our UK network. We believe that for our customers, emissions per parcel is a more easily understood way of describing our ambitions than terms such as net zero or carbon neutral” [334].

Last-mile delivery

There has been an increased focus on last-mile delivery, with companies aiming to make this more sustainable. Sustainable options being explored by couriers includes bicycles, e-cargo bikes, and autonomous delivery robots.

[Gnewt](#) was established in 2009 as a fully electric courier service to make deliveries within the London area. Gnewt focuses on last-mile delivery, offering a sustainable option. They had over 120 electric vehicles in 2019. The service continues to operate within the London area.

Reports published by Yodel (May 2022) note that they had delivered 492,000 parcels by bicycles within the previous six months. This was achieved by partnering with Urb-it who gave Yodel access to its e-cargo bike fleet in London, and then subsequently in Glasgow, Bristol and Manchester. Yodel and Urb-it are looking to expand to other major cities in the UK, including Birmingham, Liverpool and Edinburgh [335].

Within their three environmental commitments, Amazon Logistics have set out a target to make 50% of their shipments net-zero carbon by 2030. In working towards this target, Amazon are working on expanding their e-cargo bike fleet within the UK, with an additional three micromobility delivery hubs in Manchester and London. These join the over 1,000 EVs that Amazon are currently using in the UK and build on its existing e-cargo fleet in London [336].

Evri have also been trialling e-cargo bikes to reduce the company’s last-mile emissions. Using these bikes is reported to reduce carbon emissions in last-mile deliveries by 89%. In March 2023, Evri announced that they have partnered with Zedify and Urb-it to provide carbon free deliveries to those within the Bristol Clean Air Zone [337].

DPD is currently trialling robot deliveries in Milton Keynes [338], using fully electric robots powered by Artificial Intelligence (AI) (that is learning routes and navigating the streets to deliver packages autonomously) [339].

Electric vehicle fleets

A key focus within the parcels market is electric vehicles (EVs), particularly since the introduction of the [Net Zero Strategy](#). In 2021, Royal Mail revealed their plans to introduce 3,000 new EVs, taking their total to 3,300 EVs within their 41,000 fleet. Their [Steps to Zero](#) targets also state that they want to grow to 5,500 EVs by Spring 2023 – a press release in January 2023 noted that Royal Mail had deployed their 4,000th EV [340].

Around this time, DPD also announced that it would be doubling its EV fleet, with a total of 1,500 of its 8,000 vehicle fleet being electric. Currently, EVs account for around 10% of DPD's total fleet.

DHL and Hermes announced in 2021 that they would further increase their EV fleets, with an additional 100 and 168 EVs, respectively [341]. Amazon is also looking to increase their uptake of EVs, they currently have around 1,000 EVs in their UK fleet [342].

The uptake of EVs has, however, been slow, with EVs only making up a small percentage of the UK's main courier fleets. An issue may be around a lack of EV charging infrastructure currently within the UK. Though, parcel delivery companies are aiming to meet the 2030 targets.

Renewable energy and fuel

Amazon has set out their target to switch to 100% renewable energy by 2025. As of 2021, Amazon had made the shift to using renewable energy across 85% of its business and delivered over 100 million parcels to its customers using zero-emission vehicles [343].

Yodel is also in the process of developing a net zero carbon depot in Huyton. This facility will be built to net zero carbon standard and will include solar panels and EV charging points [344]. Other areas of focus for Yodel include examining the potential to switch its forklift truck fleet to electric options, trials using alternative fuel (hydrogenated vegetable oil), and a shift towards alternative energy with trials using solar panels currently underway [345].

DPD have announced that they that they aim to switch all of its diesel HGVs to renewable biofuel by the end of 2023 – this will impact 60% of DPDs total fleet and is anticipated to result in an 87% reduction in CO2 emissions [346].

Appendix C: innovation and digital technology

Royal Mail is increasing its use of digital technology to drive service and productivity improvements (as part of its wider transformation programme), including:

- Tracking time spent on outdoor delivery routes to understand how to make routes more efficient to support demand - for example, Postal Digital Assistants Outdoor Actuals, Auto Hours Data Capture, and Final Mile Optimisation [347]
- Introducing barcoded stamps to replace regular stamps (the deadline for using regular stamps is July 2023) - barcoded stamps allow individuals to send videos to the recipient, which can be viewed on the Royal Mail app. Currently, people can choose exclusive Shaun the Sheep videos to be viewed via their barcode [348]
- Developing an automated hours system – this will be used to record the total hours worked by delivery staff and could improve delivery route tracking [349]
- Looking to establish three automated hubs, as part of their Parcels Automation strategy – including North West Hub and Midlands Hub [350]
- Trialling drone technology to service remote and island communities in the Isle of Mull, Isles of Scilly, Orkney Islands, and Shetland Islands – future plans involve 50 more drone routes across remote areas [351]
- Orkney has become the first location in the UK to have mail delivered by drone. The Orkney I-Port operation has been launched by Royal Mail and drone firm Skyports to distribute letters and parcels between the islands [352]
- Continuing with [Parcel Collect](#), which was launched in 2020, and can be used for pre-paid returns and paid parcels – Parcel Collect means that while postal workers are doing their daily rounds, they are able to collect parcels from an individual's home or nominated Safe Place to mail/return these to their destination. This service has to be booked in advance (from five days prior to midnight the day before) and up to five parcels can be collected per address. As of May 2021, the cost for parcel collection was 72p per parcel, and 60p per parcel for pre-paid returns [353]

- Continuing to roll out [parcel postboxes](#) which began in 2019 – these postboxes aim to make posting parcels as easy as posting a letter. Using Royal Mail's Click and Drop service, individuals can purchase labels and are able to post their parcels whenever they are able to (due to the 24-hour nature of the postboxes) [354]

Innovation in the parcels market also involves the introduction of autonomous delivery robots, with trials already underway. AI-powered electric robots are able to learn routes and navigate streets to deliver parcels autonomously. DPD has begun to trial this in Milton Keynes, with plans to roll this out if successful. This would offer further last-mile delivery options for courier services [355].

Amazon Logistics began exploring utilising drones for deliveries across the company in 2013, and subsequently worked with the UK Government to better understand how this could become introduced in the UK [356]. The aspiration was for [Amazon Prime Air](#) to deliver packages via drone in 30 minutes or less. In 2016, a trial took place in Cambridge, after a successful trial. Although this has not yet been rolled out in the UK, further testing is taking place, and as of 2022, Amazon Prime Air was starting trials in California [357]. Amazon Logistics launched [Amazon Scout](#) in 2019, an autonomous delivery robot which offers a sustainable last-mile delivery option. As of September 2020, Amazon began to develop and expand the Amazon Scout technology within the UK [358].

DPD sets out how the company uses innovation and technology within its services on the [Innovation website](#). This includes a range of services and options, including:

- A delivery rating feature – this allows customers to rate their delivery and driver and leave compliments
- Improved collection options – more tracking for collection timeslots, including a real-time map, along with the ability to set a place for collection (for example, safe place, or collection from a neighbour)
- Driver profiles – this allows customers to learn more about their driver, for example the number of years the driver has worked with the company, the number of deliveries they have completed, and a star-rating system
- Tracking is available via Siri for those with iPhones
- Follow My Parcel tracking service – including simplified navigation, the introduction of a dark mode, and a detailed breakdown of the delivery [359]
- Using Whatsapp – for contact between consumers and customer service [360]

Evri is also using AI to develop a parcel vision software. The software was trialled regionally and is aimed at proof of delivery pictures taken by delivery drivers. The software detects pictures which do not clearly show parcels being left in a safe place. If such a picture is detected, this will be flagged up and the driver will be asked to retake the picture. In its testing phase, the technology achieved a 98% success rate [361].

DHL incorporated [what3words](#) technology into its deliveries in March 2022 [362]. It is an easy way to describe any precise location – the technology has divided the world into 3m squares and given each one a unique identifier made from three words. The partnership with DHL retail partners offers consumers the ability to save their what3words address to their profile in the DHL Parcel app, so they can specify a precise delivery address. Many [delivery companies](#) deliver to what3word addresses, including Evri and DPD.

Appendix D: Review of the Statement of Principles for Parcel Deliveries

“Recommendation 1: There has been limited proactive promotion of the Statement of Principles (using a mix of channels) or actions to increase awareness of, obtain buy-in and support for, and ultimately increase adoption of the Statement of Principles among retailers. A more widespread adoption of the Statement of Principles is something which should be addressed by the Scottish Government and partners.

Recommendation 2: No major issues or concerns were raised by stakeholders or retailers around the content, wording or phrasing of the Principles, albeit there was some feedback that it could be simplified and clarified in places and contradictory wording removed. The Scottish Government could consider a review of the Statement of Principles to ensure they reflect the findings of this report.

Recommendation 3: There is no current formal mechanism in place to routinely assess the effectiveness of the Principles. On the basis that action will be taken to increase awareness and adoption of the Statement of Principles, then this could form the basis of regular stakeholder engagement to measure progress.

Recommendation 4: While noting the difficulties in evidencing behaviour change, joined-up, co-ordinated and collaborative efforts should continue to maintain a high profile of the issue, as well as to support activities to make more consumers aware of their rights and of retailers’ responsibilities.

Recommendation 5: While there is recognition that higher retail costs are a common feature associated with living in remote and rural areas, there is continued frustration with unfair delivery charges. Efforts should focus on developing a better understanding of what constitutes a fair surcharge, and how this can be made transparent to consumers and businesses. Actions that would support this are a key part of Fairer Deliveries for All: An Action Plan.

Recommendation 6: Retailers were particularly supportive of the creation of a business pledge or endorsed Kitemark (or similar). Feedback was mixed from other stakeholders. More research and dialogue on the issue should be undertaken to explore the benefits and challenges of such an approach.

Recommendation 7: Our view is that there would be no measurable value in extending the Principles to apply to parcel delivery companies – in the absence of promotional activity to raise awareness of the Statement of Principles among delivery operators in the first instance, or indeed tracking of adoption. That is not to say that delivery operators do not have a role to play, and they should continue to be encouraged to be involved in collaborative discussions and efforts to help address the challenges identified in this and existing research. However, if a business pledge approach was developed this could be extended (eventually) to the delivery companies as well as the retailers.

Recommendation 8: Any engagement or promotional activity undertaken to increase awareness of the Principles among retailers should incorporate examples of good practice, with a clear articulation of the benefits for both the business and the consumer. Issues of rurality and the associated additional costs of living in remote areas are not unique to Scotland or Northern Ireland.

Recommendation 9: While it was outside the scope of this research study, it may be worthwhile looking at what (if any) solutions other countries have found to the issue of higher parcel delivery costs” [Executive Summary page 2 to page 7]

Appendix E: Fairer Deliveries For All Action Plan – progress of action points

Action 1: We will develop an interactive data hub to allow users to measure the fairness of delivery pricing to improve transparency and drive behaviour change.

Action 2: We will develop the Scottish Parcel Delivery Map to understand consumer experiences and target interventions.

The online data hub and the interactive parcel delivery map are both being hosted on the same www.fairdeliveries.scot platform. This website is the first of its kind and will be instrumental in providing transparency to consumers, retailers, and delivery companies, and will form part of the Scottish Government's wider plan to ensure that action to drive change is focused on the right solutions to the right problems. It will also be updated on a monthly basis to ensure that users have the most up to date information.

The Scottish Government commissioned independent analysis - [An econometric analysis of postal delivery pricing in Scotland](#) (2019) - to help address the lack of robust evidence of delivery pricing in Scotland and to conduct an econometric analysis as a first step towards benchmarking when and where delivery charges are fair and unfair in Scotland.

Action 3: We will celebrate best practice by retailers and parcel delivery companies.

Best practice is demonstrated in a variety of ways and there are examples of where retailers do put their customers first and what can be done to encourage other retailers to adopt best practice. An example provided is that eBay, the online marketplace, encourages its sellers to offer free delivery favouring these items in their search results.

The Progress Statement also refers to the website Menzies Parcels developed - [Highland Parcels](#) - that provides a unique service to customers in the Highlands and Islands of Scotland to avoid unfair parcel surcharging. This service also allows users to order purchases from retailers that traditionally do not deliver to their postcodes. Simply put, it allows users to create an online account and have their parcel sent to Menzies Parcels' central belt address. Menzies Parcels will then deliver the parcel to the user's local depot without the usual surcharges associated with rural and remote areas.

When things go wrong organisations such as the ASA can take enforcement action. However, ASA can only take such action when informed of misleading parcel delivery information.

Action 4: We will work with industry to explore how to increase the impact and reach of the Statement of Principles.

The [independent review](#) (2020) highlighted that overall there are still low levels of awareness of the Principles but amongst those who had heard of them, there was broad support for the rationale behind them and a keenness to see them promoted further. Nine recommendations were made, and the Scottish Government, Citizens Advice Scotland and other key stakeholders will undertake further work based on these recommendations.

Action 5: We will make it easier for consumers to know and exercise their rights.

The [Delivery Law](#) website was launched in June 2018 to provide a one-stop shop for advice and reporting on delivery surcharges, restrictions, and free delivery. It is the main portal for anyone, whether consumer or business, to go to for information on rights and obligations in relation to parcel delivery. The Scottish Government encourages use of this website is also highlighted on the www.fairdeliveries.scot platform.

The Scottish Government funds the [Consumer Advice Scot](#) website which provides a “one-stop shop” for practical and impartial advice on resolving consumer problems, including delivery issues. Information is shared with regulators where appropriate. This website is also linked to the Delivery Law website.

The Scottish Government also works with resolution organisations, such as [Resolver](#), to ensure that they are also aware of routes available to any of their clients complaining about parcel delivery charges.

Action 6: We will improve the accuracy of postcode classification tools.

Postcode misclassification is a challenging area and remains one of the hardest Action Points to resolve. One of the reasons for this is the reluctance from organisations to divulge information on the postcode software they use and also the potential requirement for co-operation with commercial interests. However, both the independent Statement of Principles and Econometric research refer to the postcode misclassification issue and as such the Scottish Government is committed to solving this issue.

The Protecting Scotland’s Future: the Government’s Programme for Scotland 2019-2020 publication states that it will introduce a: “new postcode tool to reduce the instances of unfair delivery charges resulting from postcode misclassification.”

Transparency is the main reason why the Scottish Government wants to get to the route of postcode classification. It is recognised that there can be differences in pricing between rural and urban areas and as long as these costs are transparent and explained to customers these can be justified. However, on many occasions these costs aren’t transparent or explained. Therefore, it is necessary for further research on this front to gather a broader, deeper, and more robust evidence base to allow us to better understand the cause of these discrepancies and have a greater body of evidence with which we can then use to subsequently engage with software companies and businesses. As part of their forthcoming work plan, CAS has committed to carrying out research to establish whether misclassification of postcodes through ecommerce platforms is a cause of or contributing factor to certain unfair delivery charges in Scotland. Undertaking research to further understand this issue can then allow for further advocacy work to be undertaken with Government, regulators, retailers, and, potentially, the software companies themselves, to address this issue if it is found to be unfairly impacting on delivery charges in Scotland.

Action 7: We will establish the Improving Consumer Outcomes Fund to explore new approaches to tackling long-standing consumer issues, including misleading and unfair delivery charges in rural and remote areas of Scotland.

Consideration was given to how this Fund could address postal delivery inequalities in rural areas in relation to the work that was already ongoing in the Action Plan. The decision was made that industry driven solutions were unlikely to be sustainable, and able to get to the heart of the issues.

It was agreed that resource could be more effectively invested in understanding the underlying causes of the postcode misclassification problem – research and stakeholder engagement are considered a more effective approach to tackling this example of systemic detriment. As such, postcode misclassification work is now being taken forward by CAS utilising their expertise in postal delivery charges. This work is being supported by the Scottish Government’s consumer advocacy grant for CAS’s work-planning activities.

Action 8: We will shape UK Government action to further strengthen consumer protection to ensure fair and transparent delivery charges for Scottish consumers.

The Scottish Government continues to be a partner in the UK Consumer Protection Partnership ensuring that Scottish specific needs are heard and acted upon and have established a Scottish working group with key stakeholders to discuss respective workstreams and where partners can work together and support each other. Instances of this include providing detailed information to independent researchers carrying out work on behalf of the Scottish Government.

The Scottish Government will continue to apply pressure on the UK Government as the power to regulate surcharging lies with Westminster. To date, both Governments’ Ministers have exchanged correspondence and phone calls. However, the UK Government is of the view that regulation is not necessary in this area. The new Consumer Scotland body will have an overarching aim of looking at consumer detriment.

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