

Royal Mail

Response to Ofcom's consultation

Review of the universal postal service and other postal regulation

08 April 2025

Royal Mail is of the opinion that selected information supplied in this submission is commercially confidential, and that its disclosure in any form would have a material prejudicial effect on its commercial interests. Further, Royal Mail is of the opinion that there could be no public interest or other argument which could possibly justify the disclosure of the specified confidential information supplied, in whole or in part, without engaging first with Royal Mail and where appropriate obtaining Royal Mail's express written consent.

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Contents

| | |
|--|----|
| Contents..... | 1 |
| Executive summary..... | 2 |
| 1. Introduction and case for change | 6 |
| 2. Ofcom’s headline proposals enable a fit for purpose delivery model | 15 |
| 3. Quality of service..... | 20 |
| 4. Access | 46 |
| 5. The need for a regulatory roadmap | 57 |
| Appendix 1 – First Class speed D+1 QoS target | 69 |
| Appendix 2 – Statistical analysis of QoS performance..... | 76 |
| Appendix 3 – Other considerations in Ofcom’s Access proposal..... | 78 |
| Appendix 4 – Drafting of regulatory conditions | 81 |
| Appendix 5 – Joint letter with NHS England, NHS Providers, Healthwatch England, National Voices and Patients Association | 83 |
| Appendix 6 – Royal Mail and the Postal Services Commission (2000–2011)..... | 86 |
| Appendix 7 – Responses to Ofcom’s consultation questions | 88 |

Executive summary

A modern Universal Service should meet customer needs and be financially sustainable

Royal Mail is proud to deliver the UK's one-price-goes-anywhere Universal Service Obligation (USO) and we remain committed to delivering it. The USO has remained largely unchanged for over 20 years and, as a result, does not reflect the customer needs of today, nor is it financially sustainable.

Ofcom has recognised that the USO needs to be modernised and that the case for reform is clear and urgent.

Reform is in the interests of our customers and our people as it will underpin the longer-term sustainability of the USO. It will unlock our ability to invest in growth areas to support the UK economy and will secure a reliable and affordable service for customers, continued customer choice, greater investment and innovation in the postal network, and competitive employment terms and conditions for our people.

For these reasons, it is crucial that the package of USO reform is the correct one – and all the elements matter. Key parts of Ofcom's USO reform proposal – specifically the level of the reliability quality of service (QoS) targets and adding a new Priority (D+2) Access mail product to the regulation – differ materially to the USO proposal we put forward.

These proposals will perpetuate an over-specified USO for customers, leading to higher prices. Ofcom's proposed reliability target wipes out half of the potential benefits, whilst adding a Priority (D+2) Access service to the regulation significantly risks achieving a successful roll out of the new alternate day delivery model. Ofcom calculates that providing the current USO has a net cost to Royal Mail of £325mn to £675mn every year – or £1mn to £2mn every day – so it is vital that these aspects of reform are amended to bridge this funding gap.

In line with the Government's clear policy aim to reduce regulation and support the growth of business, Ofcom has a unique opportunity to lead the regulatory transition in the UK to secure the Universal Postal Service on a sustainable basis into the future.

The ongoing existence of the USO – and all of the benefits it brings to the UK – should not be taken for granted: countries like Denmark have abolished the USO entirely.¹ So it is vital that Ofcom takes this opportunity not just to substantially reform the USO, but to ensure all aspects of the reform work in harmony to promote its sustainability.

Ofcom must then keep evolving the USO into the future to reflect changing customer requirements. In the short to medium term, Ofcom has all of the powers it needs to modernise the USO and improve its sustainability by removing unnecessary regulation and substituting newer services like tracking that customers want.

The case for reform

Fundamental structural changes in society have permanently altered customer needs and created major challenges for Royal Mail.

Demand for Royal Mail's postal services has fallen from a peak of 20bn letters sent in 2004/05 to 6.7bn letters in 2023/24 – a decline of two-thirds in just two decades. This will decline further to around 4bn over the next four years. At the same time, the number of addresses has increased from 28mn to 32mn and will continue to increase with the Government's housebuilding agenda. We are delivering significantly fewer letters to millions more addresses, meaning that the cost of delivering each letter is ever increasing.

¹ [New postal law results in changes at PostNord Denmark | PostNord](#)

The USO of today requires Royal Mail to maintain a high fixed cost network to deliver letters six days a week to every address in the UK without the letter volume (and revenue) to sustain it. At the same time, customers tell us that affordability and reliability are ever more important and hold more value than the speed of delivery. These are the changes in customer preferences and market dynamics that need to be designed into the USO of the future.

Ofcom has highlighted that over-specified regulation creates costs that are not in the interests of current or future users. The financial burden of delivering an over-specified USO threatens its viability and holds back our ability to invest and innovate in the growing parts of our business.

The Postal Services Act 2011 specifies that the Universal Service Provider should be financially sustainable, including the ability to make a commercial rate of return. This has not been achieved since 2015/16, with the average profit margin achieved over the last five years being less than 1%. This falls considerably short of Ofcom's metric that a 5-10% margin indicates that the provision of the USO is likely to be financial sustainable in the longer term.

What our customers have told us and how we've listened

We have invested significant time in understanding what our customers want from a modern USO. This includes extensive research with over 3,000 consumers, 500 SMEs and 48 large businesses, meetings with over 100 organisations over a number of years, including consumers, businesses, public services (including NHS bodies) and groups representing a wide range of consumers across the UK (including in rural communities, people on low incomes, older people and those with disabilities).

Our research supports Ofcom's findings that *"people need a service that is frequent, but do not need six day a week delivery for the majority of letters they send and receive"* and *"people's needs have shifted towards valuing reliability over speed of delivery."* At the same time, the universal postal service remains an essential feature of national social and economic life, supporting customers and businesses across the whole of the UK. That is why we remain committed to maintaining a USO with the following features:

- the **one-price-goes-anywhere** service to all parts of the UK;
- **First Class letters delivered daily, six days a week** (Monday to Saturday) to the same timescales. In our research, industries like publishing and greeting cards explained the importance of next day and Saturday deliveries;
- the **choice of First and Second Class letters**. In our research, 81% of consumers and 83% of SMEs emphasised the importance of having a choice; and
- **USO parcel services** that we are required to deliver Monday to Friday, but which we also deliver on Saturdays.

USO support for the NHS remains critical for customers and we have engaged actively with the NHS to develop solutions that work: there will remain a variety of different products available to meet needs. Our joint letter with NHS England, NHS Providers, Healthwatch England, National Voices and Patients Association sets out how we have worked together to ensure that any changes do not lead to worse outcomes or experiences for patients, and that the needs of the public and NHS organisations are met. We recognise that USO change will mean that there are some concerns from other large senders of mail, including publishers and some types of financial services. We have also engaged actively with these industries and we are confident we have developed solutions to meet their needs.

Our engagement with customers has also highlighted the importance they place on **tracking** when choosing a parcel operator. Tracking is now a hygiene factor when sending parcels. Its exclusion from the USO makes no sense to customers and leaves the USO unreflective of their needs and unfit for the digital age, therefore undermining our financial sustainability. We urge Ofcom to modernise the USO

by removing the unnecessary regulation that prohibits us from offering tracking to our USO customers – as the only company that delivers to every address in the country for one price.

Ofcom's proposals

We are glad that Ofcom recognises core reform features in its proposal that are an essential part of what people value from the USO, whilst also allowing us to deliver the benefits to customers of affordability, reliability, and financial sustainability. We recommended that Ofcom:

- amends the requirement for Royal Mail to deliver non-next day letters six days a week and allow Royal Mail **to deliver them on alternate weekdays (Monday to Friday)**;
- **amends the QoS targets**;
- introduces new, additional 'tail of the mail' **reliability targets**, which research shows are more important to customers than speed; and
- amends the Standard Access service to a D+3 service speed (in line with other standard non-next day services).

Crucially, there are **specific aspects of Ofcom's proposals that need changing or they will significantly undermine the reform objectives** of rebuilding a reliable, affordable, and financially sustainable postal service. These aspects (1) wipe out half of the benefits identified; and (2) threaten the feasibility of the delivery model as designed. Importantly, neither of these proposals are to the benefit of customers as they perpetuate an over-specified USO.

We urge Ofcom to reconsider the following aspects of their proposal in order to achieve the benefits that are essential to securing a more financially sustainable USO that is not over-specified, bringing resultant higher prices for customers than would otherwise be necessary:

1. **The specific proposed level of the reliability target for First Class post of 99.5% D+3 will lead to unreasonable costs and is not proportionate:**
 - Compared to our proposal of 99% D+4, it risks undermining the entire basis of the proposals as we estimate it would cost an incremental c.£120mn-£180mn p.a. to deliver 99.5% D+3 QoS, wiping out around half of the estimated up to £300mn net cost savings that reform would bring, and the consequent benefits to customers of improved affordability;
 - Based on statistical analysis, the probability of achieving an annual 99.5% D+3 target when the D+1 performance is 90% is just c.1 in 150. In other words, to be achievable, a higher D+1 target would be required which customers say they do not need, and they prioritise reliability over affordability.
 - It is higher than other targets for universality in the UK (e.g. 98.5% for digital terrestrial television coverage, 99% for gigabit roll-out) and achieved coverage (e.g. 98% of households receiving super fast broadband, 99% receiving mains water supply).
2. **Adding a new Priority (D+2) Access product into the regulated Access regime significantly increases the risk of successful deployment of the alternate day delivery model.** Whilst we are keen to offer this to the market to provide even more choice, future volumes of an Access Priority (D+2) service are uncertain and we need the commercial flexibility to rapidly respond to the market. We cannot accept a situation where a major expansion of the regulated Access regime, with no clear benefits, could undermine the architecture of USO reform and our ability to move to an alternate day model. This goes against the Government's growth and regulatory agenda, bringing First Class services into Access regulation for the first time. This cannot be the policy intention, and weak evidence has been provided to justify this change.

The implementation of the new QoS targets should allow for a period of transition. In particular, this would involve setting a flightpath towards the headline speed and reliability QoS targets, to achieve the new targets by the end of 2026/27. Allowing for a period of adaptation is a common occurrence internationally, with countries such as Sweden providing for a two-year implementation period.

Postcode Area (PCA) targets (in addition to speed and reliability QoS targets) are a disproportionate way to provide assurance that the USO is universal and uniform. They are another example of unnecessary regulation. They do not exist for any other international postal provider. We ask that they are removed given we remain committed to a universal and uniform service, as our USO reform proposal demonstrates. We will however continue to publish PCA performance data to provide transparency to stakeholders of our performance across the UK.

Securing the benefits of reform as quickly as possible

If Ofcom addresses our specific concerns then, taken together, **Ofcom's proposals could deliver a run rate net cost saving of the USO of up to £300mn per year**, dependent on the time taken for reform.

We are confident that these changes can be deployed successfully, as similar changes have been deployed by other postal operators internationally. Nonetheless, they represent a major change in our operation, and it will likely take 18-24 months from the point of regulatory change to implement USO reform across our network and realise the benefits.

Given the need to avoid disruption in the peak period running up to Christmas (and the freeze in operational changes from late October/early November), a delay in Ofcom's decision will push the start of the implementation (and securing the benefits of reform) into 2026. **We therefore ask Ofcom to commit to issuing a final statement by 1 July 2025.**

Change is a constant – an early warning system for the future

The continued structural decline of the letters market means that **further change will be needed over the long term**. The Government's new policy to ensure regulators and regulation support growth provides further impetus to ensure that the regulatory framework contains both the necessary flexibility to adapt to market developments, and early warning systems to ensure there is transparency on when further change may be needed.

Ofcom has all the powers it needs in the short-to-medium term to ensure that the USO survives and thrives. We ask Ofcom to consider how the regulatory framework can be enhanced to ensure change can occur quickly when it becomes necessary. One key tool to assess the ongoing health of the USO is through a regular net cost assessment, which in addition to providing transparency of the ongoing financial sustainability of the USO, will create the evidence for a mature debate on reform into the future.

1. Introduction and case for change

Key messages:

- Royal Mail remains committed to delivering the USO for the UK, but the severe structural decline in letters means the current USO requires urgent modernisation. Customers' preferences and their expectations of the USO have changed significantly over the last 20 years.
- The current requirements of the USO are excessive and are not financially sustainable. Ofcom estimates a £325mn-£675mn annual net cost of the USO to Royal Mail. A USO proportionate to customer needs will be more financially sustainable and will allow Royal Mail to invest in products and services that customers say they want and need, supporting innovation and the UK's economic growth.
- We have engaged extensively with our full range of customers, including over 3,000 consumers, over 500 SMEs, and over 100 large senders and Access providers to understand their needs from reform and help them prepare for the changes. Our findings are very similar to Ofcom's user needs review.
- Ofcom's overall approach to reform is appropriate; we consider that its proposed changes are a vital first step to modernising the USO. This will bring benefits for our customers, for our people, financial sustainability and the UK economy. However, certain aspects of Ofcom's QoS and Access proposals jeopardise the benefits of reform (see Chapters 3 and 4, respectively).
- We urge that reforms to the USO are implemented swiftly. We ask that Ofcom publishes its decision promptly and that regulations come into force no later than 1 July 2025 – a delay to this risks pushing our implementation into 2026, as we cannot start the disruptive process of transformation too close to our peak Christmas period.
- We also ask for a regulatory roadmap and an early warning system to provide clarity on how Ofcom will ensure that the USO continues to meet reasonable customer needs in a fast-changing world, and how the need for any future reforms will be assessed.

Overview

- 1.1 Royal Mail is proud to be the UK's sole designated Universal Service Provider (USP) for post. We deliver a one-price-goes-anywhere service on a range of letters and parcels to over 32mn addresses across the country, six days a week. We also provide a range of commercial services to customers, sole traders, SMEs, large businesses, retailers, public services and other postal operators who use our downstream network.
- 1.2 Ofcom's consultation on the review of the universal postal service and other postal regulation is important, given the limited reform over the last two decades. As set out in further detail below, we share Ofcom's overall approach to, and objectives of, reform and welcome Ofcom's recognition that reform is urgent and necessary.²
- 1.3 In this Chapter, we build on Ofcom's overall case for change and outline our agreement with Ofcom's criteria for assessing the different reform options. The remainder of this document sets out:

² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 1.3 – 1.4.

- the elements of Ofcom’s proposals that we consider appropriate (Chapter 2);
- necessary adjustments to Ofcom’s quality of service (QoS) proposals to avoid them undermining the intended objectives of reform (Chapter 3);
- concerns about how Ofcom’s Access proposal jeopardises our ability to successfully roll out an alternative day delivery model (Chapter 4); and
- the need to reset the regulatory framework and for Ofcom to provide consistency and predictability on how it will manage the further change that continued structural decline in letter volumes will necessitate (Chapter 5).

Case for change – the current requirements of the USO are excessive and are not financially sustainable

- 1.4 The dramatic shift to digital technologies has reduced demand for letters³ from 20bn a year posted at their peak in 2004/05, to 6.7bn in 2023/24. This reflects trends seen around the world as the postal sector sees a transformation in consumer behaviours ushered in by the digital age.⁴ These trends will continue. We forecast letter volumes will decrease to four bn in the next four years.
- 1.5 As Ofcom acknowledges, the economic cost structure of delivering the USO has fundamentally changed. In particular (as detailed further below), the unit cost of delivering a letter is significantly higher than it used to be due to the combination of:
- the existing USO requirements; and
 - the dramatic decline in demand for letters over the last 20 years.
- 1.6 Existing USO requirements mean that we are unable to adapt our delivery model to sufficiently respond to fundamental changes in the cost structure. In other words, the way that the delivery model is organised is misaligned with the customer needs of today. This puts a strain on both the affordability of the service for our customers, and the financial sustainability of the service, and hence confidence in the USO’s viability over the long term.
- 1.7 Around 80% of Royal Mail’s total costs are in delivery. The structural decline in letters, coupled with an increase in the number of addresses to which we deliver, has meant that the average number of letters we deliver per week per address has fallen from c.14 in 2004/05 to c.4 in 2023/24. With falling letter volumes, our posties currently walk past more addresses than they deliver to. Typically, they deliver to only four addresses despite walking past ten addresses (a call rate of c.40%). The current specification of the USO means we cannot reduce costs in delivery in line with volume reduction as we still need to walk down every street in the UK, every day, including delivering to all the new addresses in the UK (from 28mn in 2004/05 to 32mn in 2024/25).
- 1.8 The effect of this change in the underlying cost structure can be seen in our overall performance. The Reported Business (the regulated entity that delivers the USO and a subset of Royal Mail) has managed to make a commercial rate of return in only two of the years since Ofcom took over responsibility for post in 2012. Most recently, the Reported Business has made material losses in 2022/23 and 2023/24 and as Ofcom said when assessing our business plan, *“based on 2023/24 results and our internal analysis, even achieving the full 9% efficiency saving by 2027/28 is not likely to be, on its own, sufficient for the Reported Business to achieve an EBIT*

³ Department for Digital, Culture, Media and Sport, 2022. *UK Digital Strategy*, section 3.

⁴ UPU, 2023. *State of the Postal Sector report*, page 9.

in the range of 5-10%.”⁵ USO reform is a key lever to enable the Reported Business to achieve a commercial rate of return.

- 1.9 Ofcom estimated that “the net cost of the universal service obligation (USO) to Royal Mail was £325m-£675m in 2021/22.”⁶ This cost has been borne whilst Royal Mail has made significant and sustained recent losses. USO reform will help Royal Mail to address the fixed costs in delivery by unlocking a new delivery model, helping to address the significant net cost and deliver net cost savings of up to £300mn.
- 1.10 As well as the change in cost structure, the way that people use the service has changed. The fall in letter volumes since 2006 reflects the proliferation of electronic communication technology over the period. Electronic communication is typically both quicker and cheaper than using post. The most critical paper communications are typically sent using premium services such as Special Delivery or Signed For (or competitor products). The universal postal service is still a very important part of national social, cultural and economic life, but the change in the broader communications picture means the speed of delivery has become relatively less important, compared to both reliability and affordability.
- 1.11 These structural changes mean that the regulatory framework is now very poorly aligned with the customer needs of today and there is a major opportunity for reform to drive a significant improvement in affordability, reliability and financial sustainability.

Figure 1.1: Structural changes in the UK postal sector



- 1.12 Whilst letters are in irreversible structural decline, growth in ecommerce in the UK has helped to ensure that the number of parcels Royal Mail delivers has increased.⁷ But given the competition we face and the excess capacity in the UK market for most of the year, price pressure means that the growth in demand for parcels has not delivered sufficient cashflow to offset both the lower volumes and the increased total costs of delivering letters.
- 1.13 The UK is not alone in facing these issues. The postal sector has experienced a widespread reduction in letters across Europe, prompting other countries to reform their USO to account for changing customer needs. In recent years, countries such as France and Germany have modified their USO to better meet customer needs. Denmark has abandoned its USO

⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 4.14.

⁶ Ofcom, 2024. *Future of the universal postal service – summary of responses and next steps*, paragraph 2.12.

⁷ IDS, 2024. *Annual Report and Financial Statements 2023-24*, page 7.

altogether.⁸ This process will continue as the pace of change in these trends has been increasing.

We have engaged extensively with our full range of customers and stakeholders to understand how their needs have changed

1.14 The figure below summarises the extensive engagement we have had with the full range of stakeholders to ensure our proposals balance their different needs and that they can prepare for the changes. This has consisted of a consumer and SME survey, a large business survey, extensive engagement with over 100 organisations, and a thorough review of the 72 published responses to Ofcom’s call for input (CFI).

Figure 1.2: Overview of stakeholder engagement



1.15 As we set out in our response to Ofcom’s CFI, we commissioned Illuminas to carry out independent customer research in 2023.⁹ The survey asked over 3,000 consumers and 500 SMEs about their current usage of the USO, how demand for Royal Mail’s services is likely to change over the coming years and how they would be affected by potential changes to the USO.¹⁰ We also commissioned B2B International to conduct research with large businesses to provide sector and segment-specific understanding of how changes to the USO will affect their end consumers, as well as how they are likely to respond.¹¹ As we set out in Figure 1.3 below, Ofcom’s findings are very similar to the findings from our 2023 research, giving further assurance that Royal Mail’s proposal for USO reform is the right one.¹²

1.16 Ofcom concluded that whilst the reliance on post is declining, “most people believe they will always need to use the postal service to send or receive letters” and this belief has stayed static over time.¹³ This underscores the importance of reforming the USO in a way that ensures that it remains sustainable, and that it meets the needs of customers now, as well as into the future.

⁸ [New postal law results in changes at PostNord Denmark | PostNord](#)

⁹ Illuminas, 2023. *Consumer and SME research*.

¹⁰ The research followed a similar methodology to the User Needs Research programme we conducted in 2019, which allowed us to understand changing consumer needs over time.

¹¹ B2B International conducted qualitative research with 48 large businesses between September and November 2023. This sought to investigate how and why large businesses currently perceive and integrate our services into their own customer and marketing communications, and the benefits that they derive from using mail.

¹² Ofcom conducted interviews with 3,145 consumers and 897 SMEs between September and November 2024. This looked at how the use of postal services has changed among consumers and SMEs, both as senders and recipients of mail, and how proposed changes to the USO might impact them.

¹³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 3.34.

1.17 The figure below summarises the findings from our research and compares it against Ofcom’s research. As outlined below, aside from the views on tracking in the USO, the themes are similar.

Figure 1.3: Comparison of Ofcom and Royal Mail user needs research

| | RM research ¹⁴ | Ofcom research ¹⁵ |
|---------------------------|--|---|
| Importance of letters | 84% of consumers and 85% of SMEs say there are some things they will always need to send by post. | The reliance on post is declining but <i>“eight in ten people agreed that there will always be things that needed to be sent by post”</i> . |
| Geographic universality | 86% of consumers and 87% of SMEs state the ‘same price for same speed of delivery anywhere in the UK’ is important. | <i>“The majority of users also place high importance on the price of sending post being affordable and universal”</i> ¹⁶ 66% of consumers agree with the concept of universal pricing. |
| Affordability | 95% of consumers and 96% of SMEs consider this important. | 90% of consumers and 86% of SMEs consider this important. |
| Reliability | Paramount for all consumers and SMEs, and especially large businesses, that depend on us to meet their customer needs. | 88% of consumers and 89% of SMEs consider this important. |
| Importance of First Class | Consumers, SMEs and large businesses express a strong preference for retaining a priority service. 82% of consumers and 83% of SMEs highlight its importance. | 78% of consumers and 68% of SMEs said it was important the option of a next day service remains available. |
| Second class speed | 3-4 working days meets the needs of 93% of consumers. | Three working days is acceptable to 85% of people. |
| Delivery frequency | Delivery of non-priority letters two days a week would meet the needs of the vast majority of consumers (92%) and SMEs (93%) if the First Class service were retained at six days a week. Large businesses are willing to accept changes to delivery frequency but want an option to send urgent mail. | Most mail users do not need a non-next day service to be delivered six days a week. |
| Tracking | Appeal and need have grown significantly since 2019. 84% of consumers highlight the appeal of tracking on parcels in 2023, up from 63% in 2019. | Ofcom did not consider <i>“changes to the USO specification for parcels because we did not believe it to be misaligned with user needs”</i> . |
| Saturday deliveries | A five day a week letter service met the needs of 93% of residential customers and 94% of businesses. | 71% of consumer said that if Second Class letters and standard business letters were no longer delivered on a Saturday, it would have no impact, or they would not notice any difference to them. |

¹⁴ Illuminas, 2023. *Consumer and SME research*.

¹⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation* (unless otherwise indicated).

¹⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 5.39.

| | |
|--|---|
| | Only 3% of consumers and 1% of SMEs said that letters delivered on a Saturday are the most important feature. |
|--|---|

1.18 Despite the decline in the importance of letters for many customers, Ofcom has identified some user groups for whom letters remain particularly important including those without access to the internet, with restricted mobility, in rural locations and older users. We note that Ofcom has found that *“while these user groups indicated an increased reliance on postal services, for most groups their letter delivery needs were similar to ‘typical’ users in that they prioritise reliability and affordability, and that speed of delivery is rarely critical.”*¹⁷

1.19 Our research has found that most consumers and businesses attach a high importance to some key elements of the current USO such as geographic universality and affordability for all. There is a clear preference among users for maintaining a choice of next day and non-next day services, and reliability is seen as paramount. The research also shows that a reformed USO will continue to meet customer needs, and will do so better than the current USO offering when considering affordability.

Ofcom’s overall approach to, and objectives for, reform is appropriate

1.20 Given this fundamental change in customer demand and preferences and the impact of this on the cost of the USO, Ofcom identifies three priorities for reform: **affordability, reliability and financial sustainability**.¹⁸

- **Affordability** must be a key focus in the interests of customers, given that change in the cost structure of our current delivery model risks making the service unaffordable, as well as in light of the fact that we are competing with a near-zero marginal cost product (electronic communication).
- **Reliability** has become increasingly important as a dimension of service quality, given the change in the way that people use post. This should therefore take more emphasis relative to speed in the regulation of post.
- **Financial sustainability** is central to customers’ long-term interests to have a postal service that can be provided on a commercial basis, given its importance to much of daily national life. However, the changing cost structure renders it at risk given the current USO specification.

1.21 We consider that the specific proposals must also be guided by the following principles and considerations.

- **Good for our customers** – delivering on customer needs and allowing us to do more for our customers:
 - the changing behaviour of consumers, businesses and the public should underpin the modernisation of the USO;
 - research into reasonable user needs should inform the delivery of these outcomes; and
 - the regulatory framework should incentivise Royal Mail to provide a high-quality service.

¹⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 3.59.

¹⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, chapter 1.

- **Good for our people** – preserving our ability to offer good employment opportunities across the UK:
 - Royal Mail employs over 130,000 people, including in remote and rural areas where there are few other employers;
 - our delivery colleagues are passionate about the service they deliver to our customers. These changes, the largest to our business for over two decades, will enable colleagues in every delivery office deliver an improved customer experience; and
 - we want to be able to continue to offer competitive terms and conditions and to create a more sustainable business for more job security for our people.
- **Financially sustainable and addresses the significant net cost of the USO to Royal Mail** ensuring that the USO can be delivered commercially into the future:
 - securing “*the provision of a financially sustainable and efficient universal postal service*” is the UK Government’s primary objective, as set out in its Statement of Strategic Priorities for postal services;¹⁹ and
 - earnings before interest and tax (EBIT) margin in the range of 5-10% is a first order indicator of whether the Reported Business is earning a commercial rate of return. As Ofcom notes, if there was no reasonable prospect of making 5% then the Reported Business could not be considered financially sustainable. Ofcom acknowledges that achieving a commercial rate of return indicates that the provision of the USO is likely to be financially sustainable in the longer term.²⁰
- **Good for the UK economy:**
 - Ofcom should have regard to the necessity of promoting economic growth when exercising its regulatory functions (as laid out in the Deregulation Act 2015), the Government’s latest policy on the role of regulation and regulators to promote growth²¹ and Ofcom’s own policy that regulatory activities should be proportionate, with a bias against intervention;²² and
 - reform should enable Royal Mail to remove fixed costs that customers do not view as necessary and make investments in those areas of the business with increasingly strong demand, supporting businesses of all sizes to provide the best service to their customers.

1.22 These principles were fundamental to the proposal we set out in our response to Ofcom’s CFI.

The benefits of a more financially sustainable USO

1.23 As set out in further detail below, changing customer demand for post means the Reported Business, delivering the USO as currently specified, is no longer financially sustainable. Financially sustainable reform benefits customers in two main ways: (1) it helps to avoid unnecessary price increases; and (2) it allows for greater investment and innovation in the products and services that customers value the most.

¹⁹ Department for Digital, Culture, Media and Sport, 2019. *Statement of strategic priorities*, paragraph 63.

²⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 4.4 and page 58 ‘purpose of this section’.

²¹ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

²² Ofcom, 2025. *Policies and guidelines*, Regulatory principles. <https://www.ofcom.org.uk/about-ofcom/corporate-policies/policies-and-guidelines/>

- 1.24 The Illuminas consumer research referred to above underscores the importance that consumers place on the affordability of USO products. 95% of people considered that 'Affordability for all' is a key element of the current USO (see Figure 1.3). This aligns with Ofcom's 2024 research which confirms that the large majority of consumers view affordability as key, with 90% viewing it as an important feature of the USO.²³
- 1.25 In a declining letters business with significant fixed costs, the average unit cost will increase over time. Whilst we are investing heavily in improving productivity (see paragraph 1.27), it will be insufficient to offset the impact of structural letter decline. By addressing the fixed cost base (see paragraphs 5.7-5.10 for more detail), USO reform helps to avoid price increases that are both unnecessary and risk hitting tipping points (i.e. the point at which increasing prices becomes counter-productive and leads to lower revenues and accelerated and irreversible letter volume decline).
- 1.26 **Reform allows for greater investment and innovation and supports economic growth.** Delays to USO reform have restricted our ability to invest in core transformation, meaning that, due to our financial position, our customers have not received the benefits that would result from enhanced services from modernising the USO in line with reasonable customer needs, as well as efficiency improvements. We have estimated net cost savings from USO reform of up to £300mn p.a.. Given the current significant net cost of the USO, a better financial position would also provide us with increased cashflow in the longer term to proactively invest in services and respond to changing customer needs, including supporting our customers as they move towards ecommerce and investing in areas where we have had to delay investment.²⁴ This would make the network – which is used for both USO and commercial services – more resilient against future changes in demand. Given our role providing critical national infrastructure, this would also support productivity in the economy more widely.
- 1.27 Some examples of delayed investment are provided below.
- **Automated guided vehicles** at our North-West Super Hub as a follow up to their planned roll out at our Midlands Super Hub. This would drive material efficiency within our distribution operation, ensuring that mail can move through the hub faster, improving QoS for our customers.
 - **Delivery method optimisation** for the delivery of mail and parcels. This programme is redesigning indoor mail preparation in delivery offices, further increasing automation which helps minimise the rising cost pressures on letters, and helps us adapt to the changing mail mix.
 - Giving our customers more convenient and secure delivery options such as:
 - **PIN on Delivery.** A more secure option, particularly for customers sending consumer electronics and some pharmacy products.
 - **Ship to Store.** This is a variant of our click and collect product. This would enable a retailer to ship items to their own stores and align with the retailer's own click and collect service.
 - **Ship from Store.** This enables smaller retailers with a network of stores to dispatch stock directly from stores as well as from their warehouses.

²³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 3.100.

²⁴ In the short term, there will be transition costs as we roll-out the alternate day delivery network.

- **Tracked Ratecard for SMEs.** This is a pricing variant of our tracked service aimed at SMEs and marketplace sellers, offering a simpler approach for smaller account customers.
- **Predicted Delivery Window.** This would improve our current recipient experience by adding more accurate time windows for delivery and collections than we offer today.
- **Consolidated Bulk Delivery.** Improving our customer processes when we are delivering multiple items into customer sites e.g. returns volumes to retailers.
- We have also delayed **decarbonisation investments** across our estate and fleet. Such investment delays include investment in upgrading lighting, heating and buildings, as well as electric vehicles.

We urge Ofcom to implement USO reform swiftly

- 1.28 To obtain the benefits of reform as soon as possible, we urge Ofcom to implement changes swiftly. Ofcom's stated intention is to enact any regulatory changes at the same time as Ofcom issues its decision document.²⁵ Our current planning assumption for the deployment of USO reform is that Ofcom will issue its decision document on 1 July 2025, and that it makes the necessary regulatory changes on the same day to enable us to deploy our alternate day delivery model, Monday to Friday, for non-priority letters. Our approach to deployment will be strengthened by our pilot programme (that has been running from February), which will improve the probability of successfully deploying a new model to the benefit of customers. We intend to deploy a new alternate day delivery model across all our delivery offices on a phased approach, completing around four to six weeks in advance of our peak period in the lead up to Christmas 2025.
- 1.29 If Ofcom does not issue its decision document and change the regulations on or around 1 July 2025 in line with our planning timescales, there is a risk that we will be unable to complete our phased roll out across our delivery office estate before Christmas.²⁶ Running a mixed model, where some delivery offices operate on our current delivery model and others work to our alternate day delivery model, would inject considerable complexity and risk into our operation at the most pivotal time of year for our customers. Should Ofcom's decision be delayed until after July 2025, it is highly likely that we would have to delay the deployment of our alternate day delivery model from July 2025 until January 2026, to avoid operating a mixed-model delivery network during the Christmas peak. We have estimated that this six-month delay would reduce the expected benefits of USO reform by \pounds in 2025-26.²⁷
- 1.30 In short, a delay to Ofcom's regulatory decision beyond July 2025 will have a detrimental impact on the financial health of the business. This would be in addition to other headwinds that we have to absorb, such as a higher tax burden resulting from the Government's increase in employers' national insurance. We estimate this will increase our national insurance bill by c.£120mn p.a. as a result of Royal Mail's role as a major UK employer of c.130,000 people (but may not increase the national insurance bill by as much for many of our competitors, who have a different labour force model).²⁸

²⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 9.4.

²⁶ This is the first phase of our deployment. From January 2026, we will implement revisions in our delivery offices to redesign our routes to more accurately balance workload and hours.

²⁷ We provided Ofcom with further details to support this estimate in December 2024.

²⁸ IDS, 2024. *IDS results for the 26 weeks ended 29 September 2024*, page 1.

2. Ofcom’s headline proposals enable a fit for purpose delivery model

Key messages:

- The proposed USO reforms protect what matters most to our customers: a one-price-goes-anywhere service. It maintains a next day letter service for c.32mn UK addresses six days a week and adds new QoS reliability targets, reflecting the importance of these service parameters to customers. Ofcom recognises that the changes to regulation for non-next day letters meet the ‘reasonable’ needs of users.
- The proposals for non-next day letters also promote affordability for customers and a more financially sustainable USO. By resetting the USO to meet the needs of today’s customers, Royal Mail can make operational changes that reduce the current net cost of providing the USO. A reset, reformed USO is also beneficial to our people, potentially enabling them to work fewer Saturdays and Royal Mail to continue to offer competitive employment terms and conditions.
- We are running pilots to ensure a smooth transition for our customers to a reformed USO, listening to and building on the feedback of our people.

Introduction

- 2.1 The USO should be adapted to respond to the changing preferences of postal customers, and the changing cost structure of delivering post in the UK.
- 2.2 Ofcom identifies that the reformed regulatory framework should meet reasonable user needs, support a financially sustainable universal service, incentivise us to deliver a high-quality service, and help encourage innovation in the postal industry. We also note Ofcom’s provisional conclusion that *“the current [UK letters] market meets, and in the case of delivery frequency of non-priority letters over caters, for the reasonable needs of users when taken as a whole”*,²⁹ and view this as an appropriate starting point from which to consider USO reform.

The proposed USO reforms protect what matters most to our customers

- 2.3 In our April 2024 CFI response, we set out how a new alternate day model could work.³⁰ In Ofcom’s consultation, it explained its understanding of what the changes to the delivery frequency of Second Class letters, USO QoS and Access condition would mean for postal services.³¹
- 2.4 Ofcom proposes to maintain the requirements for delivery of First Class letters, as well as the current parcels USO specification. We want to protect what matters most to our customers, including the one-price-goes-anywhere service to the c.32mn addresses in every part of the nation. This means we will continue to provide:
 - First Class letters six days a week;
 - parcels up to seven days a week; and
 - collections six days a week.

²⁹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, page 30.

³⁰ Royal Mail, 2024. Response to Ofcom’s call for input on the future of the universal postal service, chapter 5.

³¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, chapter 5-7

- 2.5 Ofcom’s proposal that all non-next day letters are delivered every other weekday is appropriate. We consider that this meets the reasonable need of customers and that it will promote customer priorities such as affordability and reliability, whilst helping make the USO more financially sustainable. Delivering non-next day letters every other weekday unlocks Royal Mail’s ability to realign our operational capacity and improve our network efficiency. As Ofcom has observed, *“When delivering letters, the overall cost of delivering a single letter to a house and delivering five letters to the same house is nearly the same. This means that it is much more efficient to deliver lots of mail at once than to deliver the same amount of mail over several separate deliveries.”*³²
- 2.6 These reforms mean we can significantly increase the proportion of addresses to which we deliver on each core walk by consolidating the non-next day mail over two days. This also increases our average number of letters per delivery point (see paragraphs 5.8-5.10 for a description of the impact of changing the call rate). This will improve our economies of scale, reducing the average cost of delivering a letter, and thereby supporting customer affordability. It enables Royal Mail to continue with our ‘feet on the street’ delivery model that significantly contributes to Royal Mail having the lowest final mile delivery emissions.

We will deploy change as quickly as we can; in rural areas there will be limited change

- 2.7 We have been looking at how we can accelerate these operational changes unlocked by USO reform, given the increased cost pressures facing the business. We will implement the changes in two stages as set out below, subject to Ofcom’s decision remaining as it has outlined in its consultation. It would take up to 18-24 months from the point of regulatory change to implement fully the necessary operational changes across our network and realise the majority of the benefits.
- Stage 1: As soon as practical after Ofcom has reached a decision and changed the regulations – our planning assumption is that the revised regulations will come into force on 1 July 2025 – we will adjust our operational design to allow the deferral of mail not due for delivery that day to be held at both mail centres and delivery offices. We will define alternating delivery days for each delivery point for non-next day mail (whilst delivering the new service promise for all of our products). In turn, our delivery offices will undergo changes to duty structures (i.e. the shift patterns of our operational staff) to create new core and combined routes (further detail provided below). This will be rolled out across all our delivery offices in advance of our next peak season which will begin in November 2025.
 - Stage 2: From January 2026, we will implement revisions in our delivery offices to redesign our routes to balance workload and hours more accurately.
- 2.8 To deploy our alternate day network, we will create core and combined routes in our delivery model.
- **Core routes:** every weekday, some of our people will alternate between two routes, delivering all products. Their mail bag will contain parcels, next day mail and roughly two days’ worth of non-next day mail. Due to having two days’ worth of non-next day mail, we expect call rates to increase from about 40% to about 70% of addresses.
 - **Combined routes:** every delivery day, some of our people will deliver any next day letters (and non-next day items going to the same address) only and all parcels to the routes that are not due a delivery by the core duty. Due to lower volumes, the combined routes

³² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 4.22.

will cover around two existing routes in terms of street distance travelled (mainly via a van).³³ On these combined routes, we expect the call rate to be about 15-20%.

- 2.9 In some cases, it may not be feasible to combine two core delivery routes into one combined route, especially where our posties currently travel long distances to deliver mail. In rural areas, deliveries are typically carried out through single van routes, with one postie delivering in a van, driving from one address to the next. These routes tend to cover longer distances. Combining two long rural routes may make it unfeasible to complete the delivery route within the allotted time frame due to the distances involved.
- 2.10 Therefore, under the new delivery model, we expect that rural customers will see limited change. They will continue to receive their mail on weekdays as usual, with an adjustment to Saturdays when they will typically receive next-day letters and parcels only. Operationally, letters for these rural routes alongside all other routes will be optimised through our letter sorting equipment so that we are able to combine letters for delivery to the same address. This will maximise the amount of mail to be delivered to each address and improve the efficiency of the delivery route.

The proposals for non-next day letters promote affordability and financial sustainability

- 2.11 As we set out below, the alternate day delivery model and the removal of Saturdays as a working day for non-next day letters (i.e. for Second Class letters and Non-Priority Access Mail) are good for customers, financial sustainability and economic growth, and our people.

The headline proposals are good for customers, supporting affordability and meeting their needs

- 2.12 As Ofcom has set out, “A universal service obligation for the provision of postal services that is not aligned with user needs could result in people paying higher prices than necessary due to the higher costs of Royal Mail in providing a service that is over-specified.”³⁴ Ofcom’s proposals enable up to £300mn of net cost savings, which in turn will help to keep Royal Mail’s services affordable by avoiding higher prices than would otherwise be the case for customers.
- 2.13 Ofcom’s conclusion from its research is that “the needs of most users would still be met with a reduced delivery frequency for Second Class letters, provided a next day delivery service continued to be available” and that “the needs of those who report a greater reliance on letter services are similar to most users and there are products available in the postal services market that will continue to meet their needs.” As a result, Ofcom has found that “the current UK letters market meets, and in the case of delivery frequency of non-priority letters, over caters for the reasonable needs of users as a whole.”³⁵ People living in rural areas (9%), those in deep rural areas (7%), and those with no internet connection (4%) are less likely to fall into the category that said that USO reform would mean their needs would not be met and there would be a significant or very significant negative impact.

The headline proposals are good for financial sustainability, and economic growth

- 2.14 Ofcom’s proposals will help to put the universal service on a more financially sustainable footing. Reform proposals can support economic growth in the following ways.

³³ Our initial deployment of combined routes is that it will be a combination of two core routes. In due course, we will review whether it is possible to optimise the combined routes to cover more delivery points.

³⁴ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 5.3.

³⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, page 30 ‘purpose of this section’.

- First, the current financial challenges facing our provision of the USO is holding back economic growth as it means that there is less capital available for investment in the growing parts of our business. We list a number of examples of delayed investment in paragraph 1.27, By strengthening the business as a whole, such investments would also support long-term resilience and hence the financial sustainability of the USO.
- Second, reform should allow us to deliver a service that can be relied on by businesses and therefore support economic growth and commercial activity.
- Third, a more sustainable business means that we can continue to offer competitive terms and conditions to our colleagues who work across the UK, including in areas where there are few other employment options.

The headline proposals are good for our people

- 2.15 The new delivery model will allow us to continue to offer competitive terms and conditions in the industry. These changes give our workforce greater flexibility within their roles, providing staff more options around their preferred delivery method and full- or part-time working.
- 2.16 We intend to operate a variety of roles, creating a wider range of jobs within the delivery operation.
- Core routes will be mainly foot based. They will suit our posties who prefer a more traditional ‘feet on the street’ delivery role. We believe our posties on core routes will continue to know their routes and their customers well.
 - Combined routes will be mainly van based which suits our posties who prefer to deliver on their own in a van. These routes will mainly be van-based deliveries and would concentrate on delivering parcels and next day letters. Posties are often familiar with several routes in their office, and so we expect that posties on combined routes will also continue to enjoy a deep understanding of their route and their customers.
- 2.17 The removal of the requirement to deliver non-next day letters on Saturdays enables us to reduce the need for Saturday working. Saturday deliveries will be limited to combined routes where only next day letters and parcels will be delivered. These changes will potentially enable our people to have on average one additional Saturday off every six weeks. Engagement with our people suggests that this is likely to be very popular with our frontline teams.
- 2.18 Ofcom’s proposals will mean that, under this new model, there are fewer delivery roles. However, we expect to be able to manage the vast majority of change through natural turnover, a reduction in agency/short-term contracts and voluntary redundancy. We do not intend to make compulsory redundancies. As explained in paragraph 2.7, the new approach to deployment will accelerate the benefit to customers of USO reform. Due to the faster deployment, there will be less natural turnover for us to draw upon than we envisaged in April 2024, when we proposed an 18-24-month deployment plan. We have therefore revised our broad estimate of the number of voluntary redundancies that will result from USO change. We anticipate a final number between 1,500 and 3,000, although this remains a projected view and is subject to full trade union consultation through which we will seek to minimise the need for voluntary redundancy.
- 2.19 We continue to work with both our unions on the implementation of the proposed USO reform and welcome their constructive engagement.

We are running pilots to ensure a smooth transition for our customers to a reformed USO

- 2.20 USO reform is a major change initiative that we need to get right for our customers, our people and our company. The pilots are designed to ensure that everything runs smoothly, and we can deliver a better customer experience if we deploy any universal service changes. These pilots remain subject to Ofcom's decision on universal service reform and the implementation of new regulations.
- 2.21 We plan to pilot our new delivery model in up to 37 of our c.1,200 delivery offices around the country. These pilots are being deployed progressively over time and started in February 2025. Given the limited number of locations (c.3% of delivery offices), and the phased deployment, we expect there to be minimal impact on our customers. Customers in the pilot delivery offices will continue to receive First Class letters and all parcels six days a week and receive non next day letters on alternate weekdays. These pilots will provide us with essential insights that will be invaluable in the future, delivering critical data and feedback that will help us improve and refine our operational deployment plans. We are actively monitoring the customer experience during the pilot phase.

3. Quality of service

Key messages:

- Our recent USO QoS performance has improved year-on-year and we are working hard to continue to improve it for our customers, whilst managing an extremely challenging financial backdrop.
- USO QoS targets need to rebalance the customer priorities of reliability over speed, as well as taking account of customer affordability and financial sustainability. Over-specification of the USO drives costs into our business, leading to unnecessarily high price increases for our customers.
- For First Class, whilst it is clearly the most stretching of the three options that Ofcom is consulting on, Ofcom's proposed D+1 speed target of 90% strikes the best balance between customer needs, avoiding unnecessary price increases and promoting financial sustainability.
- Introducing reliability targets at an appropriate level is a positive step to rebuild customers' trust: they will give customers confidence that their mail will arrive within a reasonable time. However, Ofcom's proposed 99.5% First Class D+3 reliability target is over-specified for customer needs and will drive significant and disproportionate cost (c.£120mn-£180mn) into our business,³⁶ harming affordability for customers. Based on statistical analysis, we have a 1 in 150 chance of achieving this annual reliability target. It therefore jeopardises both the sustainability benefits, and the affordability objective which are at the core of Ofcom's package of reforms. In response to Ofcom's consultation and the activities we have undertaken in recent years to improve 'tail of the mail' performance, we are revising our proposal to 99% D+4.
- Ofcom's proposed modernised national Second Class speed target of 95% D+3 is appropriate, along with introducing a reliability target. However, Ofcom's proposed reliability target of 99.5% D+5 is too high and will undermine reform benefits by leading to disproportionately higher spend and hence higher prices for customers. Instead, we propose a Second Class reliability target of 99% D+5. This is a stretching but proportionate target that balances customer needs and affordability.
- We are committed to delivering a universal, uniform service for our customers. But postcode area (PCA) targets constitute 'gold plated' regulation, are disproportionate and should be removed. No other European countries have them. We will continue to publish our PCA performance to provide customers with visibility of our performance across the UK. If Ofcom maintains PCA targets, they need to be reset to align with the new First Class speed target.
- Given the significant operational change USO reform entails, it will take time to deploy the change, including moving to the new regulated QoS targets. Flightpaths for the First Class and Second Class speed and reliability targets are necessary to ensure lasting success. They should reflect the deployment plan, with a flightpath to achieve the new targets by the end of 2026/27. Further, there should be a review mechanism for the reliability targets after March 2026 when more information will be available to assess whether the proposed levels are proportionate and achievable.

³⁶ Based on Royal Mail achieving Ofcom's proposed national First Class D+1 target is set at 90%

Introduction

- 3.1 We continue to work extremely hard to improve our QoS for our customers. Year-on-year improvements to our performance demonstrate this.³⁷
- 3.2 We support the proposal to introduce reliability targets for First and Second Class mail. However, the reliability targets for First and Second Class mail should be lower to better balance what customers actually need, the increasing costs of meeting QoS targets and the importance to customers of having an affordable service. The consequence of Ofcom's proposal could be wiping out around half of the estimated up to £300mn net cost savings that reform would bring, and the consequent benefits to customers of improved affordability. Hence, we propose 99% D+4 for First Class and 99% D+5 for Second Class.
- 3.3 There are two other areas where we consider that Ofcom's proposals jeopardise the sustainability and affordability benefits it is pursuing.
- First, **PCA targets are not required** to demonstrate that the provision of the USO is universal and uniform. We would continue publishing this information to provide visibility on our performance across the UK. If Ofcom maintains these targets, they should be consistent with the new First Class speed target.
 - Second, given the significant changes to our operations needed to move to the new delivery model **there should be a flightpath to achieve the new targets** to provide customers with greater certainty over when QoS levels can realistically be achieved.

Customers no longer need such a high speed target for First Class and it should be reset to 90%

- 3.4 Ofcom assessed three main options for the First Class D+1 target: 80%, 85% and 90%. Ofcom proposes to set the First Class national D+1 speed target at 90%. Subject to our concerns in relation to Ofcom's proposed reliability targets described below (and Access regulation described in Chapter 4), we believe this level of speed target is stretching but achievable. A First Class product is still important to our customers, with 78% of consumers and 68% of SMEs saying it is important that the service remains available.³⁸ However, it is important that customer needs are met in line with the speed they are willing to pay for.
- 3.5 As we set out further in Appendix 1, a 90% D+1 speed target would:
- be consistent with independent customer research which shows that speed is of less importance relative to affordability (important to 90% of users) and reliability (important to 88% of users) and that modernising the speed target would still meet 97% of user needs;³⁹
 - be above the other, lower First Class targets that Ofcom is also consulting on (80% and 85%), reflecting the need to provide our customers with sufficient assurance that their mail will arrive in time so that we can maintain volumes in the network and avoid higher prices than would otherwise be the case for customers;
 - reflect the changing economics of the delivery network which make it more costly to meet higher QoS targets; and

³⁷ For Q3 2024-25, First Class QoS improved 6.1% year-on-year and Second Class QoS improved 2.2% year-on-year.

³⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 3.90.

³⁹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, page 96-97

- be at the top relative to comparable countries.

Ofcom’s proposed First Class D+3 reliability target of 99.5% strikes the wrong balance between financial sustainability, affordability and reliability

- 3.6 Reliability targets should give customers confidence that items will arrive within a reasonable time. Compared to speed targets alone, reliability targets provide “an improved guarantee of the delivery window for mail items.”⁴⁰ Customers prioritise reliability (certain delivery) over speed (quick delivery). This is demonstrated in Ofcom’s 2024 research, as outlined in Chapter 1.
- 3.7 Ofcom positions the new reliability target as a “supporting target”⁴¹ or “secondary”⁴² to the primary speed target. The supporting target needs to demonstrate to customers that they will receive a reliable service and needs to be set at a level that reflects that, but should not be more onerous than what is required to meet their needs. There needs to be a high degree of confidence that we can achieve the target when the primary target is met. Further, as Ofcom has set out in relation to PCAs, the secondary target should not be set at a level where, in effect it may become more binding than the primary target.⁴³ Otherwise, customers will face unnecessarily high price rises due to the increased spend required to seek to achieve the new reliability targets.

How do people use First Class post and what constitutes ‘reliability’?

- 3.8 The USO provides customers with options when choosing which product best suits their needs in relation to factors such as speed, reliability and price. Our research, as well as Ofcom’s, shows that customers value both speed and reliability – but that customers place significant emphasis on affordability.
- 3.9 Royal Mail provides three main USO services to meet different customers’ needs (see figure below). Customers with a preference for an item to arrive the next day can opt for either the Special Delivery Guaranteed 1pm (SDG 1pm) product or the First Class product, depending both on their willingness to pay and how important it is for the item to arrive the next day. Customers sending an item that is less time sensitive may opt for Second Class as it is the cheapest option.

Figure 3.1: Consumer USO services

| USO Service | Service description | Current regulatory target |
|---|--|----------------------------------|
| Special Delivery Guaranteed by 1pm | Premium service with guaranteed delivery by 1pm next day | 99.0% D+1 1pm |
| First Class | Delivery aim by next day | 93.0% D+1 |
| Second Class | Delivery aim within three days | 98.5% D+3 |

- 3.10 A First Class service clearly needs to be characterised by higher service specifications than Second Class. However, at the same time, when considering the appropriate regulatory target for First Class reliability, the decision should reflect where a First Class service sits in a hierarchy of customer options. In particular, the very small number of customers for whom a 99% D+4 reliability target is not sufficient will have access to the more premium SDG 1pm (as well as

⁴⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.61.

⁴¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.57.

⁴² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.13.

⁴³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.51.

commercially offered Royal Mail and competitor products). The majority of customers for whom a 99% D+4 reliability target is sufficient should not have to bear the cost of a higher specification that is required only by a very small number of customers.

- 3.11 For the reasons we explain further below, we consider 99% D+4 will constitute a reliable service in the context of First Class mail for the vast majority of customers, especially when traded off against corresponding price impacts (and financial sustainability impacts). Whilst our customer research was focussed on the relative importance of the speed target (rather than a reliability target), it demonstrated that customers put high relative weight on affordability when trading off price and quality standards see Chapter 1. Ofcom has provided no compelling evidence or rationale as to why the target needs to be set at 99.5% D+3 (Ofcom’s proposal) in order for customers to consider the service to be reliable. When we meet the target of 90% D+1, we estimate that we would only achieve this annual target 1 in 150 times. There would be major cost implications (as set in paragraphs 3.14-3.33) of a reliability target of 99% D+4 compared with Ofcom’s proposal of 99.5% D+3. Ofcom’s proposed target is simply not justified or achievable at reasonable cost.

UK cross-sector benchmarking suggests universal service reliability targets are in the range of 98% to 99%

- 3.12 Whilst none of these sectors are a perfect comparison to post, we have considered how ‘reliability’ or similar terms are defined in other sectors. The figure below shows that targets set between 98% and 99% are indicative of an effective universal service.
- 3.13 For the avoidance of doubt, we are not suggesting that 1-2% of the mail in our network should not be delivered. We will deliver near 100% of the mail that we handle.⁴⁴ But, we suggest that, based on the cross-sector benchmarks, a reliable universal service has a target of 98% to 99%. These indicate that a very high level of reliability or universality is seen as being achieved at levels a little below Ofcom’s proposed 99.5%. In comparison, setting a target of 99.5% D+3 for First Class USO is relatively very high. We explain later in this chapter that this could cause Royal Mail to incur significant cost to seek to meet this target.

Figure 3.2: UK cross-sector benchmarks⁴⁵

| Measure | Target or observed level | Relevant language used |
|---|---|--|
| Digital terrestrial television coverage (proportion of households) | <u>98.5%</u> (both the required and the observed level) | <i>“universal”</i> |
| Super-fast broadband coverage (proportion of households) | <u>98%</u> (observed) | <i>“almost all”, “very high”</i> |
| Project Gigabit roll-out (proportion of households) | <u>99%</u> of households by 2030 (target) | <i>“nationwide coverage”</i> <i>“full gigabit coverage”</i> |
| Receipt of mains public water supply (proportion of the population) | <u>99%</u> (observed level) | |

⁴⁴ For example, a very small percentage of our volume may be mis-delivered and then not all of that mail may be put back into our network.

⁴⁵ Government/regulatory targets and observed performance for TV, broadband and water.

Ofcom's proposed First Class reliability target of 99.5% D+3 drives significant unnecessary costs, undermining the core sustainability objectives of USO reform, leading to unnecessarily higher prices for customers

- 3.14 Ofcom recognises that over-specified targets lead to higher price rises for customers than would otherwise be the case. This is due to the need to recover the associated costs of achieving an unnecessarily high target. Such over-specification damages customer outcomes. Ofcom considers that the current First Class 93% D+1 speed target *“is no longer striking the right balance for consumers, given the cost implications for the provision of a USO specified in this way”*⁴⁶. However, whilst Ofcom has recognised this concern for the primary First Class QoS target, it does not seem to recognise that its proposed reliability target for First Class 99.5% D+3 will damage customer outcomes in a similar way.
- 3.15 Ofcom's rationale for a 99.5% D+3 target assumes that it would not result in significant additional costs. As we set out in further detail below, this is fundamentally incorrect. Ofcom's proposed 99.5% D+3 target would require significantly more resource (and spend) than is necessary to be built into the day-to-day operation, resulting in activities that lower productivity. We explain below the main factors which cause First Class mail delay and why we would need to spend significantly more (i.e. an additional c.£120mn-c.£180mn) than what we have assumed in our USO reform proposal to meet Ofcom's proposed 99.5% D+3 regulatory target. Even with this significant additional spend, it is not guaranteed we could achieve Ofcom's proposed level.
- 3.16 The remainder of this section sets out:
- the operational causes of delay in First Class post (as a basis for determining what would need to be done to achieve 99.5% D+3);
 - the specific measures that would be needed to get to 99.5% D+3 and the potential costs involved, with no guarantee that it will deliver the expected outcome;
 - how the nature of the network makes it practically impossible to invest in a way that only improves D+3 performance, rather than performance across the board;
 - our confidence, based on statistical analysis of past performance, that we could meet our proposed reliability target of 99% D+4 – but not Ofcom's proposed level; and
 - how Ofcom's proposal would make the UK a significant outlier internationally – even our proposal would put the UK at the very top of the pack.

The operational causes of delay in First Class post are mostly issues in collections, processing and delivery

- 3.17 To evaluate how Royal Mail would meet a 99.5% D+3 target, it is necessary to understand which parts of our operational pipeline could be improved. Using our RFID data⁴⁷ coupled with survey panellist information on posting and receiving mail, we have analysed where in our operational pipeline delays occur as First Class QoS performance approaches 99.5% D+3.⁴⁸ Most delays are caused in collection (✂), processing (outward/inward mail centre ✂) and delivery (✂).

⁴⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.40.

⁴⁷ Radio-frequency identification (RFID) tags are posted through our network to measure USO performance.

⁴⁸ The percentage delay caused by each pipeline segment is informed by the RFID (radio frequency identification) data comparing 99% QoS to 99.5% QoS for First Class mail. RFID tracks the flow of post through the different parts of the operational pipeline in order to identify problem areas and improve delivery services. The remaining gap from 99.5% to 100% is where we do not have information to allocate the delay to a pipeline area.

- 3.18 Delays are sometimes caused by more than one issue across the pipeline, but we only have data in relation to the first issue due to the nature of the data capture. We are not able to segment the delay into the constituent parts of the pipeline, e.g. where mail was delayed due to a combination of a collection delay and a processing delay, it would be recorded as a collection failure as the first point of failure. Where multiple issues occurs or, when issues occur across more than one part of the pipeline, it is likely that the impact of pipeline segments in the latter part of our pipeline is under-recorded. Accordingly, the analysis of where the delays occur should be seen as indicative rather than precise.

Figure 3.3: Simplified Royal Mail operational pipeline



- 3.19 In collection, around $\frac{1}{3}$ ⁴⁹ of the failures are where items are collected two or more days after the date of posting. This can be caused by issues in being able to open the postbox due to key failure and vandalism. Failure can also occur due to resourcing challenges.
- 3.20 Processing issues can be due to a range of factors, such as machine breakdowns as well as resourcing issues such as sick absence and volume volatility. They can also include machine mis-sorting due to inaccurate address interpretation, poor customer addressing or human error in our mail centres. Where an item is mis-sorted in our network, the item may require a full network recirculation (i.e. from the delivery office to its local mail centre on to another mail centre then to the correct delivery office) or a part network circulation (i.e. delivery office to its local mail centre and then to the correct delivery office).
- 3.21 When mail arrives at our delivery offices, it is due for delivery that day. However, this may not be possible if the delivery office is affected by issues such as resourcing (e.g. due to sickness or high vacancies or staff turnover), volume variability or bad weather. These will affect our ability to deliver, and also to collect mail whilst on delivery. Furthermore, due to human error, mail could be mis-delivered, i.e. delivered to the wrong address. We estimate, based on survey information, that c.0.3% of mail is mis-delivered.⁵⁰ Current data indicates only around a third of this is put back into the postal system. When mis-delivery occurs, we also lose control of the speed of recovery. In our operational experience, mis-delivered First Class mail is very unlikely to be delivered by D+3.

The specific measures that would be needed to get to 99.5% D+3, and the costs involved, would undermine the architecture and therefore benefits of USO reform

- 3.22 We have estimated that it will cost c.£60mn-£80mn to improve First Class D+1 QoS from 85% to 90%. We expect to be able to meet our proposed reliability target of 99% D+4, when meeting a 90% D+1 target, based on statistical analysis. We have set this out in paragraphs 3.34-3.44 below. However, meeting Ofcom’s proposed 99.5% D+3 reliability target would require us to spend an additional c.£120mn-c.£180mn p.a. by creating additional capacity that is not required in most instances. This wipes out half the cost savings of USO reform, jeopardising the sustainability and affordability benefits, including for customers.

⁴⁹ This is $\frac{1}{3}$ of the $\frac{1}{3}$ of failures attributed to collections as explained in paragraph 3.17.

⁵⁰ This is from the Correctly Delivered Mail survey that measures all items delivered by Royal Mail. The average from 2011/12 to 2023/24 is 99.7%, i.e. 0.3% mis-delivered. It is an average across all mail – letters and parcels. We assume it applies equally to all products.

3.23 We have identified actions and associated costs that could be undertaken to increase the probability of achieving Ofcom's very challenging proposed 99.5% D+3 performance (see bullet points below). However, there is no guarantee that these expensive activities would enable us to achieve Ofcom's proposed targets but would reduce efficiency across our network.

- **Delivery**

- **Resourcing, volume volatility and the impact of bad weather** – additional staff would help to address where there is high sick absence and/or spikes in volume. We do not know in advance where sick absence or spikes in volume will occur. Hence we are not able to take targeted spend, rather we would need to spend across our network. We have estimated that we would need on average around two additional operational staff per c.1,200 delivery offices.

- **Mis-delivery and delay to mail.** We would need to put in place additional mail preparation quality checks and on-delivery workplace coaching, across our whole delivery network. However, delivery to an incorrect address is impossible to eradicate.

- **Collections** – we would need to put in place additional quality checks to make sure that the collection activities (collection routes and collection on delivery) had taken place along with additional recovery activity to address missed collections. In other words, we would need to employ more people in collections.

- **Processing** – we would need to address (1) resourcing and (2) mis-sorts. On resourcing, we would put in place further people to seek to mitigate unexpected absence and volume variability. On mis-sorts, we would undertake additional quality checking to seek to reduce mis-sorts. The additional quality checks are further controls over the processes we already have to monitor the processing of mail – both automated and manual.

- **Local distribution network** – we would also need to spend on additional mis-sort recovery runs.

3.24 The figure below sets out these actions along with a high-level cost estimate. It is possible that we could undertake these activities and still not be able to achieve this high level of performance, or that the costs to achieve this performance could be significantly higher. It is significant cost for marginal improvements in QoS where the customer benefits are undemonstrated.

3.25 Spend in these areas, although helpful, is often imprecise in achieving benefits particularly at high levels of QoS, i.e. we may spend in areas where there is little or no benefit as we do not have perfect foresight to know where issues arise on the day. Rather, we would have to invest across the whole pipeline (and nationally) to seek to improve quality.

Figure 3.4: Indicative additional cost to increase First Class D+3 QoS performance to 99.5%

| Pipeline | Issue | Mitigation | Cost |
|--------------------------|--|---|------------------------|
| Delivery | Insufficient people on the day (due to sick absence, recruitment/ retention, workload variability) | Additional ✂ FTEs ⁵¹ to cover short-term unexpected absence or volume variances | ✂ |
| | Mis-delivery and delay to mail (e.g. mail held in van in error) | Additional mail preparation quality checks and on-delivery workplace coaching to reduce mis-delivery requiring additional FTEs | ✂ |
| Collection | Insufficient people on the day (due to sick absence, recruitment/retention, workload variability) Need more collection monitoring | Additional quality checks and recovery of missed collections requiring additional FTEs | ✂ |
| Processing (mail centre) | Insufficient people (see above) Mis-sorts | Additional duties to mitigate unexpected absence and volume variance to ensure adherence to workplan, resource to undertake additional quality checks | ✂ |
| Local distribution | Mis-sorts | Additional local mis-sort recovery runs | ✂ |
| Total | | (Business estimate rounded) | ✂ |
| | | Range | c.£120mn-£180mn |

3.26 The figure above should not be seen as a ‘pick and mix’ of options. For example, for mis-sorts:

- it cannot be guaranteed that the spend would fix 100% of mail centre mis-sorts;
- mis-sorts can occur in other parts of the pipeline; and
- mail that was mis-sorted could also be subject to other delays in collection or delivery.

3.27 It is, therefore, very difficult to target spend to address reliability or to isolate spend on a single pipeline segment when we are seeking to improve QoS performance that is already approaching 100%.

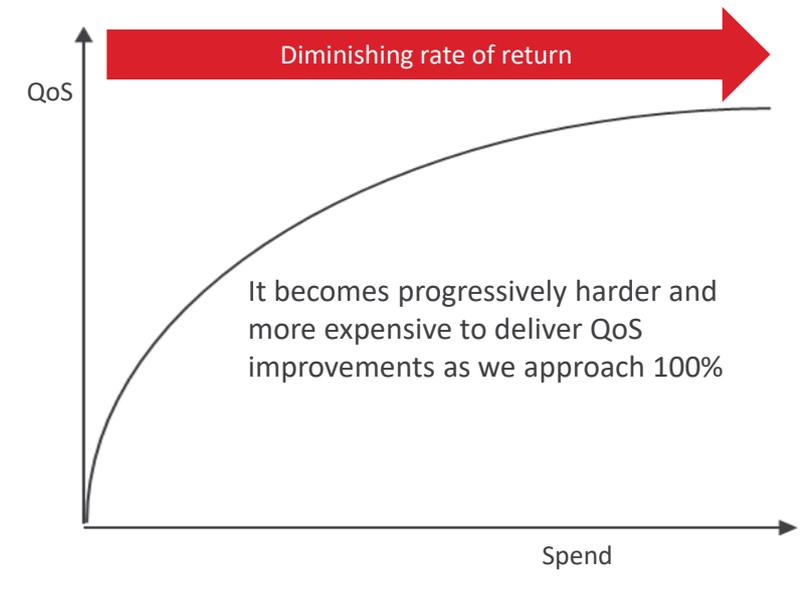
The nature of the network makes it practically impossible to invest in a way that targets D+3 performance, rather than performance across the board

3.28 As the QoS target approaches 100%, it becomes progressively harder and exponentially more expensive to improve QoS. Our network, particularly in delivery, is a manual network where it

⁵¹ Full time equivalent people in our operation.

is impossible to eradicate human error. Manual mis-sorting in our mail centres or mis-delivery by our frontline staff is impossible to completely remove. This makes a 99.5% D+3 target much more difficult to achieve than a 99% D+4 reliability target. As Ofcom has stated, “Many of the costs of achieving high performance relate to mitigating the impact of adverse random events, by including slack in the system and having redundancy for when things go wrong.”⁵² The figure below illustrates that increased spend leads to diminishing returns in QoS performance, especially the closer that it approaches 100%.

Figure 3.5: Diminishing rate of return of spend



- 3.29 Ofcom has stated that the operational flexibility from a lower D+1 target will help Royal Mail to achieve 99.5% D+3 and, without setting out how, that there is a trade-off between investment in next day delivery and in delivering mail that has missed its initial target.⁵³ This is not correct.
- 3.30 When our network is operating normally, i.e. mail is delivered to its specification, we do not see long ‘tail of the mail’⁵⁴ issues. In these circumstances, when ‘tail of the mail’ issues arise, they typically involve very low volumes of mail. We have business as usual operational resilience processes that are deployed throughout our pipeline that, in normal circumstances, ensures items are recovered and correctly delivered by the following day.

⁵² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.50.

⁵³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.33. “This includes the trade-off between investment in meeting the 93% target for next day delivery, or investment in delivering items that have missed their initial target (i.e. the tail of the mail)”.

⁵⁴ This is the QoS performance for mail items that have missed the delivery specification.

Example – delayed mail within our delivery network

When mail arrives in the delivery office, it is all due for delivery that day. We do not know if the mail is on time or has been delayed further upstream in our pipeline.

If a postie is unable to complete a walk and deliver all the mail on that day, they will return the undelivered mail to the delivery office. The mail is then resorted into the delivery preparation frame to be delivered the following day. We do not have space in our delivery offices to have separate frames for this delayed mail. We do not mark each of the individual items as having been returned to the office.

The following day, mail arriving for delivery would be added to the preparation frame and merged with the previous day's mail to arrange the mail in delivery point order for that route. The postie would have no practical way to differentiate between mail from that day and mail from the previous day. All mail would be aggregated and taken out for delivery together, that day. We would expect the delivery points missed in the previous day to be covered the next day (i.e. walk rotation). However, this may not be possible for example, due to resource shortage.

Significant investment in infrastructure to install new frames and significant investment in resource would be required to handle late mail separately. This cost would be wholly disproportionate and excessive.⁵⁵ Physically, it may not be possible to do so due to space constraints in delivery offices. If we were to focus additional resource exclusively on the delayed mail, that would risk our ability to deliver the mail that had just arrived at the delivery office. Focussing on protecting D+3 mail exclusively would jeopardise our ability to deliver First Class mail by D+1.

3.31 It is important that customers have confidence that their mail will be delivered by its due date, or, when this is not possible, as close to this date as possible. We have recognised that QoS performance is not at the level that it should be and that customers value speed and reliability. As set out in the bullet points below, we have therefore taken a number of actions to address the 'tail of the mail' to reduce significant delays in recent years.

- Walk rotation – as part of Royal Mail's standard operating procedures, Royal Mail deploys walk rotation measures to reduce the possibility of customers having consecutive days of not receiving mail. These measures include, for example, where we ensure that, if a route was not delivered on one day, it would be delivered the next.
- Operational focus on enhanced compliance and accurate reporting to make sure our business as usual operational resilience measures are being appropriately deployed. We have:
 - introduced a new compliance application that is used to audit standards compliance in our delivery offices;
 - established Quality Control Centre in July 2022 to provide more rigorous oversight on that reporting, undertaking ongoing review of data to understand where issues may arise and take appropriate action;
 - introduced daily reporting on delivery points not rotated from the previous day. This is reviewed on a daily basis by the Regional Operations Directors as part of our daily performance management cadence;

⁵⁵ For example, we would need to expand the footprint of our c. 1,200 delivery offices to include the new frames, buy and install them.

- enhanced our analysis of the QoS performance data to include weekly triangulation of RFID data and customer complaint data to identify target delivery offices that are experiencing issues. Issues raised in the media on delivery point coverage are also used to check on performance data; and
- Created a new Personal Digital Assistant (PDA) Delivery Point coverage application created to identify delivery points not being rotated.

Delivery Point Coverage Application

How does it work?

- The report uses the data from the Deliver To Specification (DTS) system and overlays that with PDA data to give a map-based visualisation of where a delivery of mail has been made.
- The app is used as a guide due to limitations in rural delivery areas where the GPS data is sometimes not reliable and where there are long driveways, the system does not pick up that someone has walked past the delivery point.

How is it used?

- The new delivery point application has three main sections to support identification of units not rotating delivery points or route segments.
- These have been used to review units that have had press interest, showing as having a ‘tail of the mail’ issue based on RFID data and to support complaints.
- Due to some of the sensitivities in the data, the app is only used to signpost possible breaches in the standard of rotating failed delivery points or reporting issues.
- The compliance check process is used to confirm if the data shown is correct.

- 3.32 As highlighted above, we have already undertaken significant spend to improve the ‘tail of the mail’. As we set out above, there are limited further interventions to address the ‘tail of the mail’ in isolation. Given these actions and the nature of our integrated network, which is designed to deliver First Class mail the next working day every working day, means further spend will improve speed (D+1) performance as well as the ‘tail of the mail’. The same points of failure (e.g. sickness levels) that would lead to us missing either a D+1 or a D+3 target.
- 3.33 As part of our new operating model, we will increase spend on QoS to improve D+1 performance to the new proposed target. This will also improve the D+3 performance. However, given the operational complexities involved, it is not practically feasible to target spend to solely address First Class mail that would be delivered on D+2 or D+3. The indicative investment of c.£120mn-£180mn to be able to achieve a First Class D+3 reliability target of

99.5% would therefore likely result in D+1 performance of around 93% which, as Ofcom has previously noted, is a level of performance that is above the vast majority of customers’ needs. Speed and reliability targets are linked.

Our statistical analysis gives us confidence that, when we meet a 90% D+1 target, we will be able to meet a reliability target 99% D+4 without having to incur extra cost

- 3.34 Our statistical analysis provides further evidence and insight. This analysis demonstrates that (based on our past performance, 2012/13 – Q2, 2024/25) the proposed 99.5% D+3 target does not statistically correspond to the proposed 90% D+1 target. Ofcom has stated that “Based on past performance, this [99.5% D+3] reflects the level of reliability that Royal Mail provided users in 2019/20, while recognising that it would give Royal Mail more operational flexibility in how to achieve this level of service in light of our proposed reduction to the national D+1 target.”⁵⁶ Ofcom states that “this proposal [99.5% D+3] reflects our proposed 90% D+1 national target”.⁵⁷ Our past performance clearly indicates that Ofcom has misinterpreted the information.
- 3.35 Considering 2019/20, the last time we achieved c.93% (adjusted for *force majeure*), the D+3 ‘tail of the mail’ performance was 99.5% – see Figure 3.6 below.

Figure 3.6: First Class QoS performance in 2019/20

| FY 2019/20 | QoS performance |
|---------------------|-----------------|
| D+1 (without MBORC) | 92.6% |
| D+1 (with MBORC) | 93.2% |
| D+3 (without MBORC) | 99.5% |

- 3.36 Our statistical analysis shows that the QoS results for First Class D+1 and D+3 are highly correlated with an R^2 of 99%. Furthermore, this indicates that Ofcom’s proposed First Class ‘tail of the mail’ target of 99.5% D+3 corresponds to an equivalent D+1 speed performance of 92.3%⁵⁸ with the probability of achieving 99.5% D+3 QoS with 90% D+1 QoS is around 1 in 150. We set out the statistical analysis in further detail in Appendix 2.
- 3.37 We need to have confidence in our ability to meet the reliability target, when meeting the 90% D+1 First Class target. Ofcom’s USO reform is a fundamental reset of the regulatory regime which should give customers confidence in the regulatory QoS regime. It is not appropriate to propose a target that puts us into a doomed cycle of repeated regulatory failure – in which Royal Mail fails to meet unachievable targets, which results in Ofcom undertaking investigations and imposing fines. This approach fails to meet Ofcom’s intended goals regarding performance. Such an outcome would not create confidence in the framework.
- 3.38 We recognise that statistical analysis can only get us so far, as it is based on historic data that is impacted by material change in traffic mix, productivity and the new operating model (which is untested as no other country has made a change of this scale to a combined First Class and parcel network in a single step as part of its alternate day non-priority delivery model). There is a degree of uncertainty in how much reliance we can place on the past to inform our view of future performance. However, we believe that the analysis is a helpful indicator as to the achievability of our revised proposed target.
- 3.39 Recognising that there is uncertainty in how our new alternate day delivery model will work in practice, the right regulatory approach would be to set a target in line with our proposal below. Our approach to setting the target is that, based on the historical analysis, there should be a

⁵⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.60.

⁵⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, footnote 257.

⁵⁸ This is the probability calculated using statistical analysis on historic data. It is different to the 92.6% quoted in the figure above, which was the actual QoS D+1 performance in 2019/20.

very high probability of achieving that target when advancing a primary speed target 90% D+1, and that the reliability target should be set at a high level.⁵⁹ If Ofcom finds over time that the reliability target has been set at too low a level – for example, where the target does not meet the reasonable needs of customers – then Ofcom can revisit the target in due course to set a more stretching target.

- 3.40 The statistical analysis we have undertaken allows us to assess the probability of Royal Mail achieving different D+3 and D+4 reliability targets, under the assumption that we are achieving at 90% D+1 reliability. The three levels are D+3 target at 99%, D+3 targets at 99.5% (Ofcom’s proposal) and D+4 target at 99% (our revised proposal). As the following figure shows, our proposed target is the only one we can be reasonably confident of meeting.

Figure 3.7: Probability of meeting different reliability targets when D+1 performance is 90%

| | Probability of success ⁶⁰ |
|--|--------------------------------------|
| Probability of meeting a 99.5%, D+3 target, with D+1 performance of 90% (Ofcom proposal) | 1 in 150 |
| Probability of meeting a 99% D+3 target, with D+1 performance of 90% | 3 in 4 |
| Probability of meeting a 99% D+4, with D+1 performance of 90% (Royal Mail proposal) | 33,499 in 33,500 |

- 3.41 The figure shows that we have a 1 in 150 chance of achieving Ofcom’s proposed annual target.
- 3.42 We have also calculated the probability of failing a 99% D+3 target when D+1 performance is 90%. The probability of this occurring is at least once in every four years – i.e. at least once in each regulatory cycle (assuming a typical five-year regulatory cycle).
- 3.43 Our original proposal for the First Class reliability target was 99% D+5. Having reflected on Ofcom’s consultation and, given the activities we have undertaken to improve reliability, we are revising our proposed First Class reliability target to 99% D+4.
- 3.44 Although the probability of meeting the 99% D+4 target is high based on the statistical analysis, what this means in practice is that Ofcom (and our customers) should be very confident that a 99% D+4 target is met when the D+1 performance is 90%. Should the D+4 performance be, say 95%, when the D+1 performance was 90%, this would signal to Ofcom that there is an issue in how we are dealing with the ‘tail of the mail’ as we would not expect this level of performance in normal circumstances.

Ofcom’s proposal would make the UK a significant outlier internationally – but our proposal would put the UK at the very top of the pack

- 3.45 Ofcom suggests that the UK would be “*at the top of comparable countries*”⁶¹ with a 99.5% D+3 target. In fact, the UK would be an outlier and above comparable countries.
- 3.46 Ofcom sets out that a 99.5% D+3 reliability target would “*align with ‘tail of mail’ targets used by other European countries, putting the UK at the top of the range of comparable countries.*”⁶² In doing so, Ofcom lists the following countries as having D+3 supporting targets for D+1 services: France (until 2023), Belgium, Ireland, Lithuania, Estonia, and Portugal (until 2024).⁶³

⁵⁹ See paragraphs 3.12-3.13, where we discuss what would represent an appropriate level for a reliable service.

⁶⁰ The figures in the tables are rounded.

⁶¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.60.

⁶² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.60.

⁶³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.59.

Ofcom then assesses that the comparable countries with reliability targets are France (until 2023), Belgium, Ireland, and Germany (D+4). Ofcom has included the old targets of countries (France and Portugal) that have since reformed their targets, in recognition of their respective challenges over postal sustainability. These should not be included in comparison (notwithstanding the fact that France’s old targets were still lower than what Ofcom proposes). The figure below lists the countries Ofcom mentions plus Poland which also has a D+1 and D+3 target.

Figure 3.8: European countries with D+1 speed targets with associated D+3 reliability targets

| | D+1 | D+2 | D+3 | D+4 | D+5 | D+6 | D+7 | D+8 |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Ofcom proposal | 90 | | 99.5 | | | | | |
| RM proposal | 90 | | | 99 | | | | |
| Country | D+1 | D+2 | D+3 | D+4 | D+5 | D+6 | D+7 | D+8 |
| Belgium | 95 | 97 | | | | | | |
| Germany-2025 | | | 95 | 99 | | | | |
| Ireland | 94 | | 99.5 | | | | | |
| Lithuania | 85 | | 97 | | | | | |
| Poland | 82 | 90 | 94 | | | | | |
| Portugal | 90 | | | | | | | 99.7 |

- 3.47 Of the countries with a D+3 reliability target to support a D+1 priority letter product, only Lithuania has been able to achieve the target. Therefore, the figure above, which outlines regulatory targets, paints, if anything, an overly optimistic picture of performance in comparable countries and underplays the extent to which Ofcom’s proposal is an outlier. Every country, except Ireland, has lower targets than Ofcom’s proposal. If we look at Ireland’s actual performance, rather than the regulatory target, it is in line with (or even below) what we are proposing, i.e. it has not met either of its D+1 or D+3 targets once in the last 18 years – see figure below.

Figure 3.9: An Post has not achieved its First Class D+1 and D+3 QoS targets for the last 18 years⁶⁴

| Year | D+1 Performance | D+1 Standard | Met target? | D+3 Performance | D+3 Standard | Met target? |
|----------|-----------------|--------------|-------------|-----------------|--------------|-------------|
| 2023 | 87% | 94% | x | 98.8% | 99.5% | x |
| 2022 | 85% | 94% | x | 98.3% | 99.5% | x |
| 2021 [5] | 84% | 94% | x | 98.2% | 99.5% | x |
| 2020 [4] | 82% | 94% | x | 97.4% | 99.5% | x |
| 2019 | 90% | 94% | x | 99.1% | 99.5% | x |
| 2018[3] | 89% | 94% | x | 99.0% | 99.5% | x |
| 2017[2] | 90% | 94% | x | 98.9% | 99.5% | x |
| 2016 | 91% | 94% | x | 99.1% | 99.5% | x |
| 2015 | 91% | 94% | x | 99.0% | 99.5% | x |
| 2014 | 90% | 94% | x | 99.1% | 99.5% | x |
| 2013 | 87% | 94% | x | 98.5% | 99.5% | x |
| 2012 | 86% | 94% | x | 98.5% | 99.5% | x |
| 2011 | 83% | 94% | x | 98.2% | 99.5% | x |
| 2010[1] | 85% | 94% | x | 98.7% | 99.5% | x |
| 2009 | 84% | 94% | x | 98.3% | 99.5% | x |
| 2008 | 79% | 94% | x | 97.5% | 99.5% | x |
| 2007 | 77% | 94% | x | 97.0% | 99.5% | x |
| 2006 | 72% | 94% | x | 97.0% | 99.5% | x |

Notes:

[5]: The D+1 and D+3 result shown for 2021 exclude items posted on or between 6th-8th December in certain areas due to the unusual weather conditions experienced during this period.

[4]: The QoS Monitor was suspended from 1st April to 30th June 2020 inclusive due to matters related to the Covid-19 Pandemic. The D+1 and D+3 performance results for 2020 Quality of Service Monitor are, as a result, based on the performance results for items posted over 9 months in 2020 as follows; January, February, March, July, August, September, October, November and December.

[3]: The D+1 and D+3 result shown for 2018 excludes items posted on or between 28th February – 2nd March due to the unusual weather conditions experienced during this period.

[2]: The D+1 and D+3 result shown for 2017 excludes items posted on or between 13th October to 16th October due to the unusual weather conditions experienced during this period.

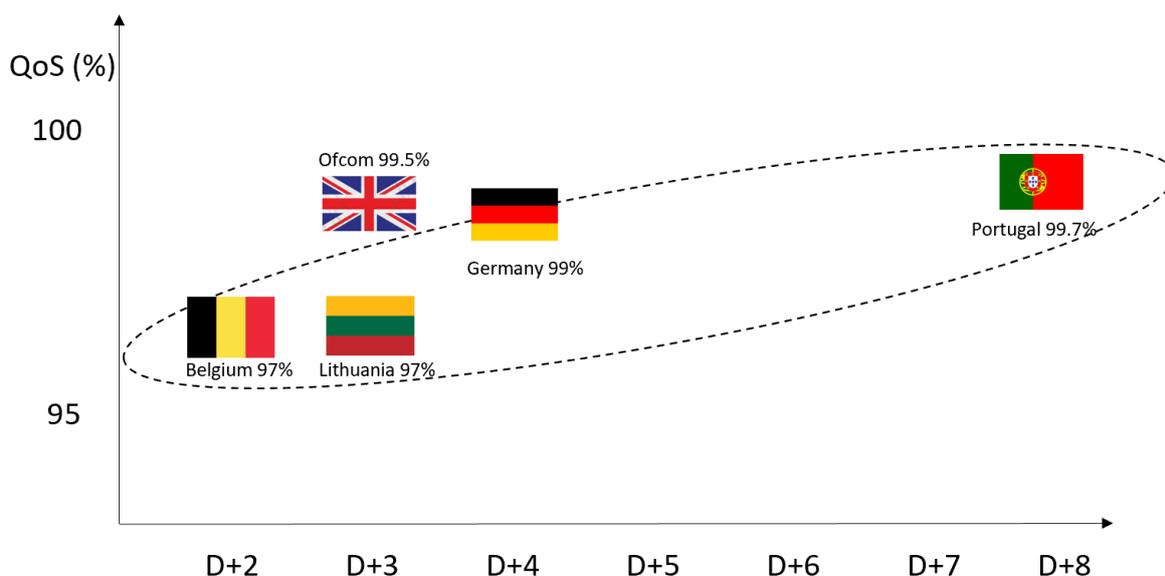
[1]: The D+1 and D+3 result shown for 2010 excludes items posted on or between 28th November-15th December and 17th December-30th December due to the unusual weather conditions experienced in those two periods

3.48 The figure below shows Ofcom’s proposal set against the targets of comparator countries who have, or have recently had, a D+3 target (not including Ireland given that it has not met either of its targets in 18 years).⁶⁵

⁶⁴ <https://www.comreg.ie/industry/postal-regulation/regulation-of-an-post/regulation-of-quality/>

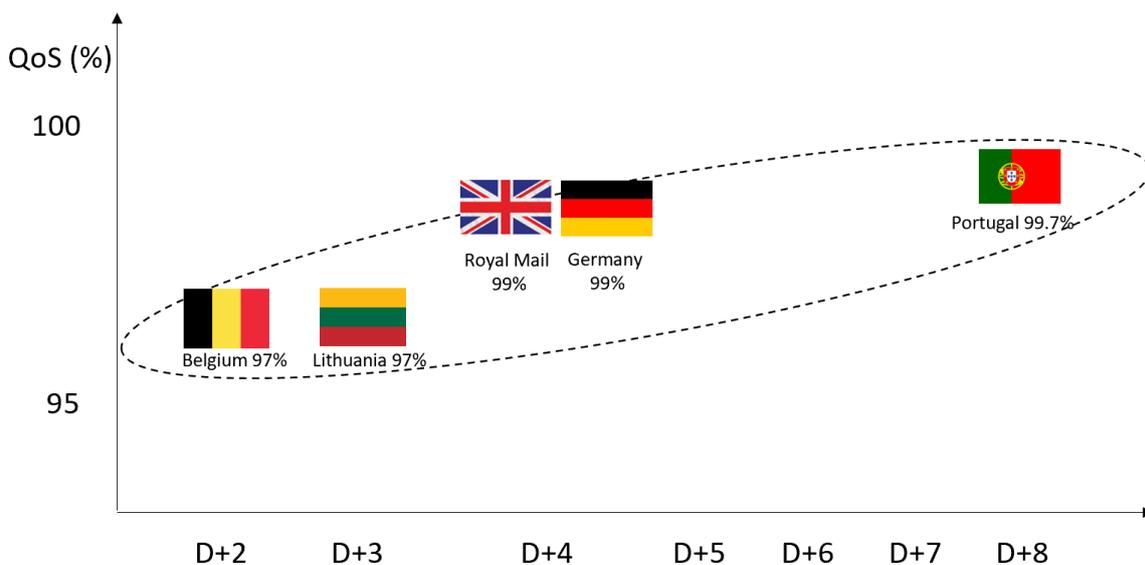
⁶⁵ We have not included Estonia as the D+3 target does not apply to its D+1 product.

Figure 3.10: Comparison of reliability targets with Ofcom’s proposal



3.49 The figure below shows **our proposal** with other countries with a comparable reliability target. The UK would still be at the top of the pack and aligned to the new German target.

Figure 3.11: Comparison of reliability targets with Royal Mail’s proposal



Whilst Ofcom’s proposed Second Class speed target is appropriate, we have concerns with the proposed level of the Second Class reliability target

3.50 The Second Class speed target should be reset to 95%, in line with Ofcom’s consultation reflecting the proposed alternate weekday delivery model. This target aligns well with European countries such as Belgium and Spain and with European countries who have deployed similar non-First Class delivery models, e.g. France operates a similar model with QoS measured as 95% D+3.⁶⁶

⁶⁶ Royal Mail, 2024. *Response to Ofcom’s call for input on the future of the universal postal service*, Figure 9.4.

- 3.51 As we set out above, QoS targets should be rebalanced, with new secondary reliability targets accompanying more appropriate primary speed targets. In relation to Ofcom’s proposal for reliability targets for Second Class, Ofcom sets out its justification for 99.5% D+5 target: *“As noted, Royal Mail has proposed that the new ‘tail of mail’ target for Second Class letters should be 99% at D+5. As set out in relation to First Class, the ‘tail of mail’ target should capture virtually all mail in order to provide incentivisation and to provide confidence to users that their non-priority mail will be delivered in a timely way. We consider that 99.5% is a more appropriate target in this respect. We also anticipate potential benefits for consumer understanding and confidence from having aligned ‘tail of mail’ targets for First and Second Class. We consider that having a consistent 99.5% target in place two working days after the existing primary targets supports this aim. Our proposal is therefore to introduce a Second Class ‘tail of mail target’ requiring 99.5% of items to be delivered within five working days (i.e. D+5).”*⁶⁷
- 3.52 Ofcom has implied that 99.5% D+5 is achievable when Second Class QoS performance is 95% D+3. This is not aligned with the proposed D+3 speed target. Based on our statistical analysis of historical data (see Appendix 2), it is unfeasible for Royal Mail to achieve 99.5% D+5 if we achieve 95% D+3. **The probability of this happening is near zero.**
- 3.53 Furthermore, our analysis is based on our current delivery model. Under the proposed new delivery model for mail, the reduction in delivery opportunities for non-next-day mail will make it more difficult to attain a 99.5% D+5 Second Class QoS than currently. Like for First Class, an over-specified reliability target will require significant investment that will harm affordability for our customers and financial sustainability.
- 3.54 For the same reasons set out above in relation to the First Class D+3 target, Ofcom’s proposed 99.5% D+5 target is not realistic as it is not possible to target investment to specifically address Second Class reliability (see paragraphs 3.14-3.44).
- 3.55 As explained in paragraphs 3.12-3.13 in relation to First Class, customers’ common understanding of universality and reliability from cross-sector benchmarks is 98%-99%, the same principle applies to the Second Class reliability target. It becomes increasingly hard and expensive to improve QoS the closer the targets approximate to 100%.
- 3.56 When comparing targets between comparative European postal operators, our proposal for a Second Class reliability target of 99% D+5 aligns well to the international benchmarks in being at or around the top of performance.

⁶⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.72.

Figure 3.12: Comparison of UK with other European countries Second Class services (%)

| | D+1 | D+2 | D+3 | D+4 | D+5 | D+6 |
|-----------------------|------------|------------|------------|------------|------------|------------|
| Ofcom proposal | | | 95 | | 99.5 | |
| RM proposal | | | 95 | | 99 | |
| Country | D+1 | D+2 | D+3 | D+4 | D+5 | D+6 |
| Finland | | | | 50 | 97 | |
| France | | 94 | | 99 | | |
| Germany | | | 95 | 99 | | |
| Italy | | | | 90 | | 98 |
| Luxembourg | | 85 | 99 | | | |
| Norway | | | 85 | | 97 | |
| Poland | | | 85 | | 97 | |
| Portugal | | | 94 | | | |
| Spain | | | 93 | | 99 | |
| Sweden | | | 85 | | 97 | |

Ofcom’s PCA targets create costs disproportionate to their benefits

- 3.57 As Ofcom recognises, the universal service should, by definition, be universal. We are committed to providing a universal, uniform service. Ofcom’s aim in setting PCA targets is to “ensure that there is equal and universal service across the UK by limiting the extent of variation in quality in different geographic areas.”⁶⁸ As we have set out before,⁶⁹ whilst we understand Ofcom’s objectives in setting PCA targets, these are not necessary to achieve those objectives.
- 3.58 If there were evidence that local variation was largely persistent, then PCA targets might be a sensible way to ensure the service is universal – but there is not. Ofcom highlights that a significant proportion of the delays that affect QoS are due to “random events such as weather or transport disruptions which occur independently in different parts of the UK.”⁷⁰ As Ofcom has noted “the results of individual PCAs in any given year tend to be normally distributed”,⁷¹ therefore it should be expected that there will be a spread of results around the national average with some PCAs performing better and some PCAs performing less well. Ofcom explains its objective in setting targets is to ensure that “Royal Mail makes efforts to limit the variation of this distribution to a reasonable degree, as well as not to let some areas consistently underperform.”⁷² We understand that other stakeholders value the visibility of seeing performance across the PCAs – but this does not require a target.
- 3.59 Our integrated network of delivery offices, mail centres, hubs and parcel hubs mean that letters posted in Truro to go to Inverness will share the same core infrastructure as mail sent from Birmingham to London. Our integrated network structure means that the national targets and reliability targets will be sufficient to ensure a high-quality service across the UK.
- 3.60 Furthermore, no other European postal operator is subject to such granular targets. This makes Ofcom’s position an outlier raising the question as to whether such an approach is disproportionate regulation. In our view, it is. The imposition of PCA targets should also be considered in the context of Ofcom’s Growth Duty (in having regard to promoting economic

⁶⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.45.

⁶⁹ See for example, Royal Mail, 2024. Response to Ofcom’s call for input on the future of the universal postal service, paragraph 6.24 – 6.26.

⁷⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.47.

⁷¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.48.

⁷² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.48.

growth when exercising its regulatory functions), its policy that regulatory activities should be proportionate, with a bias against intervention,⁷³ and HM Treasury's recent policy position that "Removing unnecessary requirements will encourage innovation and investment."⁷⁴ Given that PCA targets are unique in Europe and that, as Ofcom says, a significant proportion of variation is due to "random events"⁷⁵ it is difficult to see how PCA targets can be seen as proportionate and consistent with Ofcom's stated approach to regulation.

- 3.61 We recognise that customers value the PCA level reporting to provide transparency on the QoS performance across the UK. There is no need for Ofcom to issue targets to require Royal Mail to publish PCA performance – we are happy to publish this information for our customers. In our view, disproportionate and granular regulatory targets are simply not necessary.

Ofcom's 87% PCA target creates disproportionate costs as it is equivalent to setting a First Class national target in excess of 93%

- 3.62 Any PCA target should be set with an allowance for random, non-persistent, events that mean that there will inevitably be local variation in performance. Ofcom has recognised that the risk of not doing this is that "in effect [PCA targets] may become the primary binding target for First Class quality, requiring a higher level of national performance than 90%."⁷⁶
- 3.63 However, this is exactly the situation that Ofcom's proposed targets will create. Using statistical analysis of historic data, we have assessed what would be an achievable PCA target based on a 90% D+1 First Class national target. Our assessment is that the target should be reset to 86%, allowing for up to six of the 118 PCAs to not meet the target in an individual year due to unavoidable variations (i.e. due to factors beyond our reasonable control). Given this unavoidable variation, Ofcom's proposed target – 87% in all 118 PCAs – is equivalent to a nationwide D+1 target of 93%.
- 3.64 As previously explained, we have estimated that the cost to meet a national target of 93% as c.£120mn-£180mn. This wipes out half the USO reform benefits and would impact customer affordability and our financial sustainability. As Ofcom has stated, these could be detrimental to customers: "A universal service obligation for the provision of postal services that is not aligned with user needs could result in people paying higher prices than necessary due to the higher costs for Royal Mail in providing a service which is over-specified."⁷⁷
- 3.65 Ofcom has assessed QoS performance based on a distribution of annual PCA performance, when performance was close to the proposed 90% national target, stating that the QoS for a PCA should be within three standard deviations (SDs) of the national QoS 99.7% of the time.⁷⁸ However, this does not take account of Ofcom's requirement that all PCAs must meet the target:
- If the PCA floor target is set to three SDs below the national QoS target, each PCA has a 99.87% chance of achieving the floor target (99.73% chance of being within 3 SDs + 0.13% chance of being more than 3 SDs above the national QoS); and
 - The probability of all 118 PCAs hitting the target is $99.87\% ^{118} = 85.3\%$. In other words, there is a 14.7% chance that at least one PCA will fall below the floor target in any given

⁷³ Ofcom, 2025. *Policies and guidelines*, Regulatory principles. <https://www.ofcom.org.uk/about-ofcom/corporate-policies/policies-and-guidelines/>

⁷⁴ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

⁷⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.47.

⁷⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.51.

⁷⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 5.3.

⁷⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.52.

year. So, one PCA failing is not sufficient evidence to demonstrate that our service is not geographically uniform.

- 3.66 Because of this, we consider that a three SD approach with no exceptions is not a suitable methodology with which to set a PCA floor target. Following Ofcom's statistical approach with Ofcom's 87% PCA target, one PCA should be allowed to fail in any given year, i.e. there should be an exception.

Ofcom should continue its current practice of PCA target enforcement focusing on repeated failure

- 3.67 Our proposal on PCA reform⁷⁹ included the suggestion that up to six of the 118 PCAs could not meet the target in an individual year. This is due to statistical variation in the QoS results. The probability of all 118 PCAs achieving 86% QoS or greater with 90% national First Class performance is between just 5 and 10%. In other words, it should be expected that there will be some PCAs that will miss our proposed target due to factors beyond our control, such as bad weather and other localised events.
- 3.68 Our proposal to allow for six PCA misses is to avoid the risk of repeated regulatory investigations where Ofcom opens an investigation on an individual PCA for missing a target in a single year. Ofcom has helpfully clarified its position on how it will monitor PCA performance. It stated, "*In line with current practice, we will closely monitor performance in all individual PCAs and will not hesitate to engage with Royal Mail on underperformance in order to avoid consistent or sustained failures leading to poor service in particular postcode areas.*"⁸⁰ Ofcom's focus should be "*not to let some areas consistently underperform*",⁸¹ and it should concentrate on performance across several years rather than focus on a single year or two. As stated previously, we believe Ofcom can achieve its objectives through the transparency provided by our publication of PCA data.

There should be a flightpath on all QoS targets

- 3.69 Our USO reform proposal includes additional spend solely to improve QoS. As Ofcom has set out, we have estimated that it will cost c.£60mn-£80mn to improve First Class D+1 QoS from 85% to 90%. At the same time, we will be transforming our existing network into our new alternate day delivery network during 2025/26 through duty structure changes that deliver most of the benefit of USO reform. The deployment of the alternate day delivery network will lead to lower resourcing in delivery. However, to address and improve QoS performance, we will be investing some of the resource savings back into our operation.
- 3.70 There is considerable uncertainty in how our new network will work in practice given the significant change as well as an extended period of transition covering (a) deployment of alternate day delivery through to pre-Christmas 2025 followed by (b) revisions to optimise the network. For context, when Royal Mail deployed new delivery methods in 2010, it took four years to fully bed into our operation.
- 3.71 The figures below provide further detail on proposed flightpaths and key activities over the next two years (and beyond) for First Class (Figure 3.13) and Second Class (Figure 3.14). They break down the next two years into:
- **Stage 0 – Pre-USO reform** – where we prepare for USO reform from July 2025 and close the performance gap.

⁷⁹ Royal Mail, 2024. *Response to Ofcom's call for input on the future of the universal postal service*, paragraph 6.27.

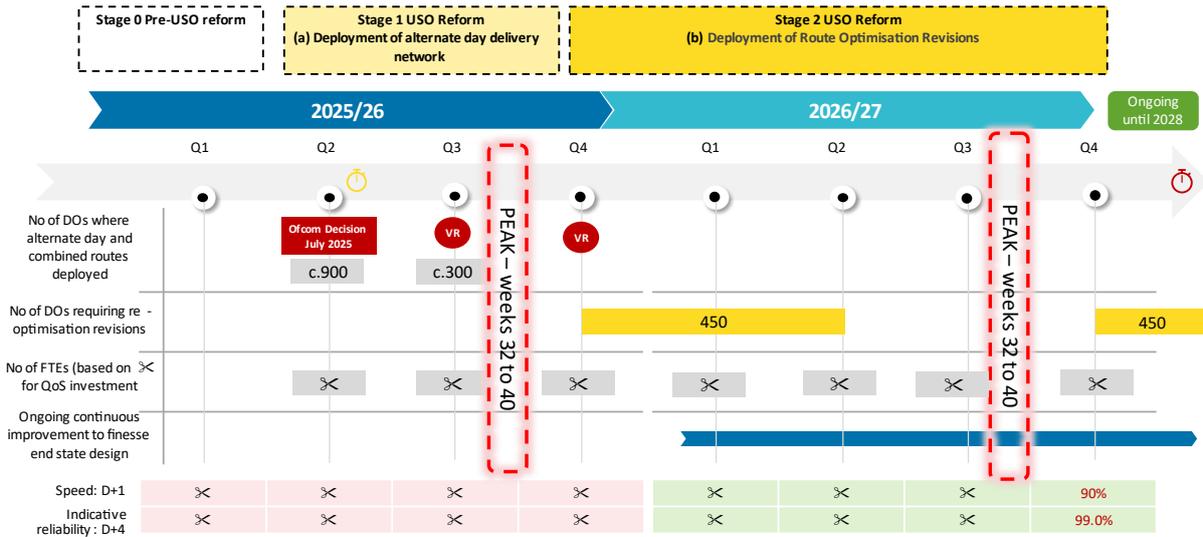
⁸⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.54.

⁸¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.48.

- **Stage 1 – USO reform (a) deployment of alternate day delivery network.** This takes place from Q2 to Q4 2025/26 inclusive. Over this period, the alternate day delivery network will be rolled out over the c.1,200 delivery offices and the investment in additional people to support the QoS improvement.
- **Stage 2 – USO reform (b) deployment of route optimisation revisions.** Due to the resourcing approach, we will need to optimise the routes starting with around a third of our delivery offices where we see the greatest opportunity.

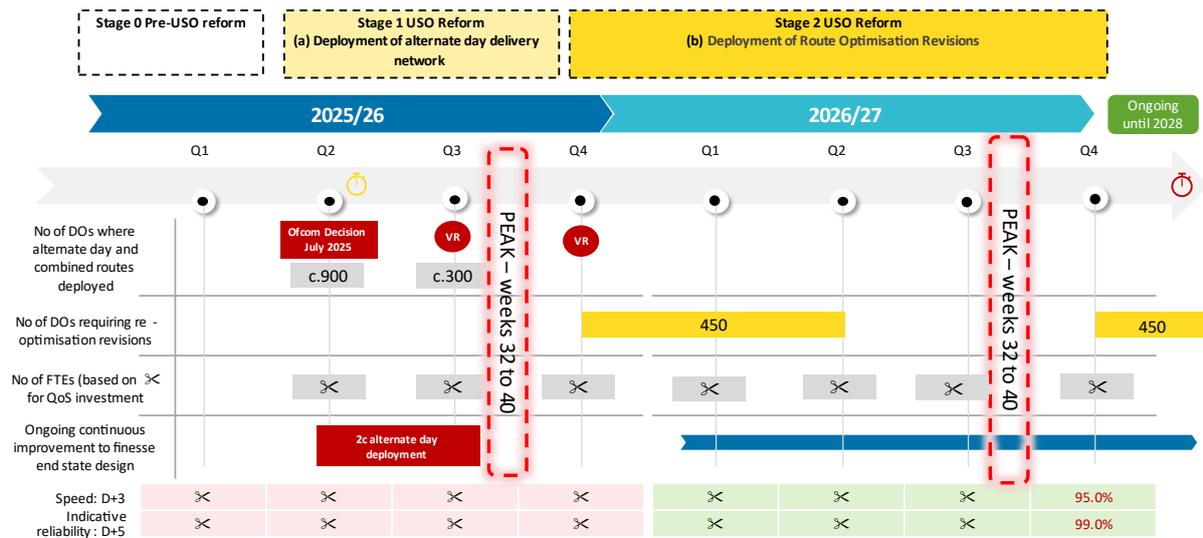
3.72 At the bottom of the figure, we set out our expected QoS trajectory by quarter for our D+1 speed and indicative D+4 reliability targets.

Figure 3.13: Our flightpath proposal for First Class



3.73 The next figure shows our proposal for the Second Class flightpath. At the bottom of the figure, it shows the expected QoS trajectory by quarter for our D+3 speed and indicative D+5 reliability targets.

Figure 3.14: Our flightpath proposal for Second Class



3.74 We expand below on the key activities in the three stages and how they would impact the expect QoS performance.

Further details on operational activities to support our proposed flightpath

Stage 0 – Pre-USO reform Q1 2025/26

- 3.75 As we head into Q1 2025/26, we will be undertaking activities to improve QoS alongside our planning for USO reform from July 2025. To enable this, we have changed our new functional organisation structure such that our Regional Operations Directors will now be 100% focused on delivery, where we believe there is the greatest opportunity to improve QoS. On other levers, sick absence is on an improving trajectory. That said, we have had to pause permanent recruitment due to the expectation that in due course we will be reducing headcount. We are now recruiting on long-term assignment such that these contracts can be cancelled rather than these roles requiring to go through our voluntary redundancy. It is expected that these roles will be more difficult to recruit and that, as a fixed term contract, there may be less commitment to Royal Mail and to our customers. Accordingly, there may be an impact on the QoS.

Stage 1 – Deployment of alternate day delivery network part of USO reform from Q2 to Q4 2025/26

- 3.76 Once Ofcom’s USO reform decision is announced, and new regulations come into effect– our planning assumption is 1 July 2025 – we will start the deployment of our alternate day delivery network. The scale of the deployment is unprecedented. It includes both new duty structures and new ways of working in delivery, and changes in mail centres with significantly more mail deferred. It will take some time for our operation to stabilise. For example, a postie on a core walk will now cover two different walks over two days, meaning they have to learn one new route. The need to increase local knowledge in this way require a period of adjustment.
- 3.77 In addition, to minimise one off costs when full-time staff leave (through natural turnover), we are replacing them with long-term assignment contracts (i.e. time limited) during the transition period. It is likely to make attracting and retaining staff more challenging which may present some resourcing challenges until we have reached full deployment.

Stage 2 – Optimisation of the alternate day delivery network starting from 2026/27 onwards

- 3.78 With deployment of the alternate day delivery network, we expect QoS performance to improve through the increase in the call rate. A higher call rate means that our delivery operation has to resource to deliver to more addresses on each route. At higher call rates, when there is an increase in mail volume on a route, it will be more likely that the postie will already be going to that address – for example, a 70% call rate means that the postie is delivering to seven out of ten addresses. Any increase or decrease in letter volumes per route is more likely to lead to a change in the number of items being delivered to individual addresses, than to any change in the call rate. This would therefore have a very limited impact on the amount of time required by the postie to complete the route. This reduction in the variability of route time will make it easier for the Customer Operations Manager to manage periods of higher volumes in their delivery office and ensure that all mail is delivered on the day. Delivering lower volumes on Saturday, it will help us to improve QoS as Saturdays currently tend to have a lower QoS than the rest of the week. This is partly due to the difficulty of recruiting staff to work on Saturdays.
- 3.79 During 2026/27, we will seek to rebalance and optimise our new delivery model. Firstly, we expect our new alternate day delivery model will be better supported by recruiting more full-time rather than part-time roles – around \times roles. This will make it easier to recruit and improve our ability to attract the best talent. Secondly, we will look to dramatically simplify our resourcing approach. Currently, we resource to workload, and where we have resourcing gaps, seek to fill this through ‘lapsing’, i.e. we will ask other delivery colleagues to take out parts of the uncovered route. With USO reform, we expect there to be significantly more mail on the

core routes, so it will not be appropriate to lapse routes. Instead, we will resource to the route. This will be easier for our Customer Operations Managers (COMs) to manage on a day-to-day basis.

- 3.80 Also, we will seek to optimise the routes to fully realise the cost and quality benefits. Our deployment approach in 2025 is to amend duties (i.e. length of time posties are on outdoor delivery) rather than the routes. There is the potential to optimise the combined routes to achieve a more efficient network design once we undertake these revisions. Furthermore, we know that with ongoing letter volume decline and increase in addresses, our core routes need to be regularly reviewed to make sure that they are optimal. The first phase of this will be completed in 2026/27 targeting those delivery offices where we believe that there is the most opportunity.

Proposal for flightpaths

- 3.81 It is not possible to achieve the revised QoS targets on day one of USO reform. There needs to be a flightpath to the revised QoS targets (both speed and reliability) for both First Class and Second Class. As such, our proposed targets are as set out in the figure below. We would welcome the opportunity to discuss these with Ofcom.
- 3.82 We have developed these flightpaths based on the information we know today. However, there is significant uncertainty given the factors we are facing including the range of activities that need to be deployed to deliver the new proposed USO reform model, the timing of deployment of different activities, customer reaction, volume on the core and combined routes, and whether the historic relationship between speed and reliability targets remain accurate as regards with our new delivery model.
- 3.83 For context, it took from 2010 to 2014 to embed Delivery Methods change.⁸² We are undertaking pilots to provide us with further insight on the operational aspects of the new alternate day delivery model. However, we do not have this information now to help inform our proposed flightpath and targets. Additionally, although we have undertaken extensive engagement with customers on USO reform, we do not have certainty on how customers will react. This will be dependent both on Ofcom's final decision on QoS targets and scope of the access regime and how we are able to respond to these decisions. Further, the reliability targets will be new regulatory targets and therefore untested.
- 3.84 We propose that Ofcom monitors our performance against indicative reliability targets in year 1 (i.e. March 2026 (P12)) and then undertakes a reassessment of whether the proposed March 2027 reliability targets are reasonable, proportionate and achievable.

⁸² This was a programme to put in place delivery best practice. It involved the introduction of high capacity trollies, use of shared vans and the removal of bicycles as a method of delivery.

Figure 3.15: Proposed flightpaths

| | Exit 26/27 (March 2027, P12) |
|--|--|
| First Class speed target D+1 | 90% |
| First Class reliability target D+4 (indicative) | 99% (to be reassessed based on year 1 performance) |
| Second Class speed target D+3 | 95% |
| Second Class reliability target D+5 (indicative) | 99% (to be reassessed based on year 1 performance) |

The case for flightpaths is supported by international precedent, and Ofcom’s approach in other sectors it regulates

- 3.85 Other countries that have undergone USO reform had significant notice periods in advance of structural changes to their USO, giving them time to adapt their planning and operational structure to take advantage of the new regulatory frameworks. For example, in Sweden, PostNord undertook a one-year pre-study and started planning and preparation in 2020. It was allowed a two-year implementation schedule, including the running of pilots in 2021.
- 3.86 The telecoms sector provides precedent for a USO being subject to review, the need for targets to evolve over time, and Ofcom’s willingness to regulate QoS according to a flightpath principle. We note Ofcom’s recognition that a flightpath can operate as useful mechanism for facilitating the widespread coverage of a service and consider that we can draw on previous experience in extending the principle to the postal sector for QoS. The case study below outlines this in more detail.

Case study: Broadband USO and targets (2018–present)

Ofcom has overseen a Universal Service Obligation in broadband that has set out the need for a review in statute. Complementary broadband targets have also been put in place – phasing in incrementally higher targets over time – by Government to ensure the widespread provision of broadband. As part of overseeing improved access to broadband services, Ofcom has regulated QoS in the sector according to a flightpath principle.

The broadband USO provides premises with the legal right to request a broadband service of at least 10 Megabits per second download and 1 Megabits per second upload, provided they meet the eligibility criteria. The Digital Economy Act 2017 amended the Communications Act 2003 to require the Secretary of State to initiate a review the broadband USO once 75% of UK premises subscribe to a broadband service that provides download speeds of 30 Megabits per second.⁸³ After this threshold was reached, the Government launched a review of the broadband USO in 2023, exploring the possibility of raising the minimum service specifications to reflect new technical standards and the new needs of businesses and consumers.⁸⁴ This set a precedent in statute for the need to review the delivery of a universal service as circumstances evolve, under the oversight of Ofcom.

In practice, the Government’s approach to setting targets for broadband coverage has evolved over time, taking into account new information on customer requirements and the progression of the service’s roll-out, and been phased in following reappraisals.

⁸³ *Digital Economy Act 2017 chapter 30, page 1-2.*

⁸⁴ Department for Science, Innovation and Technology, 2023. *Reviewing the broadband Universal Service Obligation.*

- In 2018, the Government announced plans for full-fibre broadband coverage to operate across the UK by 2033, whilst introducing an interim target for its delivery to 15mn premises by 2025 (amounting to c.48% coverage).⁸⁵
- In 2020, the Government stipulated that a minimum of 85% gigabit-broadband coverage should be delivered by 2025.⁸⁶
- As superfast broadband coverage improved, reaching 97% in 2022,⁸⁷ the Government's broadband targets were further revised during the same year to target nationwide (99%+) gigabit-capable broadband coverage by 2030.⁸⁸ The current Labour Government has restated its commitment to this target.⁸⁹

In overseeing the widespread provision of broadband services, Ofcom has opted to regulate QoS in broadband according to a flightpath principle. For example, in its *Wholesale Fixed Telecoms Market Review 2021-26*, Ofcom imposed lower year one requirements on BT for wholesale local access, before mandating higher percentages targets between years two to five.⁹⁰ This enforcement approach has been replicated elsewhere: for example, Ofcom has enforced similar regulatory requirements for QoS standards for ethernet services, imposing lower year one targets before ratcheting up the targets in year two.⁹¹

Phase 2 of Ofcom's work on USO reform

3.87 As set out in our April 2024 submission, we urge Ofcom as part of its second phase of USO reform to review a number of other QoS regulated targets, in particular:

- changing customer demand means that Cyber Week leads to a spike in traffic in a similar way to Christmas. Therefore, we urge Ofcom to include this in the Christmas exemption as part of its second phase of USO reform;
- the delivery route regulatory target needs to be reviewed in terms of level (90% D+1 QoS is equivalent to 99.5% delivery route coverage) and methodology, i.e. delivery routes vs delivery points; and
- allow us to offer a new USO Special Delivery Guaranteed End of Day product (SDG EOD). See paragraphs 5.37-5.38 for more detail.

⁸⁵ Department for Digital, Culture, Media and Sport, 2018. *Future telecoms infrastructure review*.

⁸⁶ HM Treasury, 2020. *National Infrastructure Strategy – Fairer, faster, greener*, page 31.

⁸⁷ Ofcom, 2024. *Connected Nations update: Spring 2024*.

⁸⁸ Department for Levelling Up, Housing and Communities, 2022. *Levelling Up the United Kingdom White Paper*, page 120.

⁸⁹ [Written questions and answers – Written questions, answers and statements – UK Parliament](#)

⁹⁰ Ofcom, 2021. *Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26 Volume 5: Quality of Service*, page 1.

⁹¹ Ofcom, 2019. *Promoting competition and investment in fibre networks: review of the physical infrastructure and business connectivity markets Volume 2: market analysis, SMP findings, and remedies for the Business Connectivity Market Review (BCMR)*, page 327.

Conclusion

3.88 The figure below summarises our position in relation to Ofcom’s consultation, as it relates to QoS.

Figure 3.16: Summary of Royal Mail QoS position

| Regulatory targets | Ofcom proposal January 2025 | Agree? | Royal Mail April 2025 response |
|--------------------------------------|--------------------------------|--------|---|
| First Class speed (D+1) | 90% | ✓ | Agree with Ofcom proposal |
| First Class reliability target | 99.5% D+3 | ✗ | 99% D+4 |
| Second Class speed target (D+3) | 95% | ✓ | Agree with Ofcom proposal |
| Second Class reliability target | 99.5% D+5 | ✗ | 99% D+5 |
| First Class PCAs (D+1) | 87% (in all 118 PCAs) | ✗ | Remove. There is no need for targets. We would publish PCA results, providing transparency. |
| Flightpath – speed targets | - | - | Flightpath to reach revised speed targets by end 2026/27 |
| Flightpath – new reliability targets | - | - | Indicative flightpaths to be reviewed based on year 1 performance |

4. Access

Key messages:

- **Ofcom's proposal for a Monday-Friday Standard Access (D+3) service** and removing Saturday as a delivery day for the Economy (D+5) Access service is appropriate. This is a crucial step that enables the move to an alternate day delivery model for non-priority letters. The services align with our Second Class and Economy letter services in Retail.
- We disagree, however, with Ofcom's proposal to introduce the new Priority (D+2) Access variant into regulation, in addition to Standard and Economy. Regulating the Priority (D+2) service jeopardises the core sustainability and affordability benefits of reform. The concerns driving Ofcom to considering this are unfounded, unsubstantiated, or immaterial. Specifically:
 - It creates **significant risk** in our ability to move to an alternate day delivery model and **jeopardises the cost savings – and therefore the customer benefits – at the heart of USO reform**. In order for USO reform to work, we need to carefully optimise letter volumes between priority and non-priority. This is to ensure appropriate volumes on core and combined routes. If there is too much priority volume, we will not be able operationally to move to the alternate day delivery model and will have to continue delivering all classes of mail every day. In this scenario we will not be able to realise the benefits of USO reform, thereby undermining our ability to move to a more financially sustainable model. We estimate that even $\pounds 1$ mn p.a. additional letter volume on Priority (D+2) could threaten our ability to deploy the new delivery model whilst $\pounds 1$ mn p.a. is likely to pause our deployment. Regulating the Priority (D+2) service **materially limits our ability to manage this risk**.
 - We have listened to impacted end customers, taking steps **to address the specific concerns** about USO reform they raised, including **NHS bodies and publishers**.
 - It is **highly unlikely that there will be any reduction in Access competition** through volumes switching from Access to Retail. Indeed, we expect the reverse to happen as we try to optimise volumes between priority and standard.
 - It constitutes **a major widening of regulation**, against the grain of wider Ofcom and Government policy, by requiring us now to provide **three** delivery services in Access regulation (rather than two), and effectively bringing premium retail (D+1) services into the regulated Access regime, via regulated margin squeeze test (USPA6), for the first time.
- Ofcom has provided weak evidence to justify this clear widening of regulation into premium services. We have already offered to provide a Priority (D+2) service on commercial terms. As there is unlikely to be any harm to Access competition, Ofcom should take a lighter touch approach to regulation now. In particular, **a more proportionate response would be for Ofcom to monitor how USO reform progresses** (i.e. only Standard and Economy services mandated in Access) and if, in due course, it considers it needs to widen regulation further, it can easily do so at a later stage.

Ofcom's proposal to allow Standard Access volumes to move to D+3, Monday-Friday is appropriate – this is a crucial step that enables the move to an alternate day delivery model

- 4.1 Ofcom's proposal to allow our Standard Access volumes to move from D+2 to D+3 and to remove Saturday as a delivery day for these and our Economy (D+5) services is appropriate. Our USO reform proposal is, and always has been, predicated on there being a simple move for non-priority Access mail from D+2 to D+3 (i.e. D+3 becomes the Standard Access service). As Ofcom recognises in its consultation, regulating D+3 Access Services confers benefits on customers, as well as supporting our ability to achieve the full extent of the potential cost savings from USO reform.⁹² Customers will benefit from improved efficiencies, leading to lower price increases in the future than would otherwise be the case.
- 4.2 This change is also a necessary step to maintain the VAT exemption for Standard, and Economy, Access services. It would be open to us to introduce a D+3 service in Access without regulatory reform, and on a commercial basis, but the service would be subject to VAT. We expect the majority of Standard Access volume to use the D+3 service, hence the need to ensure the Standard Access service continues to be VAT exempt. This is vital for many of our customers who are unable to claim back VAT on the mail services that they buy, such as charities and financial services providers. Without the VAT exemption, this would add an additional 20% to the price of our Standard service for these types of customers. This may mean these customers simply stop sending mail or reduce the volume of mail that they send. We need to keep as much volume as possible in our network to maintain economies of scale. Anything that exacerbates volume decline only serves to undermine our USO reform proposal.
- 4.3 History has demonstrated how important Access volumes are to helping achieve efficiencies in our network. For example, we launched our Access Economy service with the aim of giving our customers more choice between speed and price, whilst at the same time improving our efficiency. Our push to include Access Economy in the regulations was an important first step in getting a more fit for purpose regulatory system. Its high uptake amongst customers demonstrated that there was demand for a slower speed, lower priced service. This enabled us to 'bundle letters' to be more efficient in delivery. Moving the Standard Access letter product in the regulation from D+2 to D+3 is a further step in the journey to increased efficiency and better meeting customer needs.
- 4.4 Ofcom's proposal to change the specification of D+5 Access services to a Monday to Friday service, removing Saturday as a delivery day is appropriate. Our customers have told us that this will continue to meet their needs. A proportion of the cost savings for our USO reform proposal come from removing Saturday deliveries and removing Saturday deliveries is also of significant benefit to our people.⁹³
- 4.5 However, we have major concerns with the extension of regulation that creating a new regulated D+2 Access product constitutes. Once USO reform has been implemented, D+2 is fundamentally different. It becomes a premium product with a materially higher cost, akin to First Class. This Priority (D+2) service will effectively be treated as a First Class service. We therefore do not believe Ofcom can make a like for like comparison with the current D+2 service in its consideration of regulating D+2 after any USO reform.

⁹² Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.43.

⁹³ It should be noted that that we need to give notice to our customers from the date the regulations come into force on D+5 to remove Saturday. This will result in a period when we will contractually be required to deliver on a Saturday, although we are discussing with Access operators the possibility of them waiving this notice period.

- 4.6 As we describe in further detail in the next four sections, there are four main reasons why we consider D+2 should not be regulated:
- first, it creates significant risk for the successful implementation of USO reform, by reducing our ability to optimise the traffic on combined routes, undermining the benefits at the heart of USO reform;
 - second, we have taken steps to address concerns about USO reform raised by specific end customers (the risks of which are, in any case, minor);
 - third, it is highly unlikely that there will be any reduction in Access competition if D+2 is not regulated; and
 - fourth, it constitutes a major widening of regulation, going against the grain of Ofcom and Government policy.

Regulating D+2 creates significant risk for the successful implementation of USO reform, undermining the benefits at the heart of USO reform

- 4.7 As Ofcom sets out, one of the main purposes of USO reform is to ensure the financial sustainability of the USO, in line with the Postal Services Act 2011. Critical to this is the move to an alternate day delivery model. We can unlock the cost savings to improve the financial sustainability of the USO only if we are able to achieve this key operational change.
- 4.8 Central to unlocking these benefits is our ability to optimise letter volumes between Priority and Standard products. If we get the balance wrong, and we end up having too much Priority mail requiring delivery on combined routes, this would prevent us from being able to move to an alternate day delivery service due to logistical issues at delivery offices and additional costs.⁹⁴ We currently have 2.5bn items posted on D+2, and each 1% of volumes that does not migrate to D+3 leaves 25m items a week requiring next day delivery, six days a week.
- 4.9 This has two major impacts. First, more volume on the combined routes with associated increases in call rates means that delivery routes may become too long to be covered in a day. We will need to increase the amount of resource and vehicles deployed on these rounds to ensure coverage. Second, with volume being lower on the core routes, the number of coincidences (i.e. multiple items per delivery) will reduce. There will also be a reduction in the call rate. Both of these effects will negatively impact delivery efficiency. We have estimated, at a national level, that even 25mn p.a. additional letter volume on Priority (D+2) could threaten our ability to deploy the new delivery model, whilst 25mn p.a. is likely to cause us to pause our deployment.
- 4.10 As Ofcom will be aware, we have tried to model likely demand for Priority services (parcels, First Class USO letters, First Class bulk letters and D+2 Access letters) after USO reform and have shared that modelling with Ofcom. Whilst we consider our modelling is robust, there is clearly inherent risk here. We do not know for certain what services customers will choose. If there is too much volume on the combined routes, we will need to be able to react quickly and effectively to manage this risk.
- 4.11 Ofcom says that it understands our concerns, and that the cost savings from reform depend on letter volumes moving to the alternate weekday delivery model.⁹⁵ The implication seems to be

⁹⁴ Reducing the planned ratio of core:combined routes of 2:1 would have the effect of increasing cost through additional people and vans, and also present logistical issues with the need to park additional vans in delivery offices that do not have the space.

⁹⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.83.

that we can manage this risk by increasing the relative price for Priority (D+2) services, and we will not be restricted from doing so, even if Priority (D+2) services are regulated.

- 4.12 We disagree. First, it is important to note that given the unpredictable nature of demand for Access business mail, it is entirely possible that price may not be an effective mechanism to optimise volumes. Evidence from recent tariff changes indicates that volumes have not been sensitive even to significant price increases. Accordingly, it is essential that we have the ability to withdraw the Priority (D+2) service on relatively short notice (as governed by our commercial contracts) should that be necessary. This would not be our preferred approach but may be necessary where we cannot manage the appropriate level of next day volumes through prices or we cannot implement the price changes quickly enough.
- 4.13 If the product is regulated, we would not be able to withdraw it quickly, as it requires extensive engagement and consultation. The introduction of the Economy service is a good example of how long regulatory change can take. Access customers, end customers of Royal Mail and Royal Mail all saw the need for this service and wanted it introduced as quickly as possible given that it provides customers with more choice between price and speed, and there were no perceived drawbacks. We needed the product to be regulated to benefit from the VAT exemption (as explained above). However, it took Ofcom nearly a year from initial engagement on the new service to implementation of the new regulations covering the Access Economy service, delaying the benefits for Royal Mail and customers. There is no reason why withdrawing the regulated D+2 service should be any quicker, which creates significant risk for Royal Mail.
- 4.14 In addition, there are a range of other restrictions resulting from regulation which would limit our commercial flexibility and ability to respond quickly and effectively if necessary to manage volumes on the combined routes. These include:
- limiting our ability to make timely contract changes (our Premium Access contract is an example of where we need to remove a pricing restriction, which we would not have been able to do if it were regulated);
 - having to respond to new service requests or contract change requests; and
 - formal Access dispute resolutions, which reduce commercial flexibility and can result in significant inefficiencies, unnecessary costs and potential lost opportunities.

There would be no material customer harm from not regulating D+2 – the risks are small and can be mitigated

- 4.15 We also disagree with Ofcom’s concerns around end customers no longer having a D+2 regulated product after USO reform. On the one hand, Ofcom states that *“Overall, our analysis suggests that moving from current D+2 access service to a new D+3 alternate weekday service would not have any significant impact on most users, in part because those users could make adjustments to their operations and would still have access to faster services when needed.”*⁹⁶ We consider that for the large majority of customers, a move to a D+3 service will not materially affect them. On the other, Ofcom goes on to express concerns that certain, limited, groups of customers may have difficulties moving from D+2 to D+3, and may want to remain on D+2 (e.g. Ofcom cites publishers, the Electoral Commission and a public sector customer). Ofcom goes on to conclude that *“there would likely continue to be demand for D+2 access, at least for a period after the implementation of any reform.”*⁹⁷ Our analysis, underpinned by feedback from

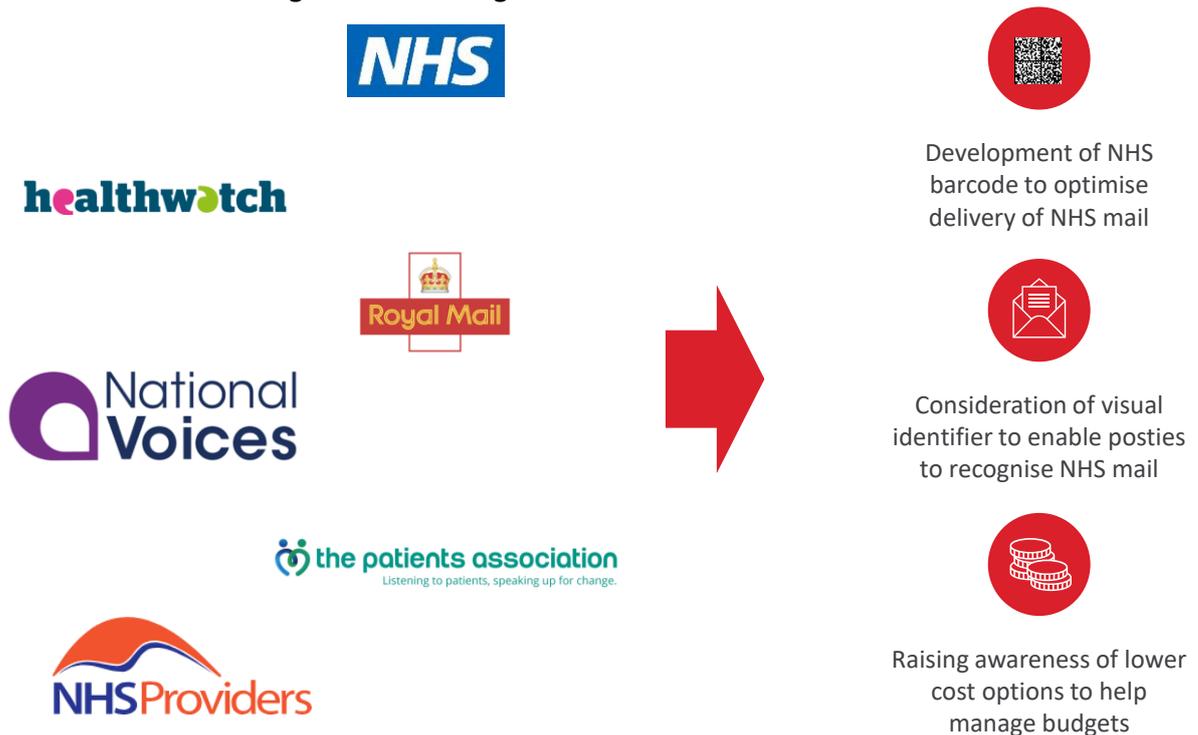
⁹⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.41.

⁹⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.87.

the Access customers, shows that there is only a very small group of customers, who are currently on D+2, and for whom a move to D+3 would be unacceptable.

- 4.16 Ofcom identifies three specific end customer groups it is concerned may be harmed if there is no longer a regulated D+2 product following USO reform. These are NHS bodies, publishers and financial services providers. We have engaged extensively with all three via a series of working groups and one-to-one customer meetings, and we outline our approach for these customers in the following paragraphs.
- 4.17 The **NHS** has a “*digital first*” policy so in many cases is already actively looking to move its communications away from physical mail where possible.⁹⁸ However, recognising that letters remain crucial, we have been working with the NHS and patient groups to ensure that any changes do not lead to worse outcomes or experiences for patients. We have adjusted existing practices to benefit the NHS, recognising that they are still a very large sender of letters, working with them to ensure a better understanding of the range of products that we offer, and which ones would best suit their needs, whilst recognising that there is no standard solution. We summarise the key areas of discussion in figure 4.1 below. We track local QoS and have a process in place to optimise the delivery of NHS mail where needed (i.e. at times when we are not meeting our service standard at a local or national level) and we are looking at enhancements to this approach. Our joint letter with NHS England, NHS Providers, Healthwatch England, National Voices and Patients Association in Appendix 5 provides further insight.

Figure 4.1: Working with the NHS to find solutions



- 4.18 We understand that reliability of service is extremely important for the NHS, particularly when our research indicates that 85% of NHS letters are sent as D+2 or longer.⁹⁹ Our proposed solution seeks to address this. Based on our extensive engagement with NHS posting customers, Ofcom’s assessment that due to cost sensitivities, much NHS mail is likely to move to D+3, and that Access Economy remains an effective option for them to consider and use. However, for

⁹⁸ NHS, 2020. *Internet First Policy*.

⁹⁹ Based on Royal Mail retail mail and meter mail volumes combined with estimates of Access mail volumes.

the limited volumes of urgent mail, NHS bodies can continue to use our Retail First Class, and we would also propose to continue to offer Access D+2 on a commercial basis.

- 4.19 For the **publishing industry**, we understand that for certain high frequency titles, typically of a news and current affairs nature, faster delivery speeds and/or Saturday delivery are considered important factors for the viability and competitiveness of their products. We consider that D+3 products will ultimately be a viable option for the majority of customers sending magazines where speed is not critical. For customers who require faster delivery, six days a week, such as news and current affairs titles we are introducing a Magazine Subscription Priority service for them, and we have priced this competitively. Finally, for those titles with an even tighter editorial – print – delivery window, Retail First Class remains an option (which we understand to have been the greatest area of concern when the Ofcom CFI was published in 2024).
- 4.20 In the **financial services industry**, some customers have expressed concerns that the move to D+3 will require them to change existing processes. For example, banks sending bank cards and PINs may need to adjust the time between these two items being sent to ensure they are not in the postal network at the same time. We will work with the industry to help resolve concerns in this regard. Moreover, some customers have suggested that there are interpretations of legal and regulatory requirements which dictate why they have to have their mail delivered to a faster timetable. However, based on our own research and extensive requests of financial services firms to provide more information, we believe that there are no specific requirements that would mean a D+3 service would not provide the required service (whilst a D+2 service would).
- 4.21 In addition, we understand some financial services customers have other concerns, such as not wishing to take any steps to change their posting behaviour until the outcome of Ofcom's review is final, and wanting to wait and see what QoS level Royal Mail achieves on D+3. However, as noted above in relation to publishing, we consider these are short-term considerations, as opposed to fundamental barriers to the acceptability of D+3 services in the future.
- 4.22 We will of course be working with Access customers and their end customers to help them adapt to the change, including any temporary disruption to their processes and systems caused by USO reform to minimise the impact. Whilst we understand the very short-term challenges that some customers will face, we do not consider this is sufficient reason for Ofcom to extend regulation in the manner being suggested. We have taken other steps to ease the administrative burden on posting customers; for example, our decision following discussions with Access customers to switch existing D+2 product codes over to D+3 after any reform, and introducing a new set of product codes for a more limited range of D+2 products. This was shaped by customer feedback that this would involve less work on their part. Additionally, we have proposed a transition period and are actively engaging with customers.

Figure 4.2: Engagement with different sectors / customers

| | Initial response and concerns raised | Current position and mitigation |
|---------------------------|---|--|
| NHS | <ul style="list-style-type: none"> • Concern inside and outside the NHS about impact on delivery of appointment letters and test results. • Concern about cost implications. | <ul style="list-style-type: none"> • NHS specific barcode. In the short term, this will be used to improve the current extraction process where there are quality issues. In the long term, this can be used to drive different automation decisions. • Different trusts at materially different stages of transition to digital. • To address budget concerns, promoting the availability and appropriateness of a D+5 service for certain mail streams. |
| Financial services | <ul style="list-style-type: none"> • Ability to meet their own regulatory obligations without having to pay more for a next day product (but no specific regulations identified). • Sheer volume of different mail streams may take time to make system changes if they are able to migrate to D+3. | <ul style="list-style-type: none"> • Retained D+2 option, priced to reflect the additional costs. • Continue to explore options for engagement with relevant regulator and trade associations to understand specific constraints. |
| Publishing | <ul style="list-style-type: none"> • Strong resistance to removal of Saturday deliveries for weekly titles. • Potential loss of D+2 for titles that need some degree of certainty without paying for First Class service. | <ul style="list-style-type: none"> • Retained First Class and Access D+2 for the most time sensitive magazines. • Additional option of D+3 service with the prevailing D+2 price. • More cautious approach to price increases. |
| Public sector | <ul style="list-style-type: none"> • Main concern is around the potential increase in First Class price and budget implications, particularly given the high volumes of mail posted. | <ul style="list-style-type: none"> • Similarly to NHS, engagement around use of different services to optimise their budgets. • Some use of mail is dictated by legislation and may still need to be sent using premium services. |
| Elections | <ul style="list-style-type: none"> • Concerns around poll cards, postal voting packs and candidate mail given specific timelines, processes and supply chains. • Concern around cost implications. | <ul style="list-style-type: none"> • Engaged with the Electoral Commission, Cabinet Office and Association of Electoral Administrators. • Plan to move poll cards and candidate mail from 3-day to 4-day delivery window to allow for two attempts at delivery to each letterbox. |
| Advertising | <ul style="list-style-type: none"> • Impact on catalogue brands of move to alternate day model. • No material challenge from engagement with Data and Marketing Association (DMA) and other trade bodies. | <ul style="list-style-type: none"> • Engaged with posting brands and the Direct Commerce Association about product portfolio for catalogue distribution. • Engaged with DMA, Institute of Practitioners in Advertising, and Incorporated Society of British Advertisers. |

- 4.23 We understand that some Access customers have raised concerns around VAT treatment. Under our proposal, the VAT exemption will apply to D+3 and D+5 Access services, and customers who are sensitive to VAT can use these services. As regards our commercial D+2 offering, we do not expect that there will be significant demand for this service from charities (who are sensitive to VAT), and financial institutions are generally well funded such that the inclusion of VAT should not result in the product being unaffordable in cases where they need a premium service.
- 4.24 As regards the more general concerns Ofcom has raised around the transition to the new alternate day delivery model, we recognise that some businesses are understandably daunted by the prospect of change and will have to change some of their systems and processes. We have been engaging with our Access customers, and customer groups more broadly, for over a year to seek to understand these concerns and address them to ensure they are ready for regulatory change.
- 4.25 For example, we have already taken steps to make the transition as easy as possible for customers by making the current D+2 product codes the default D+3 product codes after USO reform. This means that the majority of customers (posting brands, mail producers and carriers) will not need to make any change if they want to migrate straight on to the Standard D+3 service. Additionally, we have agreed to make the new D+2 product codes available for use from early June, so that customers can set up their new processes risk free in advance of USO change. We also consulted on the scope of the commercial D+2 product to prevent unnecessary product development costs for Access customers.
- 4.26 One of the concerns raised by Ofcom is the availability of a D+2 service “at least for a period after the implementation of any reform”.¹⁰⁰ Our commercially negotiated contract requires us to give our customers appropriate notice of service withdrawal. If next day volumes are undermining our ability to yield the benefits of USO reform, and if we decide we have to withdraw the D+2 commercial product (a decision we would only want to take in very limited circumstances), we would be required to serve notice on D+2 Access Priority. Such a notice period would be significantly longer under Ofcom’s proposals.
- 4.27 For the very small number of customers for whom D+3 does not work long term, we will continue to offer our Retail First Class Service, Next Day Access Premium and introduce a new commercial Access Priority (D+2) service. This is also true for our retail customers. It is important to re-emphasise that the key purpose of USO reform is to allow us to move non-priority mail to an alternate day delivery model. The effect of this is that half of the mail delivered under the alternate day model will have a wider delivery window, but be more reliable in future (whether access or retail).
- 4.28 Finally, it should also be noted that in most other countries that have moved to an alternate day model, customers have not been given the option of a next day service. It is our understanding that these customer segments have effectively managed this transition.
- 4.29 Given the above, and the steps we have already taken to address specific end customer concerns, as detailed above, it would be a disproportionate and unjustified reaction to address the limited remaining demand for a Priority (D+2) service by extending regulation and bringing First Class into the Access regime for the first time.

100

Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.87.

The absence of a regulated D+2 product will not harm competition

- 4.30 Ofcom states that “we consider that the competition reasons for regulating D+2 access are likely to continue to apply as the market responds to any implementation of reform. These include addressing the risk of D+2 access being offered on less favourable terms than any equivalent retail services, and of a margin squeeze on the price of the service.”¹⁰¹
- 4.31 We disagree with Ofcom about this concern. **We do not expect that USO reform will have any material negative impact on competition between the Access customers and Royal Mail Retail.** In fact, we consider **the opposite is likely to be true**, as USO reform is likely to result in Access customers having an increased share of bulk mail volumes.
- 4.32 Ofcom has made numerous statements in recent years that demonstrate its view that the Access regime is functioning successfully. For example, in 2022, Ofcom carefully considered the Access regime in its Review of Postal Regulation, and its conclusions as to the efficient operation of Access are clear from the resulting report. Ofcom states “Although stakeholders raised some issues in relation to certain aspects of our access framework, we have not seen evidence to suggest that the framework itself needs to change and/or that it would be appropriate to do more to promote competition in retail bulk letters.”¹⁰² The Access operators’ market share is continuing to increase and Access now represents c.83% of bulk mail volumes.¹⁰³ We do not expect USO reform will have any negative impact on an Access operators’ ability to compete.
- 4.33 It is in this broader context of reform that any specific concerns should be considered. There would be little incentive for us to try to win volumes from Access into Retail Next Day: the whole purpose of USO reform is to allow more letters to be delivered over our more efficient alternate day delivery network. Following any USO reform, next-day letters will have a much higher cost base than non-next day letters. Against that background, it is clearly not our intention to try to win Access volumes into Retail First Class and it would take a very significant reduction in First Class Retail sorted prices to encourage Access customers to up-trade from wholesale non-priority to Retail First Class. Royal Mail’s historic pricing of First Class demonstrates that this is not in contemplation.
- 4.34 In any event, to the extent USO reform does result in volumes switching from Access into Retail (which for the reasons we give above we think is highly unlikely), the volumes are likely to be minimal and a very small proportion of overall Access volumes. As such, it is almost inconceivable that USO reform will result in driving Access customers out of business or damaging their ability to compete for business in the longer term. The path of no reform, more upward pressure on prices, and a threat to the sustainability of the USO is, in our opinion, a more dangerous path for Access volume. Given this, a more proportionate and justifiable approach for Ofcom would be to monitor how USO reform progresses and if, in due course, it considers it needs to adapt regulation further to include a D+2 service, it can easily do so then (e.g. as part of any future review of postal regulation which is due in the next two years).

¹⁰¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.89.

¹⁰² Ofcom, 2022. *Statement: Review of Postal Regulation*, page 235. In the introduction to Section 8 of the Review (which focuses on Access), Ofcom also states “Bulk mail collected by competing access operators continue to make up the majority of letters sent in 2020-21, at 5 billion items. The existing framework has worked well in promoting effective retail competition in bulk letter services (c.70% of bulk letters are handled by Royal Mail’s access operator competitors.”

¹⁰³ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.2.

Regulating D+2 would be a widening of regulation, cutting across the whole purpose of this exercise – to secure sustainability, not to widen the Access regime

- 4.35 Fundamentally, requiring a D+2 Access service, as well as D+3 and D+5 services, is a clear and significant widening of regulation where the core purpose of the reform agenda as a whole is to deliver sustainability and affordability, not to expand the scope of the Access regime.
- 4.36 The core Ofcom proposal is for regulation to continue, but effectively for D+2 volumes to shift to D+3 (in line with the shift to the alternate day delivery model for non-priority mail). This is consistent with the broader objectives of ensuring the USO is sustainable. In other words, to enable USO reform, Ofcom primarily needs to change the Access regulation to allow volumes which are currently on D+2 to move to D+3 to enable sufficient volume of letter products to be delivered through the alternate day delivery model.
- 4.37 Ofcom’s proposal regarding D+2 is not retaining an existing service, but rather adding in a new ‘priority’ service, in addition to retaining (and adapting) the Access Standard and Access Economy services. We consider it to be a new priority service due to the fact that, under the proposal, it would be delivered alongside First Class letters Monday-Saturday, while non-next day mail will be delivered Monday-Friday, alternate day, on core routes. Ofcom implicitly recognises this in its choice of comparator products for the margin squeeze test. The figure below sets out the expansion of services that would be subject to Access regulation.
- 4.38 If Ofcom were to include Priority (D+2) services in the USP Access Condition, this would mean that our Next Day USO, Next Day Retail (via USPA 6), D+2 Access, Second Class USO, Second Class Retail (via USPA 6), D+3 Access, Retail Economy (via USPA 6), and Access Economy would all be regulated. The figure below compares the position today with Ofcom’s proposals.

Figure 4.3: Ofcom’s proposal to bring a new service into the scope of regulation

| | Status quo | Ofcom proposal | |
|----------|-------------|----------------|---|
| Premium | D+1 | D+1 | Letters will be delivered on combined routes. |
| Priority | | D+2 | New regulated service. Letters will need to be delivered on combined routes. |
| Standard | D+2 | D+3 | Delivery speed reduced to reflect that letters will be delivered on core routes. |
| Economy | Up to D+5 | Up to D+5 | No change to delivery speed, letters will be delivered on core routes. |
| | Unregulated | Regulated | Newly regulated |

4.39 Moreover, it would seem Ofcom’s proposal regarding regulating this new Priority (D+2) service would create an anomaly for Access. As explained above, Ofcom’s proposal is that, in addition to regulating the Access Standard product (D+3) (which in all important respects will be the same as today’s Access Standard product, other than on delivery speed and Saturday delivery), it will also mandate and regulate a Priority Access service (broadly equivalent to Retail Next Day), which is unlike anything included in Ofcom’s Access regulation today. Ofcom recognises that customer needs (both retail customers and end customers of Access mail) would continue to be met by the move to the alternate day delivery model. Given this, it is not clear why there is one particular category of mail – bulk mail delivered by Access providers – that should be treated differently.

4.40 Given the Government’s clear agenda for regulation to be more targeted and proportionate,¹⁰⁴ we do not think a valid, evidenced case is made for an expansion of regulation in our sector. Expansion of regulation comes with significant risks that are disproportionate to the limited, theoretical harms Ofcom suggests may occur in its consultation document. We also do not consider that the statutory tests for widening regulation are met.¹⁰⁵

¹⁰⁴ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

¹⁰⁵ As set out in Postal Services Act 2011 s.50(4) and Schedule 6.

5. The need for a regulatory roadmap

Key messages:

- The structural letter decline we have been facing for the last 20 years will continue. The exact trajectory is uncertain, but the trend is not. In Denmark, the current provider of the USO recently announced that it will no longer deliver letters.¹⁰⁶
- Ofcom's review of the USO is an opportunity to reset the regulatory framework and lay the foundations for the USO of the future, reflecting the sector's ongoing evolution.
- The current monitoring regime has failed to provide early visibility of financial sustainability issues in the sector. To reflect that change will be a constant, the regulatory framework should be enhanced with the introduction of an effective early warning system. This should include a USO net cost calculation, financial metrics with tramlines and an assessment of the cumulative impact of Ofcom's regulatory requirements to provide transparency about when regulatory changes need to be considered. Setting up an early warning system is within Ofcom's gift.
- Ofcom has a number of different levers that it can pull that could avoid or delay the need for legislative changes once a potential USO financial sustainability issue has been identified. Ofcom can continue to use its existing powers to address changing demand, for example by modernising the scope of USO products (e.g. removing the prohibition on including tracking on parcels in the USO and an SDG EOD product) or further deregulation (e.g. replacing the Second Class safeguard cap with a more targeted scheme and removing General Large Letters from the Access regime).
- In addition, we ask Ofcom to provide clarity on process and timelines for its review of the other aspects of USO reform and Ofcom's next regulatory review.

The regulatory system needs to continually evolve to respond to constantly changing customer needs

- 5.1 Ofcom sets out in its September 2024 statement that it intends to consult on USO reform in two phases.¹⁰⁷ In the foreseeable future, subject to our specific concerns on QoS and Access, these proposals will modernise the USO, aligning better with customer needs and supporting financial sustainability. Nevertheless, Ofcom acknowledges that the cost savings from these changes alone are unlikely to be sufficient to deliver financial sustainability for the USO in the longer term, given the likely continued downward trajectory of demand.¹⁰⁸
- 5.2 We disagree with Ofcom's view that "[it] is unlikely we [Ofcom] can do significantly more to respond to the challenges facing the universal service".¹⁰⁹ Phase 2 of Ofcom's USO reform is an opportunity to consider the postal regulatory framework to ensure the regulatory framework is responsive to the needs of today's and future postal customers. This should be undertaken quickly following Ofcom's completion of Phase 1, given:

¹⁰⁶ [PostNord will deliver its final letter at the end of 2025 | PostNord](#)

¹⁰⁷ Ofcom, 2024. *Future of the universal postal service – summary of responses and next steps*, paragraph 3.10.

¹⁰⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 1.14.

¹⁰⁹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 1.29.

- the expectation of ongoing structural letter volume decline and the fixed cost nature of our business means that, other things being equal, the net cost of the USO will continue to increase over time; and
- the changing economics of delivery create the need to ensure the regulations reflect current and future reality. For example, current QoS targets do not reflect today's postal dynamics and risk creating a permanent regulatory cycle of 'fail, investigate, fine – repeat' generating negative customer perceptions of both the regulator and Royal Mail.

This is an opportunity to reset the regulatory framework and lay the foundations for the USO of the future

5.3 A modern, fit for purpose regulatory regime for the postal sector should be characterised by an effective *ex post* monitoring regime.¹¹⁰ As we set out in the rest of this chapter, this has the following benefits:

- it allows for the specification of objective triggers for when regulations should be reviewed or removed;
- it provides the regulated company and stakeholders with transparency over when regulations will be reviewed so they can plan their resources more effectively;
- it allows for the consideration of the cumulative effects of different regulatory decisions over time; and
- it allows for early identification of risks and for targeted mitigating actions to be taken before they become significant issues.

5.4 The current regulatory framework is undermining our ability to provide the USO on a commercial basis. We note that the Government is seeking to address concerns like these as part of its new policy to ensure regulators support growth which states that *“Whilst each regulatory intervention has been rationalised on its own terms, the unintended consequences of the cumulative effects have not yet been properly analysed.”*¹¹¹ In the case of the postal service, this means that there has been insufficient consideration of the holistic, strategic view of the regulatory framework.

5.5 The regulatory requirements have grown over time and become more restrictive. For example, when the new regulatory framework was introduced in 2012, Ofcom was content to receive our future business plans in the way that Royal Mail prepared and presented this information for its own decision making purposes. However, Ofcom now requires Royal Mail to follow specific rules and templates. This includes an annual five-year forecast, even if our Board has not approved a business plan.¹¹² Another example is the Second Class safeguard cap. In 2012, there was c.53% headroom under cap,¹¹³ now it is a binding cap removing a potential pricing lever.

5.6 In resetting the future regulatory framework and addressing the cumulative regulatory burden, we can draw firm lessons from the past. The Postcomm experience, as outlined in the case study

¹¹⁰ See, for example, the Government's Better Regulation Framework 2023 which lists post-implementation reviews as one of the three stages of the regulatory policy-making process. Department for Business and Trade, 2023. Better regulation framework guidance, paragraph 13.1.

¹¹¹ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

¹¹² See Ofcom, 2023. *Statement on changes to Royal Mail's regulatory reporting requirements*.

¹¹³ Ofcom, 2012. *Securing the Universal Postal Service* paragraph 8.151 set out that the Safeguard cap for Second Class Letters was 55p for 2012-13. The price of Second Class Letter in the prior financial year (2011-12) was 36p. The headroom is $(55p - 36p)/36p = 53\%$.

in Appendix 6, demonstrates what happens where the approach to regulation, and the nature of the regulatory relationship, is disproportionate and not forward looking. In particular, there was no effective dialogue between Postcomm and Royal Mail. The regulator did not face up to the structural realities in the market, and over-specified regulations were put in place. Compared with Postcomm, Ofcom introduced more commercial and operational flexibility as part of the 2012 Regulatory Review, and we consider that Ofcom can now go further in deregulating some elements of the postal system, to ensure that the regulatory environment encourages innovation, growth and investment to ensure we meet the future needs of our customers.

Further structural decline of letters is inevitable and makes the introduction of an early warning system critical

- 5.7 The current postal monitoring regime does not provide a sufficiently robust early identification of financial sustainability risks, making it responsive only when customer affordability and benefits are at significant risk, or when we are facing viability issues. We note, for example, that Ofcom's work on USO reform got underway only when Royal Mail (including the Reported Business) was loss making, despite a clear and steady picture of financial decline consistent with international experience and Royal Mail publicly highlighting the risks it faced. Ofcom states that *"the regulatory framework for the USO should ... create the best opportunity for the universal service to continue to be provided on a commercial basis (i.e. without public subsidy)."*¹¹⁴ Given the likely continued, albeit unpredictable, decline in letters that is not offset by growing revenues in a competitive parcels market, it is important to identify emerging problems with sufficient notice.

Future letter volume decline will unwind improvements in our delivery economics from USO reform, it is important that Ofcom can identify when future USO reform may be required

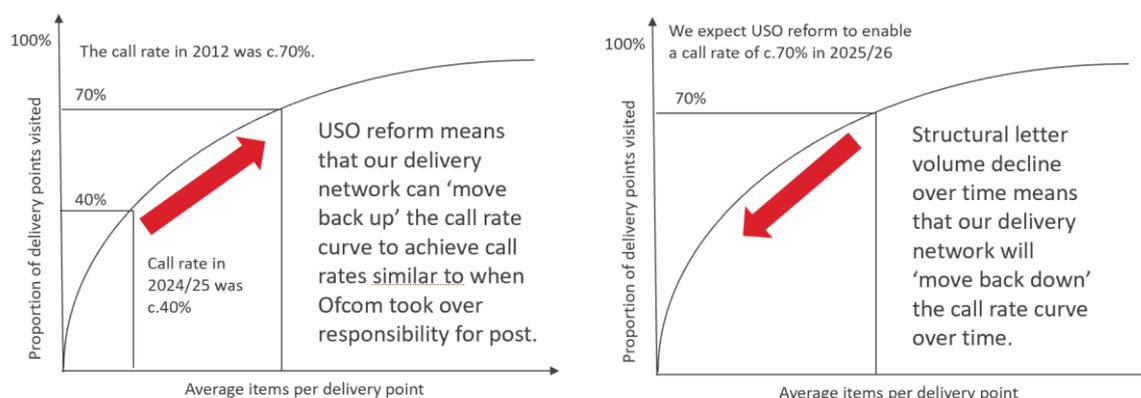
- 5.8 The ongoing structural decline in letter volumes affects Royal Mail's call rate in delivery. Ofcom's consultation helpfully and clearly explains the call rate and its pivotal role as the key cost relationship in Royal Mail's delivery network. This is the relationship between the amount of mail to be delivered in an area and the proportion of all delivery points that must be travelled to on a given day. Due to the call rate relationship being non-linear, as more volume is being delivered on the core routes, the number of deliveries to individual addresses increases but by less than the increase in volume. In other words, there are economies of scale in being able to deliver more items per address. With USO reform, we expect the call rate to rise from c.40% to c.70% in our core routes. We illustrate this in Figure 5.1 below which shows that, in 2012/13 when Ofcom took over responsibility for the regulation of post, the call rate was c.70%. In 2024/25, the call rate was c.40%. Our expectation is that USO reform will enable the call rate on core routes to improve back to around 70%.
- 5.9 As Ofcom acknowledges, *"As letter volumes have declined over the last few decades, while at the same time the number of addresses has increased, it is this call rate relationship that has driven unit costs higher. Where previously postal workers may have been delivering many items through most letter boxes they visited, they are now far more often delivering just one or two items. Further, where previously they would deliver to the large majority of houses on a street each day, they now visit only a fraction and have further to travel between each delivery. Both of these factors have driven up the average cost of delivering a letter."*¹¹⁵

¹¹⁴ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 1.15.

¹¹⁵ Ofcom Consultation: *Review of the universal postal service and other postal regulation*, 30 January 2025, paragraph 4.24.

- 5.10 Looking ahead, the structural decline in letters is set to continue, unwinding the USO reform benefits that are expected, necessitating further regulatory reform to improve (or at the very least mitigate against the fall in) the call rate. In Figure 5.1 below, we show that from 2025/26, we expect the call rate to fall over time from the c.70%, which will reduce the economies of scale.

Figure 5.1: Illustrative representation of the impact of USO reform on call rate and that the ongoing structural decline in letter volume will erode the call rate benefit
 USO reform enables economies of scale Volume decline removes these economies



- 5.11 The question is therefore not 'if' further reform will be necessary, it is instead a case of 'when' further reform to the USO will be necessary. It is therefore important that, as part of its regulatory review, Ofcom considers how to futureproof its postal regulatory framework to ensure that it can, in a timely fashion, identify when further reform is required.
- 5.12 We consider that an early warning system would be consistent with the Government's recent policy paper, whose second action is focused on reducing uncertainty and providing "clear processes and published timelines for decisions".¹¹⁶

The current monitoring regime has failed to provide early visibility of financial sustainability issues in the sector

- 5.13 There are three main limitations of the current monitoring framework:
- First, as Ofcom states, its regulatory costing approach does not allow Ofcom to understand the net cost of the USO and that reviewing the net cost is not part of Ofcom's current monitoring programme.¹¹⁷ This leads to understatement of the costs of USO products as insufficient common costs are allocated to these products.¹¹⁸
 - Second, the current monitoring regime does not include a framework that would act as mechanism to highlight financial sustainability concerns. We proposed tramlines set around transparent, objective thresholds for several key financial metrics in the 2022

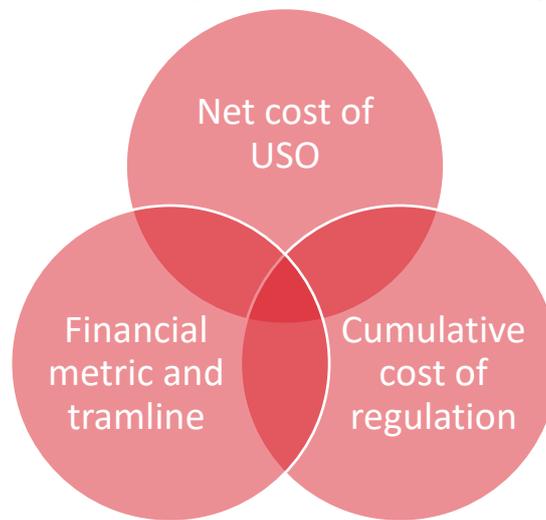
¹¹⁶ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth.*
¹¹⁷ Ofcom, 2024. *The future of the universal postal service – call for input*, paragraph A7.29. Ofcom states that "This approach is needed for certain ongoing monitoring and business as usual regulatory considerations such as pricing and returns on products. However, it is not appropriate for net cost considerations, which are not part of our ongoing monitoring programme."
¹¹⁸ Ofcom, 2024. *The future of the universal postal service – call for input*, paragraph A7.29. Ofcom states that "The main shortcoming [of the current approach] ... is that it does not account for the reasons why the network within the Reported Business is organised and run the way it is. One key reason is to deliver the USO. In order to account for this, a larger proportion of common costs should be allocated to the USO products than are allocated under this approach."

Regulatory Review.¹¹⁹ However, Ofcom opted to pursue alternatives, including requiring further detailed financial monitoring which did not include such a framework. We remain concerned that both the length of time it will take Ofcom to identify a sustainability issue and the length of time to implement a solution mean there is a real risk of irreversible harm to the financial sustainability of the Universal Service.

- Third, it does not allow for the consideration of the cumulative effects of regulatory decisions, even if individual regulations can be justified on their own terms, including how they restrict the commercial potential of the business in the future.

5.14 To address these limitations, we ask that Ofcom puts in place an early warning system to provide postal stakeholders with transparency over when regulatory changes will need to be considered. This could be realised through the introduction of a net cost calculation of the USO, financial metrics with tramlines, and an assessment of the cumulative costs of regulation.

Figure 5.2: Three components of the early warning system



Net cost of USO

5.15 The UK needs a mechanism whereby Ofcom carries out a regular net cost calculation so there is transparency of the true costs of the USO borne by Royal Mail. Ofcom has the power to introduce a review mechanism for the regular recalculation of the net cost of the USO. Alongside this, we ask that Ofcom reviews the costing methodology required for Royal Mail's regulatory accounts so that it reflects the true cost of providing the USO.

5.16 Such an approach would be consistent with other countries in Europe, such as France, Belgium, Spain, Italy and Norway. In these countries, the USP is required to undertake a regular net cost calculation which is then verified by the regulator.¹²⁰ In Spain, Italy and Norway, these calculations are used to underpin compensation payments. In Belgium, the net cost calculation is used to assess any claim for relief by the USO provider, bpost, and can lead to USO change or financial compensation.¹²¹

5.17 We suggest that Ofcom adopts a similar approach to this and conducts a regular net cost assessment. An Ofcom assessment would provide greater confidence in the independence of

¹¹⁹ Royal Mail, 2022. *Response to Ofcom's Review of Postal Regulation - Consultation, December 2021*, paragraph 2.20. We detailed to Ofcom that "we consider that the length of time it will take Ofcom to recognise a sustainability issue and the length of time to implement a solution means there is a real risk of irreversible harm to the financial sustainability of the Universal Service."

¹²⁰ Or by the Ministry of Transport and Communications in Norway. Cullen, 2024. *USO net cost summary*.

¹²¹ Bpost, 2020. *Strategy update and capital allocation*, page 29.

the analysis. However, we would also be happy to provide Ofcom with our calculation of the net cost of the USO, with Ofcom then validating our analysis.

- 5.18 We ask that Ofcom provides consistency and predictability to stakeholders by codifying how and when it will re-assess the true cost of the USO. We suggest there should be a re-calculation of the net cost of the USO every two years.

Develop a financial metric tramline approach to ensure issues are identified early enough for targeted regulatory invention, if necessary

- 5.19 Change is a constant. Now is the time to consider the financial reporting framework to ensure it can cope with the significant changes in the sector described above and to provide clarity on when further regulatory and/or legislative change may be necessary. The current regulatory financial framework did not provide a ‘warning klaxon’ that regulatory change was necessary. Rather, we have experienced two years of significant losses whilst necessary USO reform is still under consideration.
- 5.20 Regulatory change takes time; it is important that Ofcom carries out thorough analysis to justify change. Having a regulatory financial framework with tramlines could help Ofcom to identify, in good time, when regulatory intervention may be necessary. We suggest that we work with Ofcom to develop a financial reporting framework that includes tramlines to provide more clarity to all stakeholders on when regulatory change is necessary. This framework would need to be forward-looking and include a range of different metrics including profit, cashflow and debt metrics. Introduction of tramlines as a means to develop a traffic light system to identify when there could be financial sustainability issues which in turn could prompt Ofcom to consider whether further regulatory change is necessary. We have not proposed a detailed framework here, rather this is an area that we would like to work with Ofcom to develop.

Cumulative cost of regulation

- 5.21 Ofcom rightly undertakes impact assessments to assess the potential impact of policy decisions before they are taken, ensuring that regulations are created on the basis of an evidence base. We consider it important to put in place an ongoing and holistic assessment of the regulations facing the business. This would be consistent with the Government’s action to establish a baseline of the cost of regulation, helping to reduce the overall regulatory burden by 25% of the end of the Parliament.¹²² Moreover, it would ensure that elements of postal regulation that falls outside the net cost calculation, such as cost reporting, compliance with the QoS regime, and Access costs, are brought under the scope of Ofcom’s evidence-based review of the overall regulatory cost burden.

Ofcom has a number of different levers it can pull that could avoid or delay the need for legislative changes once a potential USO financial sustainability issue has been identified

- 5.22 The trends in the UK postal sector reflect those in other advanced economies around the world, and have compelled some of our international counterparts to take drastic measures, such as relieving an incumbent postal operator of its universal service obligations (e.g. Denmark¹²³) or, as Ofcom acknowledges in the consultation, USO providers requesting state aid from the taxpayer to guarantee the financially sustainable provision of the service (as in the case of France).¹²⁴ However, as outlined in the customer research in Chapter 1, we recognise that

¹²² HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

¹²³ [New postal law results in changes at PostNord Denmark | PostNord](#).

¹²⁴ Ofcom, 2024. *The future of the universal postal service – call for input*, page 46 – 53.

replicating this response would not be commensurate with needs of UK customers. Furthermore, such drastic action should be avoidable in the UK – but only if we are far-sighted enough to identify and respond to market developments.

5.23 Ofcom explains that *“it is unlikely we can do significantly more under the current regulatory framework to respond to the challenges facing the universal service”* and that *“any further substantial changes would likely require amendments to legislation.”*¹²⁵ We disagree; there are a number of measures that are already within Ofcom’s gift that could avoid or delay the need for legislative change. The figure below summarises a non-exhaustive list of the areas where Ofcom already has the discretion to strike a better balance of meeting customer needs and the financial burden of regulation, as well as where legislative change would be required to give Ofcom the option of making changes. It can be seen that even under the current regulatory and legal framework, Ofcom retains significant flexibility to take action before legislative change is required.

5.24 Indeed, Ofcom recognises that it retains scope to create more flexibility within the existing regulatory framework in its consultation when it states in relation to QoS targets that *“Reducing the target further (e.g. to 85%) could make the level more future proof as it would have a lower cost requirement and provide more operational flexibility.”*¹²⁶

Figure 5.3: Decisions within Ofcom’s remit and decisions requiring legislative changes

| Decisions within Ofcom’s remit | Decisions requiring legislative change |
|---|---|
| <ul style="list-style-type: none"> • Delivery and collection days for different USO products whilst maintaining a six day letter service (e.g. six day First Class, five day non-First Class) • Replace Second Class safeguard cap with a more targeted scheme • Modernising USO <ul style="list-style-type: none"> ○ Removing prohibition on tracking on USO parcels ○ Modernising SDG product to include an EOD product in the USO • QoS targets • Further deregulation such as removal of General Large Letters from the Access regime | <ul style="list-style-type: none"> • Change to delivery and collection days • Revised contribution fund • Uniform pricing • Universal service |

5.25 There is a role for legislative change to give Ofcom greater flexibility. However, as set out above, Ofcom can enact fundamental changes to the regulatory framework to support financial sustainability without the need for legislative change.

Regulatory levers at Ofcom’s discretion

5.26 Some examples of regulatory levers at Ofcom’s discretion that could support financial sustainability and that could delay the need for more substantive changes to the USO include:

- using a more targeted affordability scheme to replace the Second Class safeguard cap;

¹²⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 1.29.

¹²⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.43.

- modernising the scope of the USO to include tracking and an SDG end of day product in order to meet evolving customer needs; and
- removing the requirement to offer General Large Letters as part of the Access regime.

5.27 These are described in the paragraphs below.

Replacing the Second Class safeguard cap with a more targeted scheme

5.28 Ofcom sets out in its consultation that, ahead of the safeguard cap expiring in March 2027, it *“will consider options to ensure the continued affordability of USO services, including more targeted interventions than the current safeguard cap, as well as more broadly reviewing our approach to the regulation of the pricing of Royal Mail’s services.”*¹²⁷

5.29 We have previously set out to Ofcom that the Second Class safeguard cap on stamps letters and large letters is not justified by customer benefit, and it significantly constrains our commercial flexibility that we need to support financial sustainability.¹²⁸ Ofcom’s evidence shows that there is no affordability issue for the majority of our customers, as spending on post represents only 0.1% of spending for households in the lowest income decile.¹²⁹

5.30 We urge Ofcom to undertake its review of the Second Class safeguard cap as part of its phase 2 USO reform work and to set out its timescales for doing so.

Remove the prohibition on including tracking on parcels in the USO

5.31 Currently tracking is prohibited on USO products in DUSP 1. In our response to Ofcom’s CFI, we set out the need to include parcel enhancements in the USO in order to reflect changing customer needs as well as the need for a financially sustainable USO. In particular, we should be able to provide tracking on USO parcels.¹³⁰ Ofcom sets out in its consultation document that it does not plan to re-open this issue in its current work as it considers that there has not been a material change in circumstances since it made the decision in its 2022 Regulatory Review to remove the prohibition on tracking on parcels in the USO.¹³¹ We disagree with this and maintain our view that the evidence we presented supports the inclusion of tracking in the USO.¹³² This is reinforced by the fact that between 2019 and 2023, the net appeal for tracking in the USO increased from 67% to 84% for consumers, and from 46% to 73% for SMEs.¹³³ This is a significant shift in importance of tracking that should be addressed to ensure the USO remains relevant and the benefits of tracking are accessible to everyone.

5.32 In particular, as we set out in our response to Ofcom’s CFI, tracking is the most important factor for consumers and SMEs when choosing a parcel operator. Moreover, tracking has become increasingly important. Since the 2022 Regulatory Review, we have presented new evidence to Ofcom showing that for consumers, this has increased to 84% (from 63% in 2019) and for SMEs it is up by c.20% for both of First Class and Second Class letters and parcels since 2019.¹³⁴

5.33 Customers increasingly need an affordable, one-price-goes-anywhere, fully tracked parcel service. This is driven, at least in part, by customers increasingly using online marketplaces for C2X transactions (including eBay, Vinted and Etsy). Whilst mechanisms such as proof of posting and delivery confirmation provide a basic level of visibility for customers, they are insufficient

¹²⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 9.7.

¹²⁸ Royal Mail, 2023. *Response to Ofcom’s consultation - Review of Second Class safeguard caps 2024*, paragraph 61 – 64.

¹²⁹ ONS, 2023. *Family spending in the UK: April 2021 to March 2022*.

¹³⁰ Royal Mail, 2024. *Response to Ofcom’s call for input on the future of the universal postal service*, paragraph 5.4.

¹³¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 2.43.

¹³² Royal Mail, 2024. *Response to Ofcom’s call for input on the future of the universal postal service*, paragraph 4.27.

¹³³ Illuminas, 2023. *Consumer and SME research*.

¹³⁴ Illuminas, 2023. *Consumer and SME research*.

for customers who need to contact parcel operators to secure their package and maximise the convenience of the service on delivery. Our research indicates that customers want to be able to choose delivery options for reasons of convenience and security. This is particularly useful for vulnerable and disabled customers and their carers.

- 5.34 Parcel tracking is a hygiene factor that customers increasingly expect, and which competitors offer as a standard service. The removal of the prohibition would build a USO for the digital age, addressing an outdated and unnecessary regulation that undermines the financial sustainability of the USO.
- 5.35 The market does not provide this on a geographically uniform basis, given that some carriers do not deliver to certain parts of the UK, so it should therefore be included in the USO to aid levelling up the UK. Other parcel operators surcharge for deliveries and collections in many rural areas or fail to offer a next day service.¹³⁵
- 5.36 Prohibiting tracking from the USO forces USO parcels to compete with one hand tied behind their back and in effect consigns USO parcels to a slow death, harming the financial sustainability of the USO. This is also inconsistent with incentivising a high-quality service to customers and innovation in the sector. There is also no evidence that removing the prohibition on parcel tracking in the USO would drive out or materially undermine competition.¹³⁶
- 5.37 We therefore ask that Ofcom consults on including tracking on USO parcels in its second phase of its consultation on USO reform.

Including a Special Delivery End of Day product in the USO

- 5.38 The Special Delivery Guaranteed 1pm (SDG 1pm) remains an essential part of our USO service but this is currently insufficient to fully meet customer needs. In particular, some customer groups see timed delivery as ‘unnecessary’ and other factors are more important (i.e. need for proof of delivery, consequences if an item is lost or damaged in transit, and the need for the item to arrive the next day).¹³⁷ Only 21% of consumers require timed delivery compared with only 34% of businesses.¹³⁸ There is a large proportion of both consumers and businesses that are paying for the time guarantee even though they do not value it. Given the higher cost of providing an SDG 1pm product relative to an end of day product, including an end of day product in the USO (SDG EOD) would provide USO customers with more choice better meeting their needs.
- 5.39 The introduction of a SDG EOD product would also enable a more efficient handling of this product through our network compared to an SDG 1pm product. Under the new alternate day delivery model, SDG EOD items would be delivered by our posties either as part of the core route or as part of the combined route, depending on the delivery day. Given the timing of outdoor delivery routes (typically 10.30am to 4pm, and potentially later in the future given changes to our network window) SDG EOD items could be delivered as part of the normal route. However, for SDG 1pm our posties will have to divert from their ‘normal’ route if the postie is not otherwise able to deliver by 1pm. This could affect \propto of SD items on a delivery route. This is costly as it requires the postie to go over the ground twice to hit a 1pm guarantee. We estimate that it would add an additional \propto to the cost of SD items. It is also inefficient for the items that customers do not need to be delivered by 1pm but for which an end of day delivery would suffice.

¹³⁵ For example, [Services to Scotland | DPD](#); [Remote Areas and Transit Times | Yodel](#)

¹³⁶ Oxera 2022. UK consumer parcels: assessment of tracking in the Universal Service, 3 March 2022

¹³⁷ Royal Mail, 2020. *SDG Variant Research*.

¹³⁸ Royal Mail, 2020. *SDG Variant Research*.

Removal of General Large Letter from Access regime

5.40 General Large Letters are effectively small parcels used to deliver fulfilment items often from e-retailers (see below images which demonstrate this). The first image shows Business Mail Large letters, where the items are quite thin and many items are able to be presented in a single tray, with the second image showing fulfilment items of varying thickness, typically above 10mm and clearly not suitable for presentation in trays (which is the typical way for letters including 'paper' large letters to be handled in the operation).

Figure 5.4: Decisions within Ofcom's remit and decisions requiring legislative changes



5.41 As part of Ofcom's Phase 2 work of USO reform, we urge Ofcom to actively consider removing Fulfilment Large Letters (i.e. General Large Letters) from the Access mandate regime. They have a different competitive dynamic and economics to 'paper' large letters. They are small packets that typically fit through a letter box. We sell, handle and deliver these items as parcels, as do our competitors. There is sufficient competition for these services from other end-to-end parcel operators. Competition in this area allows customers to send small letterboxable parcels at low prices and high quality with a range of providers. Fulfilment Large Letters should therefore be removed from the Access regime.

Timelines

5.42 We ask Ofcom to provide information on the likely timing and scope of Ofcom's future consultations and decisions This will generate two main benefits:

- it allows stakeholders to consider how specific changes affect different stakeholders in the context of potential future changes to regulation; and
- it provides transparency and predictability (two of the key elements of the Government's vision for its overhaul of the regulatory system).¹³⁹

Conclusion

5.43 Ofcom's consultation is an opportunity to reset the regulatory framework and lay the foundations for the USO of the future, in response to the sector's ongoing evolution.

5.44 In relation to the six main areas set out further below, we ask Ofcom to provide clarity on:

¹³⁹ HM Treasury, 2025. *Policy paper - New approach to ensure regulators and regulation support growth*.

- whether it will consult on these issues;
- Ofcom’s timeline for consulting; and
- Ofcom’s timeline for reaching a decision for each of them.

5.45 This includes whether these will form part of Phase 2 of Ofcom’s USO reform programme, a separate review of the Second Class safeguard cap or Ofcom’s 2027 regulatory review.

5.46 These six main areas are:

- the need for enhanced regulatory financial reporting to provide stakeholders with transparency and an early warning system;
- the product scope of the USO and the need to modernise the features of the USO to meet current and future customer needs. This should include a review of the prohibition of tracking on USO parcels and an SDG EOD product;
- updating those QoS targets not reviewed as part of Ofcom’s Phase 1 USO reform and the QoS enforcement regime (see Chapter 3);
- replacing the blanket Second Class safeguard price cap with more targeted regulation, allowing for bespoke solutions when there is an affordability issue. This would provide Royal Mail with greater commercial flexibility whilst safeguarding vulnerable customer Access to the USO;
- further deregulation to reflect market conditions including removal of General Large Letters from the mandated Access regime given the highly competitive parcel market in the UK; and
- consideration of the cumulative effect of regulations on our ability to provide a commercially funded USO.

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Appendix 1 – First Class speed D+1 QoS target

Introduction

A1.1 In this appendix, we explain how the customer research supports a rebalanced D+1 speed target. Rebalancing the speed target is also supported by the impact of changing customer demand on our pipeline, especially delivery, where more efficient resourcing to workload means our operation is more exposed to workload volatility. This in turn makes it harder to achieve First Class QoS. Benchmarking to other European posts supports the case to revise the First Class Speed D+1 QoS target.

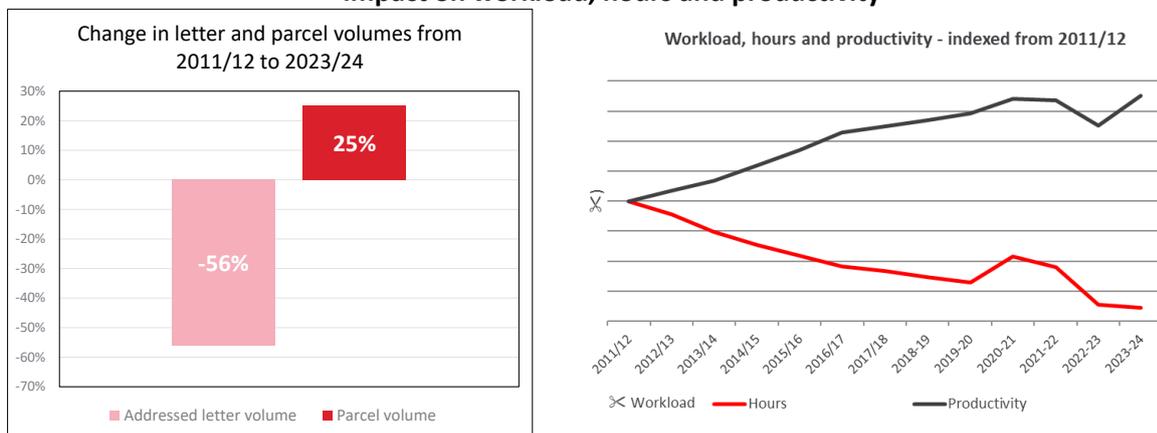
Customer research

A1.2 Ofcom has recognised that consumer awareness of QoS targets is relatively low, and that testing customer preferences on QoS targets is challenging.¹⁴⁰ As set out in Figure 1.3, Ofcom’s user needs research shows that affordability (90%) and reliability (88%) are the top priorities for mail users, with speed being of lesser importance. It also demonstrates that customers think it is important that mail is delivered on time, with 88% citing this as an important feature of the USO. In 2023, Ofcom’s Consumer Survey on Post research found that 88% of users consider it important that 90% of letters are delivered on time.¹⁴¹ In 2020, Ofcom’s review of user needs found that modernising the speed target to 90% would still meet 97% of user needs.¹⁴²

The changing economics of the delivery network

A1.3 Since Ofcom took over responsibility for post, the mix of mail in the postie’s delivery bag has materially changed. Although there are far fewer letters, there are more parcels. Parcels are larger and take more time to handle than letters in our pipeline.¹⁴³ As a consequence, the workload within our operation has broadly remained the same but the total hours worked has reduced. We have become more productive, i.e. we undertake about the same amount of work with fewer hours, as outlined in Figure A1.1 below.

Figure A1.1: The change in letter volumes and parcel volumes since 2011/12 and impact on workload, hours and productivity



A1.4 As we explained in our April 2024 submission, as we become more productive, the resource cushion to deal with workload variability reduces. We are increasingly exposed to demand volatility, especially in delivery, as we operate with a mostly fixed labour model. The figure

¹⁴⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.24.

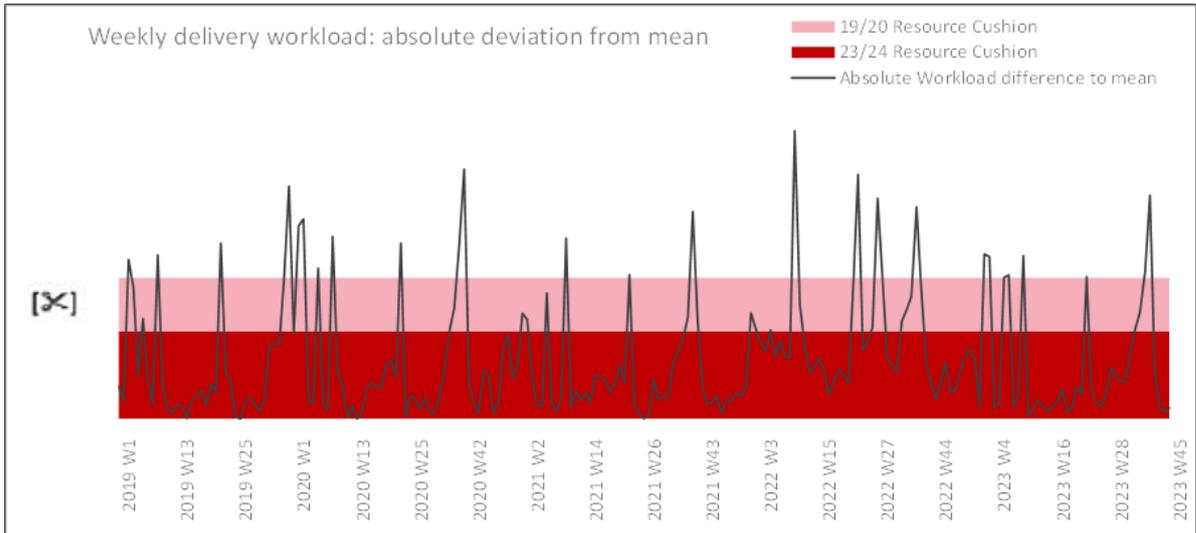
¹⁴¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 3.94.

¹⁴² Ofcom, 2020. *Review of postal users’ needs*, paragraph 6.20.

¹⁴³ For example, to better meet customers’ needs, we now provide photo on delivery for parcels. This means the postie will take more time on the doorstep with a parcel that requires a photo than with a letter that needs posting through the letterbox.

below shows the resource cushion in 2019/20 (pre-COVID) compared with 2023/24. The figure shows weekly national workload volatility levels. The volatility increases significantly on a daily level at a delivery office level. Delivering for customers on efficiency (i.e. ensuring our costs and therefore our prices are lower than they would be otherwise) means it is very challenging to meet the QoS standards that were set in 2006, when there was more spare capacity in our operation. Therefore, now is an appropriate time to revisit and reset the QoS targets.

Figure A1.2: Delivery volatility



Workload volatility is significantly more variable at a delivery office level, making it more challenging to resource to workload

A1.5 Delivery performance is managed at a national and local level. Below the national delivery function, there are 12 Regional Operational Directors (RODs) managing regional performance. Supporting the RODs are Operational Performance Leaders (OPLs), who manage a number of Customer Operations Managers (COMs) who are responsible for delivery office performance.

Figure A1.3: Delivery functional hierarchy



A1.6 Volume, and hence workload, volatility is significantly more variable at a delivery office level, making it more challenging for our COMs to resource to workload. The two figures below show the workload volatility in a typical week (week commencing 16 September 2024). This week is typical in that there were no erratic volumes or bank holidays. The two figures below show the variability of letter and parcel performance compared with the forecast at the different levels in our network delivery operation. It clearly shows that:

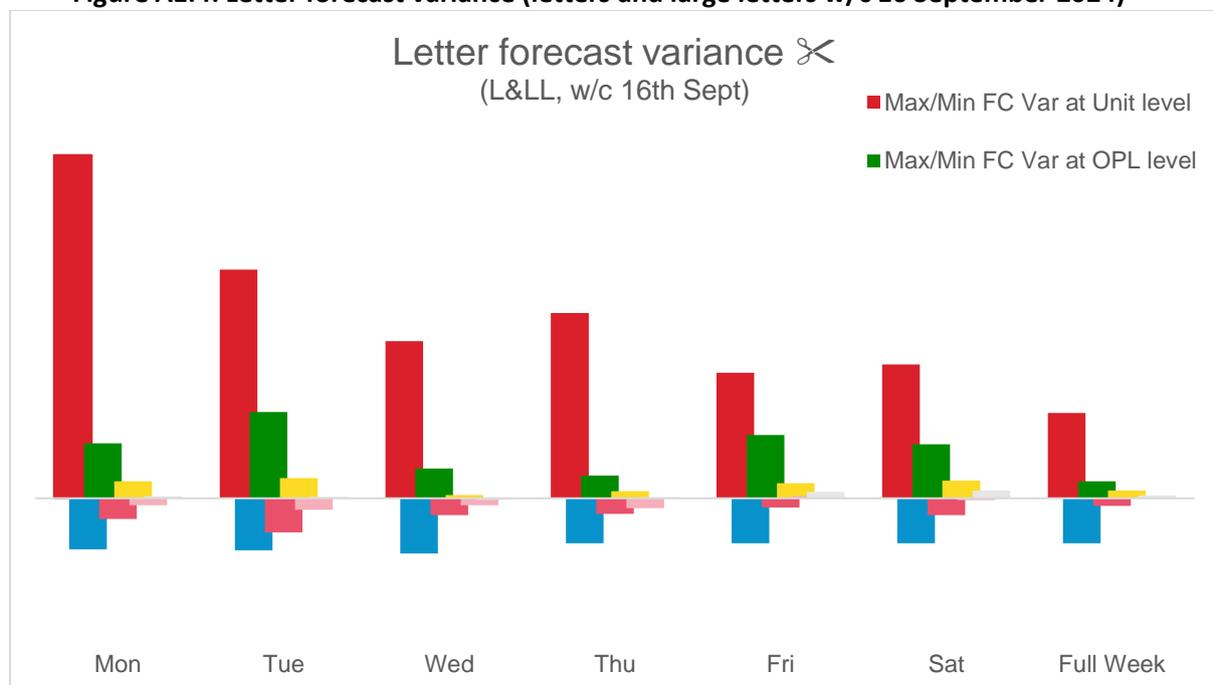
- the workload volatility increases the further down in the delivery functional hierarchy; and
- each day of the week has a different volatility profile for letters and for parcels.

A1.7 Taking letters, over the week, the figure shows that the variance to forecast at a national level was +3% (red bar). When reviewing the variance at the regional level, the variance increases to a range of -3% to +3%. At the OPL level, the range increases further to +3% to -3%. At the lowest level of forecasting – the delivery office – the range is +3% to -3%. For the COM managing the delivery office, this range of variability is difficult to manage, and the impact even more marked on a daily basis. For example, delivery office volatility on a Monday ranged from +3% to -3%.

A1.8 Most delivery offices experience significant volume variation. For example, in the week of 16 September 2024:

- 3% of delivery office units had at least one day in the week where the letters were at least 20% different from forecast, and 3% of delivery office units had at least one day in the week with a variance of over 50%; and
- 3% of units had at least one day in the week where the parcels were at least 10% different from forecast, with 50% of units between 10-20%.¹⁴⁴

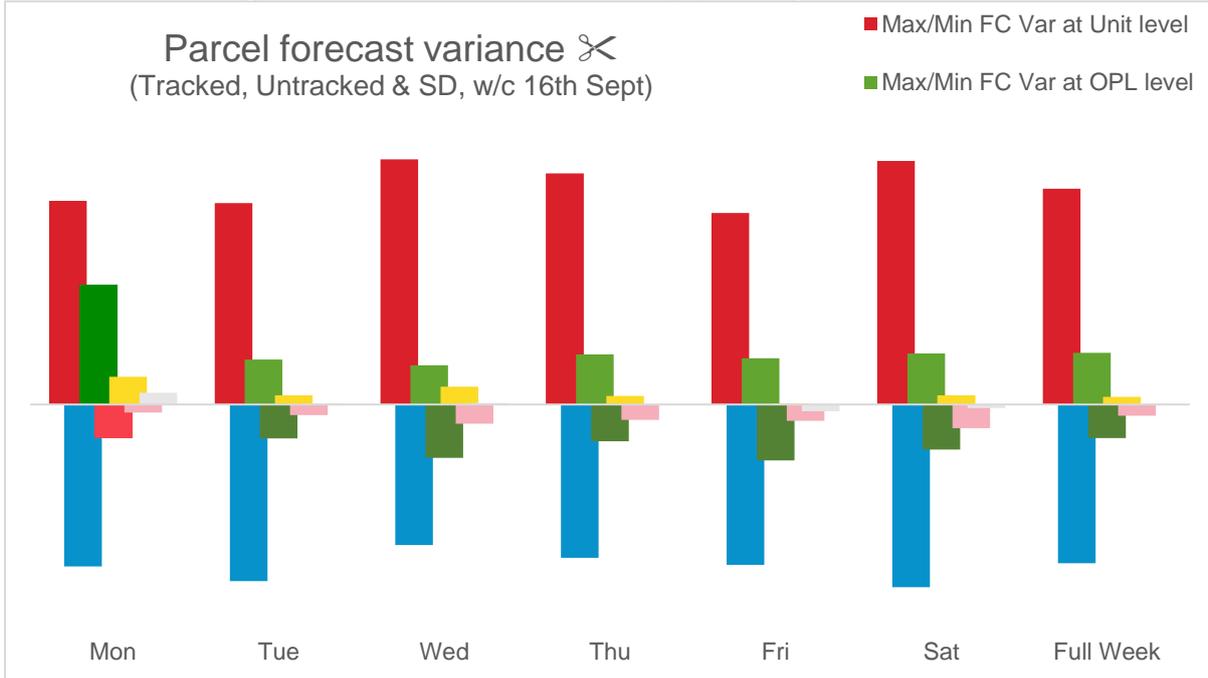
Figure A1.4: Letter forecast variance (letters and large letters w/c 16 September 2024)¹⁴⁵



¹⁴⁴ Royal Mail analysis.

¹⁴⁵ Royal Mail analysis of variance between forecast and actual volumes for letters and large letters w/c 16 September 2024.

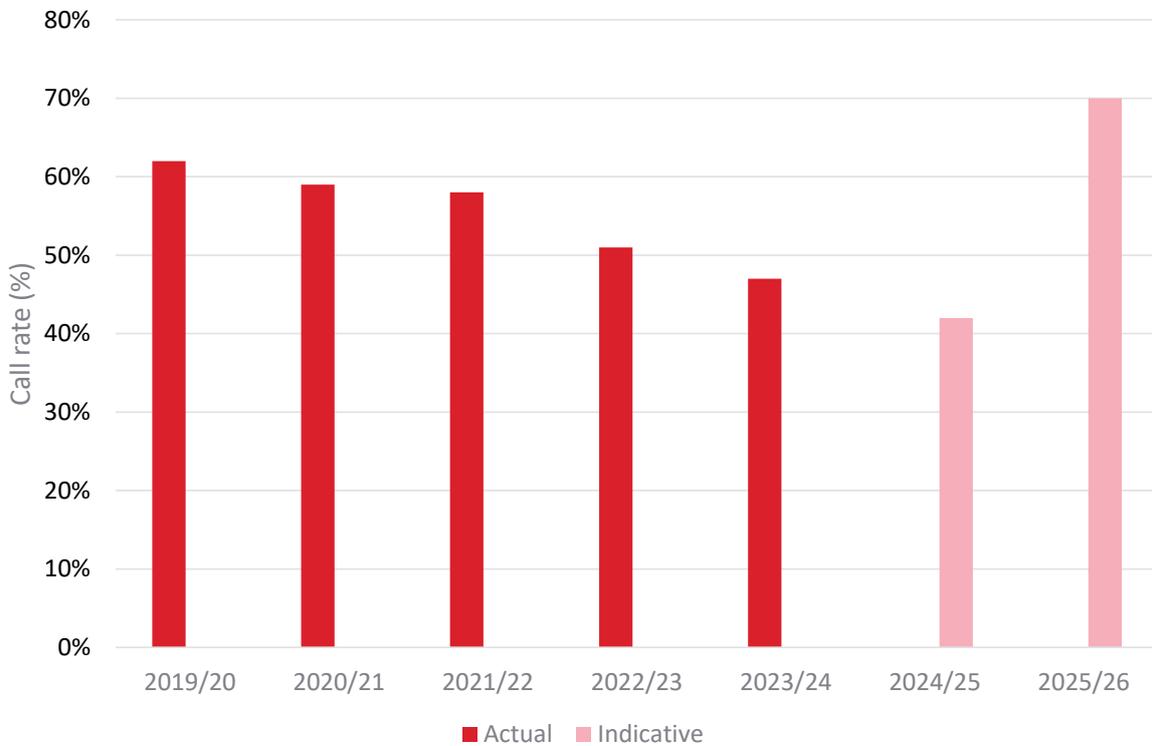
Figure A1.5 Parcel forecast variance (w/c 16 September 2024¹⁴⁶)



Impact of workload volatility on resourcing is more challenging when the call rate is low

A1.9 Workload volatility has become even harder to manage in recent years as the call rate has fallen. The call rate is the percentage of addresses to which the postie will deliver.

**Figure A1.6 – Call rate from 2019/20 to 2025/26
(2019/20 to 2023/24 actual with indicative estimates for 2024/25 and 2025/26)**



¹⁴⁶ Royal Mail analysis of variance between forecast and actual volumes for parcels w/c 16 September 2024.

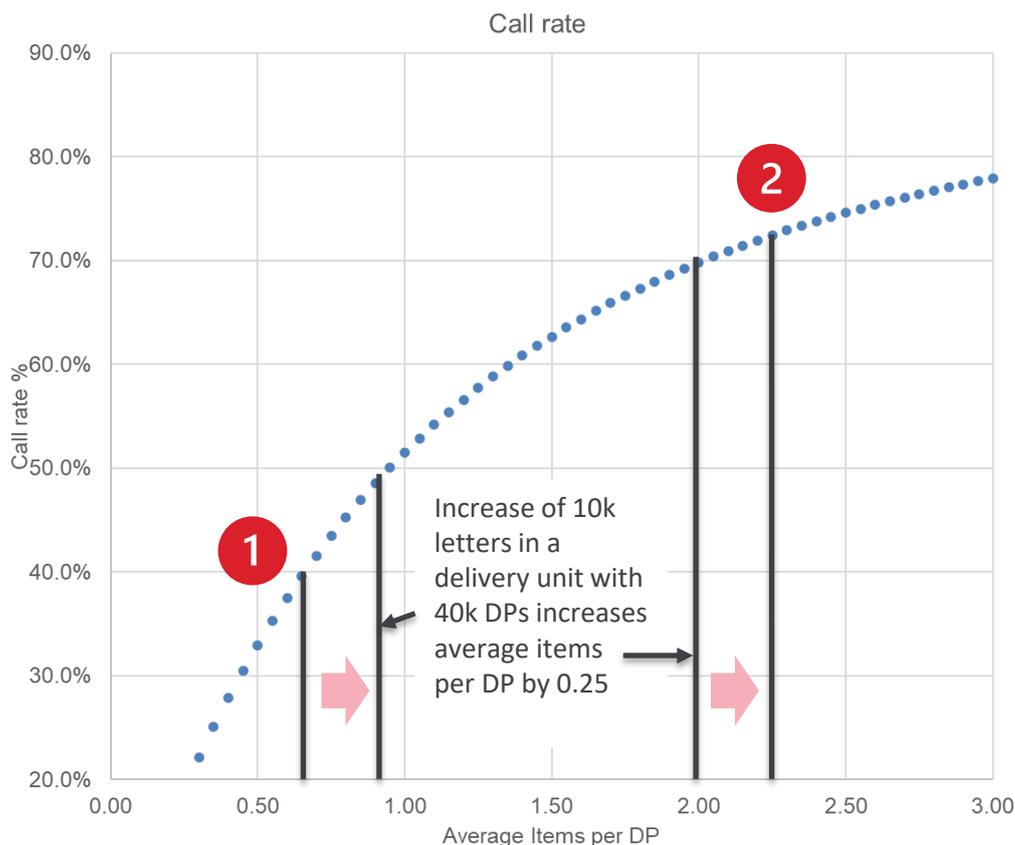
A1.10 As the figure above shows, the call rate has fallen from around 60% in 2019/20 (i.e. the postie will deliver to six out of 10 addresses) to c.40% in 2024/25. We expect that, on core routes, the call rate will increase to around 70% once USO reform has been fully implemented across all delivery offices.

A1.11 A higher call rate means more economies of scale in the provision of letter volume. This enables a delivery office to deal better with variability. The figure below shows the call rate curve that maps the average items per delivery point (DP) to the call rate (percentage of addresses that the postie will deliver to).

- At a c.40% call rate (1 on the Figure A1.7), which is broadly equivalent to the current call rate, an increase of 10,000 letters in a delivery office with 40,000 DPs represents an extra 0.25 items per DP. It would increase the call rate from c.40% to c.50%, i.e. a postie would have to visit 25% more addresses.
- When the call rate is at around 70% (2 on the Figure A1.7), an increase of 10,000 letters in a delivery office with 40,000 DPs adds 0.25 items per DP. The call rate increases from 70% to c.73%, a 4% increase in addresses visited. This is because the postie is already visiting seven out of 10 addresses.

A1.12 We believe that the higher call rate achieved through the implementation of USO reform will help Royal Mail to better meet the new QoS performance targets.

Figure A1.7 Call rate curve



International benchmarks

A1.13 The current 93% D+1 speed target does not align with international comparators. Many comparable countries have adapted to changing market dynamics by reviewing and updating

their speed targets.¹⁴⁷ The UK has more stretching targets than comparable European countries. Modernising the target to 90% D+1 would still leave the UK at the top relative to comparable countries. As Ofcom highlights, “European countries with targets at or above 90% tend to be significantly smaller or otherwise less comparable to the UK, and so a 90% target would be higher than targets in other more comparable countries.”¹⁴⁸

A1.14 Although there is no one-size-fits-all approach across global posts, only significantly smaller countries have retained First Class targets above 90% for D+1.¹⁴⁹ In smaller countries, mail needs to travel shorter distances and infrastructure is typically more concentrated, making it easier to reduce operational complexity. Portugal has recently amended its D+1 speed target to 90%.¹⁵⁰ Targets in larger countries such as Poland (82%) and Italy (80%) are much lower than the current 93% target in the UK. France (85%) and Germany (80%) both had materially lower QoS targets than the UK prior to the removal of their D+1 USO services.

Figure A1.8: International comparison of D+1 targets

| Country | D+1 target |
|----------------------|------------|
| Austria | 95% |
| Belgium | 95% |
| Czechia | 92% |
| France (until 2023) | 85% |
| Germany (until 2024) | 80% |
| Italy | 80% |
| Ireland | 94% |
| Lithuania | 85% |
| Netherlands | 95% |
| Poland | 82% |
| Portugal | 90% |
| UK | 93% |

A1.15 The First Class 93% D+1 target is no longer fit for purpose given the evolution of the postal sector over the last 20 years. For the reasons set out below, regulatory QoS targets are far more difficult to achieve now compared to when they were put in place in 2006 (based on our own internal targets at that time).

- We deliver a broader set of products to reflect changing customer needs. This increases the complexity and cost of the delivery operation. Consumers and SMEs send and receive more parcels and demand more features over the combined network (e.g. delivery confirmation, photo on delivery), which increases the time a postie spends handling and delivering parcels on delivery. Parcels are also getting bigger, increasing our workload.
- We deliver to four million more addresses (DPs)¹⁵¹ than 20 years ago and deal with greater congestion (there are approximately 22% more vehicles on the road compared to 2006).¹⁵² This takes place against a backdrop of a 67% decline in annual letter volumes

¹⁴⁷ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, page 89 ‘purpose of this section’.

¹⁴⁸ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.41.

¹⁴⁹ Austria (95%), Belgium (95%), the Czech Republic (92%), Ireland (94%) and the Netherlands (95%).

¹⁵⁰ The Portuguese ministry of infrastructure changed this target to 90% with effect from 1 January 2025 following proposals made in April 2024 by ANACOM, the national postal regulator.

¹⁵¹ Royal Mail, 2024. *Response to Ofcom’s call for input on the future of the universal postal service*, page 4.

¹⁵² Department for Transport and Driver and Vehicle Licensing Agency, 2024. *Licensed vehicles at the end of the quarter by body type*. Figures compare GB data as UK data was not available until 2014.

from the 20bn peak in 2004/2005, falling to 6.7bn in 2023/24. This has resulted in a reduction in economies of scale and increasing unit costs for Royal Mail. This is due, in part, to the reduction in the call rate as our posties increasingly walk past more homes than they deliver to.¹⁵³

- The average distance that universal service mail travels has increased over time. The further the distance, the more network issues affect QoS performance. From 2016 to 2023, the percentage of First Class stamped and meter mail that has had to travel a long distance (around 100km or more) has increased by 3.5% to 45.4%.
- The services included within the universal service have also changed. For example, single piece printed postage impression (PPI) mail became part of the USO in 2010/11 and now accounts for approximately 10% of our First Class mail volume. Previously, Postcomm assigned a separate target to PPI products of 91%, in recognition of the fact that a far greater proportion of this mail travels to distant locations compared to stamped and metered mail (c.60% in 2023).¹⁵⁴ When Ofcom set the First Class D+1 QoS target, it included PPI without adjusting the QoS target for the impact of the greater distance travelled.

Proposal for First Class D+1 target

A1.16 Ofcom's January 2025 consultation document stated that *"our assessment is that the options of 90% or 85% are potential alternatives which could strike a better balance than the current 93% target"*.¹⁵⁵ Ofcom goes on to argue for a 90% D+1 target saying that *"Reducing the target further (e.g. to 85%) could make the level more future proof as it would have a lower cost requirement and provide more operational flexibility. It would also be aligned with other similar European countries."*¹⁵⁶

A1.17 We believe Ofcom's proposal for a 90% D+1 speed target currently strikes the best balance for customer needs, avoiding unnecessarily high price increases for customers. Our view is based on our current understanding of what we believe could be realistically achieved with our new delivery model, which is currently being piloted to inform our operational understanding.

A1.18 This will be the largest change in our delivery operation in the last 20 years. It will take us time to fully deploy our new alternate day network and for our people to get used to the new ways of working. It is therefore important that the regulatory framework recognises that our operation and people will need time to transition, and that there should be a flightpath to the new regulatory targets.

¹⁵³ The current call rate of c40% means that our posties will walk past, on average, ten homes and deliver to only four of them.

¹⁵⁴ Royal Mail analysis, Mail Characteristics Survey.

¹⁵⁵ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.42.

¹⁵⁶ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 6.43.

Appendix 2 – Statistical analysis of QoS performance

Introduction

A2.1 In this appendix, we set out our statistical analysis of historic QoS performance to assess the probability of achieving reliability targets for First Class and Second Class when the speed target has been achieved.

Statistical analysis over the last 13 years shows D+1 and D+3 QoS performance are highly correlated and that a First Class 90% D+1 performance is not aligned with 99.5% D+3 performance

A2.2 We have undertaken statistical analysis to review First Class performance from Q1 2012/13 – Q2 2024/25 inclusive.¹⁵⁷ The QoS results for First Class D+1 and D+3 are highly correlated. The R^2 is 0.99 and p -value is highly significant at approximately 1×10^{-12} . Together, these indicate that historically there has been a strong correlation between First Class D+1 and D+3 performance.

A2.3 Using this analysis, we have found that performance of 99.5% D+3 (Ofcom’s proposed First Class reliability/‘tail of the mail’ target) corresponds to an equivalent 92.3% D+1 speed target, with a lower confidence limit of 90.5%. In other words, a 99.5% D+3 target is only likely to be achieved if 92.3% is achieved on D+1.

A2.4 We have also looked at the probability of meeting various D+3 targets, given a 90% D+1 performance (see figure below). It is highly unlikely that we would be able to achieve 99.5% D+3 or greater if D+1 performance is only 90% (0.0068 or approximately 1 in 150). Even a 99% D+3 target would be unrealistic – with a one in four chance of failure. This analysis shows that our proposed reliability target of 99% D+4 would be achievable, when we meet Ofcom’s proposed 90% D+1 target.

Figure A2.1: Statistical analysis of Ofcom’s First Class reliability target proposal

| | Probability of success |
|---|-------------------------------------|
| Probability of meeting D+3 target of 99.5%, given D+1 performance of 90% | 0.68% Approx. 1 in 150 |
| Probability of meeting D+3 target of 99%, given D+1 performance of 90% | 76.61% Approx. 3 in 4 |
| Probability of meeting D+3 target of 98.5%, given D+1 performance of 90% | 99.95% Approx. 1,999 in 2,000 |
| Probability of meeting D+4 target of 99%, given D+1 performance of 90% | 99.997% Approx. 33,499 in 33,500 |

A2.5 Ofcom should set a reliability target that:

- meets what customers expect of a reliable service (see paragraphs 3.12-3.13, which show that customer expectation of universal reliable service is around 98-99%); and

¹⁵⁷ We have excluded two quarters over this period: 20/21 Q1 (impacted by COVID - QoS measurement was temporarily paused in this quarter due to lockdown restrictions) and 22/23 Q3 (impacted by industrial action and not representative).

- we can have confidence in meeting when the primary speed target has been met.

Similarly, Second Class D+3 and D+5 QoS performance are highly correlated and a Second Class 95% D+3 speed target is inconsistent with a 99.5% D+5 reliability target

A2.6 We have also undertaken statistical analysis of the Second Class performance from Q1 2012/13 – Q2 2024/25 inclusive.¹⁵⁸ The D+3 and D+5 results are highly correlated. The R^2 is 0.98 and the p -value is highly significant at approximately 1×10^{-10} . Together, these indicate that there is a strong correlation between D+3 and D+5 performance.

A2.7 Using this analysis, Ofcom’s proposed Second Class reliability target of 99.5% D+5 would require a 97.5% D+3 speed target in order to be achievable, with a lower confidence limit of 96.3% (see figure below). Ofcom’s proposed Second Class speed target of 95% D+3 corresponds to a D+5 reliability target of 98.9%, with an upper confidence limit of 99.1%. The estimated probability of achieving 99.5% D+5 or greater (as proposed by Ofcom) with 95% D+3 performance is 0.00004, or approximately 1 in 25,000. Achieving 99.5% D+5 with 95% D+3 performance is not realistic.

Figure A2.2: Statistical analysis of Ofcom’s Second Class D+5 reliability target proposal

| Probability of success | |
|--|-------------------------------|
| Probability of meeting D+5 target of <u>99.5%</u> , given D+3 performance of 95% | 0.004% Approx. 1 in 25,000 |
| Probability of meeting D+5 target of <u>99%</u> , given D+3 performance of 95% | 29.26% Approx. 1 in 3 |

A2.8 Based on statistical analysis, we have assessed what would be a stretching but achievable target for Second Class reliability at D+5 in the order of 98.0% to 98.5%. Unlike First Class, we have the opportunity to improve quality by amending the DTS algorithm to release items faster if it appears that the reliability target will not be met. In practice, this may not be necessary. We will have a better idea of whether this will be necessary once we have completed our pilot programme. With the insights we have from historical analysis, we view our proposal for a Second Class reliability target of 99% D+5 as stretching.

¹⁵⁸ We have excluded two quarters over this period: 20/21 Q1 (impacted by COVID - QoS measurement was temporarily paused in this quarter due to lockdown restrictions) and 22/23 Q3 (impacted by industrial action and not representative).

Appendix 3 – Other considerations in Ofcom’s Access proposal

A3.1 In this section we set out our views with respect to the following specific elements of Ofcom’s Access proposal:

- for QoS reporting, whilst we consider the Standard Access product (D+3) should be consistent with our current reporting regime, we do not consider it is necessary to report on the same basis for the new Priority (D+2) product and we do not consider it helpful to provide customers with a day-by-day breakdown of D+3 delivery performance;
- whilst we do not have concerns with Ofcom’s proposal to comment on our compliance with the margin squeeze test, we ask Ofcom to provide assurance that it would not publish the detail of the test as this would include commercially sensitive information;
- whilst we consider that Ofcom should not mandate a D+5 Large Letter product at present, we do not consider that this is something that should be considered again in the future as it is operationally unfeasible; and
- we ask Ofcom to make clear that the USPA6.8 Access condition does not include any additional services.

QoS reporting

A3.2 Ofcom is proposing to replicate, for D+3 services, the QoS reporting requirements currently stipulated for D+5.¹⁵⁹ In summary this would require publishing:

- an overall QoS figure;
- D+3 QoS reports for individual Access operators; and
- a publicly available breakdown of D+3 delivery day performance.

A3.3 We consider that we should publish the Standard Access (D+3) QoS, consistent with our current reporting of standard Access QoS, dependent on Ofcom’s final decisions. The current Standard Access QoS specification will be amended to a D+3 specification in line with the revised Access service. We expect the majority of Standard DSA volume to migrate from D+2 to D+3 following USO reform and we will need to migrate the existing Standard QoS survey from D+2 to D+3.

A3.4 However, we do not agree that it is either necessary or insightful to provide a day-by-day breakdown of D+3 delivery performance. Whilst for D+5 there is some value in getting a day-by-day spread, for D+3 the important metric is knowing it gets there in three days – not the split between the two possible days. Delivery is only attempted once for each address. Any such reporting is as likely to reflect a national average profile, rather than the QoS for any particular customer’s mail profile. It therefore has the potential to be misleading for individual customers. We are already working to develop the multi-address look-up tool that will help sending customers predict the delivery day for their mailings.

A3.5 We do not agree that we should be required to publish a QoS for the Priority Access (D+2) product. This is an unjustified widening of our QoS reporting. Further, there are practical challenges with producing a Priority (D+2) QoS figure. We would need to commission a new QoS survey for this new service. It will take time to implement this new Priority (D+2) QoS survey as we need Access customers to send test items to enable the reporting (which, in our experience with Economy, takes time and adds an unjustified burden onto our customers).

¹⁵⁹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.55.

A3.6 However, in the event that Ofcom still requires QoS reporting for the Access Priority (D+2) service, we note Ofcom’s acknowledgement that we will need time to develop our systems to report on the delivery performance of D+2. However, it should be noted that we are dependent on customers participating in the survey before we can commence reporting. We are also concerned that given the uncertainty over volumes on D+2 Access following USO reform, we may not have a statistically valid sample size to provide robust fall to earth information. Royal Mail will do what it can to have a survey ready in a timely manner, but we will ultimately be reliant on input from Access customers to seed a D+2 survey. This is an area that will require further exploration once Ofcom has made its decision on the new Access condition.

Greater transparency of the regulatory margin squeeze test

A3.7 We note Ofcom’s proposal to comment in its annual Post Monitoring Report on whether Royal Mail has been compliant with the margin squeeze test.¹⁶⁰ We do not have any concerns with Ofcom making such a statement. We also do not have concerns with Ofcom including general, high-level, information regarding our compliance with the USPA6 margin squeeze test. However, we would have material concerns if Ofcom were proposing to publish any detailed, commercially sensitive information, including for instance information which would give access operators insight into our retail pricing strategy. We would therefore ask for assurances from Ofcom in this regard and would want to have an opportunity to comment in advance on precisely what type of information Ofcom is proposing to publish.

The deferral of D+3 Large letters is different to that of D+5 large letters

A3.8 Ofcom indicates that because we are offering a D+3 Large Letter service, we could offer a similar D+5 Large Letter service, which is something that was not previously possible when D+5 services were first introduced in 2021.¹⁶¹ This is incorrect. Ofcom has wrongly assumed that because we will be manually deferring D+3 large letters in the delivery office, we could also easily defer D+5 large letters. However, with D+5, we need to check whether or not there is another item going to the address in question. This has always been reliant on our DTS algorithm, which is reliant on whether the mail can be processed through compact sequence sorter (CSS) machines. Our CSS machines can only handle machinable letters, they cannot handle large letters. We have no automation to do a similar role for large letters as CSS does for letters. Undertaking this on a manual basis will put cost into the operation, rather than remove it. It is also likely to be subject to high human error as it is complex to know when another item is due for delivery. It could require identification at the inward mail centre and then again at the frame in the delivery office, hence resulting in material additional cost, and additional risk of human error, negatively impacting QoS.

A3.9 Ofcom states that it is not intervening as part of this review process because there is no demand at present for this service but that it will continue to monitor this, and may even consider intervening if it appears there is a case to do so in the future. However, given the points we make above, we would urge Ofcom to reconsider its position.

Specific detail on definitions in USPA6

A3.10 In its proposed drafting of USPA6.8, Ofcom has sought to simplify some of the definitions of the “*Relevant Retail Services*.” It suggests removing the “*Sort Plus*” descriptor from the definition of Royal Mail 48 large letters and also using a similar approach for the Royal Mail 24 Large Letter Service. From subsequent discussions with Ofcom, we understand that it only sought to simplify the wording, and it did not intend to include any additional services in USPA6 for this product group. We understand that it is only the highly sorted variants that needs to be included in the

¹⁶⁰ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.106.

¹⁶¹ Ofcom, 2025. *Consultation: Review of the universal postal service and other postal regulation*, paragraph 7.51 - 7.53.

test. Therefore, the description currently proposed needs to be amended from “*Royal Mail 48 Large Letters*” to “*Royal Mail 48 (presorted) Large Letters*” in order to make the distinction clear.

Appendix 4 – Drafting of regulatory conditions

A4.1 This appendix sets out our comments on the amendments Ofcom has proposed for:

- the Postal Services Order 2012;
- DUSP Condition 1; and
- USP Access Condition.

Postal Services Order 2012

A4.2 We do not have any comments on Ofcom's proposed amendments to the Postal Services Order 2012, as set out at paragraphs 5.74-5.76 of Ofcom's consultation document, and detailed in Annex A7. We consider that the proposed amendments will enable us to implement the alternate weekday delivery model that we are proposing.

DUSP condition 1

A4.3 On the drafting of DUSP Condition 1, as set out at paragraphs 5.80-5.82 of Ofcom's consultation document, and detailed in Annex A8, please see Chapter 3 of this response for our view on the QoS targets. We do not repeat those points here, and those considerations aside, we do not have any comments on Ofcom's proposed amendments to DUSP Condition 1 (other than, for the avoidance of doubt, disagreeing with the QoS targets that Ofcom has marked up in Schedule 1 of Annex A8 of its consultation document).

A4.4 As set out, we are requesting a flightpath (see Chapter 3) and look forward to discussing with Ofcom in due course how this may impact the drafting of the DUSP Condition.

A4.5 Otherwise, we consider that the proposed amendments will enable us to implement the alternate weekday delivery model that we are proposing and will allow us to deliver USO Second Class letters and large letters on Monday to Friday (rather than having to deliver them on Saturday as well).

USP Access Condition

A4.6 In relation to the drafting of the USP Access Condition, as explained at paragraphs 7.146-7.153 of the consultation document, and detailed in Annex A9, please see Chapter 4 of this response for our view on why Ofcom should not regulate a new D+2 service in addition to D+3. We do not repeat those points here.

A4.7 We make the general observation that, in line with our comments in Chapter 4, we consider that Ofcom's proposed amendments to the Access Condition position D+3 as being a new product, rather than an updated version of the existing (D+2) product. By contrast, we consider that it ought to be viewed as the existing standard Access product with an updated delivery speed. We also note that the drafting of changes to the Condition would have been much simpler if Ofcom had simply changed the existing D+2 wording in the Condition.

A4.8 Having said that, we acknowledge that, if Ofcom is minded to regulate both D+2 and D+3, from a drafting perspective, it is more efficient to add in references to 'new' D+3 rather than updating all existing references to D+2 to D+3 and then adding in new D+2 provisions. Accordingly, we consider that Ofcom's proposed amendments to the Access Condition broadly work (save for the point made below).

A4.9 In USPA6.8(a), for the reasons explained in Appendix 3, we consider that the following tied products should be removed from the D+2 margin squeeze test:

- Royal Mail Advertising Letter High Sort,
- Royal Mail Advertising Letter Low Sort,
- Poll Card Letters; and
- Royal Mail 24 Large Letters.

A4.10 We are not proposing to offer D+2 advertising mail services, D+2 Poll Cards or D+2 General Large Letters following discussions with customers, as we do not believe there is demand for these services.

A4.11 As we also set out in Chapter 4, the definition of “*Royal Mail 48 Large Letters*” also needs to be amended to read “*Royal Mail 48 (Presorted) Large Letters*”.

Appendix 5 – Joint letter with NHS England, NHS Providers, Healthwatch England, National Voices and Patients Association



By email

Dame Melanie Dawes

Chief Executive
Ofcom
Riverside House
2a Southwark Bridge Road
London
SE1 9HA

April 10 2025

Dear Ms Dawes,

As Ofcom consults on proposals to reform the universal postal service, Royal Mail, NHS England, NHS Providers, Healthwatch England, National Voices and the Patients Association are writing to set out how we have been working together to ensure that any changes do not lead to worse outcomes or experiences for patients, and that the needs of the public and NHS organisations are met.

Reform of the universal service

The Ofcom consultation sets out why change is needed to modernise the postal service whilst protecting the choice of price, speed and reliability for everyone across the country. Alongside reforms to protect the financial sustainability of the universal service, Royal Mail is also working to drive improvements in quality and reliability of services to meet the needs of all postal users.

The importance of NHS letters

There is an increasing move towards digital NHS communications via email, texts, telephone or the NHS App. However letters remain crucial, particularly for those who may be digitally excluded for a variety of reasons.

The late delivery of NHS letters puts people at risk of missing important test results, time-critical appointment information, and any last minute changes to their appointments. Along with patient

safety risks, missed appointments are costly to the NHS and disrupt the delivery of care to other patients.

While we recognise that public feedback to Healthwatch England, National Voices and the Patients Association highlights experiences of people in England not being sent important NHS correspondence in a timely fashion¹⁶², we also want to set out the work being done to deliver for the NHS and patients.

Delivering for the NHS and patients

Since Ofcom published its call for input on the future of the universal postal service in January 2024, we have been working together to understand the impact of the proposed reforms to the postal service and to ensure that these changes deliver for the NHS and patients.

NHS organisations use a wide variety of postal services, with no standardised approach. Royal Mail and the NHS have therefore been working together to ensure NHS organisations continue to have a choice of both price and speed when sending letters, and to improve how NHS letters are sent to patients across the UK.

Reliability is of vital importance to NHS providers and patients, and whilst all mail is important, not all is urgent. NHS providers recognise that they must ensure they are sending patients' post out within the right timeframe and it is up to them to determine what service they use to enable that.

To help with this, NHS England and NHS Providers have produced guidance for NHS organisations¹⁶³, including a case study, to increase awareness and uptake of the variety of Royal Mail services for the timely delivery of NHS letters.

We are also pleased to announce that we have mutually agreed the introduction of a new Royal Mail NHS-specific barcode. Where Royal Mail quality of service performance targets are not being met, this barcode will mitigate the impact on NHS letters by helping to optimise their delivery at times of local and national disruption.

Next steps

Ofcom has set out its regulatory process on universal service reform, with a decision expected in summer 2025.

While we are not pre-empting any decisions Ofcom may make, we, the undersigned, will continue to look at ways to improve how we work together to ensure that any reform reflects the needs of the NHS and patients. Our priority remains that NHS patients receive their post on time and ensuring the NHS has a choice of price and speed of delivery.

Yours sincerely,

¹⁶² [Lost in the System: the need for better admin. The King's Fund, Healthwatch England, National Voices, 2025](#)

¹⁶³ [Delivery of Patient Letters: an opportunity to improve patient access and productivity, NHS Providers, 2025](#)



Emma Gilthorpe, Chief Executive, Royal Mail



Chris Hopson, Chief Strategy Officer, NHS England



Saffron Cordery, Interim Chief Executive, NHS Providers



Louise Ansari, Chief Executive, Healthwatch England



Jacob Lant, Chief Executive, National Voices



Rachel Power, Chief Executive, The Patients Association

Cc.

Wes Streeting MP, Secretary of State for Health and Social Care
Jonathan Reynolds MP, Secretary of State for Business and Trade

Appendix 6 – Royal Mail and the Postal Services Commission (2000–2011)

- A6.1 The Postcomm experience demonstrates what happens when the regulator and the regulated business do not engage in good faith dialogue with each other about the challenges in the market, and when the regulator thinks that it can address major structural issues by getting drawn into ever more detailed and prescriptive regulation.
- A6.2 In 2007, the Labour Government commissioned an independent review under Richard Hooper CBE, as part of resolving the systemic challenges facing Royal Mail and the postal sector. Addressing these challenges were viewed as critical to ensuring the financial sustainability of the USO.
- A6.3 The Hooper Review gave (among other things) an assessment of the regulatory environment in the postal sector. It has been supplemented by reports from Ofcom and the House of Commons Business Committee. Some key findings from these assessments are set out below.
- **Postcomm’s key misjudgement in thinking that major structural and efficiency challenges could be addressed through ever-more detailed regulation, rather than facing up to the reality that less regulation was needed.** The Business Committee determined that a far higher proportion of Royal Mail products were subject to price controls than in other European markets – leading to £100mn p.a. costs to Royal Mail.¹⁶⁴ The price controls turned out to be an ineffective mechanism for driving efficiency gains. The Committee found that undeliverable efficiency targets led Postcomm to make further regulatory changes to ensure that pricing below cost did not occur. The excessive price controls were ineffective, and ultimately harmful to the USO’s preservation.
 - **Postcomm and Royal Mail mismanaged their relationship such that it became a low trust environment, leading to negative outcomes for the USO.** Hooper noted that “*even the most basic facts are disputed*”, including “*The definition of the postal market, the company’s performance against efficiency targets, and the size and distribution of Royal Mail’s costs.*”¹⁶⁵ Postcomm Chair Nigel Stapleton acknowledged to Parliament that Royal Mail was coerced into negotiating a lower Downstream Access price than would otherwise have been the case. This was due to Royal Mail concerns that Postcomm would intervene and mandate an even lower price unless it conceded ground.¹⁶⁶ The importance of the regulatory relationship was highlighted in the Business Committee’s 2009 call for Postcomm to be abolished. It based its assessment particularly on Postcomm’s “*inability to work effectively with Royal Mail.*”¹⁶⁷
 - **Postcomm’s regulatory framework was over-specified and undermined USO sustainability.** The Business Committee summed up the regulatory environment hitherto by noting that Postcomm’s decisions “*increased Royal Mail Group’s difficulties without necessarily increasing the health of the overall market.*”¹⁶⁸ This was reflected in the greater flexibility that Ofcom provided Royal Mail and Access operators to agree Access arrangements commercially (and has seen Access operators go from strength to strength).
- A6.4 The Hooper Review laid the groundwork for the Postal Services Act 2011, in which the Government enacted Hooper’s recommendation to dissolve Postcomm and transfer its postal duties to Ofcom. Ofcom judged in 2012 that Postcomm’s price controls had “*resulted in a*

¹⁶⁴ House of Commons Business and Enterprise Committee, 2009. *The Postal Services Bill Fifth Report of Session 2008–09*, page 20-21. The “*costs*” consisted of foregone revenue.

¹⁶⁵ Richard Hooper et al, 2008. *Modernise or decline Policies to maintain the universal postal service in the United Kingdom*, paragraph 83.

¹⁶⁶ House of Commons Business and Enterprise Committee, 2009. *The Postal Services Bill Fifth Report 2008–09*, page 21.

¹⁶⁷ House of Commons Business and Enterprise Committee, 2009. *The Postal Services Bill Fifth Report 2008–09*, page 27.

¹⁶⁸ House of Commons Business and Enterprise Committee, 2009. *The Postal Services Bill Fifth Report 2008–09*, page 16.

position where the universal service was approaching a point where it was no longer financially sustainable” and failed to deliver on the regulatory objectives in place.¹⁶⁹ It was therefore welcome that Ofcom cut back the range of products that it price regulated when it took over.

¹⁶⁹ Ofcom, 2012. Securing the Universal Postal Service: Decision on the new regulatory framework, paragraph 1.23.

Appendix 7 – Responses to Ofcom’s consultation questions

A7.1 The table below sets out the sections of our consultation response that respond to Ofcom’s consultation questions.

| Ofcom question | Royal Mail response |
|---|---|
| 2.1 Do you agree with the provisional conclusions set out in our Equality Impact Assessment? | We note Ofcom’s assessment. |
| 2.2 Do you agree with our assessment under the Welsh Language Standards? | We note Ofcom’s assessment. |
| 3.1 Do you agree that we have identified the reasonable needs of post users? | <p>Yes.</p> <p>As set out in Figure 1.3, our customer research and Ofcom’s customer research are broadly consistent. The priorities for USO reform should be affordability, reliability and sustainability. We provide further thoughts on key principles that need to be considered – see paragraphs 1.20-1.22 for further detail.</p> |
| 3.2 Do you agree that the market is meeting the reasonable needs of post users? | <p>No.</p> <p>The existing USO is not aligned with customer needs and goes further than customers’ reasonable needs in terms of the number of days on which letters are delivered – see paragraphs 1.14-1.19, Chapter 2, and paragraphs 3.4-3.11 for further detail.</p> <p>Customers clearly see tracking as a hygiene factor, and we ask Ofcom to consider removing the prohibition on including tracking in the USO – see paragraphs 5.31-5.37.</p> <p>Customers would also value a SD EOD product in the USO. See paragraphs 5.38-5.39.</p> |
| 5.1 Do you agree with our proposals and impact assessment on changes to the delivery frequency of Second Class letters so that those items would be delivered every other day from Monday to Friday, and would not have to be collected, processed or delivered on Saturdays? | <p>Yes.</p> <p>Non-next-day letters should be delivered Monday to Friday, and this would continue to meet the needs of most mail users, including those who have a greater reliance on post – see Figure 1.3 and Chapter 2 for further detail.</p> |
| 6.1 Do you agree with our proposal to set the First Class national D+1 performance target to 90%? | <p>Yes.</p> <p>This proposal currently strikes the best balance between customer needs, avoiding unnecessarily high price increases and promoting financial sustainability. See paragraph 3.4-3.5 and Appendix 1.</p> |

| Ofcom question | | Royal Mail response |
|----------------|--|---|
| 6.2 | Do you agree with our proposal to set the First Class PCA D+1 performance target to be 3% lower than the national target (i.e. for the PCA target to be 87% to align with our proposed 90% national target)? | No. PCA targets are not necessary. Ofcom's proposals are not consistent with Ofcom's focus on customer affordability and financial sustainability. The proposed PCA target drives unnecessary costs into the business that customers do not value. Ofcom's proposed PCA target is not consistent with the national target. See paragraph 3.57-3.68. |
| 6.3 | Do you agree with our proposal to introduce a new First Class 'tail of mail' target of 99.5% at D+3? | No. We support the introduction of reliability targets, however the target of 99.5% D+3 is too high relative to what customers need and are willing to pay for. We propose a target of 99% D+4. See paragraphs 3.6-3.49. |
| 6.4 | Do you agree with our proposal to set the Second Class D+3 performance target to 95%? | Yes. Ofcom's proposed modernised Second Class 95% D+3 performance target is appropriate. See paragraph 3.50. |
| 6.5 | Do you agree with our proposal to introduce a new Second Class 'tail of mail' target of 99.5% at D+5? | No. Ofcom's proposed Second Class reliability target is too high relative to what customers need and are willing to pay for. Instead, we ask Ofcom to reconsider our proposed target of 99% D+5. See paragraphs 3.51-3.56. |
| 7.1 | Do you agree with our proposal to regulate D+3 Access services, subject to a margin squeeze control and the other protections outlined above? | Yes. The proposal to regulate D+3 Access is appropriate. It allows standard Access volumes to move to D+3 which is a crucial step that enables the move to an alternate day delivery model. Including D+3 in the margin squeeze control is a necessary step to maintain the VAT exemption. However, we do not agree that there needs to be reporting of a day-by-day breakdown of D+3 delivery performance. See Chapter 4, including paragraphs 4.1-4.3. |
| 7.2 | Do you agree with our proposal to change the specification of D+5 Access services to remove Saturday as a delivery day? | Yes. The specification of D+5 Access services should remove Saturday as a delivery day. See paragraph 4.4. |

| | Ofcom question | Royal Mail response |
|-----|--|--|
| 7.3 | Do you agree with our proposals to maintain a margin squeeze control on D+2 Access services, where the relevant retail services are Royal Mail's First Class retail bulk services? | <p>No.</p> <p>We disagree with Ofcom's proposal to introduce the new Priority (D+2) Access variant into regulation and with widening regulation further by including Royal Mail's First Class retail bulk services in the margin squeeze control. See paragraphs 4.5-4.40.</p> |
| 7.4 | Do you agree with our proposals for pricing transparency and amending how Access services are defined? | <p>In general, yes.</p> <p>We do not have any concerns with Ofcom making a high-level statement in its Annual Post Monitoring Report regarding Royal Mail's compliance with the margin squeeze test. Amending how Access services are defined is appropriate. This provides greater clarity. We support Ofcom's decision not to move to using H+X instead of D+X (where H would represent handover day). We consider this would cause confusion given the longstanding use of D+X. See Appendix 3.</p> |