

Review of the second class safeguard caps 2024

Addendum to Citizens Advice's response to Ofcom's consultation

Context

1. On 31 August 2023, we submitted our response to Ofcom's consultation on second class price caps.¹
2. But Royal Mail announced their third price increase in 18 months just a few hours before the 2nd class consultation closed. This addendum includes additional analysis of the impact of the latest changes on consumers.
3. Since submitting our response, we received additional analysis of the ONS Family Spending data covering April 2021 through to March 2022. This additional analysis also forms part of our addendum.

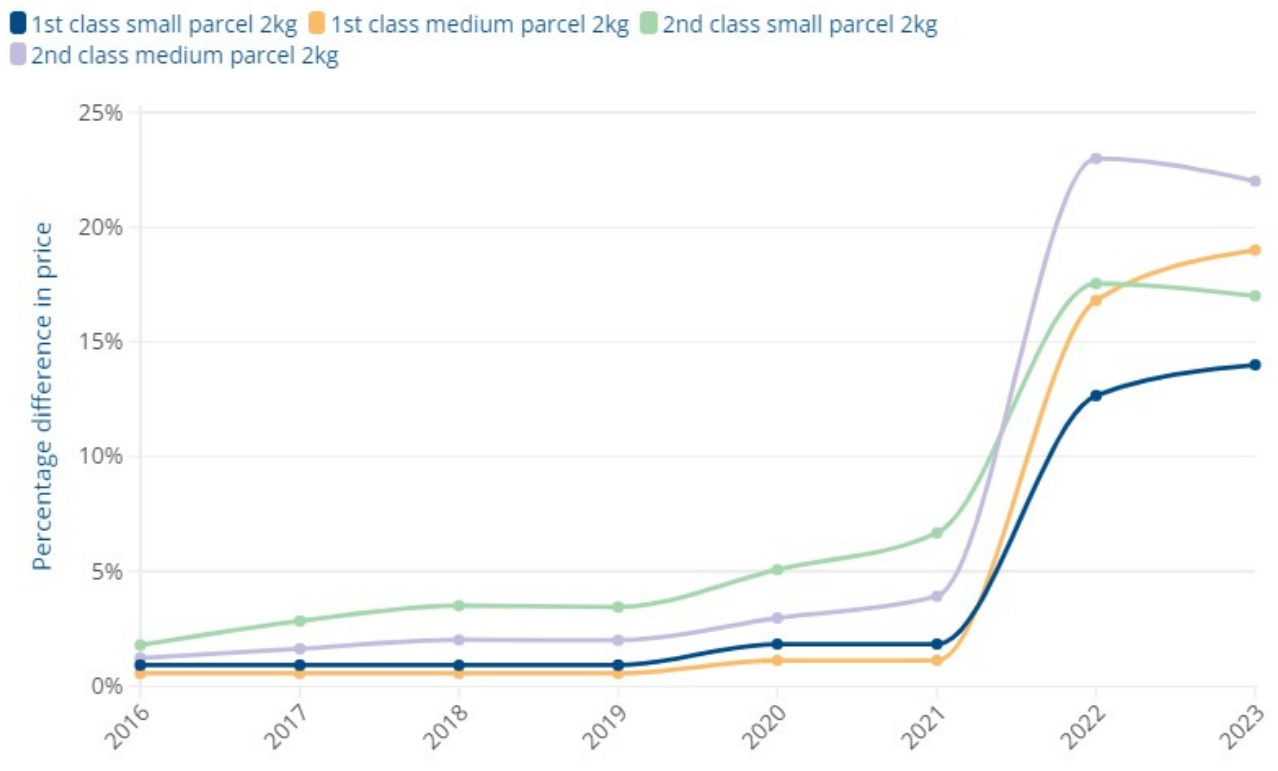
Digital exclusion penalty

4. We highlighted the development of a 2-tier USO because of a digital exclusion penalty in our consultation response.²
5. People who buy USO postage in person (e.g. at a post office) are charged more than people who can access cheaper prices online. Those digitally excluded consumers end up paying more for something which should be a universal service. For example, 2kg 2nd class medium parcels are now 22% more expensive if they are purchased in person.
6. The graph below shows how the difference has become more pronounced since 2021.

¹ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023.

² Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023. (paa. 67).

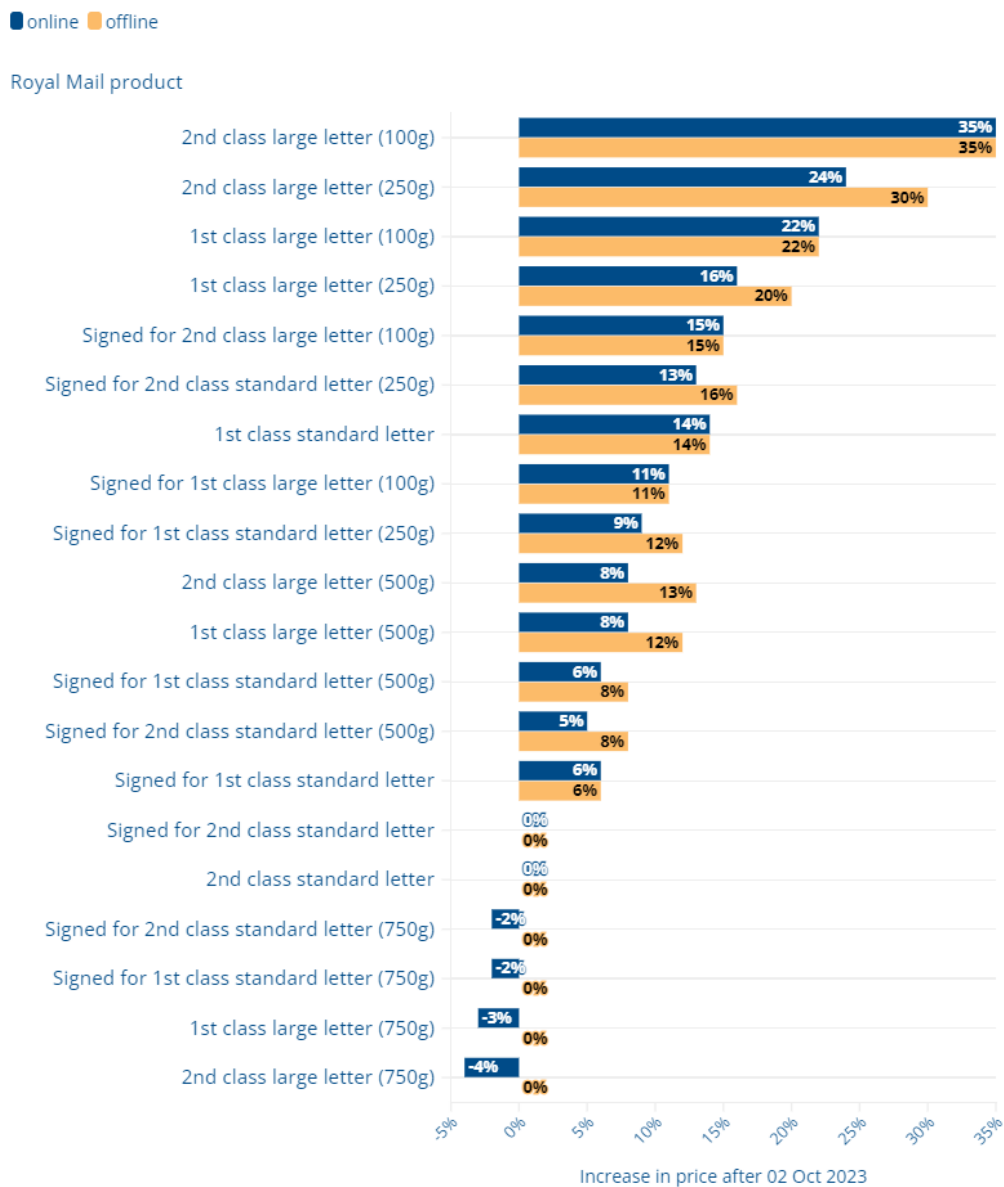
Figure 1: The percentage price difference between offline and online Royal Mail parcel products 2016 - 2023³



7. Until October 2023, this has only been an issue in the parcels market. But the latest price increases - announced on the day that the consultation closed - mean letter consumers are hit by this price differential too.
8. The United Kingdom was the first country in the world to adopt a 'one-price-goes-anywhere' stamp, the Penny Black. This differential letter pricing could break with a nearly 200 year long tradition.
9. Royal Mail has increased the price significantly more for offline consumers of 1st and 2nd class large letters in the 250g weight category, compared to online consumers. Additionally offline consumers won't benefit from the online price cuts for large letters in the 750g weight category.

³ GBPS, [Letter and Packet Rates from 2006, 2023](#).

Figure 2: Royal Mail price percentage price increases/ decreases October 2023⁴



10. We don't support this increase in differential pricing because it penalises people that are digitally excluded.

11. Millions of people across the UK don't have the digital skills to access Royal Mail's online prices. And this is an issue that won't go away overnight. As many as 5 million workers will still lack essential digital skills

⁴ Royal Mail, [Online price guide April 2023](#), 2023.
 Royal Mail, [Online price guide October 2023](#), 2023.
 Royal Mail, [Our prices April 2023](#), 2023.
 Royal Mail, [Our prices October 2023](#), 2023.

by 2030, according to the Lords Communications and Digital Committee.⁵ This shows the scale of digital exclusion across a broad demographic including working age adults.

12. The latest changes are also indicative of Royal Mail's significant market power in the lower weight large letter categories, where most of the price increases are concentrated. This is a part of the market where consumers have no option to shop around for a better price.

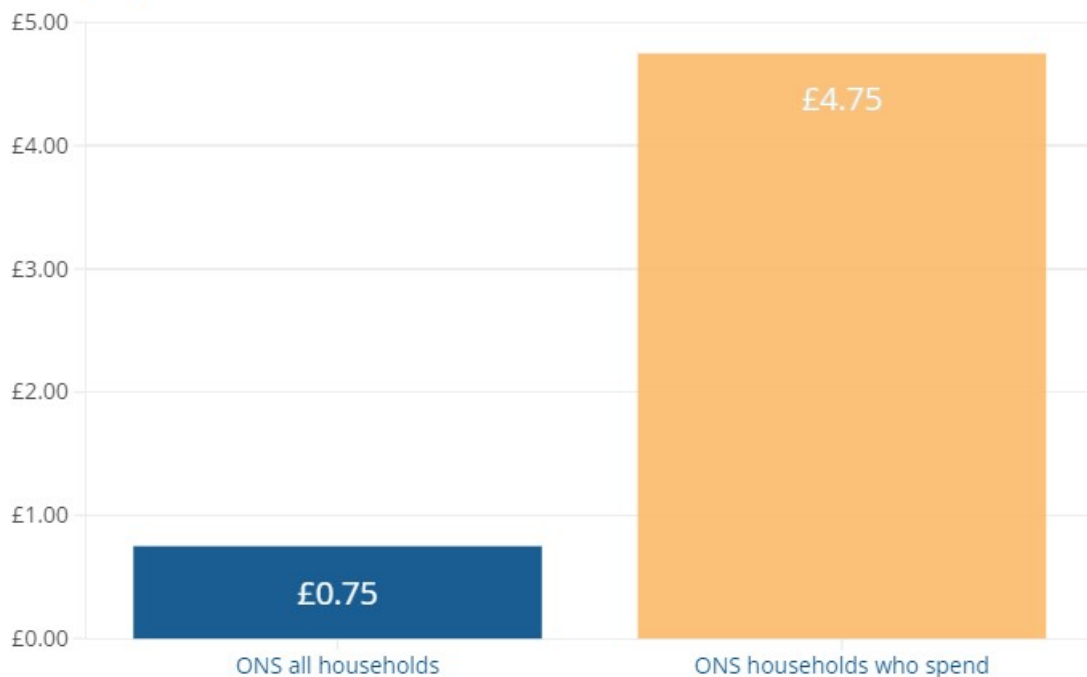
Measures of affordability

13. Ofcom relies on the 2020-2021 ONS Family Spending data in their assessment of affordability. This means the most recent period covered was March 2021. The 2021-2022 ONS Family Spending data was released on 31 May this year.⁶ We used this most up to date data in addition to data obtained from an ad-hoc request to the ONS to analyse:
 - a. Average expenditure on post by all households. This is the average amount spent on post divided by all households in the survey.
 - b. Average expenditure by households that reported spending money on post. This is the same average amount, but it's divided by those households that actually spend money on post rather than all the households in the survey.
14. The graph below shows that average spending on post is 6 times higher when you include only households who do spend on post.

⁵ Communications and Digital Committee, [Digital exclusion, 3rd Report of Session 2022-23](#), 2023, 35.

⁶ Citizens Advice, [Review of the second class safeguard caps 2024: Citizens Advice's response to Ofcom's consultation](#), 2023, (para. 30).

Figure 3: Weekly spend on post⁷

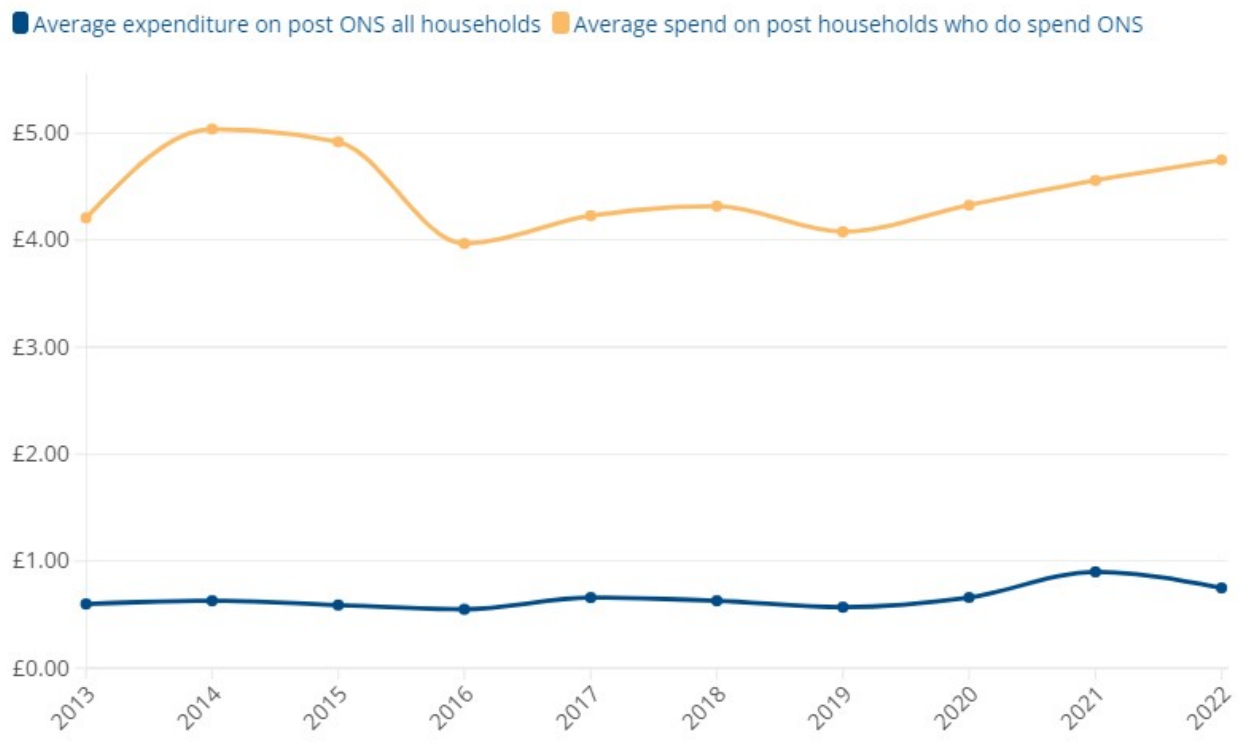


15. Looking at households that actually spend on post would be a fairer contextualised assessment of spending behaviour. This would help remove the risk of under-representing people who most need affordable access to post.

16. This is especially important when we consider that letter volumes are declining. This means that the average spend across all households will be pulled down by those that don't use post, further distorting the experiences of those who rely on postage.

⁷ ONS all households data from [Family spending in the UK: April 2021 to March 2022](#) and ad-hoc request to ONS available on the [ONS website](#)

Figure 4: Spend over time⁸



17. Figure 4 shows that, while average spending across households has recently decreased, spend is actually increasing among households that do spend on post.

18. Another helpful way to check that data is reflecting what's happening in the real world is to use multiple data sources to see whether they tell the same story.

19. In Ofcom's Postal Tracker survey 2021 which is the most comparable with the ONS data above, of those that reported spending on post, the greatest number of respondents fell into the £6 - 10 per month category. This is more aligned with the average spend across households that do spend on post.⁹

20. In our response to the consultation, we also encouraged Ofcom to replicate the approach of the Financial Conduct Authority (FCA) when assessing essential expenditure.¹⁰ If Ofcom updated its approach to take into account a more representative range of expenditure *and* analyse

⁸ Ad-hoc request to ONS available on the [ONS website](#)

⁹ If the mid-point of this category (£8) is converted into a weekly amount (£1.85) and multiplied by the average number of people per household (2.4), we arrive at £4.43 which is in the same ballpark as the ONS data (£4.75).

¹⁰ Financial Conduct Authority, [MCOB 11.6 Responsible lending and financing](#), 2023.

postal spend as we set out above, it would give the regulator more accurate insight into how much people who rely on post spend on this essential service.