

Consultation: Review of the universal postal service and other postal regulation

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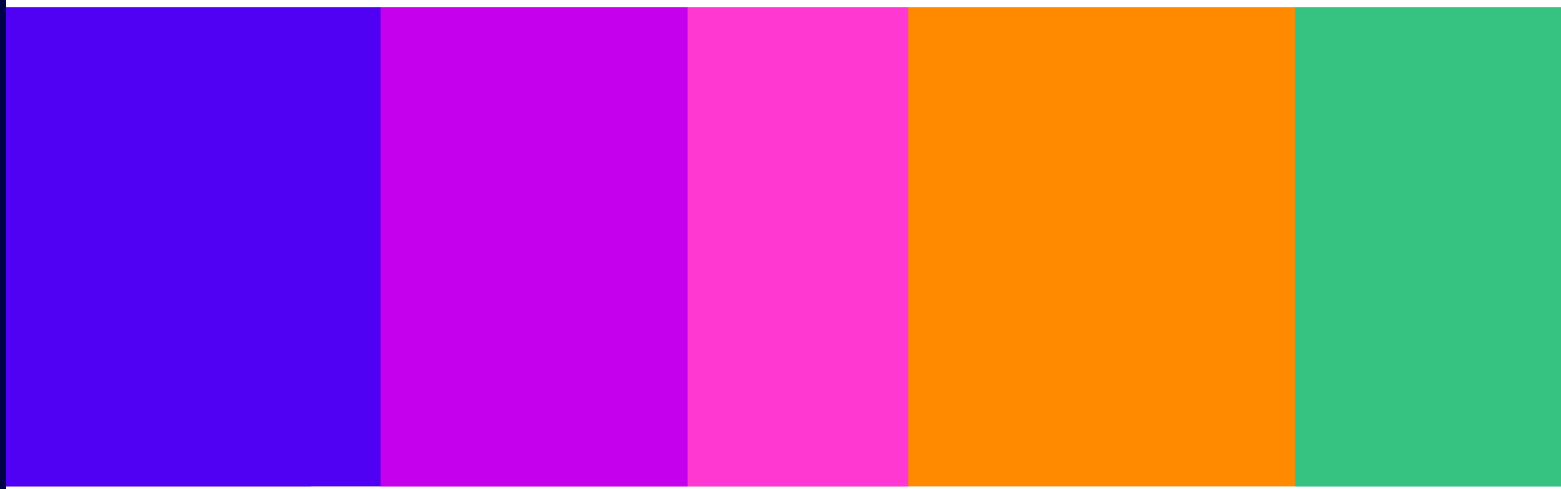
Consultation

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1. Overview

- 1.1 Postal services remain vital for people and businesses across the UK, but the way people use them has changed. The number of letters being sent has halved over the past decade and continues to decline. People's needs have shifted towards valuing reliability over speed of delivery. At the same time, parcel volumes have increased considerably.
- 1.2 These changing market dynamics mean the universal postal service, which requires the designated universal service provider Royal Mail Group (Royal Mail) to deliver a range of postal products to homes and businesses at affordable prices which are uniform throughout the UK, and which has remained largely the same since 2011, is not aligned with people's needs and the resulting rising unit costs threaten its financial sustainability. We have spoken to a variety of stakeholders in different parts of the country about the future of the service, including users, businesses, postal operators, consumer groups, trade unions and public bodies. This consultation sets out our proposed reforms to support a modernised universal service that should benefit consumers by being better aligned with the needs of people and businesses. In turn, this should support the continuing affordability of services and Royal Mail's ability to provide the universal postal service in a way that is financially sustainable.

What we are proposing – in brief

Following extensive engagement with stakeholders and consumer research, we are proposing a package of reforms to the Universal Service Obligation (USO) on Royal Mail and corresponding changes to Royal Mail's obligation to provide access to its letter network.

Changes to the delivery frequency of Second Class letters

Currently the USO requires the delivery of First Class and Second Class letters six days a week (Monday to Saturday).

- We propose to remove the requirement on Royal Mail to deliver **Second Class letters** six days per week and allow it to deliver such letters on **alternate weekdays** (Monday to Friday). This change reflects the fact that postal users no longer need two six-day-per-week services to meet their needs and is intended to support the financial sustainability of the service.
- We will maintain the requirements for delivery of First Class letters, which will continue to be delivered next day, six days per week.
- We will maintain the current parcels USO specification.

Quality of service

Royal Mail is required to meet specific quality of service targets to incentivise it to deliver a high standard of service.

We propose to introduce new '**tail of mail**' targets to reflect the fact that postal users increasingly value reliability over speed of delivery. For First Class mail, 99.5% would have to be delivered within three days of posting. For Second Class mail, 99.5% would have to be delivered within five days of posting.

We propose to change the headline target for First Class mail from 93% to 90% delivered next-day, and to change the headline target for Second Class mail from 98.5% to 95% delivered within three days, to better reflect people’s preferences and support financial sustainability. The proposed targets would remain high by international standards. We are also proposing to reset the related First Class postcode area target from 91.5% to 87% delivered next-day.

Access letters obligation

Most letters sent today are ‘bulk mail’ – the letters sent by large organisations such as banks, government departments, the NHS or local authorities. These letters are sent outside of the universal service. To support competition in this market, we require Royal Mail to provide access to its letters network, meaning it must deliver letters collected by other postal operators. To realise the benefits from any reform to the USO, changes are also needed to the access obligations on Royal Mail to ensure it can operate the same alternate weekday delivery model for the vast majority of mail. Our proposals aim to enable this while continuing to support a competitive bulk mail market that meets the needs of large organisations and their customers.

- Royal Mail is introducing a new access service to be delivered on alternate weekdays, which would aim to deliver letters within three weekdays (D+3) after collection from the sender. We propose to regulate this new service in the same way as we currently regulate existing access services.
- We will continue to regulate the existing D+2 access service for priority bulk mail, at least while the market responds to reform.
- We are also proposing to remove Saturday delivery from D+5 access services.

The overview section in this document is a simplified high-level summary only. The proposals we are consulting on and our reasoning are set out in the full document.

The way people use post has changed and the universal service needs to adapt in response

- 1.3 In January 2024, we published a Call for Input (CFI) setting out the urgent need for changes to the USO and inviting views from all stakeholders on how the specification should be modernised for the future. We set out options for reform that would more closely align the USO with people’s needs for letters and help support the financial sustainability of the service.
- 1.4 We welcomed the extensive engagement with our CFI, including at a series of public events held in each UK nation. A summary of the responses was set out in our September 2024 update.¹ Overall, respondents and participants in our public events recognised that the way people and businesses use letters has fundamentally changed. There was recognition that changes to the universal service are necessary to ensure that postal services remain

¹ Ofcom, 2024. Future of the universal postal service - [summary of responses to our Call for Input and next steps](#).

sustainable, affordable and reliable. The UK is not alone in needing to respond to this challenge. Across Europe and more widely, universal postal service obligations have been, or are being, reformed.

- 1.5 In response to our CFI, Royal Mail has for the first time come forward with a significant proposal for changes to the USO. The proposal is to change the obligation on Second Class letters and non-priority bulk mail services, so that these letters are delivered on alternate weekdays (i.e. every other day). First Class letters would continue to be delivered six days a week, and the parcels obligation would remain unchanged. The proposal is largely aligned with one of the options for reform we set out in the CFI.
- 1.6 As the proposed changes would not require change to the minimum USO services established in legislation, they can be implemented through changes to Ofcom's regulation. The proposal also reflects Royal Mail's view of what it can achieve operationally. Given the urgent need for reform, we have focused our work on thoroughly testing Royal Mail's proposals as the basis for potential changes to the USO. Our work has been informed by a broad research study into consumer needs and further information-gathering from, and engagement with, a wide range of stakeholders.

The current universal service goes beyond what people reasonably need from post today

- 1.7 The structural decline in the volume of letters being sent each year reflects the fact that most people and organisations rely on post significantly less than in the past, mainly as use of digital alternatives have become widespread. In that context we have assessed what people reasonably need from the postal service today. Our assessment is based on the extensive research we have conducted in recent years including a further study in late 2024.
- 1.8 The key findings we are consulting on are:
 - a) Reliance on postal services is declining for all groups, but people believe that they will always need to use postal services.
 - b) 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. Saturday deliveries are generally not seen as a need for people for most letters.
 - c) Speed is generally not seen as a critical factor for most letters sent, but people do need a next day service for some items, albeit this is an occasional need for most.
 - d) People need a service that is reliable, and this is more important to people than speed. Reliability is of particular importance for certain types of letters such as those concerning health and financial matters.
 - e) People need a service that is affordable and have a strong preference for a one price goes anywhere service.
 - f) Some groups, including older users, those without access to the internet, people with restricted mobility and those in rural locations, report a higher reliance on postal services but their needs, in terms of the types of postal services they require, are similar to other people and there are products available in the postal services market that meet those needs.
- 1.9 Taken together, these findings suggest that the existing USO goes further than people's reasonable needs in terms of the number of days on which letters are delivered. This is

important because, if the specification of the universal service goes beyond what is needed by users, then the additional costs of providing these over-specified postal services will need to be recovered from users. This would ultimately lead to consumers paying higher prices for some products than necessary. It would also contribute to the challenges Royal Mail faces meeting quality of service requirements and the postal service's financial sustainability.

There are risks to the financial sustainability of the provision of the universal service by Royal Mail

- 1.10 Based on Royal Mail's financial performance in recent years, we are concerned about the financial sustainability of the universal postal service. We closely monitor the financial performance of Royal Mail's 'Reported Business', the common network that provides the universal service as well as some services that are outside the scope of the universal service (such as bulk mail and parcels). We also monitor the financial performance and position of International Distribution Services plc (IDS - the parent company of Royal Mail) to the extent that it is relevant to the financial sustainability of the universal service.
- 1.11 We have previously suggested that a first order indicator that the USO is financially sustainable is that the Reported Business secures a return of 5-10% EBIT.² However, Royal Mail has not reached 5% since 2015/16. During 2023/24, Royal Mail reported a loss of £458m with an EBIT margin of -6.3% for the Reported Business.³ IDS announced its half year results (April to September 2024) on 21 November 2024; these showed a loss of £97m for Royal Mail, though its performance in this period had improved compared with 2023/24 when it made a loss of £318m. Considerably more improvement in performance is required for the Reported Business to achieve an EBIT margin of at least 5%.
- 1.12 Our view is that, in its current form, the USO imposes substantial unnecessary costs on Royal Mail because it requires provision of a service which is greater than is generally required by postal users.
- 1.13 Royal Mail has argued that moving to an alternate weekday delivery model for non-priority letters could save up to £300m in 2025/26. We have undertaken our own analysis of the potential savings and provisionally conclude these are broadly in line with Royal Mail's estimate, although we think that Royal Mail somewhat underestimates the potential net benefits of the proposed changes. We estimate that the savings could be in the range of £250m to £425m. Both our estimate and Royal Mail's estimate assume the full potential of the reform is realised. These estimates reflect enduring structural changes to Royal Mail's cost and revenue base, such that Royal Mail should be able to achieve permanent, if variable, savings in the costs of the delivery of non-priority letters, rather than achieving these savings in a single year. In practice, the extent of the actual net savings will depend on Royal Mail's success in implementing the necessary operational changes.

² Ofcom, 2022. [Statement: Review of Postal Regulation](#).

³ The 2023-24 results are restated to be shown on a 52-week basis.

- 1.14 If realised, the savings will provide a considerable increase in the EBIT margin of the Reported Business. Based on Royal Mail's 2023/24 returns, our estimates of the value of these changes suggest that they could add c.4%-6% to the EBIT margin. Accordingly, our view is that our proposed changes to the USO offer potentially substantial net savings that will help support its financial sustainability. However, as we explain below, USO reform alone is unlikely to be enough to secure the financial sustainability of the universal service in the longer term.

A modernised universal service that is better aligned with people's needs

- 1.15 The regulatory framework for the USO should serve the interests of postal users and create the best opportunity for the universal service to continue to be provided on a commercial basis (i.e. without public subsidy). We have assessed both people's reasonable needs for post and the impact of retaining the existing specification of the USO on financial sustainability. We provisionally conclude that a package of changes to the USO is necessary to better align it with the needs of users and, in doing so, reduce the cost of provision. This should mean that future prices will be lower than they would have been absent reform and help mitigate risks to the financial sustainability of the universal service. A financially sustainable universal service that allows services to be delivered more efficiently will also benefit wider society and support economic growth. We also provisionally conclude that corresponding changes to the access obligations are needed to achieve these benefits.

Second Class letter delivery

- 1.16 We propose to remove the requirement on Royal Mail to deliver Second Class letters six days per week and instead require it to deliver such letters on alternate weekdays (Monday to Friday). This means that some letters (if they are posted from Wednesday to Saturday) may take one day longer to arrive than currently. We do not propose to make changes to the requirements for delivery of First Class letters, which will continue to be required to be delivered six days per week. We are also not proposing any changes to the parcels specification.
- 1.17 We recognise that some people and organisations are concerned by proposals for what will be a significant change, in particular the reduced delivery schedule and removal of Saturday delivery for Second Class letters. We have considered this thoroughly and our research indicates that only a very small proportion of people (4%) considered they would be very significantly impacted by the proposed changes. We also assessed the impact on those groups who report a greater reliance on post, for example older users and those in rural locations. Our research found that these groups tend to have similar letter delivery requirements to most users, in that they prioritise reliability and affordability over speed, and therefore their needs should continue to be met.

Quality of service

- 1.18 The current standard of service being provided by Royal Mail is rightly a significant concern for people and businesses. In December 2024, we announced our decision to impose a further financial penalty of £10.5m after concluding Royal Mail had failed to meet its

obligations in 2023/24.⁴ We expect to see a material improvement in performance and continue to monitor the situation closely. We will consider whether to undertake a further formal investigation at the end of the 2024/25 reporting year.

- 1.19 Looking beyond the actions Royal Mail needs to take to improve quality of service from current levels, we have considered what the appropriate levels of key targets should be in the longer term. We recognise that, given Royal Mail's current performance, some stakeholders will feel it is not appropriate to propose changes that might involve lowering some quality of service targets. However, we consider it is right to re-assess the targets with the future in mind, as has been the case in many other European countries already.
- 1.20 The current quality of service targets were set almost two decades ago, and in this time the postal market has changed significantly as the way that people use the post has evolved. These changes have increased the difficulty and unit cost associated with operating a delivery network that can consistently reach very high levels of service quality, while our research suggests that affordability and reliability are now more important to people than speed of delivery.
- 1.21 Accordingly, we are proposing an updated framework of quality of service targets that is focussed on meeting people's needs and preferences, while taking into account the cost and consequential pricing impacts of different target levels in a changing postal market. In particular, maintaining very high quality of service standards is costly and users would need to pay for these higher costs. Therefore, we are proposing two sets of changes:
- a) A small change in the primary target for First Class mail from 93% to 90% delivered next-day and a corresponding change to the First Class postcode area target⁵ from 91.5% to 87% of mail delivered next-day, as well as a change for Second Class mail from 98.5% to 95% delivered within three days. We consider the proposed new targets to be stretching but achievable, and would remain high by international standards.
 - b) Our evidence suggests people value reliability, or in other words that their post will arrive within a reasonable period of time. New, additional 'tail of mail' targets are designed to ensure that, even if letters miss the primary target, consumers have confidence that they will arrive within a reasonable period of time. This will address the harm some people have experienced where some letters have taken an extended period to arrive after the initial delivery target was missed.

Access

- 1.22 Most letters sent today are bulk mail sent by large organisations (such as banks or the NHS), but bulk mail is not part of the USO. In 2023/24, 9 billion letters were sent of which bulk mail represents 63% (5.7 billion items). Royal Mail offers its own bulk mail services on a commercial basis, but our regulation also requires Royal Mail to offer access to its network to other postal operators so that they can offer competing bulk mail services. Royal Mail

⁴ We also imposed a financial penalty of £5.6m after concluding Royal Mail had failed to meet its obligations in 2022/23.

⁵ This target requires that Royal Mail achieves a minimum level of service in each individual postcode area of the UK, with the exception of three remote areas where Royal Mail must report on their performance.

must also offer access directly to companies which process mail from large organisations before using Royal Mail's network to have this mail delivered (together known as 'access operators').

- 1.23 To realise the benefits of USO reform, changes are also needed to the access obligations to ensure that Royal Mail can operate the same alternate weekday delivery model for the vast majority of mail. We want to enable this while continuing to support a competitive market for bulk mail that meets the needs of large organisations and their customers.
- 1.24 We propose to regulate a new access service by Royal Mail, which would aim to deliver letters within three weekdays (D+3) after collection from the sender by the access operator. Delivery would occur within two weekdays after the access operator has handed over the mail to Royal Mail, under the same alternate weekday model as that proposed for Second Class letters. We also propose to require Royal Mail to publish quality of service information in relation to this service to help access operators hold Royal Mail to account for its performance.
- 1.25 Royal Mail has proposed that it should no longer be required to offer the current D+2 access services (which are delivered Monday to Saturday) but has said it would continue offering such a service on an unregulated commercial basis.
- 1.26 Our view is that to remove the current D+2 access service or make it a purely commercial service now could create unnecessary disruption, which could harm competition, the interests of large users who send bulk mail and ultimately the people who receive that mail. We are particularly concerned as this mail includes letters relating to financial and health matters, which our research indicates people are most concerned about. We will therefore continue to regulate D+2 access, at least while the market adapts to any reform. However, we are proposing to update the Royal Mail retail services for the margin squeeze control on D+2 access services, given the way this mail will be delivered in future.

The proposed changes should benefit consumers but effective implementation by Royal Mail is critical

- 1.27 We believe the proposed changes are necessary to support the continued provision of a universal postal service, which in turn will benefit consumers, businesses and the wider economy.
- 1.28 Securing the benefits of our proposals will ultimately rely on effective implementation of the new operating model by Royal Mail. It is also clear that reform of the universal service alone will not provide the answer to Royal Mail's broader operational and financial challenges. Further action is needed by the business to ensure it remains financially sustainable, both transforming its network and operations, as well as improving growth through its parcels offering.
- 1.29 Our view is that it is unlikely we can do significantly more under the current regulatory framework to respond to the challenges facing the universal service. As the letters market continues to decline, it may become necessary to review the specification of the USO again in the future, although we note that any further substantial changes would likely require amendments to legislation.

Next steps

- 1.30 We welcome responses to our consultation which closes on 10 April 2025. Annex A1 provides further information on how to respond to this consultation and in particular we welcome responses to the consultation questions contained in Annex A4.
- 1.31 We will continue to engage with stakeholders during the consultation period, so please contact us if you would like to meet with us.
- 1.32 We plan to publish a statement setting out our decision in summer 2025.

2. Introduction and Background

The purpose of this section

This section explains the legal and regulatory framework for postal services in the UK, including Ofcom's powers. It provides an overview of the postal market and explains the need for reform, followed by an outline of the reforms proposed by Royal Mail in response to our CFI. To conclude, it explains the purpose and structure of this consultation.

In brief

Ofcom regulates the UK's postal services, including Royal Mail, which is the Universal Service Provider. Our principal duty is to further the interests of citizens and consumers. We must also carry out our postal functions in a way that we consider will secure a universal postal service, and in doing so must have regard to the need for such a service to be financially sustainable and efficient. Currently, this service delivers First Class and Second Class letters six days a week. However, declining letter volumes are undermining its sustainability. Ofcom is proposing changes to the universal service obligation to support the service's sustainability and to be better aligned to reasonable user needs. We are not proposing any changes to Royal Mail's parcels obligations as part of this consultation.

Legal and regulatory framework

Ofcom's role in postal regulation

- 2.1 Ofcom is the independent regulatory authority for the UK's postal services. Our general duties are set out in section 3 of the Communications Act 2003. Our principal duty is to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition.⁶
- 2.2 The Postal Services Act 2011 (the Act)⁷ contains the legal framework for the regulation of postal services. It requires Ofcom to carry out our postal services functions in a way that we consider will secure the provision of a universal postal service.⁸

⁶ Section 3(1) of the Communications Act 2003.

⁷ [Postal Services Act 2011](#).

⁸ Section 29(1) of the Act.

- 2.3 When performing this duty, we must have regard to the need for a universal postal service to be financially sustainable and efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times).⁹
- 2.4 We monitor the sector to understand the changing needs of users, market dynamics and the financial sustainability and efficiency of the universal service, as well as any risks it faces. The focus of our monitoring is on Royal Mail, and we set out our findings in our annual post monitoring report.

The Universal Service Obligation

- 2.5 The designated universal service provider (DUSP), Royal Mail Group Limited (Royal Mail), must deliver a range of specified postal products to homes and businesses at affordable prices, which are uniform throughout the UK.¹⁰ This requirement is known as the universal service obligation (USO).
- 2.6 Section 31 of the Act sets out the services that must, as a minimum, be included in a universal postal service in the UK. These requirements include:
- a) At least one delivery of letters every Monday to Saturday, and at least one delivery of other postal packets every Monday to Friday;¹¹
 - b) At least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday;
 - c) A service of conveying postal packets from one place to another by post at affordable, geographically uniform prices throughout the UK;
 - d) A registered items service at affordable, geographically uniform prices throughout the UK;
 - e) An insured items service at affordable, geographically uniform prices throughout the UK;
 - f) The provision of certain free services to blind/partially sighted people; and
 - g) The free conveyance of certain legislative petitions and addresses.
- 2.7 The Act then requires Ofcom to set out, by order, a description of the services to be provided as part of the USO.¹² We set out the detailed scope of the USO in the Postal Services (Universal Postal Service) Order 2012 (the Order).¹³ As required by the Act,¹⁴ the

⁹ Section 29(3) of the Act. Section 29(4) of the Act states that the need for the provision of a universal postal service to be financially sustainable includes the need for a reasonable commercial rate of return on any expenditure incurred by the universal service provider for or in connection with providing the universal service.

¹⁰ Royal Mail is a subsidiary in a group of companies under the ultimate parent company, International Distributions Services plc (IDS). IDS is subject to a takeover from EP UK Bidco (EP). On 19 December 2024, the Cabinet Office approved the transaction under the National Security and Investment Act 2021, but further regulatory clearances remain outstanding.

¹¹ 'Postal packets' is defined in section 27(2) of the Act as "a letter, parcel, packet or other article transmissible by post." For clarity, we use the terms letters and parcels in this document. Letters includes Large Letters, unless stated otherwise.

¹² Section 30(1) of the Act.

¹³ [The Postal Services \(Universal Postal Service\) Order 2012](#).

¹⁴ Section 30(2) of the Act.

Order includes the minimum services referred to above. It also specifies the provision of two delivery speeds for letters and parcels that are not insured: First Class (next working day) and Second Class (within three working days).¹⁵

- 2.8 Ofcom requires Royal Mail, as the DUSP, to provide the USO by way of regulatory conditions called DUSP Conditions. The DUSP Conditions require Royal Mail to provide the services specified in the Order, and also set out further detail on the provision of these services. For example, they include quality of service targets for certain services, including First Class and Second Class mail.

Obligations for bulk mail and access mail services

- 2.9 The USO requires the provision of ‘single piece services’, which means a service for sending individual postal packets. In addition, Royal Mail provides ‘bulk mail’ services. These are services for large mail customers who send lots of letters, such as public bodies, banks, and NHS trusts. Bulk mail is not part of the USO specification but is delivered using the same national network as is used to deliver single piece USO products. Bulk mail makes up around 63%¹⁶ of all letters sent.¹⁷
- 2.10 Under the Universal Service Provider Access condition (the USPA Condition),¹⁸ Ofcom also requires Royal Mail to grant access to its letter delivery network to other operators (referred to as ‘access operators’) so that they can offer bulk mail services that compete with Royal Mail.¹⁹ ‘Access mail’ refers to the mail sent using access services, which is collected and sorted by a party other than Royal Mail, before handing it over to Royal Mail for ‘final mile’ delivery.²⁰ Royal Mail has to offer services which aim to meet two speeds of delivery – within two (D+2) or five (D+5)²¹ working days²² after collection from the sender – on fair and reasonable terms and subject to a margin squeeze control.
- 2.11 This means bulk mail is delivered by Royal Mail postal workers on their usual rounds and, for most people, is indistinguishable from letters delivered as part of the USO.

¹⁵ Paragraphs 2 and 3 of Schedule 1 to the Order. ‘Working day’ means every day except Sunday and public holidays (Article 3(2A) of the Order).

¹⁶ This is information provided by Royal Mail as part of our [regulatory reporting requirements](#).

¹⁷ The term ‘Bulk mail’ describes large volumes of letters and/or parcels subject to discounts relating to volume, format and pre-sortation. It includes all access mail and bulk mail contracts that Royal Mail has directly with large mail users.

¹⁸ Please see [conditions imposed on postal operators](#).

¹⁹ Royal Mail also offers bulk mail services to large customers on a commercial, unregulated basis.

²⁰ Large users of mail may also seek direct access to Royal Mail’s network, in which case they must sort their own mail and hand it over to Royal Mail for final mile delivery.

²¹ In the context of access services, ‘D+X’ (e.g. D+2, D+5) indicates the total number of working days between the day on which the access operator collects the item from the sender (‘D’) and it being delivered (‘X’). For example, D+2 refers to the scenario where the access operator collects a letter on Monday and it is due to be delivered two working days later on Wednesday, i.e. on D+2.

²² ‘Working day’ means any day which is not Sunday or a public holiday (USPA Condition 1.3(gg)).

Amending the USO specification

2.12 Ofcom has the power to amend the Order following a user needs review. Modifications to the DUSP Conditions and the USPA Condition are subject to certain statutory tests. The Secretary of State can amend the minimum requirements in section 31 of the Act by secondary legislation.²³

Table 2.1: How amendments can be made to the USO specification

Legislation/regulation	What does it do?	Who can change it?
Section 31 (minimum requirements) of the Postal Services Act 2011	Sets out the minimum services that must be in the universal service, including an affordable service at a uniform price, and at least one collection and delivery of letters every Monday to Saturday.	Secretary of State by order with approval by Parliament, following a review by Ofcom of the extent to which the minimum requirements reflect reasonable user needs. ²⁴
Postal Services (Universal Postal Service) Order 2012	Sets the detailed scope of the USO specification, including requirement to provide First Class and Second Class services, and their delivery speeds.	Ofcom, following an assessment of the extent to which the postal services market is meeting reasonable user needs ²⁵ and public consultation. ²⁶
Designated Universal Service Provider Conditions	Set specific requirements on Royal Mail as the designated universal service provider, including collection and delivery obligations, performance targets and price caps.	Ofcom, following consultation and subject to certain statutory tests. ²⁷

²³ Section 34(5) of the Act.

²⁴ Section 34 of the Act.

²⁵ Section 30(3) of the Act.

²⁶ Under section 63 of the Act and section 403(4) of the Communications Act 2003, we must give notice of our proposals to make or modify an order under section 30 of the Act. This consultation document constitutes notice for that purpose, and complies with the requirements in section 403(5) and (6) of the Communications Act 2003.

²⁷ Section 36 and Schedule 6 to the Act.

Legislation/regulation	What does it do?	Who can change it?
Universal Service Provider Access Condition	Requires Royal Mail as the designated universal service provider to offer access to its letters delivery network. It must offer two and five working day products on fair and reasonable terms and subject to a margin squeeze control.	Ofcom, following consultation and subject to certain statutory tests. ²⁸

2.13 See Annex A5 for more information on the legal and regulatory framework.

Other duties

2.14 Section 108 of the Deregulation Act 2015 sets out Ofcom’s duty to have regard to the desirability of promoting economic growth when exercising its regulatory functions. In order to consider the promotion of economic growth, Ofcom will exercise its regulatory functions in a way that ensures that: a) regulatory action is taken only when it is needed; and b) any action taken is proportionate. When assessing the impact of our proposals in Sections 5, 6 and 7, we have considered relevant key drivers of economic growth, including innovation, competition, efficiency and productivity, and trade.²⁹

2.15 In accordance with section 2B of the Communications Act 2003, we must also have regard to the UK Government’s Statement of Strategic Priorities (SSP) for telecommunications, management of radio spectrum and postal services.³⁰ The SSP sets out the Government’s primary objective to secure the provision of a financially sustainable and efficient universal postal service, subject to which the Government wants a competitive postal market which delivers good outcomes for consumers and other users of postal services.

Reforming the USO

The need for reform

2.16 Post remains an important tool for communication, but the way people use it has changed. Letter volumes have declined as people move to digital alternatives. Letter volumes reached their highest point around 2005 but have been falling since then,³¹ and have almost halved since 2011-12, to 6.6 billion items in 2023-24. We noted in our CFI that despite this, since 2008 the number of delivery points that Royal Mail must deliver letters

²⁸ Section 38 and Schedule 6 to the Act.

²⁹ See [Growth Duty Statutory Guidance](#).

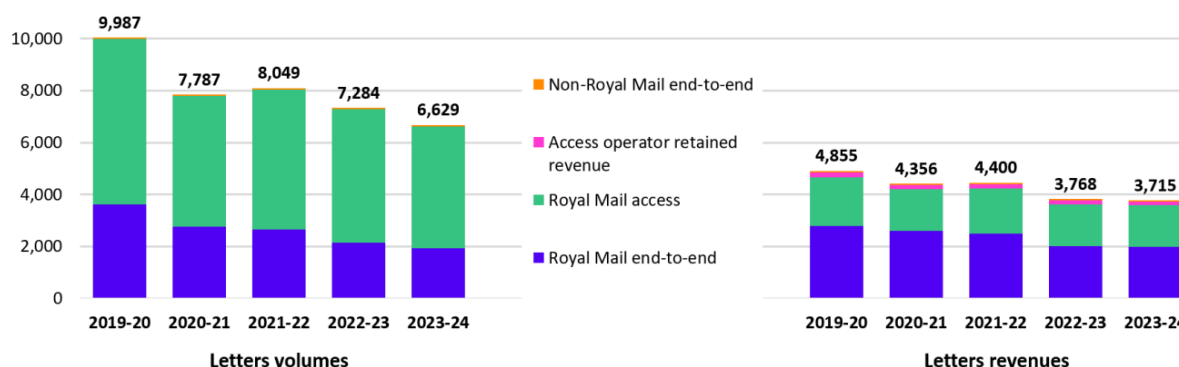
³⁰ Department for Digital, Culture, Media & Sport, 2019. [Statement of Strategic Priorities](#).

³¹ Hooper Review, 2008. [Saving the Royal Mail’s universal postal service in the digital age](#), p.39.

to has increased from 28 million to 31.7 million.³² This has now increased to 32 million.³³ Along with declining volumes, letter revenues have also decreased.³⁴

2.17 The continued decline in letter volumes is due to the availability and take-up of faster broadband and mobile connections in recent years, offering more opportunities for businesses and public services to adopt digital communications tools and systems. The opportunity to use digital communication alternatives are at a record high and we expect their use to increase as technology develops further.³⁵

Figure 2.2: Addressed letter volumes (millions) and revenues in real terms (£m, 2023-24 prices)³⁶



Source: Ofcom / operator data. Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excepting access. Figures exclude international. Access volumes include small volume of access parcels.

2.18 However, most people still need access to the postal service to send and, in particular, receive important mail, for example in relation to their health or finances, even if they do so much less frequently than in the past. The results of our survey conducted in Autumn 2024 shows that the large majority (95%) of adults continue to send letters, with half (50%) doing so at least once a month.³⁷ Our latest residential tracking survey also found that eight in ten people agreed that there will always be things that need to be sent by post.³⁸

2.19 In contrast, while consumers and businesses have reduced their use of letters, the parcels market has grown significantly. Although parcel volumes and revenues have fallen back since 2020-21, the overall trend is upwards, with 2022-23 totals higher than 2019-20 pre-pandemic figures.

³² Ofcom, 2024. [The future of the universal postal service - Call for Input](#), p.15.

³³ The number of UK addresses (delivery points) covered by the universal postal service has increased from around 28 million in 2008 (at the time of the Hooper Review) to around 32 million in December 2024, according to the [Postcode Address File](#).

³⁴ Except for 2021-22 when letters recovered slightly with the end of the pandemic lockdowns and return to normal business.

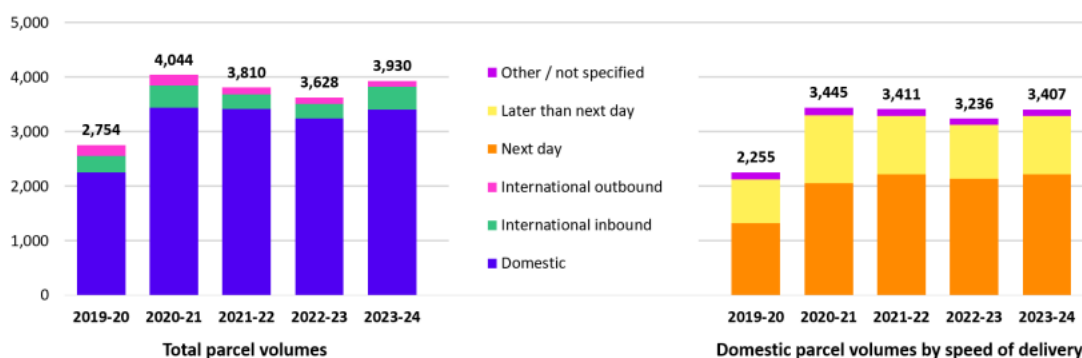
³⁵ Ofcom, 2024. [Connected Nations – UK Report 2024](#), p.6 and p.34. As of 2024, 98% of UK premises have access to superfast broadband from fixed lines while 4G is available at 99%+ of outdoor premises.

³⁶ Ofcom, 2024. [Post monitoring report – postal services in the financial year 2023-24](#). This excludes unaddressed letters such as advertising mail and election mail.

³⁷ BMG, 2025. [Post User Needs Research 2024](#), slide 13.

³⁸ Ofcom, 2024. Residential [Postal Tracker – Annual Report](#).

Figure 2.3: Total measured parcel volumes and domestic volumes by speed of delivery (millions)



Source: Ofcom / operator data. Note: Access mail volumes are included in domestic. Data for 2019-20 and 2022-23 has been restated due to operator resubmissions. Data for 2021-22 onwards includes additional postal operators and so is not directly comparable to data for previous years. Total parcel volumes includes both domestic and international (inbound/outbound) parcels.

- 2.20 These trends in the UK market are consistent with markets around the world. As use of post has changed, postal regulators and governments in other countries have responded by reforming the universal service obligation in their jurisdiction or by compensating the universal service provider using public funds, which would ultimately be at a cost to the taxpayer.³⁹
- 2.21 As postal usage changes, there is an increasing risk of the USO being misaligned with user needs. Where the letters USO does not align with people’s reasonable needs, we expect that the costs associated with the delivery of letters will be harder to manage in line with falling volumes. This will make it more difficult and more expensive for Royal Mail to provide the USO, with increased costs leading to increased prices for consumers.
- 2.22 There is also a material risk of the universal service becoming financially unsustainable, and we estimate that the USO already represents a financial burden to Royal Mail.⁴⁰ For these reasons, and having had regard to the economic growth duty and the Government’s SSP for postal services, we consider it is important that we act now to examine whether the USO can be reformed to support the sustainability of the service while continuing to meet user needs. This should in turn lead to lower price rises for consumers than would have otherwise been the case in the future.

Call for input and options for reforming the USO

- 2.23 On 24 January 2024, we published a CFI on the future of the universal postal service. We set out evidence we had gathered and options for reform. We received 2,348 responses from a wide range of stakeholders, including individuals, consumer bodies, campaign groups,

³⁹ Ofcom, 2024. [The future of the universal postal service – Call for Input](#), pp. 46-53. Denmark, France, Italy, Poland and Spain have in recent years requested approval of state aid to provide to their USPs so that they can continue to deliver services.

⁴⁰ Please see Sections 4 and 8 of this document.

representative organisations, businesses, public services, access operators and bulk mailers.⁴¹ We highlighted that the UK is not alone in needing to respond to these challenges; across Europe and the rest of the world, universal postal service obligations have been, or are being, reformed.

- 2.24 In our CFI, we set out various options for reform which we considered could result in a USO that is more closely aligned with people’s needs for letters. The potential options we set out relied on Royal Mail remaining the DUSP and the core principles of the USO – universality, affordability and uniform pricing – being maintained.
- 2.25 We considered two primary options:
- a) A reduction in the frequency of delivery for letters by reducing the number of delivery days from the existing six day a week obligation, down to five or three days a week; or
 - b) Changes to delivery speeds for letters,⁴² so that most letters are delivered through a slower service taking up to three days or longer, with a next-day service still available for any urgent letters.
- 2.26 We also considered other options such as:
- a) Only making changes to the current quality of service targets; and
 - b) A subsidy to the current USO (via public subsidy or from an industry fund).
- 2.27 However, our initial views were that our primary options would be preferred over these other options.

Responses to the CFI

- 2.28 In September 2024, we published a summary of responses we received.⁴³
- 2.29 Overall, respondents and participants in our public events recognised that the way people and businesses use letters has changed. While people are sending fewer letters, many items still need to be sent by letter. Respondents acknowledged that changes to the obligations on Royal Mail will be required as people continue to rely on letters, but the key principles of universality, affordability and uniform pricing should remain. Reliability would need to be central to USO reform and some felt that poor reliability, combined with price increases, were contributing to the fall in letter volumes. Some respondents did not believe reform was necessary and thought Royal Mail should focus on becoming more efficient and/or sustain the USO by introducing new products or services. Concerns were also raised about

⁴¹ The responses to the CFI are available here: Ofcom, 2024. Future of the universal postal service – [summary of responses to our Call for Input and next steps](#).

⁴² This refers to the bulk mail services provided through Royal Mail’s retail bulk mail and the services offered by postal operators using Royal Mail’s last mile access services.

⁴³ Ofcom, 2024. Future of the universal postal service - [summary of responses to our Call for Input and next steps](#).

Royal Mail's existing quality of service performance and whether the current enforcement regime is effective.⁴⁴

- 2.30 Many respondents accepted that the option to reduce the frequency of letter delivery would meet most users' needs provided a next-day option remained in place and the service was reliable.⁴⁵ However, any further reduction to three days or one day a week was less acceptable. Some stakeholders raised the importance of retaining Saturday deliveries – we cover this in more detail in Section 5. Most bulk mailers also valued reliability over speed and are increasingly choosing longer delivery times (within five days) – we address this in further detail in Section 7.

Royal Mail's response

- 2.31 Royal Mail responded to our CFI with a significant proposal for reforming the USO which focused on changes to the delivery patterns for non-priority letters, i.e. Second Class letters, and D+2 and D+5 access letters. First Class letters would continue to be delivered six days a week, and the parcels obligation would remain unchanged. This largely aligned with the option to reduce delivery frequency, which we provisionally considered consistent with our understanding of evolving user needs. In September 2024, we said we would focus on a detailed assessment of these proposals.
- 2.32 Royal Mail's proposals would require changes to the Order, DUSP Conditions and the USPA Condition and can be summarised into three key areas: changes to the delivery of Second Class USO letters; changes to quality of service targets; and changes to the access obligation.⁴⁶
- 2.33 Royal Mail has made the case that this suite of changes would result in significant cost savings which would help support the financial sustainability of the universal service.⁴⁷

Royal Mail's proposed changes to the delivery frequency of Second Class letters (Section 5)

- 2.34 In summary, Royal Mail proposed the following in relation to the USO:
- i) First Class letters would continue to be delivered next day (D+1) with deliveries Monday to Saturday (as per the current USO).
 - ii) Second Class letters would be delivered within three working days (D+3) (as per the current USO), with deliveries on alternate weekdays. That means Saturday would be removed as a delivery day for Second Class letters.

⁴⁴ We received a large number of responses from individuals which called for government intervention to renationalise Royal Mail as part of the We Own it campaign. Some respondents called for government intervention to subsidise the USO to either maintain the current specification or to support it while it is being reformed. We continue to note that these matters are for the UK Government.

⁴⁵ Ofcom, 2024. [The future of the universal postal service – Call for Input](#).

⁴⁶ Royal Mail also made several proposals to reform the legislative framework and around the timing and conduct of Ofcom's current and future work. Please [see Royal Mail's response](#) to the 2024 CFI for further information.

⁴⁷ [Royal Mail](#) response to the 2024 Call for Input.

iii) There would be no changes to the delivery or collection frequency for parcels.

2.35 These changes would allow Royal Mail to implement a 2.5 day a week delivery model for Second Class letters. This means half of addresses would receive Second Class letters on Monday, Wednesday and Friday one week, and then switch to Tuesday and Thursday the next week, before reverting to Monday, Wednesday and Friday the week after, i.e. an average of 2.5 deliveries a week. As shown in Table 2.4 below, this would mean that items posted on some days (Wednesday, Thursday, Friday and Saturday) would be delivered one day later than currently is the case,⁴⁸ with no change for items posted on other days (Sunday, Monday and Tuesday).

Table 2.4: Table to show current due delivery day and future due delivery day from day of posting if the proposed changes to the delivery frequency for Second Class letters are implemented.

Day of posting	Current due delivery day	Future due delivery day
Monday	Thursday	Thursday
Tuesday	Friday	Friday
Wednesday	Saturday	Monday
Thursday	Monday	Tuesday
Friday	Tuesday	Wednesday
Saturday	Wednesday	Thursday
Sunday	Thursday	Thursday

Royal Mail’s proposed changes to the USO quality of service targets (Section 6):

2.36 Royal Mail is also subject to quality of service targets which cover its performance against expected speed of delivery, collection activities, delivery route completions, as well as performance in individual UK postcode areas. We last reviewed aspects of the quality of service framework in our 2022 Review of Postal Regulation.⁴⁹ In recent years, there have been ongoing issues with Royal Mail’s quality of service performance.

2.37 Royal Mail has proposed various changes to the targets. These include reducing the primary targets for First and Second Class delivery and introducing new secondary ‘tail of mail’ reliability targets. The ‘tail of mail’ targets would apply to mail that has not been delivered

⁴⁸ Second Class letters sent on a Wednesday are currently due for delivery on Saturday. Under our proposals, they would instead be due for delivery on the next delivery day, which is Monday as Sunday is not a delivery day.

⁴⁹ Ofcom, 2022. [Statement: Review of Postal Regulation](#).

on time, and introduce a secondary incentive to reduce significant delays. These are set out in Table 2.5 below.

2.38 Royal Mail has stated it cannot meet the current targets at a reasonable cost. The changes proposed by Royal Mail seek to reflect changes in the postal market, such as the pressures of increased unit costs for delivery and the associated expectations of the USO focusing reliability and affordability, rather than speed.

Table 2.5: Current quality of service targets and Royal Mail’s proposed quality of service targets under USO reform⁵⁰

Target	Current	Royal Mail’s proposal
First Class (D+1)	93% of mail delivered next-day	90% of mail delivered next-day
First Class Postcode Area (PCA) (D+1)	91.5% of mail delivered next-day in each postcode area, except for HS, KW, and ZE (118/121 PCAs)	<u>1st preference:</u> removal of the PCA target <u>2nd preference:</u> 86% of mail delivered next-day in each postcode area except for HS, KW, and ZE (118/121 PCAs), with allowance for failure of 6 PCAs
First Class ‘tail of mail’	N/A	NEW: 96% of mail delivered within two days (D+2) Subsequently revised: 99% of mail delivered within five days (D+5)
Second Class (D+3)	98.5% of mail delivered within three days	95% of mail delivered within three days
Second Class ‘tail of mail’	N/A	NEW: 99% of mail delivered within five days (D+5)

Royal Mail’s proposed changes to the USPA Condition (Section 7):

2.39 Royal Mail uses the same network to deliver both USO and bulk mail. As explained above, bulk mail makes up the majority of the letters market and comprises letters sent using Royal Mail’s retail services, which are not regulated, and access services, which Royal Mail must offer under the USPA Condition. Royal Mail has proposed to deliver the majority of bulk mail under the proposed alternate weekday delivery model and suggested the following changes to the existing access specifications regulated by the USPA Condition:

- i) Introduction of new regulated D+3 access services and changes to the specification of existing D+5 access services, delivery of which would align with the delivery specification proposed for single piece Second Class letters, i.e. delivery on alternate

⁵⁰ Royal Mail also asked us to reconsider previous requests for changes to the deliveries target, specifically a change from measuring completed delivery routes to measuring delivery points served, and an extension of the Christmas exemption period to include ‘Cyber Week. Please see Section 6 for more information.

weekdays. This would enable Royal Mail to deliver both D+3 and D+5 access letters alongside Second Class letters every other weekday.

- ii) Removal of the current requirement to offer D+2 access services which Royal Mail is required to offer through the USPA Condition.

2.40 Royal Mail believes these changes are needed to the access obligation to ensure it can operate an updated delivery model for both USO letters and access mail, and to help achieve the benefits from USO reform.

Our assessment of Royal Mail's proposals

2.41 Royal Mail's proposals largely align with one of the two primary options that we identified in our CFI (reducing the frequency of Second Class letter delivery days), which we believe could be consistent with evolving user needs. These proposed changes would result in fewer changes to the USO as the First Class letters service and parcels obligation would remain unchanged.

2.42 For the reasons explained above, we believe there is an urgent need to consider reform of the USO. We note that Royal Mail's proposal could be implemented more quickly than options to reduce the number of delivery days for all types of letters, including First Class, as the proposed changes would not require change to the minimum USO service levels established in legislation and can be implemented through changes to Ofcom's regulation. Given all of the above, we have focussed on assessing changes to the USO for Second Class letters as the main option for USO reform.

2.43 Although Royal Mail's response included revisions to its parcels obligations, we are not proposing changes to the USO specification for parcel collection or deliveries.⁵¹ We examined this issue in our 2022 Review of Postal Regulation and decided it should not be introduced as it would risk distorting competition in the provision of parcels.⁵² Based on the consumer research we conducted in 2022 and 2023, we remain of the view that parcel needs are being met. We do not consider there has been a material change in circumstances since we made that decision and we do not plan to re-open this issue in our current work.⁵³

2.44 We also decided to consider whether there is a case for changing quality of service targets linked to USO reform and to support the financial sustainability of the service.

⁵¹ Royal Mail requested that both tracking on parcels and a new Special Delivery end of day product be added to the USO. Tracking is a component of the Special Delivery 1pm USO product, but not First and Second Class USO parcels (or letters) products. Royal Mail offers tracked parcel products commercially (outside the USO) e.g. Tracked 24 and Tracked 48. Special Delivery next day by 1pm is the registered and insured product currently in the USO.

⁵² Ofcom, 2022. [Statement: Review of Postal Regulation](#), Section 7.

⁵³ Although we are not considering reform to parcel deliveries, quality of service targets applies to both letters and parcels. The proposals in Section 6 therefore apply to quality of service targets for both letters and parcels.

Purpose of this consultation

- 2.45 The purpose of this consultation is to set out our assessment of proposals for reform to the USO. To guide our assessment, we have sought to achieve the following policy objectives, to clearly demonstrate to stakeholders what we are trying to achieve and how we have considered our legal duties in relation to postal services when formulating our proposals. Our policy objectives provide a clear and transparent framework against which we assess the available evidence and make proposals.
- 2.46 Taking account of our role, powers and duties described above, our objectives are to put in place a reformed regulatory framework which will promote the following outcomes:
- a) Lead to consumer benefits through a universal service that meets reasonable user needs;
 - b) Support the financial sustainability and efficiency of the universal service;
 - c) Incentivise Royal Mail to provide a high-quality service; and
 - d) Encourage innovation and competition in the postal industry.
- 2.47 While Ofcom does not have a duty to consider environmental impacts in connection with the USO, as we observed in our CFI this is an issue of national importance and one in which logistics activities play a major role.⁵⁴ We consider that our proposals are consistent with promoting environmental sustainability as broadly speaking, they slow down deliveries, particularly for bulk mail and provide Royal Mail with more flexibility on how it operates in the future so it can continue to reflect environmental impacts in its approach. This could be achieved by greater use of slower forms of transport by rail and road as opposed to air freight, which would reduce CO2 emissions.
- 2.48 Some consumers prefer environmentally sustainable operations, and our research supports this, as just under half of consumers agreed they would prefer postal services to be delivered in an environmentally responsible way, even this meant it would take longer for items to be delivered.⁵⁵

Impact assessment

- 2.49 Section 7 of the Communications Act requires us to carry out and publish an assessment of the likely impact of implementing a proposal which would be likely to have a significant impact on businesses or the general public, or when there is a major change in Ofcom's activities.
- 2.50 Impact assessments are a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policymaking. We use impact assessments to help us understand and assess the potential impact of our policy decisions before we make them. They also help us explain the policy decisions we have decided to take and why we consider those decisions best fulfil our

⁵⁴ The Government's statutory guidance on the economic growth duty also lists environmental sustainability as a key driver of economic growth.

⁵⁵ Ofcom, 2024. [Post monitoring report – postal services in the financial year 2023-24](#), p.12.

applicable duties and objectives in the least intrusive way. Our impact assessment guidance sets out our general approach to how we assess and present the impact of our proposed decisions.⁵⁶

- 2.51 The analysis presented in this document can be found in the following paragraphs.
- 2.52 In Section 5, we set out the impacts of the proposal to change the delivery frequency of Second Class letters at paragraphs 5.35 to 5.68. In particular, the impacts on postal users are at paragraphs 5.38 to 5.58, and the impact on the financial sustainability and efficiency of the universal service are at paragraphs 5.60-5.65.
- 2.53 In Section 6, between paragraphs 6.40 and 6.44, we set out the impacts of the proposal to revise the First Class D+1 national target, and between paragraphs 6.46 and 6.54, we set out the impacts of the proposal to revise the First Class D+1 postcode area target. From paragraph 6.58 to 6.61, we set out the impacts of the proposal to introduce a First Class D+3 'tail of mail' target. We also set out the impacts of the proposal to adjust the Second Class D+3 target to reflect the proposed alternate weekday delivery model from paragraph 6.62 to 6.69 and the impacts of the proposal to introduce a new Second Class D+5 'tail of mail' target between paragraphs 6.70 and 6.72.
- 2.54 In Section 7, from paragraph 7.26 to 7.48, we set out the impacts of the proposal to regulate a D+3 access service, and between paragraphs 7.75 and 7.80, we set out the impacts of the proposal to modify the current D+5 access obligation.
- 2.55 In Section 8, we set out the impact of the proposals to reform the USO on Royal Mail's cost and revenue position and the impact of the proposed changes on the financial sustainability of the universal service, at table 8.2 and between paragraphs 8.48 and 8.50.
- 2.56 Our regulatory impact assessment of proposals to modify the Universal Postal Service Order is set out in Annex A7.

Equality impact assessment

- 2.57 Ofcom is subject to various duties to assess impacts on specific groups when we exercise our functions. These groups are set out in the Equality Act 2010, Northern Ireland Act 1998 and the Communications Act 2003.
- 2.58 The Equality Act 2010 (the 2010 Act) imposes a duty on us to have due regard to the need to eliminate discrimination, harassment, victimisation, and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation. The 2010 Act also requires us to have due regard to the need to advance equality of opportunity and foster good relations between persons who share specified protected characteristics and persons who do not.
- 2.59 The Northern Ireland Act 1998 (the 1998 Act) also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and have regard to the desirability of promoting good relations

⁵⁶ For further information about our approach to impact assessments, see [impact assessment guidance](#).

across a range of categories outlined in the 1998 Act. Ofcom's Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the 1998 Act.⁵⁷

- 2.60 The Communications Act 2003 (the 2003 Act) requires us to act in the interests of citizens, with specific regard to certain characteristics: those in need of special protection, persons with disabilities, the elderly, those on low incomes, persons in different parts of the UK, persons of different ethnic communities and persons living in rural and urban areas.
- 2.61 To help us comply with our duties under the 2010 Act, the 1998 Act and the 2003 Act, we assess the impact of our proposals on persons sharing protected characteristics and in particular whether they may discriminate against such persons or impact on equality of opportunity or good relations.
- 2.62 We consider that our proposals may have an adverse impact on people who are more likely to be reliant on the postal service, including:
- Users without access to the internet
 - Users with restricted mobility
 - Users in rural locations
 - Older users
- 2.63 In Section 3 (User Needs Assessment), we set out how our proposals could affect those who are more reliant on the postal service.
- 2.64 We also consider that our proposals may have adverse impacts on people in specific geographic areas, people who are digitally excluded, people who are financially vulnerable and people who are more likely to use postal services for medical sampling and testing.
- 2.65 However, we consider that, on balance, the potential adverse impacts on these groups is justified by the benefits arising from our proposals.
- 2.66 We welcome responses on the potential impact on these groups, including ways in which we may be able to mitigate or eliminate adverse impacts.
- 2.67 Our full Equality Impact Assessment is set out in Annex A6.

Question 2.1

Do you agree with the provisional conclusions set out in our Equality Impact Assessment? Please state your reasons and provide evidence to support your view.

Welsh language assessment

- 2.68 The Welsh Language (Wales) Measure 2011 made the Welsh language an officially recognised language in Wales. This legislation also led to the establishment of the office of the Welsh Language Commissioner who regulates and monitors our work. Ofcom is required to take Welsh language considerations into account when formulating, reviewing

⁵⁷ Ofcom, 2019. [Revised Northern Ireland Equality Scheme for Ofcom](#).

or revising policies which are relevant to Wales (including proposals which are not targeted at Wales specifically but are of interest across the UK).

- 2.69 Where the Welsh Language Standards are engaged, we consider the potential impact of a policy proposal on (i) opportunities for persons to use the Welsh language; and (ii) treating the Welsh language no less favourably than the English language. We also consider how a proposal could be formulated so as to have, or increase, a positive impact, or not to have adverse effects or to decrease any adverse effects.
- 2.70 We have considered the potential impacts on opportunities to use Welsh and treating Welsh no less favourably than English in formulating our proposals.
- 2.71 The proposals we are consulting on will treat Welsh language no less favourably than English language and will have no adverse effects. The proposals we are consulting on, particularly in Section 5, seek to ensure that consumers across the UK can continue using post as a form of communication, which is likely to have a positive effect on Welsh speakers who wish to communicate in Welsh through this method (letters only).
- 2.72 We welcome responses on any potential impacts related to the Welsh language.

Question 2.2

Do you agree with our assessment under the Welsh Language Standards? Please state your reasons and provide evidence to support your view.

Structure of this document

2.73 The rest of this document is structured as follows:

- **Section 3 – Postal user needs Assessment:** sets out Ofcom’s assessment of the reasonable needs of users who send and receive letters and whether the current UK letters market is meeting those needs.
- **Section 4 - Financial sustainability of the USO:** explains the approach we take to our duty to have regard to the need for the provision of the universal service to be financially sustainable, sets out information on the current financial position of Royal Mail and the potential ways that net savings could be made from changes to the scope of the USO.
- **Section 5 - Proposed changes to the delivery frequency of Second Class letters:** sets out our proposals for an alternate weekday delivery model for Second Class letters and assesses the impact of those proposals.
- **Section 6 - Proposed changes to USO quality of service targets:** sets out our proposals for adjustments to the quality of service targets that Royal Mail must meet for USO services and assesses the impact of those proposals.
- **Section 7 – Proposed changes to the access condition:** sets out our proposals for changes to the obligation on Royal Mail to offer access to its postal network and assesses the impact of those proposals.
- **Section 8 – Impact of our proposals on financial sustainability:** sets out our estimates of the potential savings that Royal Mail could make from our proposals for changing our regulation and compares them against Royal Mail’s estimates using its own proposals.
- **Section 9 - Next steps and update on other work.**

2.74 The Annexes are set out as follows:

- **Annex A1 - Responding to this consultation:** details on how to respond to this consultation.
- **Annex A2 - Ofcom’s consultation principles:** principles that Ofcom follows for every public written consultation.
- **Annex A3 - Consultation coversheet:** a coversheet to use when responding to this consultation.
- **Annex A4 - Consultation questions:** sets out the questions that are included throughout this document. We welcome views and evidence on these from stakeholders.
- **Annex A5 - Legal and regulatory framework:** a summary of Ofcom’s duties, and the legal and regulatory framework of the universal service and postal regulation more broadly.
- **Annex A6 – Equality Impact Assessment:** sets out our full Equality Impact Assessment.
- **Annex A7 - Regulatory impact assessment of changes to Universal Postal Service Order:** a regulatory impact assessment of our proposals to modify the Universal Postal Service Order, and confirmation of those proposed modifications.

- **Annex A8 – Notification of changes to DUSP conditions:** a statutory notice of our proposed modifications to DUSP Condition 1.
- **Annex A9 – Notification of changes to Access conditions:** a statutory notice of our proposed modifications to the Universal Service Provider Access Condition.
- **Annex A10 – Glossary:** a list of defined terms and acronyms used throughout this document.

2.75 Alongside this consultation we are publishing a report from BMG setting out our latest market research on Post. ⁵⁸

⁵⁸ BMG, 2025. [Post User Needs Research](#).

3. Postal Users Needs Assessment

The purpose of this section

- Ofcom is required to make an assessment of the extent to which the UK postal services market is meeting the reasonable needs of the users of those services prior to any potential modification of the Order.
- In this section, using research into the needs of users, market data and other evidence, we set out Ofcom’s assessment of the reasonable needs of users who send and receive letters and whether the current UK letters market is meeting those needs.

In brief

- The way individuals and businesses use postal services has changed, due to the rise in use of digital communications and subsequent decline in reliance on postal services for personal and business communications.
- To identify user needs, we have referred to our extensive body of research, including our latest consumer research⁵⁹ that specifically tested user reactions to potential changes to the USO for Second Class letters.
- A lot of the post relied upon by many users for official communications such as hospital appointments, medical letters, bills, and benefits letters is sent using bulk mail rather than USO services. Our assessment therefore also considers the needs of individuals and SMEs as recipients of bulk mail.
- We have found that users need a letter service that is reliable, affordable and frequent. They will always need to use postal services to send and receive letters and have an occasional need for a faster, next day delivery service. However, reliance on postal services to send letters has declined and users do not need six day a week deliveries for most letters that they send and receive.
- Our provisional conclusion 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.
- Despite the concerns of some users about the impact of reduced delivery frequency, 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.
- We provisionally conclude 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.

⁵⁹ BMG, 2025. [Post User Needs Research 2024](#)

Introduction

- 3.1 The objective of a universal postal service is to guarantee the provision of a good quality postal service at affordable prices, which is accessible to everyone in the UK. It reflects the conclusion that the service is of such importance to consumers, businesses and society as a whole that intervention is necessary to ensure that everyone has access on equal terms to services that the market would otherwise fail to provide. However, the universal service is intended to meet only those reasonable user needs which are not otherwise sufficiently met by the wider market.
- 3.2 As explained in Section 2, Ofcom specifies the services that must be provided as part of the USO by way of an order. Before modifying the Order, section 30 of the Act requires us to carry out an assessment of the extent to which the market for postal services in the UK is meeting the reasonable needs of users. This section contains that assessment.
- 3.3 Our CFI called for a national debate on the future of the universal postal service. In the CFI we identified options for USO reform that we believed could continue to meet reasonable user needs, creating cost savings and leading to good consumer outcomes in terms of supporting the continued provision of the universal service and lower price rises. These options focussed on changing the frequency and slowing the speed of letter deliveries. Adopting any such options for reform would require us to make changes to the Order.
- 3.4 While this assessment considers user needs in the round, given the options we have identified for reform, it focusses on reasonable user needs related to the frequency and speed of letter deliveries and whether the market is meeting those needs. We then go on to assess whether changes to the USO in respect of these two features would continue to meet user needs. In addition to frequency and speed, our assessment also considers other reasonable needs that are relevant to reform, such as reliability and affordability.
- 3.5 Our approach to the assessment of reasonable user needs is to look at the way individuals' and SMEs' use of postal services has changed, the rise in use of digital communications and the subsequent decline in reliance on postal services for personal and business communications. We have analysed our extensive body of user research to draw conclusions on SMEs and individuals need from postal services and whether we consider these needs to be reasonable. We focus on the needs of SMEs rather than all business users as larger businesses and organisations tend to use bulk mail services rather than USO products to send letters.⁶⁰ However, as many of the letters regarded as very important by users, for example letters related to medical and financial matters, are sent using bulk mail, we also consider the needs of SMEs and individual users in terms of the letters they receive from large organisations and businesses via bulk mail services.
- 3.6 In assessing the reasonable needs of users of postal services, we consider what users say in our research about how they use postal services and what they need from them. When considering if users' stated needs are reasonable, we may conclude that, while some groups

⁶⁰ Bulk mail services are used by large organisations which send high volumes of letters. As explained in Section 2, bulk mail services are offered by Royal Mail on a commercial basis, but Ofcom also requires Royal Mail to grant access to its delivery network to competing bulk mail operators.

of users may have a particular preference or need, it is not reasonable to maintain or increase USO provision to fulfil that need or preference. To inform our conclusions we take into account the costs associated with providing the service and consider the impact of providing a service on users, society as a whole, and Royal Mail as the designated universal service provider.

- 3.7 Having established what we consider to be reasonable user needs, we assess whether the current market for postal services in the UK is meeting reasonable user needs.

Scope of our assessment

Parcels

- 3.8 Our assessment only focusses on the reasonable needs of users who send and receive letters. It does not include parcels. As explained in Section 2, the options for reform set out in the CFI related only to the letters universal service obligation. We explained in the CFI that we had not considered changes to the USO specification for parcels because we did not believe it to be misaligned with user needs.⁶¹ We remain of this view.

Business users and letters sent using bulk mail

- 3.9 The assessment that we must carry out under the Act is focussed on the needs of users of single piece USO services, therefore we look at the needs of SMEs, rather than all businesses. This is because, as we note at paragraph 3.5, larger businesses generally use bulk mail services. However, bulk mail makes up the majority of all letters and is delivered alongside single piece letters using the USO network. Like single piece letters, it is delivered every day from Monday to Saturday. Given Royal Mail is the only operator with a nationwide letter delivery network, it is important that this network supports the delivery of bulk mail letters.
- 3.10 Users typically do not make a distinction between single piece USO and bulk mail services when thinking about their needs in terms of receiving mail. Our research has found that the post relied upon by many users for official communications is typically sent using bulk mail services, such as hospital appointments, medical letters, bills, benefits letters and documents like passports. As such, participants in our research often discuss non-USO services when thinking about what they need from postal services.
- 3.11 Given the above, our assessment considers the needs of individuals and SMEs as recipients of bulk mail and, as a result, indirectly considers the needs of large business and organisations as senders, which we expect would align with the needs of their customers. However, bulk mail services are not part of the USO. The majority of bulk mail is handled by access operators, which means the provision of most bulk mail is underpinned by Ofcom's access regulation and determined by the commercial arrangements between Royal Mail and the access operators. Royal Mail also offers retail bulk services, which are unregulated and the terms of which are contractually agreed between Royal Mail and its customers. The

⁶¹ Ofcom, 2024. [The future of the universal postal service – Call for Input](#), p.68.

needs of organisations and businesses that use bulk mail services are considered further in connection with our proposals to change the universal service provider access condition, as set out in Section 7.

The wider social role of postal services

3.12 We understand that for some users, particularly older people, people with limited mobility and those in more remote rural areas, postal services remain important for social cohesion and Royal Mail workers play an important role in local communities. While undoubtedly important, the wider social role in the community and value attached to Royal Mail deliveries and its workers do not form part of the user needs assessment required by the Act. We do, however, consider these wider societal benefits when assessing the impact of the proposed changes to the delivery frequency for Second Class letters in Section 5.

Our evidence

3.13 To make this assessment we have drawn on our extensive evidence base on how individuals and SMEs use postal services to send and receive letters. We also look at the features of postal services they value, the services they need and how this has changed.

Research on user needs

3.14 In recent years Ofcom has commissioned research to help us understand the reasonable needs of postal users. This programme of research provides us with a large evidence base of how residential consumers and SMEs use postal services across the UK, what they value, the needs of different user groups (e.g. older users and those in rural locations), changing user habits and wider trends. We have used this body of research to inform our assessment:

- In 2020, we conducted quantitative research with residential and SME users to understand their needs. The research included a choice-based conjoint exercise, to help us to understand and measure the relative importance and value of different elements of the postal service.⁶² We also conducted qualitative research (workshops and depth interviews) with residential and SME postal users to understand their needs.⁶³
- In 2020, we conducted an online survey among a representative sample of UK adults in the context of COVID-19 related restrictions.⁶⁴

⁶² Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#)

⁶³ Jigsaw, 2020. [UK Postal User Needs: Qualitative Research Report](#)

⁶⁴ Jigsaw, 2020. [Postal Needs Follow Up Research Report](#)

- In 2023, we conducted qualitative research, with a focus on vulnerable users, to help us understand what residential users need from a postal service.⁶⁵ We also conducted an online survey among a representative sample of UK adults.⁶⁶
- In 2024, we conducted quantitative research with representative samples of UK adults and SMEs. The research asked users about multiple different categories of letters that they send and receive. The samples allow us to analyse the results by demographic groups and business type, including those who may be particularly reliant on letter services.⁶⁷
- We also carry out annual post tracker surveys that provide data on experiences and attitudes of both residential consumers and SMEs to inform our post monitoring and help us understand individual and SME users' experience of the postal markets and how they change year on year. The most recent tracker we have reported on covers July 2023 to June 2024.⁶⁸

Reviews of user needs

3.15 Since taking responsibility for the regulation of postal services in 2011, Ofcom has carried out two comprehensive reviews of user needs, in 2013 and 2020.^{69 70}

Market data

3.16 We gather a range of market data on postal services that shows us the changes in the letters market, published as part of our annual post monitoring report.⁷¹

Call for Input

3.17 As explained in Section 2, in January 2024 we published a CFI⁷² calling for a national debate on the future of the universal postal service. We have considered responses to the CFI, as well as feedback from the four events we held across the UK in March 2024 and follow up

⁶⁵ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#)

⁶⁶ Yonder, 2023. [Consumer survey research on post](#)

⁶⁷ BMG, 2025. [Post User Needs Research 2024](#)

⁶⁸ Jigsaw, 2024. [Residential Postal Tracker – Annual Report July 2023 – June 2024](#) BVA BDRC, 2024. [SME Postal Users Survey – Annual Report July 2023 – June 2024](#), and Residential postal tracker July 2023 – June 2024 [weighted data tables](#), SME postal tracker July 2023 – June 2024 [weighted data tables](#)

⁶⁹ Ofcom, 2013. [Review of postal user's needs](#)

⁷⁰ Ofcom, 2020. [Review of postal user's needs](#). This review was carried out under section 34 of the Act, which sets out that Ofcom may carry out a review of whether the minimum requirements could better reflect reasonable user needs, following which the Secretary of State may modify those requirements. The proposals set out in this consultation do not involve changing the minimum requirements, so this section is limited to our assessment of reasonable user needs and whether the current market for letters is meeting those needs as required under section 30(3) of the Act.

⁷¹ Ofcom, 2024. [Post monitoring report – Postal services in the financial year 2023-24](#)

⁷² Ofcom, 2024. [The future of the universal postal service](#)

meetings with consumer groups, when carrying out this user needs assessment and designing the new consumer research that is used in this assessment.

- 3.18 Responses and findings from meetings with businesses and organisations that use bulk mail services and the access operators who provide those services are considered in Section 7.

The UK letters market

- 3.19 In assessing whether the UK letters market is meeting reasonable user needs, we consider the whole letters market, not just USO services.

- 3.20 The current letters market in the UK consists of three main parts:

- i) **‘Single piece’ end-to-end letters services:** Single, standard letters (e.g. personalised letters, bills, greeting cards, metered services) and large letters,⁷³ mainly sent by individuals and SMEs using a post box or a post office, which are collected and delivered by Royal Mail. Royal Mail is the only provider of single piece letter services and provides a range of USO letter services, including First Class, Second Class and Special Delivery Next Day (Guaranteed by 1pm). Users of single piece letter services therefore continue to rely almost exclusively on Royal Mail to provide them with collection and delivery of letters as part of the universal service.
- ii) Royal Mail also offers metered or franked mail services to businesses and organisations as an in-house postage and payment option, in addition to stamps. This allows businesses and other organisations to buy or lease franking machines that print the post mark directly onto letters. Royal Mail offers metered mail services at discounted prices relative to regular stamped services within the USO.
- iii) First and Second Class products have experienced price rises in recent years.⁷⁴ Royal Mail implemented a tariff increase for some First Class stamped and meter services, which took effect from 7 October 2024. First Class stamps have increased from £1.10 in April 2023 to £1.65 from October 2024, while Second Class stamps have increased from £0.75 in April 2023 to £0.85 from April 2024. The price of a Second Class standard letter over the past four years has increased from £0.61 in 2019-20 to £0.85 from April 2024.⁷⁵
- iv) **Business retail end-to-end services (non-USO):** Where Royal Mail collects large volumes of mail directly from larger businesses (or other organisations) and adds it to its network for sorting, distribution and delivery.
- v) **Business access mail services (non-USO):** As noted at paragraph 2.11, access operators compete directly with Royal Mail retail services for bulk mail volumes from large business and organisations like banks, government departments and the NHS. These access operators collect and sort mail before inserting it into Royal Mail’s network for final mile delivery.

⁷³ Letters can be up to 24cm long, 16.5cm wide and up to and including 0.5cm thick, with a maximum weight of 100g. Large letters can be up to 35.3cm long, 25cm wide and up to and including 2.5cm thick, with a maximum weight of 750g.

⁷⁴ Please see Ofcom, 2022. [2022 Review of Postal Regulation](#), p.126. para. 5.244

⁷⁵ Ofcom, 2024. [Post Monitoring Report 2023-24](#), p.9.

What are the reasonable needs of postal services users?

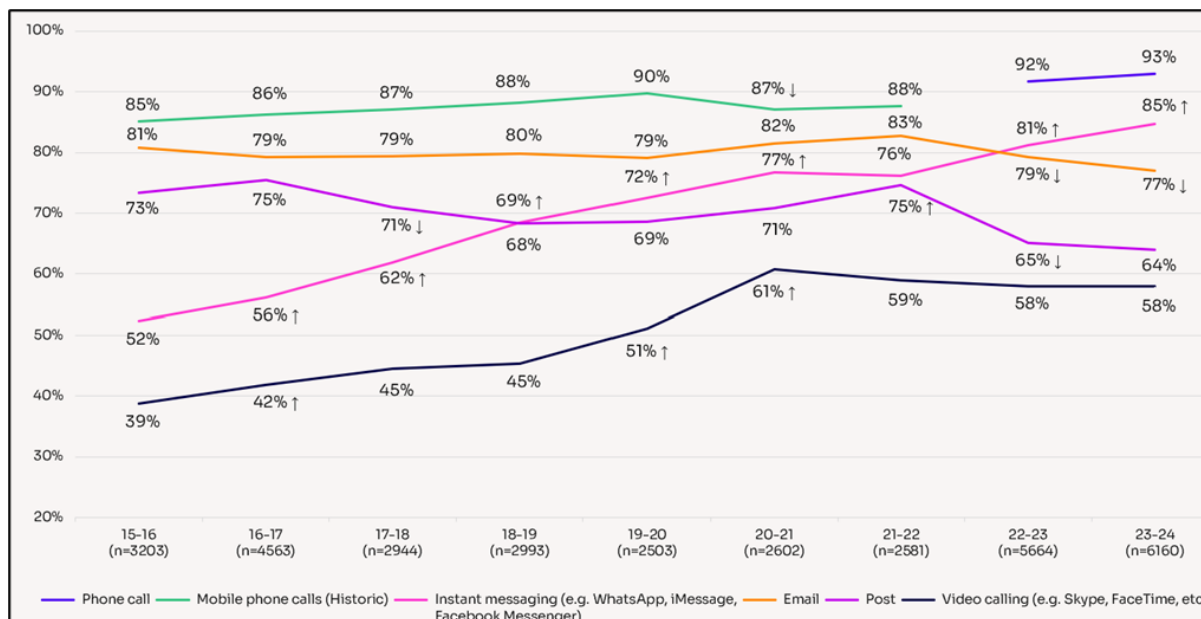
- 3.21 We have made our assessment of the reasonable needs of users of postal services in two stages: first we have investigated how use of, and reliance on postal services has changed, the increasing take up of digital communications services and the subsequent decline in letter volumes; this then sets the context for the second stage where we analyse our extensive body of research and draw conclusions on what individuals and SMEs say they need from postal services. Using these conclusions we then establish what we consider to be reasonable user needs and whether the current UK letters market is meeting these needs.

The letters market and how individuals and organisations use postal services

- 3.22 In this section we identify the factors that have led to a decline in reliance on postal services for many users and the subsequent decline in volumes of letters sent and received. We note that despite the decline in letter volumes, the majority of users believe that they will always need to use postal services to send letters. We also identify user groups who say they have a greater reliance on postal services. The increasing availability and take up of digital alternatives is driving the decline in letter volumes
- 3.23 Digital communications are increasingly preferred over letters by users for personal and business communications. Our latest residential tracking survey points towards a continued shift in preference away from post and towards digital communications. The number of residential users who see post as an important channel to communicate with family and friends has dropped from 75% in 2016/17 to 64% in 2023/24.⁷⁶

⁷⁶Jigsaw, 2024. [Residential Postal Tracker – Annual Report](#) July 2023 – June 2024, slide 5.

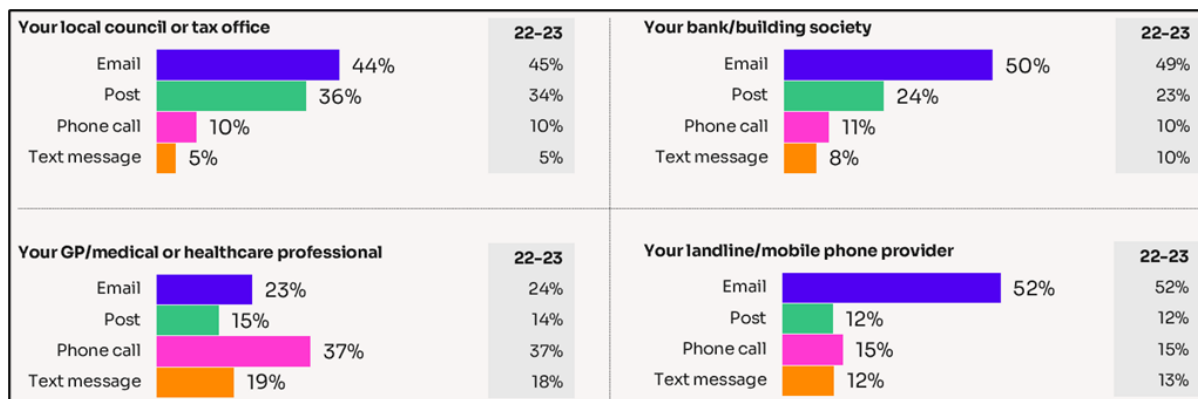
Figure 3.1: Importance of channels to communicate with friends and family (Net essential/fairly important)



Source: Residential Postal Tracker. C4. Thinking about how you communicate with friends and family, how important to you are each of these channels of communication? Base: All participants (on even months) – Sample size shown on chart.

3.24 Email is also now people’s preferred method of contact for all non-family relationships that our survey asked about, except for GPs where the telephone was preferred.

Figure 3.2: Contact preferences – Preferred method to receive communications from...



Source: Residential Postal Tracker. C2_1. Which method would you prefer to receive communications from... Base: All participants 2022-23 (n=5564), 2023-24 (n=6160).

3.25 The trend of moving towards digital alternatives also applies to SME users. Our 2024 survey found that less than one in five (18%) SMEs receive a letter every delivery day, and less than four in ten (36%) send letters more often than about once a week.⁷⁷ Our latest business

⁷⁷ BMG, 2025. [Post User Needs Research 2024](#), slides 69, 72.

tracking survey found that just under half of SMEs said that they had moved some of their post to other communication methods in the past year.⁷⁸ Our 2020 research also found that many SMEs had moved, or were considering moving key communications online. They were mostly likely to say they would consider moving financial transactions (75%) and general correspondence (75%) to digital alternatives.⁷⁹

3.26 Our research suggests that this move also applies across a range of user groups that may be more reliant on post, including older users, low-income households, rural locations, and people with restricted mobility. Our latest residential tracking survey finds that among each of these groups, a majority say that they prefer to use emails rather than letters whenever possible.⁸⁰

3.27 Participants in our 2023 qualitative research, which focussed on the needs and experience of potentially vulnerable groups, also reported that the number of letters they sent and received (particularly items sent) was continuing to fall. This was mainly because they were switching to digital alternatives:

“Passport renewals and things like that, you have to use the post But otherwise, I’ll just do it online really ... I’ve pretty much gone paperless”

Mobility Restricted customer, 60s, England⁸¹

3.28 The increased take up of digital alternatives and subsequent decline in letter volumes is consistent with international trends. For instance, the countries which today have the lowest volumes of letters per capita and have made the most radical changes to their USO specifications often first experienced government-led digital transition initiatives to require or support the take up of digital communications (e.g. Denmark, Norway and Belgium).⁸²

The increasing availability and take up of mobile and broadband connections will continue to drive the shift to digital alternatives

3.29 Almost all premises in the UK (98%) now have access to superfast broadband and 75% of these premises take up these services.⁸³ Mobile availability also continues to grow, with 4G reaching outside more than 99% of UK premises.⁸⁴ The proportion of individuals who can

⁷⁸ BVA BDRC, 2024. [SME Postal Users Survey – Annual Report](#) July 2023 – June 2024, slide 18.

⁷⁹ Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#), p.44.

⁸⁰ [Residential post users tracking survey, July 2023-June 2024](#), table 42,

⁸¹ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 27.

⁸² Ofcom, 2024. [The future of the universal postal service](#), p.45.

⁸³ Superfast broadband is defined as services with download speeds of at least 30Mbit/s

⁸⁴ Ofcom, 2024. [Connected Nations UK report 2024](#), p.4.

access the internet at home is also very high; 94% of UK individuals aged 16+ say they have access to the internet at home.⁸⁵

- 3.30 The use of smartphones to access the internet and communications services is also increasingly common. Ninety-three per cent of UK individuals aged 16+ say that they or someone in their household owns a smartphone.⁸⁶ In May 2024, 75% of the time spent online per day by UK adults, across smartphones, tablets and computers, was on a smartphone. Communications smartphone apps such as WhatsApp, Gmail and Facebook Messenger are among those with the highest daily reach among online UK adults in May 2024.⁸⁷
- 3.31 We acknowledge there are people who do not have access to the internet either through fixed or mobile connections, meaning they have limited or no ability to switch to digital communications. This group is discussed in more detail in paragraphs 3.42 to 3.58.

Reliance on post is declining, but postal services remain important to the majority of users

- 3.32 The importance of post as a communication method is declining for most users. Our latest residential tracking survey found that, overall, residential users believe they are sending fewer letters than they did two years ago. More people are also seeing postal services as something to be used as a last resort. In 2023/2024, half of residential users said that they would only use post if there was no alternative, compared with 32% of people in 2015/2016.⁸⁸
- 3.33 Despite the reduced reliance of most users on letters for personal and business communications, postal services remain important and are used by nearly all UK residents. Our survey conducted during the autumn of 2024 found that virtually all UK households continue to receive letters, with 82% saying that they do so at least weekly. The large majority (95%) of adults continue to send letters, with half (50%) doing so at least once a month.⁸⁹
- 3.34 Most people believe they will always need to use the postal service to send or receive letters at some point. Our latest residential tracking survey found that eight in ten people agreed that there will always be things that needed to be sent by post.⁹⁰ This high proportion of users saying they would always need to use the post service has stayed static

⁸⁵ Ofcom [Technology Tracker 2024](#). QE1. Do you or does anyone in your household have access to the internet at home (via any device, e.g. PC, mobile phone etc), and if so, do you personally use the internet at home? Note: 1% of individuals cited 'don't know' as to whether they had internet access at home.

⁸⁶ Ofcom, [Technology Tracker 2024](#). QM2 Are any of the mobile phones in your household a smartphone? Note: 1% of individuals cited 'don't know' as to whether they had a smartphone

⁸⁷ Ofcom, 2024, [Online Nation 2024](#), p.12 and p.27.

⁸⁸ Jigsaw, 2024. [Residential Postal Tracker – Annual Report](#) July 2023 – June 2024, slide 6.

⁸⁹ BMG, 2025. [Post User Needs Research 2024](#), slides 11, 13.

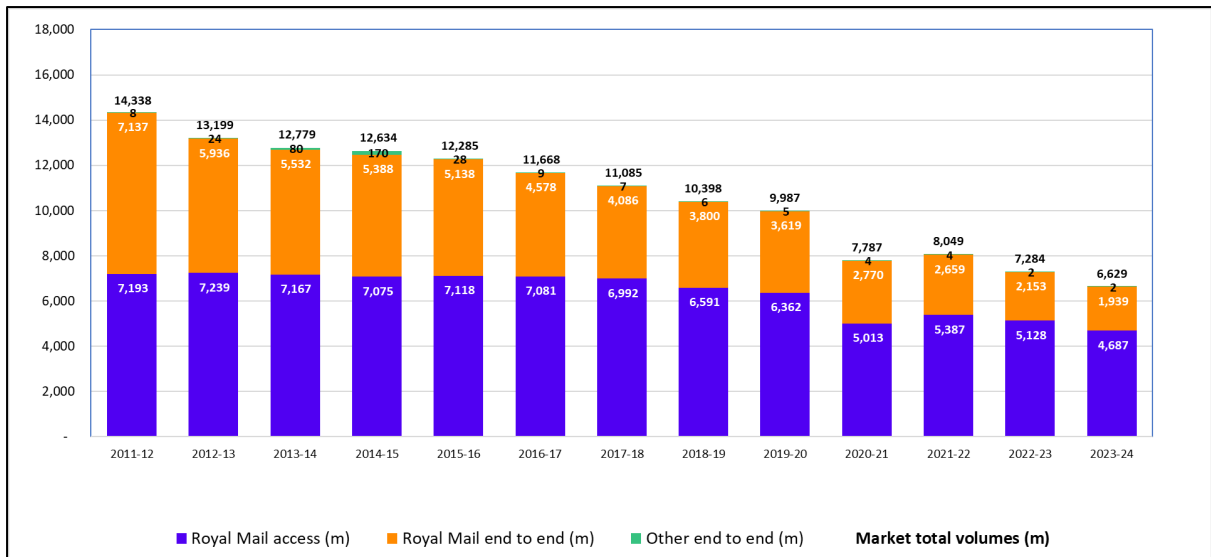
⁹⁰ Jigsaw, 2024. [Residential Postal Tracker – Annual Report](#) July 2023 – June 2024, slide 6.

over the years. Our 2023 and 2020 quantitative surveys also found eight in ten people agreed that there are some things that they will always need to send by post.⁹¹

Market and user research data shows letter volumes are in rapid decline

- 3.35 The decreased reliance on letters and shift to digital communications has resulted in a steep decline in the volumes of letters that are sent and received. This decline is well evidenced through market data and user reports of their own changing behaviour.
- 3.36 Ofcom’s ongoing monitoring of the postal market shows that the volume of letters to UK addresses has declined by 54% since 2011-12, to 6.6 billion items in 2023/24, down by 9.0% year-on-year.⁹²

Figure 3.3: Total UK addressed letter volumes (in millions), including end-to-end and access mail



Source: Ofcom. Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters, excluding access. Figures exclude international letters and unaddressed letters such as advertising and election mail.

- 3.37 According to Royal Mail’s own figures, the business delivered 6.7 billion addressed letters in 2023/24 compared to 20 billion letters in 2004/5, a reduction of 67% of volumes in 19 years, which highlights the size and consistent trend of the decline in letter volumes.⁹³ Royal Mail expects that letter volumes in the next five years will be closer to 4 billion at this

⁹¹ Yonder, 2023. [Consumer Survey Research on Post](#), slide 5.

⁹² Ofcom, 2024. [Post Monitoring Report](#), p.3.

⁹³ IDS, 2024. [ids_annual-report-2023-24.pdf](#), p.25.

rate of decline.⁹⁴ Recent broker reports also stress the rapid decline in letter volumes, with medium term letter volumes forecast to decline at 5-7% per year.⁹⁵

- 3.38 Access volumes continue to make up the majority of letters sent at 4.8 billion items, but total access volumes are also in decline.

Our research shows users are consistently reporting sending and receiving fewer letters

- 3.39 Our recent research found that six in ten adults (60%) said that their household receives letters every day or a few times a week and one in five (22%) said that they send letters at least about once a week. Among SMEs, 58% said that they receive letters every day or a few times a week and about half (51%) said that they sent letters about once a week or more frequently.⁹⁶
- 3.40 Our most recent residential tracking survey found users across all postage types believe they are receiving less than they were two years ago. Users reported a net decline in all types of letter post received, with volumes of letters received dropping from five per week in 2017/18 to three per week in 2023/24.⁹⁷
- 3.41 Our most recent residential tracking survey also shows that the volumes of letters sent has declined steeply, though they have recently started to stabilise. In 2015/16, 83% of residential users claimed to have sent a letter in the last month; by 2021/22 this dropped to 73% and dropped more steeply to 58% in 2022/23. It has remained stable at 57% in 2023/24.⁹⁸
- 3.42 SMEs are also sending fewer letters. In our most recent SME tracker, 18% of SMEs claimed that the volume of post sent in the past 12 months has declined, with 61% of these SMEs attributing the decline to reduced letter volumes. However, 13% of SMEs said that the amount of post they had sent in the last 12 months had increased, while a lot of that increased post was parcels and packets (58%), 20% was letters (although this is a drop from 34% in 2022/23) and 36% large letters.⁹⁹

Some groups report a greater reliance on postal services

- 3.43 Despite the decline in the importance of letters as a form of communication for many users, there are some user groups for whom letters remain a particularly important communication channel.

⁹⁴ IDS, 2024, [ids annual-report-2023-24.pdf](#), P.25. and IDS, [The future of letter deliveries](#).

⁹⁵ Based on data from Liberum Capital Limited published on 28 May 2024 and Peel Hunt LLP on 18 July 2024 and 05 September 2024.

⁹⁶ BMG, 2025. [Post User Needs Research 2024](#), slides 11, 13, 69, 72. This research was conducted in the autumn of 2024 and is based on respondent recall, so it may not fully account for seasonal variations in letter sending/ receipt.

⁹⁷ [Residential post users tracking survey, July 2023-June 2024](#), tables 186-193.

⁹⁸ [Residential post users tracking survey, July 2023-June 2024](#), table 168. Previous survey data available from: <https://www.ofcom.org.uk/research-statistics-and-data/statistical-release-calendars/>

⁹⁹ BVA BDRC, 2024. [SME Postal Users Survey – Annual Report July 2023 – June 2024](#), slide 17.

- 3.44 Our research has found that there are some user groups whose circumstances or characteristics mean they are more likely to report a greater reliance on postal services, although greater reliance does not necessarily equate to increased usage.
- 3.45 These groups are users without access to the internet, users with restricted mobility, users in rural locations and older users.

Users without access to the internet

- 3.46 While use of the internet and take up of broadband is high, 5% of adults over 16 do not have internet at home. Most (82%) of those without internet access at home said they were unlikely (or uncertain) to get access at home in the next 12 months. More than a quarter (27%) of people who do not have internet access at home said they were unlikely to get it in the next 12 months due to reasons relating to cost. Other reasons, such as the internet being too complicated (13%) and being able to ask someone else to go online for them (17%), were also cited.¹⁰⁰
- 3.47 For some users, moving to digital alternatives may not be possible because of poor digital infrastructure where they live. While most of the UK has access to fast and reliable digital infrastructure, and this is improving all the time, there are a few areas of the UK that do not have access to good connectivity. A small amount of UK premises (60,000 or 0.2% of UK premises) do not have access to decent broadband¹⁰¹ and there are some areas that still have poor mobile connectivity.¹⁰²
- 3.48 Users without access to the internet are less able to take up digital alternatives and therefore report a greater reliance on postal services. Our 2023 qualitative research found that users without internet access are less able to use digital alternatives without support from others and are more reliant on postal services for 'official' letters, for example from a local authority, the NHS or a bank. These users also feel more confident with physical copies of documents. The research also found that this group particularly valued sending personal post (for example, letters and birthday cards) as this provides a sense of connection. Our 2023 research also found, however, that many users without internet access were typically happy to use the phone to communicate with companies where possible, or to rely on friends or family to facilitate internet use where required.¹⁰³
- 3.49 Our survey research in 2024 found that those without internet access at home, and those who do not use the internet at all, reported receiving letters less frequently than other

¹⁰⁰ Ofcom, [Technology Tracker 2024](#), QE1. Do you or does anyone in your household have access to the internet at home (via any device, e.g. PC, mobile phone etc), and if so, do you personally use the internet at home? Note: 1% of individuals cited 'don't know' as to whether they had internet access at home, QE15 How likely are you to get internet access at home in the next 12 months and QE16 Which of these reasons why are you unlikely to get internet access at home in the next 12 months.

¹⁰¹ UK legislation defines 'decent broadband' as providing at least 10 Mbit/s download and 1 Mbit/s upload speeds.

¹⁰² Ofcom, 2024. [Connected Nations UK report 2024](#), p.20.58,000 or 0.2% of premises (residential and small businesses) have no access to decent broadband, a reduction from 61,000 in 2023.

¹⁰³ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 19.

groups.¹⁰⁴ This could be explained by the fact that groups who do not have internet access at home or do not use the internet at all may also have lower use of communications services in general. However, their lower volumes of usage does not necessarily mean that this group has lower reliance on letter post.

Users with restricted mobility

- 3.50 Users with restricted mobility may typically spend more time at home and be more reliant on communications services in general as a means of connection with others.
- 3.51 Our latest residential tracking survey found users who were unable to leave home without assistance were more likely to feel cut off from society if they could not send or receive post (63% compared to 56% of all users). This group is also more likely to see post as an important means of communicating with friends and family (74% compared with 64% of all users).¹⁰⁵ Our research in 2024 found that people who were impacted by a mobility related condition were significantly more likely to have received healthcare appointment letters and benefits related paperwork at home in the past month.¹⁰⁶ Our 2023 qualitative interviews similarly found that these users often rely on letters to be notified of hospital appointments or about any benefits they receive.¹⁰⁷

Users in rural locations

- 3.52 Users in rural locations are more likely to report that they are reliant on postal services. This may be related to poorer infrastructure than urban areas and more isolated communities valuing the connections that postal services provide. While it is improving, residential superfast broadband coverage is still lower in rural areas of the UK (89%) than in urban areas (98%).¹⁰⁸
- 3.53 Our 2023 qualitative research found that users in rural and remote areas consider the existence of postal services important in addressing feelings of isolation (e.g. because they often have limited mobile coverage).¹⁰⁹
- 3.54 Our latest residential tracking survey, which monitors attitudes and experiences across the UK's nations and regions, found that users in Scotland (61%), particularly the Highlands and Islands region, were more likely than average to agree that they would feel cut off from society if they could not send or receive post.¹¹⁰
- 3.55 The greater stated reliance on postal services by users in these areas does not necessarily translate into different needs. Our latest research found that residential users in rural areas across the UK are equally or less likely than average to report that their needs will no longer

¹⁰⁴ BMG, 2025. [Post User Needs Research 2024 residential user data](#), table 23

¹⁰⁵ [Residential post users tracking survey, July 2023-June 2024](#), tables 45, 54.

¹⁰⁶ BMG, 2025. [Post User Needs Research 2024 residential user data](#), table 27.

¹⁰⁷ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 20.

¹⁰⁸ Ofcom, 2024. [Connected Nations UK report 2024](#), p.13.

¹⁰⁹ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 21.

¹¹⁰ [Residential post users tracking survey, July 2023-June 2024](#), table 45.

be met by reductions in letter delivery speed. The same was true for Scotland, Wales and Northern Ireland, when compared to the UK average.¹¹¹

Older users

- 3.56 Our research shows that older users are more likely to state that they are more reliant on the postal service. Older people are less likely to have access to the internet at home, so in turn less likely to switch to digital alternatives. Ofcom research found that 13% of people aged 65+ do not have home internet access, while a further 2% have access to the internet at home but do not use it. The majority (95%) of people aged over 65 without access to the internet at home say they are unlikely to get it in the next 12 months and a large proportion (80%) cited lack of interest or need as the reason.¹¹² Older users are also less likely to have access to the internet via a smartphone: 12% of people over 65 say that none of the mobile phones in their household are smartphones.¹¹³
- 3.57 Older users are more likely to value the postal service as a means of staying connected and receiving physical copies of documents. Our most recent residential tracking survey found that those aged 65+ were significantly less likely than younger groups to agree that they prefer to send emails rather than letters where possible (59%, compared to 75% of those aged 16-54).¹¹⁴ Older users interviewed in our 2023 qualitative survey also tended to value the physical nature of letters more than other groups, for example because they considered them to be more secure and have a lower chance of going missing.¹¹⁵
- 3.58 Older users were also more likely to agree that they would feel cut off from society if they could not send or receive post (69% among those aged 65+ compared to 45% of 16-34 year olds).¹¹⁶ Our quantitative research in 2023 also found users aged over 55 were more likely to agree they would feel cut off from society if they could not send or receive post.¹¹⁷
- 3.59 Despite their stated greater increased reliance on postal services, overall our research 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.

¹¹¹ BMG, 2025. [Post User Needs Research 2024 residential user data](#), table 204.

¹¹² Ofcom, 2024., [Technology Tracker](#) QE1. Do you or does anyone in your household have access to the internet at home (via any device, e.g. PC, mobile phone etc), and if so, do you personally use the internet at home? Note: 1% of individuals cited 'don't know' as to whether they had internet access at home, QE15 How likely are you to get internet access at home in the next 12 months and QE16 Which of these reasons why are you unlikely to get internet access at home in the next 12 months.

¹¹³ Ofcom, 2024. [Technology Tracker](#). QM2 Are any of the mobile phones in your household a smartphone? Note: 1% of individuals cited 'don't know' as to whether they had a smartphone

¹¹⁴ [Residential post users tracking survey, July 2023-June 2024](#), table 42.

¹¹⁵ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 22.

¹¹⁶ [Residential post users tracking survey, July 2023-June 2024](#), table 45.

¹¹⁷ Yonder, 2023. [Consumer Survey Research on Post](#), slide 8.

People and SME's reasonable needs for letters

- 3.60 In this section we consider what users need from postal services. We analyse our body of user research to discuss the specific features of a postal services that users say they need and value. This includes considering whether some groups, due to their characteristics or circumstances, have different or particular needs. We carry out this analysis in the wider context of a continued decrease in reliance on post and declining letter volumes, as set out in the section above.
- 3.61 We have arranged our analysis of what users' value and need and our assessment of reasonable user needs under the following key features:
- i) Delivery frequency
 - ii) Speed
 - iii) Reliability; and
 - iv) Price.

Delivery frequency

- 3.62 Our research has found that, in most cases, deliveries five or even three days a week would meet the majority of user needs and, for many, Saturday is not seen as a critical delivery day. When asked to consider specific changes to the delivery frequency of Second Class and standard business letters, the majority of users felt that it would not cause a big problem or would have little impact if they were no longer delivered on a Saturday, though it would be inconvenient for some. A small number of users said if these changes were made it would have a significant negative impact and the postal service would no longer meet their needs.

Deliveries on five or even three days a week would meet the needs of most users

- 3.63 Our research has consistently found that the majority of users consider five day a week deliveries (that is Monday to Friday) to be important. Our recent research found that 80% of residential users and 82% of SMEs said that it was important that letters are delivered on weekdays.¹¹⁸ This stated importance of weekday deliveries has remained fairly static: 79% of users in 2023 agreed that it is important that letters are delivered to their home Monday to Friday compared with 81% in 2020.¹¹⁹
- 3.64 Some respondents to the CFI also argued that letter deliveries five days a week would be sufficient to meet most users' needs, as long as the service was reliable, but any further reduction to three days or one day a week was less acceptable.¹²⁰
- 3.65 Our research in previous years has found users are generally willing to consider reductions to delivery and collection frequency. Our 2023 qualitative research found that most users are willing to consider a reduced number of days for letter collection and delivery, because it was felt that most letters are not urgent. Some participants also suggested alternative options to help keep prices down, such as having a combined First and Second Class (i.e.

¹¹⁸ BMG, 2025. [Post User Needs Research 2024](#), slides 19, 80.

¹¹⁹ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9.

¹²⁰ Ofcom, 2024. [Future of the universal postal services: summary of responses to our Call for Input](#).

one delivery speed option). The research also identified that receiving letters every two to three days would be acceptable for the majority, including most ‘vulnerable’ groups.¹²¹ The research that informed our 2020 Review of Postal User’s Needs also found people were willing to accept reduced deliveries. Analysis of our research suggested that for the very large majority of users (96.8%) a postal service with letter deliveries five days a week (Monday – Friday) would still meet their needs.¹²²

3.66 A further reduction to three day a week delivery is less popular. Many individual respondents to the CFI felt that such a reduction would not be acceptable to users.¹²³ The research that informed our 2020 review of user needs found a reduction in delivery frequency to three days a week was less popular, particularly with SMEs and disabled customers. However, it was still acceptable to the majority, with our conjoint analysis predicting that it would be acceptable to 85.4% of people.¹²⁴

3.67 Our 2023 qualitative research suggested receiving letters every two to three days would be acceptable for the majority, including most vulnerable groups.

“ I think most people would be accepting of a delivery of letters maybe only once or twice a week, but Royal Mail just needs to be transparent about that and say that ... and people would just need to get organised”

Typical user, older, Aberdeen¹²⁵

Deliveries on Saturdays are not seen as a critical feature by many users

3.68 The relatively low importance to users of Saturday deliveries compared to the stated importance of weekday deliveries is a consistent finding in our research. In 2024, 57% of users agreed that it was important to them that letters were delivered on a Saturday.¹²⁶ This is a drop from 63% in 2020.¹²⁷ Our 2023 qualitative research also found most people thought deliveries four or five days a week would suit them and it did not need to include the weekend as many people felt they would be unlikely to engage with post then.¹²⁸

3.69 Our 2024 research found that four in ten (39%) SMEs that receive letters say that either they do not receive letters on a Saturday or if they do, they are not opened until Monday or later.¹²⁹

¹²¹ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 5.

¹²² Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#), p.3.

¹²³ Ofcom, 2024. [Future of the universal postal service - summary of responses to our Call for Input](#) and next steps

¹²⁴ Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#), p.3.

¹²⁵ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 49.

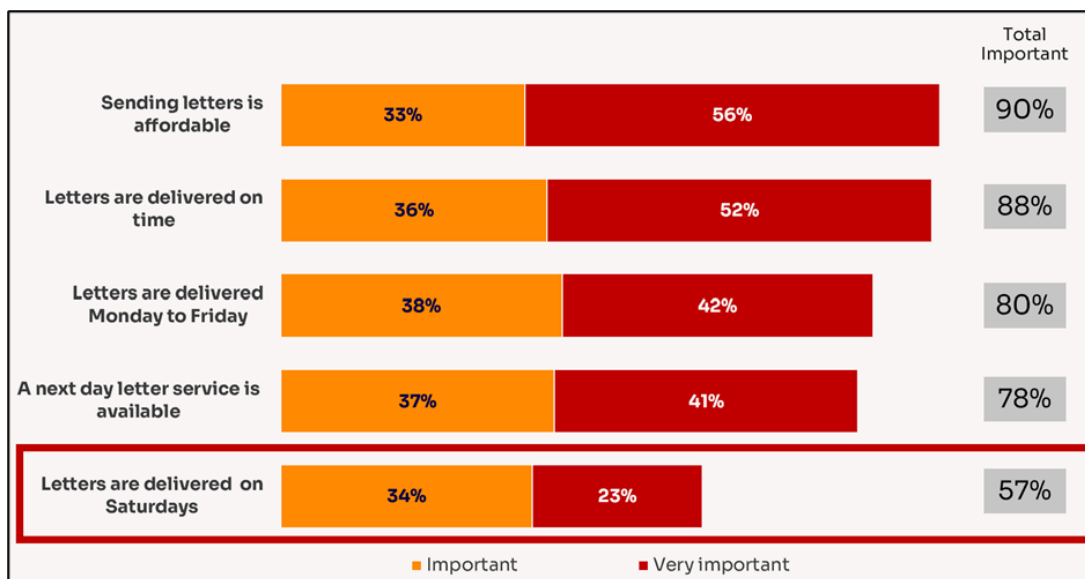
¹²⁶ BMG, 2025. [Post User Needs Research 2024](#), slide 19.

¹²⁷ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9.

¹²⁸ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 49.

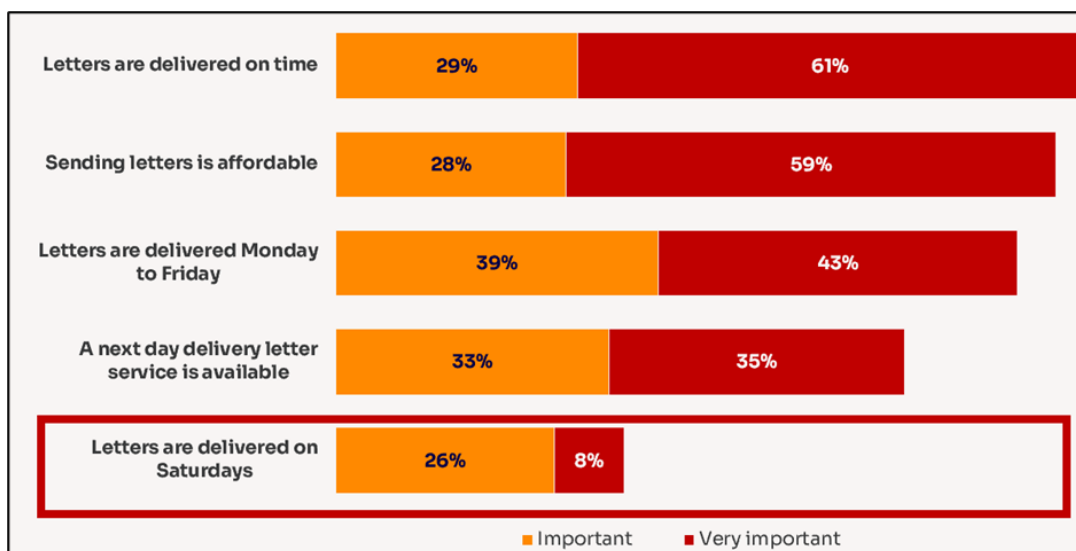
¹²⁹ BMG, 2025. [Post User Needs Research 2024](#), slide 85.

Figure 3.4: 2024 research results on importance of Saturday delivery for UK adults



Source: BMG, January 2025, [Post User Needs Research 2024](#), Stated Importance to UK adults.

Figure 3.5: 2024 research results on importance of Saturday delivery for SMEs



Source: BMG, January 2025, [Post User Needs Research 2024](#), Stated Importance to UK SMEs

Saturday deliveries remain important to some users

3.70 Saturday deliveries of letters do, however, remain important to some groups. Our 2024 research found that users who send items sold online using online marketplaces via a letter service, magazine subscribers, those in work, ethnic minority groups, and those with

children in the household were most likely to say that Saturday deliveries were important. A minority of SMEs (35%) also rated Saturday delivery as important.¹³⁰

- 3.71 Our previous research also found some groups are more likely to say six day a week deliveries (including Saturdays) are needed. Our 2023 quantitative research found that users aged 55 or over (68%) and those in rural areas (66%) were slightly more likely to say six day a week letter deliveries were important to them than average (63%).¹³¹ Many individual respondents to the CFI felt that there would continue to be a need for a six day a week service particularly for older users, rural communities and those who could not, or preferred not to, use digital alternatives. When asked to consider specific reductions in delivery frequency, the majority of users felt they would not be affected but some groups felt the changes would negatively impact them.

Most users would not be impacted by the proposed changes to deliveries of second class and standard business letters, but some felt it would have a negative impact on them

- 3.72 Our 2024 research specifically asked residential users and SMEs for their views on Royal Mail's proposal to remove Saturday deliveries and reduced delivery speed for Second Class and standard business letters (we discuss our findings on speed of delivery in paragraphs 3.82 to 3.90).¹³² The majority of users stated these changes would have little or no impact on them. Some felt that, while the proposed changes would be inconvenient, it would not be a big problem for them.
- 3.73 We found that, taking everything into consideration, seven in ten (71%) 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. SMEs, many of which work and trade from Mondays to Fridays, were even less likely to state the proposed changes would have an impact. Only 1% and 7% of SMEs respectively stated that the proposed changes (slower delivery of standard business letters, potentially slower delivery of Second Class letters, and no Saturday delivery of Second Class or standard business letters) would have a very significant or significant negative impact on their organisation.¹³³
- 3.74 Some users felt they would be negatively affected by these changes, 17% said that if Second Class letters and standard business letters were no longer delivered on a Saturday, it would have a slight negative impact, and a remaining 3% and 7% respectively said that this would have a very significant negative impact on them or a significant (but not very significant) negative impact.
- 3.75 People who use postal services to send and receive medical letters were most likely to say that Second Class letters and standard business mail taking a day longer to deliver and not being delivered on Saturdays would not meet their needs or cause them substantial harm

¹³⁰ BMG, 2025. [Post User Needs Research 2024 residential user data](#), Table 15; and, BMG, January 2025, [Post User Needs Research 2024](#), slide 80.

¹³¹ Yonder, 2023. [Consumer Survey Research on Post](#), slide 12.

¹³² As part of its [response](#) to our CFI Royal Mail published its proposal for reform which included removing Saturday as a delivery day for Second Class letters and deliveries on alternate weekdays.

¹³³ BMG, 2025. [Post User Needs Research 2024](#), slides 47, 100.

or difficulties. Our research also indicates that online traders who use the letters service to send items they have sold (as their main source of income) are more likely to say that reductions to the frequency of deliveries would mean that postal services no longer meet their needs.¹³⁴

- 3.76 Fifteen percent of those who said that they receive medical test results by letter said that a Second Class/standard business letters service that would take a day longer to deliver and would not deliver on Saturdays would not meet their needs. Just over one in ten (12%) recipients said the same in relation to healthcare appointment letters. Recipients of benefits letters (10%) and finance-related letters, such as bills and invoices (9%), were the next most likely to state that such a change to letters services would no longer meet their needs.¹³⁵
- 3.77 These results reflect the findings of our 2023 qualitative research that found users most reliant on letters for medical correspondence, such as older participants and those with chronic mobility problems, were less open to changes to delivery frequency.¹³⁶

A small number of users said the proposed changes to deliveries of second class and standard business letters would mean their needs would no longer be met

- 3.78 Overall, our research found that 4% of residential users said that their needs would no longer be met in relation to at least one type of letter that they send or receive and that, taking everything into account, the changes would have a very significant negative impact on them. A further 7% said that their needs would no longer be met and the changes would have a significant impact. The majority of SMEs indicated that the new proposed service would continue to meet their needs, with only a very small proportion (1%) saying the changes would no longer meet their needs, and would have a very significant impact for at least one type of letter they send or receive.¹³⁷

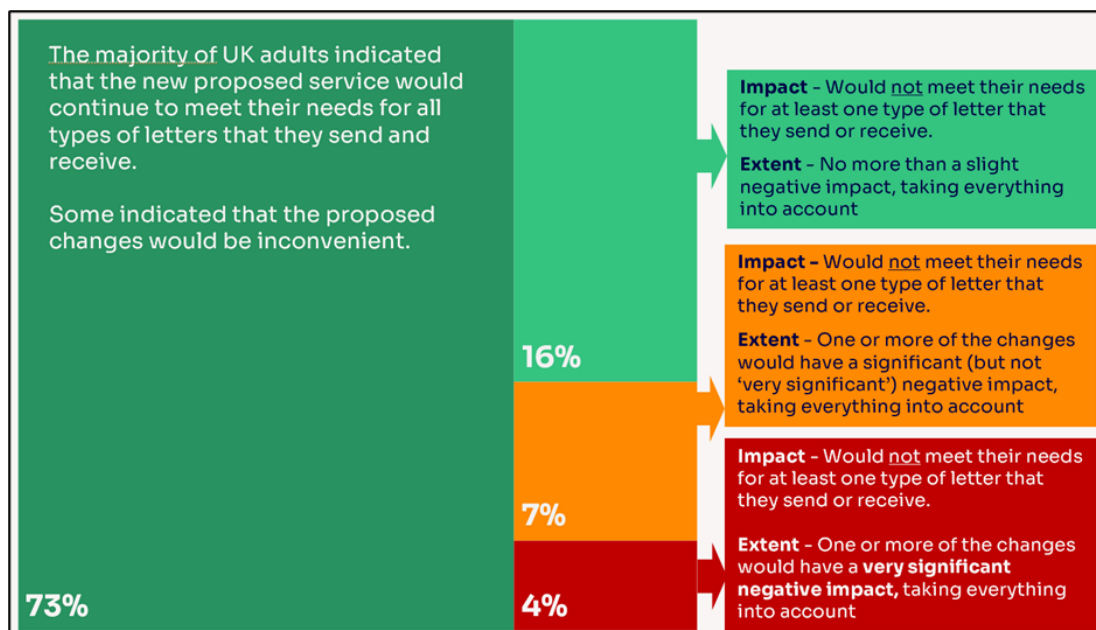
¹³⁴ BMG, 2025. [Post User Needs Research 2024](#), slides 29, 39 and BMG, 2025. [Post User Needs Research 2024 residential user data](#), Table 204.

¹³⁵ BMG, 2025. [Post User Needs Research 2024](#), slide 29.

¹³⁶ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 47.

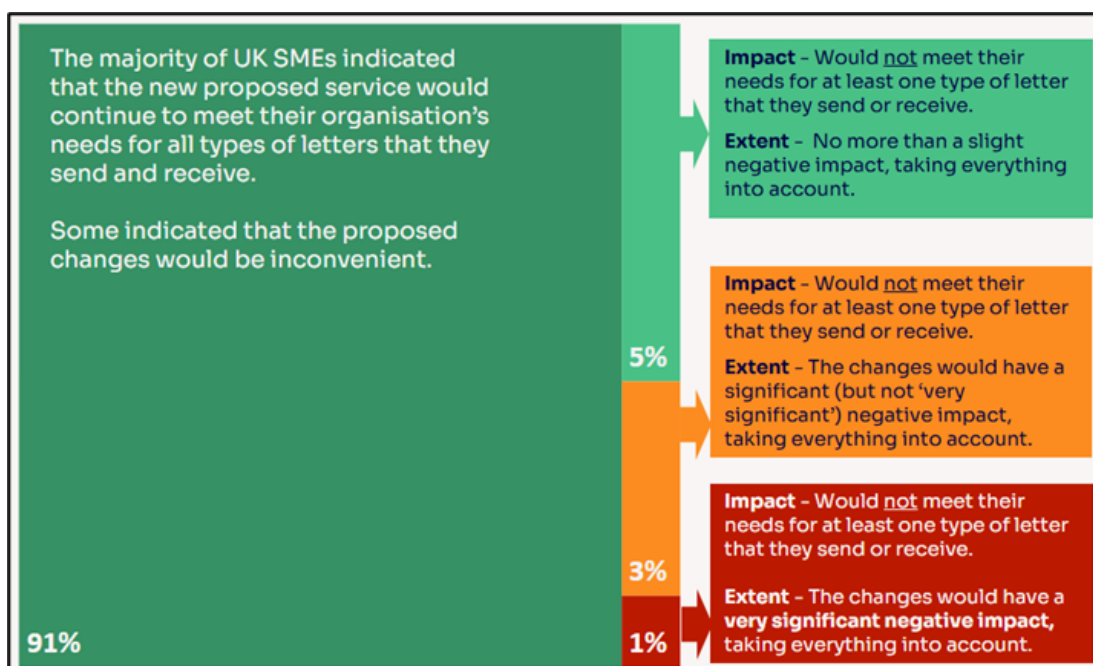
¹³⁷ BMG, 2025. [Post User Needs Research 2024](#), slide 50.

Figure 3.6: Summary of residential user reactions to the proposed service changes



Source: BMG, January 2025, [Post User Needs Research 2024](#), slide 50.

Figure 3.7: Summary of SME user reactions to the proposed service changes



Source: BMG, January 2025, [Post User Needs Research 2024](#), slide 102.

Provisional conclusion – Delivery frequency

3.79 Using our research we have assessed what user needs are in respect of delivery frequency and have found that most users do not need a non-priority service that delivers six days a week and the majority of user needs would be met if delivery frequencies were reduced to five or even three days a week. Saturday deliveries for non-priority letters are not seen as important by most users for the majority of the letters they send and receive. Some users

expressed a need for a next day service, six days a week, although most would only need this on the infrequent occasions they need to send or receive an urgent letter.

- 3.80 Some users believe that their needs may no longer be met for some types of mail if Saturday deliveries for Second Class letters were removed. These users are most concerned about the impact of reduced delivery frequency on letters regarding medical appointments, benefits and financial matters. Almost all of this type of post is sent by large organisations using bulk mail services, rather than single piece USO services. For large organisations that send these types of letters, there is a range of bulk mail products available, including priority products they can use if they require the letters to arrive more quickly or on a specific day. We discuss the access services that we are proposing to require Royal Mail to offer further in Section 7.
- 3.81 Taking into account the finding that delivery of Second Class letters on a Saturday is not needed by the majority of users, and the cost information discussed in Sections 4 and 8, it is our provisional view that Saturday deliveries of Second Class letters exceeds reasonable user needs.
- 3.82 We therefore provisionally conclude that the current UK letters market exceeds users' needs in respect of delivery frequency. If delivery frequency of non-priority letters were to be reduced, the market would continue to meet the occasional need for Saturday delivery as there would still be First Class and priority bulk mail products available for individual and businesses.

Speed

- 3.83 Our research shows that, compared with other features of postal services, speed of delivery is generally not seen as important by users for most items they send and, for all letter types that users send by Second Class, the majority are willing to accept slower delivery speeds. However, there is strong support for a next day delivery service for the occasions when users need to send or receive an urgent item.

Speed of delivery is not generally seen by users as critical

- 3.84 Our research found that, for the majority of users who send and receive letters, the reliability and certainty of arrival is considered much more important than speed of delivery.¹³⁸ The existence and increasingly widespread adoption of instant communication and document transfer methods such as email and online platforms has further reduced the importance of speed as a key characteristic of letter deliveries, as many urgent communications and documents can be sent via other more instantaneous methods.
- 3.85 To understand user needs in terms of different delivery speeds, our 2024 research asked residential users how long after posting they would need different types of letter to arrive if they were sent by Second Class post. For each type of letter, less than a quarter of all users (ranging between 15% and 24%) indicated that they would typically need the items to arrive

¹³⁸ BMG, 2025 [Post User Needs Research 2024](#), slides 22, 84, and Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

by Second Class post within three working days of posting. The remaining majority either did not send that particular type of letter, would send it First Class, would typically need it to arrive within four to five working days of posting, or said that it would not matter if it took longer than within five working days of posting for a letter to be delivered. SME users expressed similar requirements, with, depending on the letter type, between 9% and 25% saying that they typically need these to arrive within three working days of posting when sending via Second Class post.¹³⁹

Speed is not seen by users as important as other features of postal services

- 3.86 Our latest research also confirmed that delivery speed is not generally seen as important compared with other features of postal services. We asked respondents to complete a stated importance trade-off exercise.¹⁴⁰ The results of this exercise suggested that security of personal/sensitive information and letters not being lost or damaged were approximately five times more likely to be rated as important compared to Second Class letters being delivered within three working days. Similarly, a letters service being affordable was over twice as likely to be rated as important compared to Second Class letters being delivered within three working days.
- 3.87 This is consistent with our previous research findings. There was strong acknowledgement by users in our 2023 qualitative research that most letters were not urgent so delivery speed was rarely critical.¹⁴¹ In 2020, people felt that less than a third of the items they would always need to send post, needed to arrive by the next day.¹⁴² There is even some willingness to accept a slower product: in our 2023 quantitative research, 34% of people would be willing to accept a slower letter service (arriving within five days of sending) and would use such products if available.¹⁴³
- 3.88 Our most recent SME tracking survey had a slightly different finding for SME users. The tracker found that speed is now an increasing consideration for many SMEs, with 81% of SMEs agreeing that fast delivery is an important consideration when choosing a provider or service to send letters, up from 72% in 2020/21.¹⁴⁴ However, this may be explained by declining letter volumes and increased take up of digital alternatives, meaning that while SMEs send fewer letters, a higher proportion of them are time critical or important.
- 3.89 Our latest research confirmed this when we asked SMEs to complete a stated importance trade-off exercise.¹⁴⁵ The results of this exercise suggested that security of personal/sensitive information, and letters not being lost or damaged, were respectively approximately five and eight times more likely to be rated as important compared to Second Class letters being delivered within three working days. Similarly, a letters service

¹³⁹ When excluding those who said that they would use a First Class service.

¹⁴⁰ A MaxDiff methodology, which is explained in full in our research report.

¹⁴¹ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 49.

¹⁴² Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#), p.43.

¹⁴³ Yonder, 2023. [Consumer Survey Research on Post](#), slide 5.

¹⁴⁴ BVA BDRC, 2024. [SME Postal Users Survey – Annual Report](#) July 2023 – June 2024, slide 4.

¹⁴⁵ A MaxDiff methodology, which is explained in full in our research report.

being affordable was three times as likely to be rated as important as Second Class letters being delivered within three working days.

The continued availability of a next day service is seen as important for the occasions where users need to send an urgent letter

- 3.90 Our survey research in 2024 found that 78% of residential users and 68% of SME users said that it was important that a next day delivery letters service (like current First Class) was available.¹⁴⁶ This finding is consistent with previous research findings on the importance of next day delivery services.¹⁴⁷
- 3.91 Despite the importance placed on the availability of a next day delivery service, many people feel they would only need to use these services occasionally. Examples given in our 2023 qualitative research of when people considered they would need a next day delivery option included greetings cards that the user is late in sending (e.g. for a birthday), and when items are particularly important and/or urgent, but these occasions were considered rare.¹⁴⁸ However, as raised in response to our CFI, there may be circumstances which require customers to regularly send important items using a next day delivery service, e.g. customers with certain medical conditions sending blood tests.¹⁴⁹

Provisional conclusion – Speed of delivery

- 3.92 Using our research we have assessed what user needs are in respect of speed and have found that the speed of delivery is rarely seen as critical, as most letters sent are not urgent. Users are willing to accept slower delivery speeds for non-priority letters. Our most recent research found that the majority of users did not typically need Second Class letters to arrive within three working days of sending, because they did not send the letter type we asked about, would use First Class, said four to five working days would be acceptable, or that it would not matter if it took longer than five working days for delivery. However, there are occasions, albeit infrequent, where users need to send or receive an item urgently. First Class and Special Delivery Guaranteed by 1pm service products meet this occasional need as letters sent using these services should be delivered by the next working day. We therefore provisionally conclude that there is a product in the market which meets user needs in terms of speed of delivery for such items.

¹⁴⁶ The proportion of users that agreed with this statement in our 2024 survey is higher than when we have asked similar questions in the past. This is likely explained by a change in the question wording, with our latest survey having specified that this would be a service that is like current First Class.

¹⁴⁷ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9 and BVA BDRC, 2024. [SME Postal Users Survey – Annual Report](#) July 2023 – June 2024, slide 4.

¹⁴⁸ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

¹⁴⁹ [BIMDG](#) (British Inherited Metabolic Diseases Group) and the charity [NSPKU](#) (which supports people with the genetic metabolic condition PKU) estimate between 2,000 - 4,000 people in the UK with a condition required to send frequent blood tests, e.g. every 48 hours.

Reliability

- 3.93 Reliability, that is items arriving within a reasonable and predictable time after posting, is considered an important feature of postal services and the majority of users told us that they prioritise it over speed and frequency. Our recent research found that 88% of residential users and 89% of SME users said that it was important that they can be confident that letters/cards sent will be delivered on time.¹⁵⁰
- 3.94 This is consistent with our research in 2020 and 2023 where 87% and 88% respectively of users agreed that it was important that 90% of letters sent were delivered on time. Older users (over 55) and those in rural locations were slightly more likely to agree with this statement.¹⁵¹
- 3.95 Our 2023 qualitative research found that, when thinking about reliability, users stated they needed to be sure that items they send by post would arrive safely and within a reasonable time. The research also found that it is especially important to users that time-dependent and important communications, such as hospital appointments, bills and other official documents, arrive in good time.¹⁵²

Provisional conclusion

- 3.96 Using our research we have assessed what user needs are in respect of reliability of service and have found that, when they send and receive letters, users have an expectation that letters should arrive in a reasonable amount of time. Reliability is particularly important to those who use postal services for communications relating to financial and medical matters.
- 3.97 Ofcom sets quality of service targets to incentivise Royal Mail to deliver items on time.
- 3.98 In Section 6 we consider the way in which the current targets incentivise a high-quality service – including reliability – and make proposals to change these to achieve better outcomes for consumers.

Price

- 3.99 There is strong support from users for postal services to be available at a price that is affordable and uniform. While the price of sending post is affordable for most users, recent increases in stamp prices and the cost of living is driving changes in some users' behaviour and concern.

Affordability and uniformity of price is important to most users

- 3.100 The cost of sending letters and affordability is consistently identified as important by the majority of users. Our most recent research found that 90% of residential users and 86% of SME users said that it was important that the price of sending letters is kept affordable.¹⁵³

¹⁵⁰ BMG, 2025. [Post User Needs Research 2024](#), slides 19, 80.

¹⁵¹ Yonder, 2023. [Consumer Survey Research on Post](#), slides 9,12.

¹⁵² Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 32.

¹⁵³ BMG, 2025 [Post User Needs Research 2024](#), slides 19, 80.

This is consistent with our research findings in both 2020 and 2023, where 90% and 91% of users respectively agreed that it was important that the price of sending letters was kept affordable.¹⁵⁴

- 3.101 Our recent research included a trade-off (Max Diff) exercise, which found that affordability was relatively important to residential (especially older) and SME users compared to other aspects of service.¹⁵⁵
- 3.102 Our research has also found that, while there is limited awareness of the USO for postal services, users are largely supportive of universal features such as uniform pricing once it is explained to them. Our most recent residential tracking survey shows that uniform pricing remains a valued feature with 82% of people saying the same price to send anywhere within the UK is an important factor when sending letters.¹⁵⁶ SMEs also value uniform pricing, with 81% of SMEs saying this was an important factor in choosing a provider to send letters.¹⁵⁷
- 3.103 This view is consistent with previous research findings, with older people and those in rural areas more likely to support universality and features of the USO. In 2023 research found 66% of people surveyed agreed with the idea of universal pricing.¹⁵⁸ When asked about universal pricing in our 2023 qualitative research, many people supported the concept; feeling it was simple, understandable and fair:

“I think they should keep it as it is ... and that wherever you send it to is one price. If I’m sending something to Aberdeen and then something to Brighton, I’d have to look that up so I think it is easier if it is all the same”

Typical user, older, Plymouth.¹⁵⁹

Most users spend relatively little on post, but rising prices are driving behaviour change

- 3.104 Despite the stated high importance of affordability of sending post, average household spend on post is very low. On average, a UK household spends £0.60p per week or 0.11% of their weekly household expenditure on postal services which represents both a very small proportion and a very small absolute amount of consumers’ total expenditure.¹⁶⁰

¹⁵⁴ Yonder, 2023. [Consumer Survey Research on Post](#), slide 9.

¹⁵⁵ BMG, January 2025, [Post User Needs Research 2024](#), slides 22, 84, and BMG, January 2025, [Post User Needs Research 2024 residential user data](#), table 117.

¹⁵⁶ [Residential post users tracking survey, July 2023-June 2024](#), table 206.

¹⁵⁷ BVA BDRC, 2024. [SME Postal Users Survey – Annual Report July 2023 – June 2024](#), slide 4.

¹⁵⁸ Yonder, 2023. [Consumer Survey Research on Post](#), slide 17.

¹⁵⁹ Jigsaw, 2023, [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#) slide 46.

¹⁶⁰ ONS, 2024. [Family spending in the UK - Office for National Statistics](#): April 2022 to March 2023, Figure 3: Average weekly household expenditure in the UK, financial year ending (FYE) 2023 (Source: Living Costs and Food Survey from the Office for National Statistics).

3.105 While average household spend on post is low, the cost of living and recent stamp price rises has brought the cost of sending letters to the forefront of many users' minds.¹⁶¹ Our recent research has seen cost considerations start to drive different behaviour, for example:

- **Sending less post** - Six in ten (62%) residential users agree they send fewer letters because of the cost and a quarter of SMEs report carrying out post related cost cutting the past 12 months.¹⁶²
- **Using a lower cost product** - Sixty-six per cent of residential users and 80% of SMEs who use Second Class stamps said that saving money or it being the cheapest option was a reason for doing so.¹⁶³ Our 2023 qualitative research also found that price increases and cost considerations were driving some respondents to use Second Class post more often, particularly for cards and personal letters.¹⁶⁴
- **Reducing spending in other areas** - Some user groups, for example those unable to leave home without help, ethnic minority groups and disabled customers, were more likely to state they had reduced their spending on essentials to afford sending letters or cards.¹⁶⁵

Provisional conclusion

3.106 Using our research we have assessed what user needs are in respect of price and have found that the majority of users place high importance on the price of sending post being affordable and universal, even those users for whom the cost of post is a very small part of their overall household spending.

3.107 As noted in paragraph 2.5, the USO requires Royal Mail (as the DUSP) to deliver a range of postal products to homes and businesses at affordable prices. We recently reviewed affordability and our 2024 Second Class safeguard cap statement found that most consumers do not experience significant detriment as a result of postal prices, and therefore that current prices are affordable for most consumers.¹⁶⁶ However, the statement did note that consumers on low incomes and those who claim benefits are more likely to experience affordability issues, but that research suggests that these groups are mostly

¹⁶¹ Royal Mail has increased the price of a second-class standard letter over the past four years, from £0.61 in 2019-20 to £0.85 in April 24. Royal Mail has recently implemented a further tariff increase for some First Class stamped and meter services from 7 October 2024. First Class stamps have increased from £1.10 in April 2023 to now being £1.65 in October 2024, while Second Class stamps have increased from £0.75 in April 2023 and £0.85 currently in April 2024.

¹⁶² [Residential post users tracking survey, July 2023-June 2024](#), Table 47 and BVA BDRC, 2024. [SME Postal Users Survey – Annual Report](#) July 2023 – June 2024, slide 13.

¹⁶³ BMG, January 2025, [Post User Needs Research 2024](#), slides 18, 77.

¹⁶⁴ Jigsaw, 2023. [Understanding the needs of postal service users – a report of findings from qualitative research, with a focus on potentially vulnerable groups](#), slide 37.

¹⁶⁵ [Residential post users tracking survey, July 2023-June 2024](#), table 178.

¹⁶⁶ Ofcom, 2025. [Review of Second Class safeguard caps 2024- Decision on safeguard caps for Second Class universal services](#), pp.55 – 76.

(although not always) able to absorb these costs.¹⁶⁷ The statement also set out our decision to retain the safeguard cap on Second Class stamped letters for a further three years, to ensure these services remain affordable.¹⁶⁸

- 3.108 We plan to consider options to ensure the continued affordability of USO services, including more targeted interventions than the current Second Class safeguard cap. This is set out in more detail in Section 9.

Is the current market meeting reasonable user needs?

- 3.109 Our analysis has found that individuals and SMEs will always need to use postal services to send and receive letters and they need a service that is reliable, affordable and frequent. Reliance on letter post has declined and users do not need six day a week delivery (including Saturdays) for most letters that they send and receive. Most users are also willing to accept slower delivery speeds for non-priority letters. However, users do have an occasional need for a faster, next day, delivery service.
- 3.110 Having assessed the current UK letters market against these needs, our provisional conclusion is the current 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.
- 3.111 While our research indicates that some users believe that their needs may no longer be met for some types of mail if the frequency of Second Class letter deliveries was reduced, we consider there is sufficient choice of postal products should users require items to be delivered more quickly and/or on Saturday, for example First Class and Special Delivery Guaranteed by 1pm. Where businesses and organisations need letters or small items delivered more quickly and/or on a Saturday there are bulk mail products available for them to use.

Question 3.1

Do you agree that we have identified the reasonable needs of post users? Please provide reasons and evidence for your views.

Question 3.2

Do you agree that the market is meeting the reasonable needs of post users? Please provide reasons and evidence for your views.

¹⁶⁷ Jigsaw, 2023. [Residential Postal Affordability Research](#)

¹⁶⁸ Royal Mail is in a near monopoly position on delivery of letters, so competition cannot be relied upon to ensure prices remain affordable.

4. Financial sustainability of the USO

The purpose of this section

This section explains the approach we take to our duty to have regard to the need for the provision of the universal postal service (USO) to be financially sustainable, sets out information on the current financial position of Royal Mail and discusses the potential ways that net savings could be made from changes to the scope of the USO.

In brief

- We consider an Earnings Before Interest and Tax (EBIT) margin in the range of 5% to 10% as a first order indicator of whether the Reported Business (which comprises the network providing the universal service) is earning a commercial rate of return. Achieving a commercial rate of return indicates that the Reported Business, and therefore the provision of the universal service, is likely to be financially sustainable in the longer-term.
- Royal Mail's financial performance in recent years means that there are material risks to the financial sustainability of the universal service.
- We consider that making changes to the scope of the USO could lead to material net savings which would have a positive impact on the financial sustainability of the universal service.

Our approach to monitoring the financial sustainability of the universal service

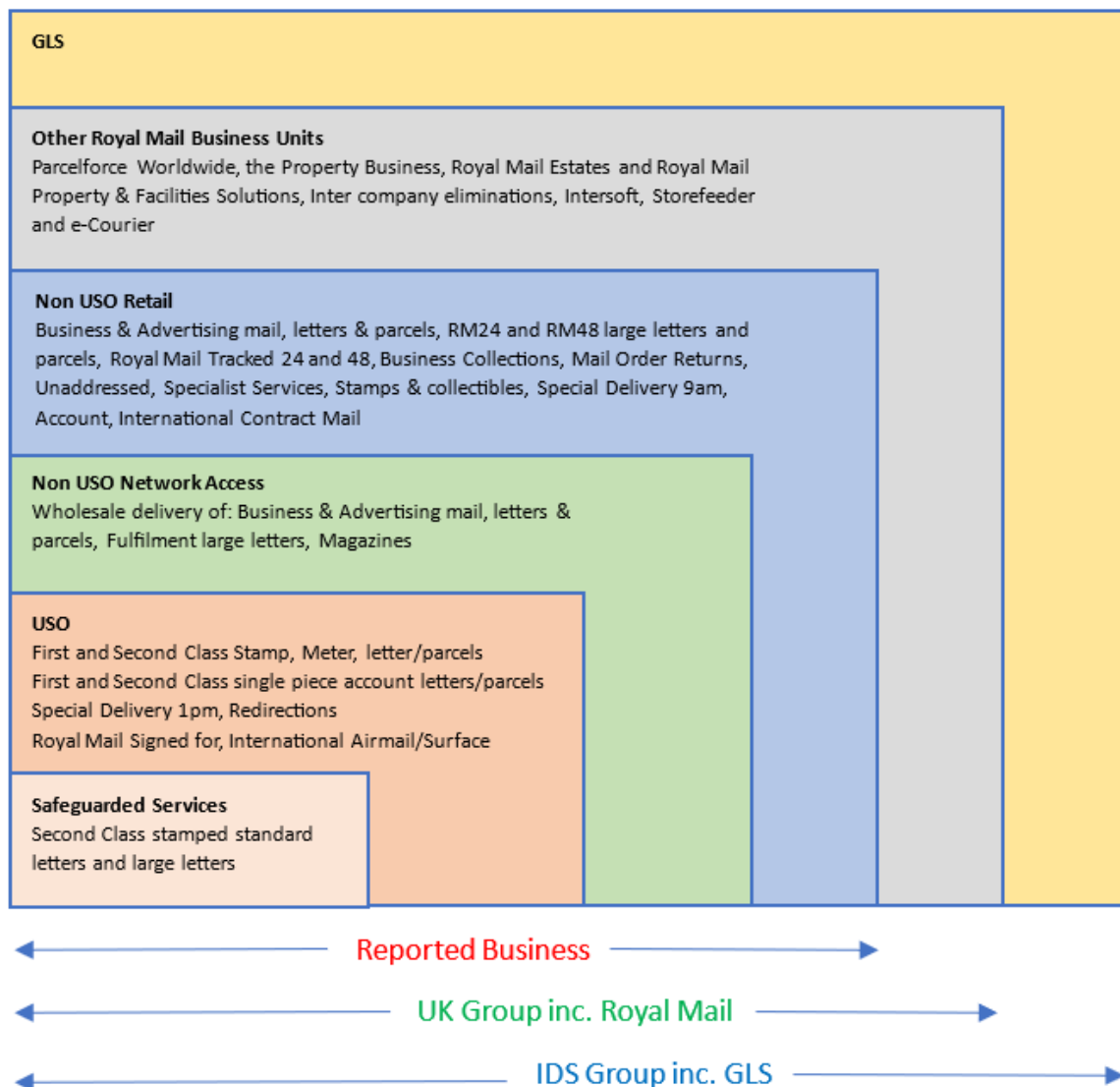
- 4.1 Ofcom is required by section 29 of the Act to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. In performing this duty, we must have regard to the need for the provision of the universal postal service to be financially sustainable and efficient. To help us discharge this duty, we have a monitoring regime which uses monthly, quarterly and annual financial and operational information submitted by Royal Mail under our ongoing regulatory reporting requirements, as well as our information gathering powers.
- 4.2 Section 29(4) of the Act states that the need for a universal service to be financially sustainable includes the need for the universal service provider to make a reasonable commercial rate of return (on any expenditure it incurs for, or in connection with, providing the universal service). We therefore assess the financial sustainability of the universal service by considering whether Royal Mail's 'Reported Business' could be expected to earn a reasonable commercial rate of return. The Reported Business comprises the common network that provides the universal service as well as services that are outside the scope of

the universal service such as bulk mail, access and accounts parcels¹⁶⁹ (see Figure 4.1 below which shows how the Reported Business fits into the corporate group of International Distributions Services Plc (IDS), the ultimate parent company of Royal Mail).

- 4.3 The operations and activities related to USO and non-USO products overlap greatly and are mostly the same in some parts of the common network within the Reported Business, such as delivery, where a mix of USO and non-USO products are carried and delivered together. As a result, there is no accounting and cost allocation method to separate the costs and profits of the USO products from those of the non-USO products. This means that it is not possible to reliably and precisely assess the financial sustainability of the universal service on its own. We therefore consider the rate of return of the whole of the Reported Business to be the most appropriate indicator of the rate of return earned on the provision of the universal service, and a key indicator of the long term financial sustainability of the universal service.

¹⁶⁹ Accounts parcels is a service used by businesses to send purchased goods to their customers.

Figure 4.1: Reported Business, Royal Mail Group, International Distributions Services (IDS)



Source: Ofcom analysis

4.4 We use the EBIT margin of the Reported Business as the most appropriate metric for the rate of return.¹⁷⁰ We consider an EBIT margin in the range of 5% to 10% as a first order indicator of whether the Reported Business is earning a commercial rate of return.¹⁷¹

¹⁷⁰ We use the EBIT margin as a return on sales metric instead of a return on assets metric which is common in other regulated industries like telecommunications and water. The main reason is that Royal Mail is a labour intensive, and not an assets-intensive, business. That means a return on assets metric is not appropriate or workable for Royal Mail.

¹⁷¹ Our latest review of the 5-10% EBIT margin range was done during our 2022 Review of Postal Regulation. We considered the profitability of a number of European universal service providers which met our criteria for being a good comparator over a period of time. The details of our review are set out in [Annex 8 of the 2022 Review of Postal Regulation](#).

Achieving a commercial rate of return indicates that the Reported Business is financially sustainable, i.e. it is capable of being financed commercially. If the Reported Business was not expected to reach an EBIT margin of at least 5% within an extended period of time, or if there was no reasonable prospect of it making at least 5%, then we would not expect the Reported Business to be financially sustainable.

- 4.5 In addition, we use a range of information, including business plans and cash flow forecasts, to assess the ability of (i) the Relevant Group (IDS and all of its direct and indirect subsidiary undertakings), and (ii) Royal Mail (a subsidiary of IDS and the designated universal service provider), to meet their financial obligations and to continue to be in a position to provide the universal service in the short to medium term as well as the longer term.
- 4.6 We have applied the financial monitoring approach set out above since March 2012. We have reviewed and consulted publicly on its being fit for purpose at various points since that time. We have updated certain details of the approach along the way, including the information we require through our regulatory financial reporting requirements. However, the key principles of the monitoring approach set out above have remained fit for purpose.
- 4.7 Over the last two years we have been increasingly concerned about the financial performance and position of Royal Mail. We have noted the changes in IDS group structure (in particular the separation of GLS companies from Royal Mail)¹⁷² as well as the potential change in its ownership following the developments related to the recent takeover bid by EP Group.¹⁷³ We need to understand how these changes have impacted, and may in the future impact, Royal Mail as the DUSP, as well as the financial sustainability of the universal service. In response to these developments, we have been increasing our monitoring activities and focussing further on the areas which we consider to carry a higher risk than before, including the cash position of Royal Mail and continued financial support from IDS.

¹⁷² On 28 June 2021, the company now known as IDS Holdco (which included the subsidiary GLS) was transferred from Royal Mail to IDS. On 31 August 2021, Royal Mail was transferred to IDS Holdco. Currently both Royal Mail and GLS are subsidiaries of IDS Holdco which is a subsidiary of IDS. Please see [Note 6 to the Consolidated Financial Statements 2021-22](#).

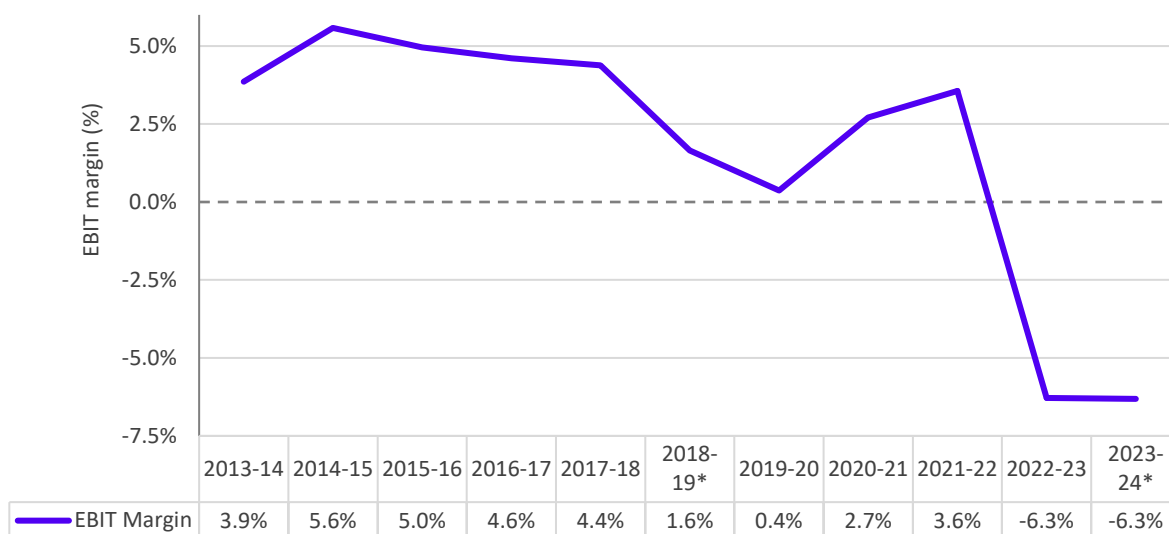
¹⁷³ IDS is subject to a possible takeover from EP UK Bidco (EP). In June 2024, IDS shareholders received an offer of £3.70 per share for the entire issued share capital of IDS (the Offer). This was after an initial offer of £3.20 made on 9 April 2024. IDS has stated the “Board is unanimously recommending Shareholders accept the Offer”. On 19 December 2024, the Cabinet Office approved the transaction under the National Security and Investment Act 2021. Since then, clearance has also been obtained from the European Commission and the Committee on Foreign Investment in the US, however further regulatory clearances remain outstanding. While these reviews take place the timetable for shareholders to accept the Offer has been paused. IDS has stated that it is “expected that the Offer will become or will be declared Unconditional in the first quarter of 2025”. If the takeover completes it is likely IDS and Royal Mail’s access to capital may change. EP stated in the offer document that IDS could benefit from “more flexible access to investment capital”. However, the changes may only be clear if and once the takeover has been completed. See IDS, 2024, Q1 [Trading Update to End of June 2024](#), p.3; IDS, 2 August 2024, [Update On Offer Timetable](#), p.2; IDS, 26 June 2024, [Recommend Cash Offer for IDS PLC by EP UK Bidco Limited](#).

Current financial performance of the universal service

Financial performance

- 4.8 In the Post Monitoring Report 2023/24 (the PMR), we set out the results of our monitoring of Royal Mail’s financial performance in 2023/24. Royal Mail reported a loss, with an EBIT of -£458m and EBIT margin of -6.3% for the Reported Business.¹⁷⁴ This was driven by an increase in costs partly due to the pay award agreed in July 2023.¹⁷⁵ There were small increases in revenues across both parcels and letters but we noted that Royal Mail had not yet achieved the parcel market share that it had before the industrial strikes in 2022. The continued decline in letter volumes has also been a key factor in the performance challenges the Reported Business faces – UK addressed letter volumes fell by 9.0% in 2023/24 compared with the year before.
- 4.9 The EBIT margin of -6.3% is significantly below the 5-10% range which we consider to be indicative of a commercial rate of return. In fact, the Reported Business has failed to achieve returns in this range since the financial year 2015/16 (see Figure 4.2 below). The EBIT margin trend has been declining since that financial year (disregarding the profit boost that resulted from the Covid-19 pandemic).

Figure 4.2: Reported Business EBIT margin



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis. *52-week adjusted figures

- 4.10 IDS announced its results for the 3rd quarter (April to December 2024) of the current financial year on 15 January 2025, which showed that Royal Mail’s performance had improved compared with 2023/24. The improvement was driven by increases in revenue

¹⁷⁴ 2023/24 figures presented on a 52 week basis.

¹⁷⁵ A 6% pay award was agreed as part of the Business Recovery, Transformation and Growth Agreement with the CWU. IDS, 2024. [IDS Annual Report 2023/24](#), p.64.

due to a stronger letter performance from price rises. Parcels performance also improved which also contributed to higher revenue, but this was mainly due to the continued market share recovery from the strike. IDS expects that Royal Mail will return to operating profitability in 2024/25.¹⁷⁶ However, considerable further improvement is required to get the EBIT margin of the Reported Business back to being within the 5-10% range.

- 4.11 As explained above, Royal Mail has not achieved 5% EBIT margin since 2015/16, however it has continued to provide the universal service. The IDS group has signalled its continued support for Royal Mail in its public announcements, and has set out prospects of transforming the business and returning to a financially sustainable level of EBIT.

Efficiency

- 4.12 In the PMR, we also considered Royal Mail's reported efficiencies of 2% for the financial year 2023/24.¹⁷⁷ We noted that using our own methodology we would restate that to 0.4% (0.6% if calculated post transformation costs). Both these figures fall short of the progress Royal Mail expected to achieve towards its target of 9% efficiencies by 2027/28.¹⁷⁸
- 4.13 In the last few years, we have remained of the view that Royal Mail has not made as much progress as we would expect towards improving efficiency. As a result, we decided in our 2022 Review of Postal Regulation to require Royal Mail to provide more transparency about its progress on efficiency. We introduced a regulatory reporting requirement for Royal Mail to publish, for the first time in June 2023, its five-year efficiency targets, and thereafter its progress against those targets on annual basis.¹⁷⁹ As we also explain in our 2022 Review, we continue to be of the view that there are commercial incentives for Royal Mail to drive efficiency and that further regulation would promote higher efficiency.¹⁸⁰
- 4.14 If Royal Mail were to achieve the full 9% efficiency saving then this would improve the EBIT of the Reported Business, and achieving substantial efficiency savings will be a critical element of ensuring the sustainability of the universal service. However, 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 in the range of 5-10%.

Conclusion

- 4.15 While the financial position and performance of the Reported Business has been improving in the past year or so, the business still faces a number of challenges on the road to

¹⁷⁶ IDS, 15 January 2025. [Third Quarter Trading Update](#)

¹⁷⁷ The efficiencies reported are based on the PVEO metric which provides an overall measure of efficiency by disaggregating annual cost movements into four drivers; "Price" (or inflation), "Volume", "Efficiency" and "Other" (related to non-recurring items)". We prescribe the rules to this approach in our [Regulatory Accounting Guideline \(RAG\)](#), paragraph 8.83

¹⁷⁸ IDS, 30 June 2023, [Five-year cumulative expectation for PVEO and productivity](#).

¹⁷⁹ IDS, 30 June 2023, [Five-year cumulative expectation for PVEO and productivity](#).

IDS, [2023/24 Annual cumulative WIPGH and PVEO performance](#)

¹⁸⁰ Ofcom, 2023 [Statement on changes to Royal Mail's regulatory reporting requirements](#).

ensuring financial sustainability. Royal Mail's financial performance in recent years means that there are material risks to the financial sustainability of the universal service.

- 4.16 We assess the impact of reforming the USO in Sections 5 and 6, as well as the impact of reforms to the access obligation in Section 7 of this document, and set out proposals for reform in those sections. To inform our impact assessment, we explain below how reform of the universal service could provide Royal Mail with further operational flexibility to achieve significant net cost savings. These net cost savings would be likely to be realised after accounting for likely revenue changes caused by the proposed changes to the universal service and other related services. The net cost savings from USO reform and reform of the access obligation could potentially provide a significant increase in the EBIT margin of the Reported Business and the financial sustainability of the provision of the reformed universal service.
- 4.17 However, our analysis indicates that achieving an EBIT margin in the range of 5-10% would be contingent on a number of factors. While Royal Mail would need to be able to fully realise the net cost savings which the reforms would make possible, it must also achieve significant growth in parcels, effectively manage the decline in letter volumes, and significantly improve its efficiency by transforming its network and adapting to the volume and workload changes to which these trends will give rise. All of the above pieces need to fall into place to maximise the chance of the universal service being financially sustainable in the longer-term.
- 4.18 We have an established monitoring regime, and we will continue to closely monitor the financial performance and efficiency of the Reported Business. We discuss our next steps in Section 9 of this document.

Cost and revenue dynamics of regulatory reform

- 4.19 We are proposing to change our regulation of Royal Mail in three areas (see Sections 5, 6 and 7). Broadly speaking we are proposing to change the USO specification to allow Second Class letters to be delivered on an alternate weekday model (and removing Saturday delivery); secondly, to revise the quality of service targets for USO services; and, thirdly, to change access regulation so it is consistent with the changes to Second Class mail.
- 4.20 We expect these changes to enable Royal Mail to make changes to its operations so that it could operate with a more efficient and reduced cost base in the future. There are also likely to be some negative revenue impacts as volumes are reduced due to some of these changes (which price increases may not fully offset). However, overall we expect a material positive net impact which could allow Royal Mail to operate and deliver the USO and bulk mail services at a lower level of costs which would ultimately benefit consumers. We set out below our analysis of these cost and revenue dynamics. This informs our assessment of the impact of our reform proposals in Sections 5, 6 and 7.

Changes to USO delivery structure

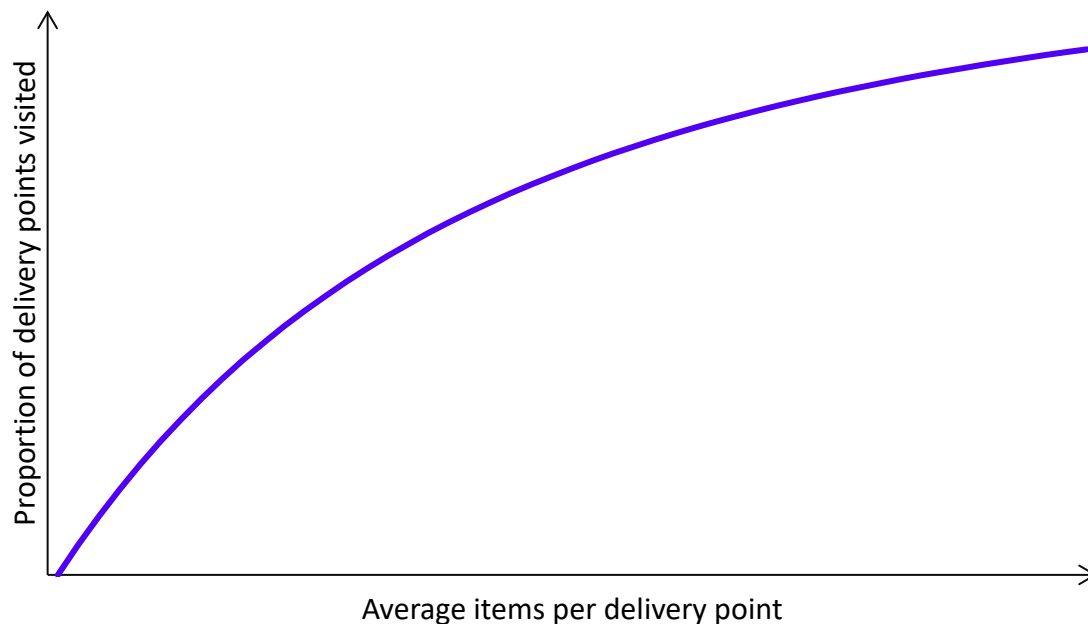
Delivery cost savings

- 4.21 The labour costs of Royal Mail's delivery operation make up the majority of the total costs of the Reported Business. Making savings in this part of the business therefore has the

largest impact on its financial position. It is also the area of the business most significantly affected by the specific requirements of the USO.

- 4.22 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.
- 4.23 This fact is what drives the key cost relationship in Royal Mail's delivery network: the 'call rate', which 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. This relationship is nonlinear, which means that, as more mail is added to a delivery area, the number of deliveries needed increases but by a smaller proportion than the increase in mail volumes. In some cases, the additional mail to be delivered will need to be delivered to premises that already have existing mail to be delivered to, and this will be done at almost no additional cost.

Figure 4.3: Illustrative representation of the call rate relationship



Source: Ofcom

- 4.24 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.
- 4.25 In the light of this, Royal Mail's plan for modernisation proposes to reduce the delivery frequency of Second Class letters and non-priority bulk mail, while continuing to provide a

six day next day delivery service for First Class letters.¹⁸¹ Allowing Royal Mail to deliver Second Class letters with reduced frequency, e.g. on alternate days from Monday to Friday and removing Saturday deliveries (i.e. delivering 2.5 days a week on average, instead of the current six days a week schedule), would enable Royal Mail to make significant cost savings. It would allow mail to be aggregated over two days, increasing the average items per household to be delivered and bringing back some of the lost economies of scale that were achieved when letter volumes were much higher. This forms the most important cost-saving element of our proposals or reform, and in Section 5 we assess the impact of such a change, including whether it would meet user needs.

Revenue effects

- 4.26 Reducing the delivery frequency of Second Class letters also affects the cost of delivering First Class letters. Under the proposed delivery structure there would be days where Second Class letters are not being delivered in an area but First Class letters still need to be delivered. First Class letters would therefore need to be delivered alongside parcels which would also be delivered six days per week. As we explain in Section 5, this approach is consistent with Royal Mail's proposed changes to its operations.
- 4.27 These deliveries tend to be less efficient than full letter deliveries, as they have fewer items per household and involve larger travel distances between deliveries. There are also different logistical considerations for delivery routes that are primarily parcels-based than those which are primarily letter-based. For example, parcels may be most efficiently delivered in most areas with a single postal worker in a van, while letters in those same areas may be more efficiently delivered with two workers in a van or on foot using a trolley. All else being equal, this would tend to increase the unit cost of delivering First Class letters.
- 4.28 Under an alternate weekday delivery model for Second Class letters, it may therefore be more cost-efficient for there to be fewer First Class letters in general, to avoid them being overly-disruptive to the parcel delivery routes on non-Second Class letter delivery days. Actively inducing lower volumes may involve price rises on First Class items, with a positive impact on per-unit revenue on the portion of First Class volumes which Royal Mail retains following any price increases. However, we anticipate that the cumulative revenue gains would be offset by reduced revenue from First Class volumes that would be lost, and additional reduced revenue due to some decline in Second Class volumes caused by changes to the delivery schedule for this class of letter.

Changes to USO quality of service targets

- 4.29 Postal networks face inherent randomness and variances of many kinds, which could affect the level the quality of service provided to their users. For example this could include:
- a) Daily variation in the number and type of items posted in a given area;
 - b) Seasonal variation in how many items are posted across the network;
 - c) Weather-related disruption to transport and logistics functions;

¹⁸¹ Royal Mail is also required to deliver registered and insured items, and international letters, six days a week.

- d) Labour disruption due to illness and other effects; and
 - e) Traffic conditions varying day-to-day.
- 4.30 Mitigating these risks often leads to additional costs, for example it may require hiring more permanent or agency staff to ensure sufficient workforce is available to deal with workload peaks or unexpected staff shortages, or having processing schedules which include some timing slack to be used in case of particularly bad conditions that cause bottlenecks at a given point in time.
- 4.31 Higher targets require lower tolerance for delay and disruption, and therefore increase the costs of mitigating the risks above. Conversely, lower targets reduce the amount of risk mitigation costs. Particularly at high target levels, relatively small changes to performance can have significant cost implications. We would therefore expect that lower targets would mean that Royal Mail could operate at a lower overall cost. The target levels not only impact costs but due to the business need for cost recovery, they also affect prices. Higher targets will carry higher costs which would likely need to be recovered through higher prices.
- 4.32 Our proposals for changes to quality of service targets are set out in Section 6.

Changes to the access obligation

- 4.33 In 2023/24, 9bn letters were sent. Of this, bulk mail represents 5.7bn items, or 63% of the total. Given that these non-USO products are delivered alongside the USO services, any changes to the delivery structure for USO products need also to be reflected in the conditions we set for Royal Mail bulk and access products in order to maximise efficiencies and costs savings. If these non-USO products were required to be delivered at a higher frequency than USO letters, then the large majority of potential savings associated with changes to the USO delivery structure could not be realised, as most letter delivery routes would still be sent out every day. We therefore consider it necessary to assess changes to the access obligation when considering any changes to the USO delivery structure.
- 4.34 Our proposals for changing the USPA Condition to support our other proposals are set out in Section 7.

Provisional conclusion

- 4.35 We believe there are significant net savings that could be realised through reform of our regulations. In the following sections of this document we discuss in detail our proposals for each of the three key elements, namely changes to frequency of Second Class deliveries, changes to quality of service targets, and changes to the access obligation. Section 8 sets out our analysis of, and expectation for net savings from, these proposals.

5. Proposed changes to the delivery frequency of Second Class letters

The purpose of this section

In this section we set out proposals for changes to the delivery frequency of Second Class letters. We explain what the changes would mean in practice, including to the collection and processing of Second Class items.

We then assess the potential impacts of these proposals against our policy objectives, in particular, taking into account the evidence we have on (i) the reasonable needs of postal users, and (ii) the financial sustainability of the universal service. We set out our provisional views on the proportionality of the proposals and explain our proposed changes to the relevant regulations.

In brief

- In response to our CFI on the future of the USO, Royal Mail put forward a plan for modernisation based on a proposal for Second Class letters to be delivered on alternate weekdays (Monday to Friday), thereby ceasing Saturday delivery for these items.
- We have reviewed Royal Mail's proposal and undertaken further work to understand how the proposed new delivery model would operate in practice, and the potential implications on postal users and Royal Mail. This has enabled us to come to a provisional view that the changes would be justified and proportionate.
- Our analysis of the evidence suggests that there is scope to make changes to the USO and continue to meet the reasonable needs of users. In particular, reducing the delivery frequency and removing Saturday delivery of Second Class letters would still enable the needs of users as a whole to be met.
- We also consider that making these changes, as part of our proposals for an overall package of reform to postal regulation, will mitigate the risk of the universal service becoming financially unsustainable. It would create the potential for Royal Mail to reduce its cost base by giving it more flexibility in how it operates.
- We estimate that our overall package of proposed reform, including the alternate weekday delivery model for Second Class USO letters as described in this section, would enable Royal Mail to realise net cost savings of £250m to £425m for financial year 2025/26. We consider that this should lead to users benefitting both from lower price rises than would be the case if the current USO specification were maintained, and, more fundamentally, from a reduction in the risk to the USO itself.
- We are not proposing any changes to the delivery and collection obligations for First Class or parcels services, and Royal Mail intends to continue collecting and delivering these items on six days a week (Monday to Saturday).
- The proposed changes to the way Second Class items are handled and their delivery frequency are part of an overall package of reform along with proposed changes

both to the regulated quality of service targets for USO mail (see Section 6) and to the regulation of access mail (see Section 7).

Introduction

- 5.1 Our CFI set out evidence that there is a need to reform the universal service so that it better aligns with the needs of consumers and can continue to be affordable and sustainable in the future.¹⁸² We therefore set out a number of potential options for redesigning the USO and invited stakeholder views on them.
- 5.2 As noted in our CFI and Section 3 on the needs of postal users, data that we have received and observed through our ongoing monitoring of the postal market, including from our consumer research, shows that the way people are using postal services has changed, with fewer letters being sent while parcel volumes have increased. Our analysis of the evidence shows that reliance on postal services is declining for many users, but people and SMEs believe they will always need to use postal services to send letters. When they do send and receive letters, users need a service that is reliable, affordable and frequent. Users do not need six day a week deliveries for most letters but they have an occasional need for a faster, next day delivery service covering six days a week.
- 5.3 Having assessed the current postal market against the reasonable needs of users, our provisional conclusion is that the UK letters market meets, and in the case of delivery frequency, over-caters for the reasonable needs of users as a whole (see Section 3). 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.
- 5.4 In addition, requiring Royal Mail to provide services which are not required by users adds to the risks of the financial sustainability of the universal service. As set out in Section 4, over recent years we have grown increasingly concerned about the financial sustainability of the universal service and Royal Mail's capacity to deliver an efficient service in light of market changes. The evidence indicates an increasing risk of the current universal service becoming financially unsustainable, which threatens the on-going delivery of USO mail.
- 5.5 As Royal Mail is the only postal operator with a national end-to-end network, the risk to the financial sustainability of the universal service could also affect the provision of non-USO services (e.g. bulk mail). Bulk mail, which is sent by large organisations (e.g. public services and businesses), makes up the majority of all letters and is delivered six days a week alongside single piece letters using the USO network. Bulk mail accounts for a significant portion of Royal Mail's revenue and therefore supports the sustainability of the universal service. Many of the letters that users regard as very important, such as bills, medical appointments or benefits and financial statements, are typically sent using bulk mail services. It is therefore important that a national postal network remains in place to convey these letters.

¹⁸² Ofcom, 2024. [The future of the universal postal service – Call for Input.](#)

- 5.6 In light of our assessment of user needs, and following our assessment of the responses to the CFI and evidence received, we remain of the view that there is a need to reform the universal service so that it better aligns with user needs and better supports financial sustainability. We also consider that the risks to the sustainability of the universal service are pressing given Royal Mail’s current financial position, and that the need for reform is therefore urgent. Having an excessive and costly set of requirements on Royal Mail may also limit Royal Mail’s ability to invest and innovate to improve user choice and experience and to make most productive use of its workforce and other resources.
- 5.7 This section provides an overview of responses to the range of options for changing the USO that we explored in our CFI. It also provides a brief overview of other suggestions put forward by respondents for USO reform, including Royal Mail’s proposal to change the delivery frequency for Second Class letters. We explain why we have subsequently focused our assessment on changes to the delivery frequency of Second Class letters as one of the key components of regulatory reform.
- 5.8 We explain how Second Class letters will be handled under the proposed changes and the potential impact it would have on postal users and Royal Mail, taking into account the evidence we have on the needs of postal users (as set out in Section 3) and the financial sustainability of the universal service (as set out in Sections 4 and 8).
- 5.9 We explain why we believe the proposed changes are justified and proportionate. We also explain how we propose to implement the changes by making amendments to the Order and the relevant DUSP Condition, and how we consider the proposals satisfy the relevant legal tests to make such changes.

Current USO arrangements

- 5.10 The minimum requirements of the USO are set out in Section 2. For the purpose of this section, and in order to place the proposed changes in context, the following key features of the current USO are most relevant:
- The collection and delivery of First Class and Second Class letters six days a week (Monday to Saturday).¹⁸³
 - The requirement to deliver First Class items within one working day of posting, and Second Class items within three working days of posting.¹⁸⁴ Working days are every day except Sundays and public holidays.

¹⁸³ Royal Mail is also required to collect and deliver registered and insured items, and international letters, six days a week.

¹⁸⁴ Routing times are calculated starting from the “deemed date of collection”. This is the day of posting where the item is posted on a day on which collection is required before the final time for collection from the access point at which it is deposited (such as a post box or post office). Where the item is posted on a day on which collection is not required, or after the final time for collection from the relevant access point, then the deemed date of collection will be the following day on which collection is required (e.g. an item posted on Sunday will be deemed collected on Monday, as long as Monday is not a public holiday). For simplicity, in this document we refer to the deemed date of collection as the day on which the item is posted.

We have explored a range of options to reform the USO

- 5.11 Our CFI explored a range of potential options for adapting the specification of the USO and considered their likely implications on users' needs and Royal Mail's finances.
- 5.12 These potential options relied on Royal Mail remaining the universal service provider and the core principles of the USO (universality, affordability and uniform pricing) being maintained. They were based on our research into user needs, market trends and the experiences of reform in other countries. We recognised that some options were within our powers to implement while others were not, for example some would require changes to primary legislation.
- 5.13 We considered the following two primary options could lead to a USO that more closely aligns with people's needs for letters and help secure the future of the service:
- a) Making changes to the existing First and Second Class and business products so that most letters are delivered through a slower service taking up to three days or longer, with a next-day service still available for any urgent letters; and
 - b) Reducing the number of delivery days offered from the existing six-day-a-week obligation to five or three days.
- 5.14 We also briefly set out two other potential options: (a) to make changes to the current quality of service targets alone; and (b) to subsidise the current USO. Our initial views were that our primary options would be preferred over these other options.
- 5.15 We sought stakeholder views on our assessment of the need to consider changes to the USO, and on the options we set out, including their likely impact.

Overview of responses to options in CFI

- 5.16 Overall, respondents (and participants in our public events that were held during the consultation period) recognised that the way people and businesses use letters has changed and accepted this will require changes to the USO to ensure that it is sustainable, affordable and reliable. However, respondents' views on the options we presented were mixed.
- 5.17 Many respondents accepted that allowing slower or less frequent deliveries would meet most users' needs provided there remained a next-day option. Many felt that this next-day option should continue to include Saturday delivery.
- 5.18 In terms of delivery frequency, some argued that letter deliveries five days a week would be sufficient to meet most users' needs, as long as the service was reliable, but any further reduction to three days or one day a week was less acceptable. In a five-day scenario, respondents from the greeting cards industry and publishers of weekly magazines were keen to maintain Saturday delivery and remove a weekday, while there were many others that said removing Saturday (rather than a weekday) would have the least impact on them.
- 5.19 There were also respondents who had significant concerns about USO reform and did not accept it was necessary. They argued that changes would adversely affect their work or disadvantage certain groups of users, e.g. older people or those who were not online.

Instead, they argued that Royal Mail should focus on improving reliability, becoming more efficient and/or sustaining the universal service with new products or services.

- 5.20 A small number of respondents supported the idea of a subsidy or funding mechanism to contribute to the net costs of providing the USO and suggested that we should consider it further, either as an interim arrangement before reforms are made or in the longer term.¹⁸⁵ In contrast, some respondents said that a USO subsidy would not be appropriate, particularly in the light of Royal Mail’s poor quality of service performance and efficiency record.¹⁸⁶
- 5.21 Some consumer bodies emphasised the need to gather additional evidence, e.g. further research into the user needs of specific groups (which we have subsequently done – see Section 3 on our user needs assessment) and to undertake further analysis before considering options for reform.¹⁸⁷
- 5.22 Some respondents put forward different options for reform such as looking at opportunities for expanding the parcels service, merging the current First Class and Second Class service so that there is only a D+2 service in the USO, and changing the Second Class service to a slower D+5 service.¹⁸⁸

Royal Mail’s response included a plan to change the delivery frequency of Second Class letters

- 5.23 In Royal Mail’s response to our CFI, it put forward a plan for modernisation which included a key proposal for Second Class letters (and non-priority bulk mail letters as discussed in Section 7) to be delivered on alternate weekdays and for Saturday delivery of those items to be removed. It made the case that such a change would result in significant cost savings which would help support the financial sustainability of the universal service.¹⁸⁹
- 5.24 We consider that Royal Mail’s proposed delivery model for Second Class letters would result in fewer changes to the USO compared to the primary options we set out in our CFI to reduce the delivery days for all letters or to slow down the speed of most letters, and other suggestions put forward by respondents such as merging the current First and Second Class services or slowing down the Second Class service further.
- 5.25 We also note that Royal Mail’s proposal could be implemented more quickly than options to change the minimum requirements of the USO, which would require amendments to primary legislation. We also place particular weight on the proposals put forward by Royal Mail as it is best-placed to know, given its resources, what substantial changes to its

¹⁸⁵ [~~X~~], [Blackburn and District Trades Union Council](#), [CFH Docmail Limited](#), [Citipost Mail](#), [Electoral Management Board for Scotland](#), [Royal Mail](#), [Spike Publications](#), [UKMail](#), [Unite CMA](#) responses to the 2024 Call for Input.

¹⁸⁶ [The Greeting Card Association](#) response to the 2024 Call for Input.

¹⁸⁷ [Citizens Advice](#), [Communications Consumer Panel and ACOD](#), [Consumer Council for Northern Ireland \(CCNI\)](#), [Consumer Scotland](#) responses to the 2024 Call for Input.

¹⁸⁸ [Advisory Committee for Scotland \(ACS\)](#), [Cambrian Model Rail](#), [Countryside Alliance](#), [Communication Workers Union \(CWU\)](#), [Fulprint Ltd](#), [Pitney Bowes](#) responses to the 2024 Call for Input.

¹⁸⁹ [Royal Mail](#) response to the 2024 Call for Input.

operational model are achievable within a reasonable time and in a cost-effective manner. For all of these reasons, and given the urgent need to consider reform, we have focussed on considering a change to the delivery frequency of Second Class letters as one of the key components for proposed USO reform.

We are not considering any changes to the delivery frequency of First Class and parcels

- 5.26 Royal Mail's proposed alternate weekday delivery model would apply to USO Second Class letters, and to non-priority bulk mail services (as discussed in Section 7); the delivery frequency of First Class mail and USO parcels services would remain the same as now.¹⁹⁰
- 5.27 As noted in our user needs assessment in Section 3, next day delivery services (such as First Class) are only occasionally needed as most letters sent are not urgent, but the availability of such services is valued by users for the limited occasions where items need to be sent or received urgently. Royal Mail would be meeting this need by retaining its current First Class service where items would still be collected and delivered six days a week from Monday to Saturday.
- 5.28 In relation to parcels, volumes have increased in recent years in contrast to letter volumes which have declined. Our CFI set out our research evidence that people are sending and receiving fewer letters while parcels are becoming more important and are seen as an essential service, with increasing expectations of convenience and delivery speed. As set out in Section 3, we consider that the current market meets the reasonable needs of users of parcel services, and we do not believe there is a misalignment between users' needs and the current parcels market.

We have focussed on assessing changes to the delivery frequency of Second Class letters

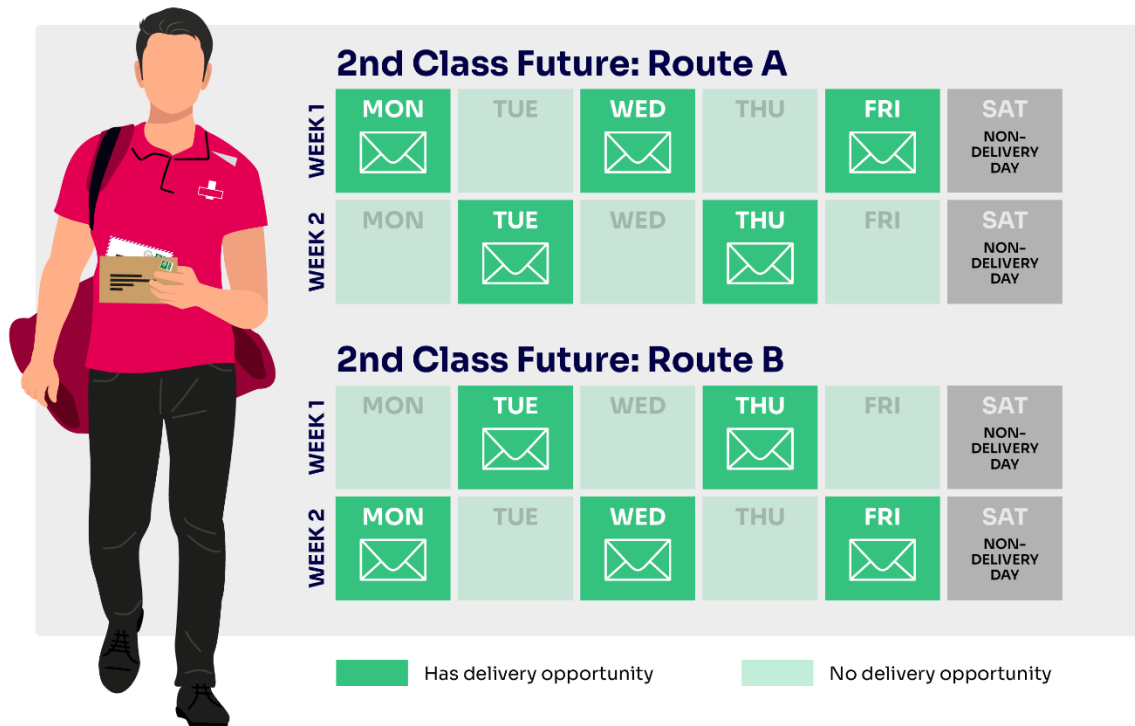
- 5.29 We have reviewed Royal Mail's proposals in order to understand how Second Class letters would be handled under its proposed alternate weekday delivery model. Currently, Second Class letters are collected, processed and delivered six days a week (Monday to Saturday).
- 5.30 Royal Mail's response to our CFI outlined its proposals for changes to the delivery frequency of Second Class letters while collections from postboxes would remain six days a week. Royal Mail has also said that there would need to be changes to how Second Class items are processed in order to implement the alternate weekday delivery model.¹⁹¹
- 5.31 The proposed changes to the handling of Second Class letters would be as follows:

¹⁹⁰ We are also not considering any changes to the collection and delivery obligation for other USO letters, such as those sent using Special Delivery Guaranteed by 1pm and international letters. These letters would continue to be collected and delivered six days a week from Monday to Saturday, which meets the minimum requirements in section 31 of the Act.

¹⁹¹ Royal Mail emails dated 18 September and 16 October 2024 in response to Ofcom questions.

- All Second Class letters would be delivered every other weekday (Monday to Friday). This would be rotated by delivery route on a weekly basis. As an example:
 - In week 1, the delivery points on route A would have Second Class letters delivered on Monday, Wednesday and Friday, and the delivery points on route B would have Second Class letters delivered on Tuesday and Thursday.
 - In week 2, the delivery points on route A would have Second Class letters delivered on Tuesday and Thursday, and the delivery points on route B would have Second Class letters delivered on Monday, Wednesday and Friday.

Figure 5.1: Example of proposed alternate weekday delivery schedule for Second Class letters



- **Royal Mail would not be required to collect, process or deliver Second Class letter items on Saturdays.** Any Second Class letters posted on a Saturday would be deemed sent on Monday (or Tuesday if Monday is a public holiday), such that the calculation of the D+3 routing time would start from Monday.¹⁹² Second Class letters that are currently due to be delivered on a Saturday would be delivered on the following Monday instead (or Tuesday if Monday is a public holiday). Saturday would no longer be included as a working day for the purpose of calculating routing times.

¹⁹² This would also be the case for any Second Class letters posted after the last collection time of the access point on a Friday.

5.32 The proposed alternate weekday delivery model would mean that any Second Class letter items posted on Wednesday to Saturday could arrive a day later than now and would still meet the specified routing time for delivery within three working days of posting.¹⁹³

¹⁹³ Second Class letters sent on a Wednesday are currently due for delivery on Saturday. Under our proposals they would instead be due for delivery on the next delivery day, which is Monday as Sunday is not a delivery day.

Table 5.2: Table to show current due delivery day and future due delivery day from day of posting if the proposed changes to the delivery frequency for Second Class letters are implemented.

Day of posting	Current due delivery day	Future due delivery day
Monday	Thursday	Thursday
Tuesday	Friday	Friday
Wednesday	Saturday	Monday
Thursday	Monday	Tuesday
Friday	Tuesday	Wednesday
Saturday	Wednesday	Thursday
Sunday	Thursday	Thursday

5.33 The proposed delivery model would also mean that, as compared to having three opportunities to deliver any Second Class letter on time as is the case for Royal Mail currently, it would have either one or two delivery opportunities under the proposed alternate weekday delivery model, depending on the delivery schedule for the addressee. For example, as Royal Mail is currently required to deliver Second Class letters every day, six days a week, an item collected on Monday could be delivered on Tuesday, Wednesday or Thursday to meet the D+3 routing time requirement. Under the proposed delivery model, a Second Class letter collected on Monday would have two delivery opportunities to arrive within the D+3 routing time for addresses receiving deliveries on Tuesday and Thursday that week, or one delivery opportunity for addresses receiving deliveries on Monday, Wednesday and Friday that week, as it would need to be delivered on Wednesday in order to be delivered by D+3 (Friday would be D+4). Where a Second Class item has not been delivered within the D+3 routing time requirement due to delivery route failure, [3<].¹⁹⁴

- 5.34 If implemented, Royal Mail has said that the proposed alternate weekday delivery model for Second Class letters would result in a number of operational changes:
- a) **Deliveries:** Second Class letters would be delivered on walking routes every other weekday. As it would still be required to deliver First Class mail six days a week (Monday to Saturday), any First Class letters would be delivered alongside Second Class letters on walking routes on days when Second Class delivery is scheduled, but will otherwise be delivered in vans alongside parcels on days when Second Class delivery is not scheduled.¹⁹⁵
 - b) **Collections on Saturday:** Although Saturday would no longer be counted as a collection day for Second Class letters, in practice Royal Mail intends for collections to operate

¹⁹⁴ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

¹⁹⁵ [Royal Mail](#) response to the 2024 Call for Input, p.42.

with the same frequency as now, i.e. Second Class letters would still be collected from access points on Saturday for efficiency purposes as it would still be obliged to collect and process First Class items on Saturdays.¹⁹⁶

- c) **Collections on delivery:** Currently, collections from some access points (i.e. post boxes) take place during or immediately after delivery rounds. Under proposed reforms, Royal Mail still intends to collect from these access points six days a week.
- d) **Processing:** Although Saturday would no longer be a processing day for Second Class letters, in practice Royal Mail said it may still process these items depending on operational efficiencies.¹⁹⁷ Second Class letters (sorted by machine) would be sent to the delivery office only on the days when the address served by the delivery office is due a delivery of Second Class items (i.e. every other weekday).¹⁹⁸ Other letters, such as Second Class letters sorted manually, will be sent to delivery offices daily.

Assessing the impact of the proposal to change the delivery frequency of Second Class letters

- 5.35 We have assessed below the impact of the changes to the delivery frequency of Second Class letters as described above. To do this we have undertaken a provisional assessment to consider whether the proposals would align with our policy objectives. We then consider the proportionality of the proposals in the round to reach a provisional view on whether they are justified and proportionate in what they are intended to achieve.
- 5.36 As set out in Section 2, our objectives are to put in place a reformed regulatory framework which will promote the following outcomes:
 - a) Lead to consumer benefits through a universal service that meets reasonable user needs;
 - b) Support the financial sustainability and efficiency of the universal service;
 - c) Incentivise Royal Mail to provide a high-quality service; and
 - d) Encourage innovation and competition in the postal industry.
- 5.37 Our assessment in this section focusses on the impacts in the round of the proposed changes to move to the alternate weekday delivery model for Second Class letters. This includes, where relevant, the changes to access services that we expect Royal Mail would make if we were to implement the proposals to Second Class delivery. In Section 7, we consider the specific aspects of the proposed changes to access services on the organisations and businesses that use those services.

Impact on postal users

- 5.38 We consider the impacts of the proposals on consumer outcomes, taking into account the evidence we have on the reasonable needs of users of postal services in the UK and our assessment of whether the current letters market is meeting those needs as set out in

¹⁹⁶ [Royal Mail](#) response to the 2024 Call for Input, p.42.

¹⁹⁷ Royal Mail email dated 16 October 2024 in response to Ofcom questions.

¹⁹⁸ [Royal Mail](#) response to the 2024 Call for Input, p.42.

Section 3. We also consider the impact on sub-groups of postal users, e.g. those who are more likely to say they are reliant on postal services.

- 5.39 In summary, our assessment of reasonable user needs in Section 3 found that users need a letter service that is reliable, affordable and frequent. They will always need to use postal services to send and receive letters and have an expectation that letters should arrive in a reasonable amount of time. While speed of delivery is rarely seen as critical by users as most letters sent are not urgent, they do have an occasional need for a faster, next day delivery service. However, reliance on postal services to send letters has declined and users do not need six day a week deliveries for most letters that they send and receive. Saturday deliveries are generally seen as less important by users. The majority of users also place high importance on the price of sending post being affordable and universal (i.e. one price goes anywhere).
- 5.40 Having assessed the current letters market against these needs, our provisional conclusion in Section 3 is that the current market for letters in the UK meets, and in the case of delivery frequency, exceeds the reasonable needs of users as a whole.

Delivery frequency

- 5.41 Evidence from our user needs assessment in Section 3 indicates that the reasonable needs of postal users for delivery frequency would continue to be met with the proposed changes. For example, our analysis of consumer research found that users need a service that is frequent but do not need six day a week delivery for the majority of letters they send and receive. In fact, most users' needs would be met with five, or even three, day a week deliveries, with a much lower need for deliveries on a Saturday which was seen to be less important compared to reliability, affordability and other service aspects. We also found that speed is generally not a critical factor for most letters sent, but users do occasionally need a next day service for some items.
- 5.42 As set out in Section 3, we consider that the current market for letter services exceeds users' needs in respect of delivery frequency as Royal Mail is currently required to provide a six day a week service for both its First and Second Class services. While the proposed changes to the USO for Second Class letters would mean Second Class letters would be delivered on alternate weekdays, we consider that the needs of users would still be met as the First Class service would remain a six day a week service and would still be available for the infrequent occasions where users need to send priority items.

Speed and reliability of services

- 5.43 As noted above, the proposed removal of Saturday as a collection, processing and delivery day for Second Class letters would mean that some items posted on Wednesday to Saturday could arrive one working day later than now. Our evidence indicates that this would still be acceptable and meet the needs of users. In particular, our research found that the reliability and certainty of items being delivered within a reasonable amount of time is much more important to users than the speed of delivery. We have noted the importance of reliability to users in our proposals for changes to quality of service targets to incentivise more certainty and reliability for items that have missed their due date of delivery (see Section 6).

- 5.44 Our research also found that the majority of users did not typically need Second Class letters to arrive within three working days of sending, e.g. they didn't send the letter type we asked about, would use First Class, said 4-5 working days would be acceptable, or that it would not matter if it took longer than 5 working days for delivery.¹⁹⁹

Affordability and uniform pricing

- 5.45 From our consumer research, we are aware that there is strong support from users for postal services to be available at a price that is affordable and uniform. The cost of sending letters and affordability is consistently identified as important by the majority of users.²⁰⁰
- 5.46 As explained in Section 4, in order to realise the full extent of the costs savings from reform of the USO, Royal Mail needs the majority of letter volumes to be delivered on the alternate weekday model. This means that Royal Mail needs some First Class volumes to shift to Second Class, and may use pricing as a lever to achieve this. We therefore expect that there may in future be some price rises to First Class services.
- 5.47 As part of our most recent review of the safeguard cap on Second Class mail, we assessed the affordability of universal services which are not subject to the cap, including First Class services. We concluded that First Class is currently affordable for most users as our research indicated that there would be very few occasions on which users needed to use First Class, such as the need to send items urgently.²⁰¹ Given this infrequency of use, and the availability of the lower priced Second Class service, we found that the First Class price of letters was not unaffordable.
- 5.48 We expect that, without USO reform, Royal Mail would have to increase First Class letter prices to a greater extent and more frequently in order to reflect increasing unit costs. While we expect prices to still increase even if the proposed changes are implemented, we believe these increases would likely be less significant in the long term than would be the case if there were no changes to the USO. This is because the cost savings from the reform could reduce the total costs of delivery and unit costs would rise less quickly as letter volumes fall. As such, the incentive to increase price would not be as great.
- 5.49 We are nevertheless aware of concerns about the affordability of First Class. We will continue to monitor this going forwards particularly in relation to how different user groups are affected. We will be considering affordability further as part of the second phase of our work on reform of the USO when we expect to have a clearer understanding of the impact of any reform on First Class prices. If we have evidence to suggest that it would be appropriate to intervene on prices then we will make proposals to do so.
- 5.50 We are also aware that universal pricing is seen as important and fair to postal users. There would be no changes to the one price goes anywhere approach under the proposed changes to the frequency of Second Class deliveries.

¹⁹⁹ When excluding those who said they would use a First Class service.

²⁰⁰ BMG, January 2025, [Post User Needs Research 2024](#), slide 19.

²⁰¹ Ofcom, 2024. [Review of Second Class safeguard caps 2024](#), paragraph 5.135-5.136.

Impact on particular types of users

- 5.51 As mentioned in Section 3, we note from our 2024 research that some users are concerned about the impact of reduced delivery frequency on important letters.
- 5.52 Our research found that senders and recipients of medical letters, and recipients of healthcare appointments, benefits or finance-related letters were more likely to say that Second Class letters and standard business mail taking a day longer to deliver would not meet their needs or cause them substantial harm or difficulties. Our research also indicates that online traders who use the letters service to send items they have sold (and as their main source of income) are more likely to say that reductions to the frequency of deliveries would mean that postal services no longer meet their needs. However, our further analysis of the reasons they gave for their answers found that many stated the change would lead to inconvenience rather than any serious harm.
- 5.53 We also consider that any potential harm would likely be lower because not all Second Class letters would arrive later than now under the proposals, e.g. items posted on Monday, Tuesday and Sunday would have the same due delivery day as now while items posted on Wednesday to Saturday could arrive a day later. Furthermore, the types of letters users were concerned about in our research are generally sent by large organisations using bulk mail services. These organisations may look to adapt their posting behaviour if they are able to do so, for example, by changing their business practices to send items earlier and/or send some items using faster services where possible. There would remain a choice of bulk mail products available to these organisations, who can select the most appropriate product if they require the letters they send to reach users more quickly or on a specific day, or they may choose to send the items earlier where they are able to do so.²⁰²
- 5.54 We have also considered the impact of the proposed changes on user groups whose circumstances or characteristics mean that they are more likely to report a greater reliance on postal services. These groups are users without access to the internet, users with restricted mobility, users in rural locations, and older users. Overall, our research 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. We therefore consider that, in most cases, the needs of these groups would continue to be met by the proposed changes to the scope of the USO, but also acknowledge that the impact might be greater for a small number of users in these groups whose needs are not met due to their increased reliance on post as a means of communication and for whom speed of delivery for non-priority mail is particularly important.

Impact on SMEs

- 5.55 Overall, our research found that the needs of SME postal users were closely aligned with residential users in relation to the importance of weekday deliveries, the availability of a next day service, reliability and affordability of mail. Therefore, we consider that the impact of the proposals would generally be similar for both sets of users.

²⁰² See Section 7 for discussion on D+2 access services.

- 5.56 There were some areas where our research found the views of SME users to differ slightly from those of residential users. In particular, SMEs are more likely to say that they require bills/invoices to arrive within three days of posting when using Second Class post; but are less likely to rate Saturday delivery as important.
- 5.57 We therefore acknowledge that the impact of the proposals on some SME users may differ slightly from residential users, particularly for SMEs who send a greater number of items and/or a greater number of time-sensitive items. The proposed alternate weekday delivery of Second Class letters may have a greater impact on the posting behaviour of some SMEs, particularly when they need an item to arrive on a specific day, as this may require them to reorganise their internal processes in order to send items earlier and/or to switch to sending some items using a faster service to fulfil their business needs. In contrast, SMEs would likely adapt to not receiving Second Class letters on Saturdays more readily than residential users because many businesses do not operate on Saturdays.
- 5.58 We consider that most residential and SME users would be able to adapt to the proposed changes to the way Second Class letters will be handled, as long as First Class and other priority services such as Special Delivery 1pm remain part of the USO and are required to be delivered six days a week including Saturdays, which is consistent with our proposals. These faster services will continue to cater for the demand for delivery of urgent items and delivery on Saturdays. As noted above, we are aware of concerns about the affordability of First Class and will continue to monitor this and are planning further work to consider options to ensure the continued affordability of USO services (see Section 9). Some users could adapt by changing their posting behaviour to, for example, post things earlier if they are able to if they need items to arrive within a certain timeframe. Overall, we consider that these impacts will be outweighed by the benefits of USO reform.

Impact on access services

- 5.59 The proposed alternate weekday delivery model would also likely result in some changes to access services. As Royal Mail would begin delivering D+2 access mail on the same basis as First Class letters, the cost base of these services would increase. We therefore expect the price of D+2 access services would increase to reflect this, as well as to incentivise volumes to shift to a slower access service, enabling Royal Mail to realise the full extent of the costs savings from the alternate weekday delivery model. To support this shift in volumes, Royal Mail is planning to introduce a new D+3 access service (on a commercial basis), to be delivered under the new model alongside Second Class letters. We explore the impacts of these changes in more detail and consider whether to regulate a new D+3 access service, in Section 7.

Impact on the financial sustainability and efficiency of the universal service

- 5.60 The scope of the universal service should reflect the reasonable needs of postal users. Providing the universal service imposes constraints on Royal Mail's commercial and operational flexibility which affects its cost base. In addition, the requirements of the USO impact on how Royal Mail delivers non-USO letters, which account for the majority of letters and include letter items on which users place most importance. These requirements also impact the costs Royal Mail incurs in delivering mail. If the scope of the USO goes

beyond what is needed to meet reasonable user needs, it imposes costs on Royal Mail that are not justified and, in a bid to recover these costs, would result in higher prices than would otherwise be the case for postal users, both for USO and non-USO items. Any benefits that an over-specified USO might have for users will be considerably outweighed by these costs and associated higher prices, and the risks to the overall financial sustainability of the universal service.

- 5.61 We consider that the proposed changes would enable more operational flexibility for Royal Mail which would help it to control and save costs more effectively. For example, the proposed alternate weekday letter delivery model should allow Royal Mail to concentrate non-priority letter volumes from 6 days to 2.5 days of delivery, thereby saving on the number of delivery routes that are covered every week. A reduced USO specification, in line with reasonable user needs, would reduce the incentive for Royal Mail to increase prices more than it would do in the absence of the proposed reform. Together with our regulatory remedies, such as the safeguard cap on Second Class letters and large letters, this will help maintain the affordability of the universal service. Lower and/or fewer price rises would benefit all users, the majority of whom consider cost and affordability of sending letters to be important to them and are willing to accept reduced services rather than price rises.
- 5.62 In Section 4 we consider that making changes to the scope of the USO could lead to material net savings which would have a positive impact on the financial sustainability of the universal service. In Section 8, we assess the financial impact of the proposed changes on the financial sustainability of the provision of the universal service. We estimate that our overall package of proposed reform, including the alternate weekday delivery model for Second Class letters as described in this section, would give Royal Mail further commercial and operational flexibility to realise potential net cost savings of £250m to £425m for financial year 2025/26. If achieved, this would result in significant improvement in Royal Mail's financial performance and would provide an important contribution to the financial sustainability of the universal service. As explained above, an over-specified USO carries costs which considerably outweigh the benefits, and given the financial performance of Royal Mail in recent years, it poses a significant risk to the overall financial sustainability of the universal service in the future.
- 5.63 We consider a financially sustainable universal service would continue to benefit all users of mail by contributing to social cohesion and economic growth through a reliable means of communication and logistics. It would particularly benefit some user groups who are more likely to report a greater reliance on postal services as a means of communication, although dependency does not necessarily equate to increased usage or a difference in the type of postal service needed.
- 5.64 A universal service that more closely aligns with the needs of the users and carries lower costs would contribute to productivity growth and support Royal Mail in achieving higher efficiencies as it allows Royal Mail to better allocate resources to meet its customers' needs, rather than maintaining costly excess resources which are not needed.
- 5.65 We would monitor Royal Mail's progress on achieving the estimated net cost savings from USO reform to see whether the benefits were realised.

Impact on incentives on Royal Mail to provide a high quality service to its customers

- 5.66 As explained above, we consider that the proposed alternate weekday delivery model could enable significant cost savings. That should put Royal Mail in a better position to improve its overall quality of service performance. However, we recognise that the proposed alternate weekday delivery model could make it more difficult for Royal Mail to meet the current quality of service target of 98.5% of Second Class mail to be delivered within three working days (D+3). In addition, and as mentioned in Section 2, Royal Mail has stated that it cannot meet the current quality of service target for First Class mail at reasonable cost. We therefore consider it necessary to review the relevant quality of service targets as part of the package of overall USO reform (see proposals on quality of service targets in Section 6).

Impact on innovation and competition in the postal industry

- 5.67 A financially sustainable universal service would help Royal Mail continue to operate the joint network that provides all of the other non-USO services, such as business mail and accounts parcels. It would also provide Royal Mail with additional commercial and operational flexibility to make more operational and commercial innovations and introduce new services and specifications that could benefit users. For example, it could enable Royal Mail to transform its network and adapt itself better to changes in demand (i.e. growth in parcels and decline in letters) such as redesigning its network more effectively for parcels and contribute fully to the competitive parcels market. This will most likely promote economic growth and benefit wider society, because Royal Mail is effectively the only provider of the last mile delivery for business letters and holds a considerable share of the growing parcels market.
- 5.68 We consider the impact of USO reform on access competition separately in Section 7.

Our provisional conclusions

- 5.69 We have carefully considered the information currently available and assessed the impacts of our proposals to change the delivery frequency of Second Class letters. To do that, we have considered the impacts of the proposed changes on residential users (including sub-groups of users) and SME users as senders and recipients of single piece mail, and also as recipients of bulk mail. We have also considered the impacts on Royal Mail in relation to the sustainability of the universal service and efficiency.
- 5.70 We believe the proposed changes are necessary to support the continued provision of a universal postal service, which in turn will benefit consumer, businesses and the wider economy.
- 5.71 We provisionally conclude that the proposals would align with our policy objectives, as set out in Section 2, to ensure that a reformed regulatory framework would:
- a) **Lead to consumer benefits through a universal service that meets reasonable user needs.** We have considered the evidence of our research into the reasonable needs of users. Our conclusion is that the reasonable needs of postal users would continue to be met in relation to delivery speed and frequency, reliability and cost of postal services as the proposed changes would continue to meet the needs of users as a whole, and

would generally only cause some inconvenience to those who said that their needs would not be met. We also note that First Class would continue to offer next day, six day a week delivery for occasions when users need to send urgent items. We consider that the proposed changes would also be consistent with the importance that most users place on the affordability of postal services. Our research has consistently found that affordability is one of the most important service features to users. We note that a small number of users were concerned that the proposed changes would mean that their needs would not be met or would cause them substantial harm or difficulties. However, our further analysis found that many stated that the change would lead to inconvenience rather than any serious harm. Overall, we expect that users would generally be able to adapt to the proposed changes with very limited, if any, impact on them.

- b) **Support the financial sustainability and efficiency of the universal service.** We have assessed the impact of our proposed package of reform on the financial sustainability of the provision of the universal service. We estimate that our overall package of proposed reform, including the alternate weekday delivery model for Second Class USO letters as described in this section, should allow Royal Mail commercial and operational flexibility to realise potential net cost savings of £250m to £425m for financial year 2025/26 (see Section 8). Our conclusion is that reform should enable Royal Mail to reduce its costs of delivery, relative to what they would be otherwise and, as such, provide an important contribution to the financial sustainability of the universal service. We note, however, that this reform will not on its own be enough to ensure the sustainability of the universal service (see Section 8).
- c) **Incentivise Royal Mail to provide a high quality service to its customers.** We consider that the proposed alternate weekday delivery model for Second Class letters and non-priority bulk mail could enable significant cost savings. That should put Royal Mail in a better position to improve its overall quality of service performance. However, we also note that the proposed delivery model would make it harder for Royal Mail to meet the current quality of service target for Second Class mail. We set out our proposals on changes to performance targets as part of overall USO reform in Section 6.
- d) **Encourage innovation and competition in the postal industry.** We consider the proposed USO reform, by providing Royal Mail with greater flexibility about how to deploy its resources, would enable Royal Mail to make more operational and commercial innovations to compete more effectively in the parcels market, which would benefit users. It would also enable Royal Mail to become more financially sustainable which may result in more capacity for it to innovate. We consider the impact of USO reform on access competition separately in Section 7.

5.72 Taking account of the available evidence, our provisional view is that the benefits of the proposed changes to the delivery frequency of Second Class letters, and the potential costs and risks of inaction, outweigh any costs or adverse effects arising from the proposals. We therefore consider the proposed alternate weekday delivery model for Second Class letters as described in this section to be justified and proportionate.

5.73 We consider it is unlikely we can do significantly more under the current regulatory framework (including the other proposals we have made in relation quality of service (see Section 6) and access regulation (see Section 7)) to respond to the challenges facing the universal service. As the letters market continues to decline, it may become necessary to

review the specification of the USO again in the future, although we note that any further substantial changes would likely require amendments to legislation.

Proposed changes to the Universal Postal Service Order

- 5.74 To implement the changes to the USO for Second Class letters such that they do not need to be collected, processed or delivered on Saturdays, we are proposing to make the following amendments to the Universal Postal Service Order:
- a) Include new definitions for “priority and other letters”, meaning First Class and other USO letters (such as registered and insured, and international), and “standard letters”, meaning Second Class letters, including standard letters and large letters;
 - b) Modify the definition of “working day” so that it means Monday to Saturday (excluding public holidays) for First Class and other letters, and Monday to Friday (excluding public holidays) for Second Class letters. As delivery routing times are calculated based on “working days”, this change means that Saturday would continue to be counted for First Class letter routing times, but not for Second Class routing times; and
 - c) Modify the delivery and collection obligations so that:
 - i) First Class and other USO letters continue to be collected and delivered six days a week Monday to Saturday; and
 - ii) Second Class letters would be collected every day from Monday to Friday, and delivered on any day between Monday and Friday. This change to the Second Class delivery service would allow Second Class letters to be delivered on any weekday, but the requirement that Second Class letters be delivered with a routing time of D+3 means there would need to be at least two Second Class deliveries a week. In practice, these changes would permit an alternate weekday delivery model.
- 5.75 We are also proposing to make certain minor amendments, including the addition of definitions for “letter” and “postal packet”, and removal of references to the United Kingdom as an EU country.
- 5.76 Annex A7 sets out Ofcom’s regulatory impact assessment for modifying the Order. Schedule 1 to Annex A7 contains a copy of the Order marked up to show our proposed modifications, and Schedule 2 contains the proposed text of the draft statutory instrument modifying the Order.

Legal tests

- 5.77 We have satisfied the requirements of the Act²⁰³ to make proposals for modification of the Order as we have carried out an assessment of the extent to which the market for the provision of postal users in the UK is meeting the reasonable needs of postal users (see Section 3). In addition, our provisional conclusion of our user needs assessment indicates

²⁰³ Section 30(3) of the Act.

that, even with the proposed change to the delivery frequency of Second Class letters, the reasonable needs of users would continue to be met.

- 5.78 Our proposed modifications to the Order would satisfy section 30(2) of the Act, which requires the universal service to include, at a minimum, each of the services set out in section 31. First Class would continue to satisfy the minimum requirements of at least one delivery and one collection of letters every Monday to Saturday. As outlined above, we are not proposing to change the delivery and collection obligations for parcels.
- 5.79 As noted in our impact assessment above, we have taken account of the available evidence in the round in considering the impacts on users and on Royal Mail. Our provisional view is that the proposed changes to Second Class letter deliveries would be justified and proportionate. We also consider that the proposals are consistent with our general duties set out in section 3 of the Communications Act 2003 and in section 29 of the Act.

Proposed changes to DUSP Condition 1

- 5.80 We also propose to make the following amendments to DUSP Condition 1. These changes align with the proposed changes to the Universal Postal Service Order as explained in paragraph 5.74 above, and we expect them to have the same effect:
- a) Include new definitions for “priority and other letters”, meaning First Class and other USO letters (such as registered and insured, and international), and “standard letters”, meaning Second Class letters;
 - b) Modify the definition of “working day” so that it means Monday to Saturday (excluding public holidays) for First Class and other letters, and Monday to Friday (excluding public holidays) for Second Class letters; and
 - c) Modify the delivery and collection obligations so that First Class and other USO letters continue to be collected and delivered six days a week Monday to Saturday; and Second Class letters are to be collected every day from Monday to Friday, and delivered on any day between Monday and Friday.
- 5.81 We are also proposing to make certain minor amendments, such as removing references to the United Kingdom as an EU country.
- 5.82 Annex A8 contains a statutory notification of Ofcom’s proposal to modify DUSP Condition 1. Schedule 1 to Annex A8 is a copy of DUSP Condition 1 marked up to show our proposed modifications, and Schedule 2 contains a table setting out our proposed modifications in an accessible format.

Legal tests

- 5.83 We consider the legal tests in the Act²⁰⁴ are met, as the modifications to DUSP Condition 1 are necessary to secure the provision of a service set out in the Order – i.e. the Second Class (standard) letter service – in accordance with the standards set out there.

²⁰⁴ Section 36(3).

- 5.84 We also consider our proposed modifications to satisfy the legal tests in paragraph (1) of Schedule 6 to the Act, as they are:
- **Objectively justifiable:** For the reasons set out in this section, the change to the delivery frequency of Second Class letters would continue to meet the reasonable needs of postal users, and help to support the financial sustainability of the universal service. We have based our analysis on evidence of user needs and information provided by stakeholders.
 - **Not unduly discriminatory:** The changes to the delivery frequency of Second Class letters would apply to Royal Mail as the designated universal service provider and would affect all senders and recipients of Second Class letters and all delivery points in the UK. Though we recognise some groups of users, including some with protected characteristics, may be more impacted by the proposed changes, we consider that the universal service would continue to meet user needs as a whole and that any additional impact felt by certain groups is outweighed by the overall benefits to postal users.
 - **Proportionate in relation to what they are intended to achieve:** There are several options for reforming the USO, each of which would bring differing levels of benefits, including different amounts of costs savings. We have considered the evidence on user needs and stakeholder views on options for reform, and have assessed the impact of our proposals. Based on this, we consider our proposals to be proportionate as they should enable Royal Mail to make material costs savings, which should in turn support the financial sustainability of the universal service and lead to consumer benefits. User needs as a whole should continue to be met and any impacts on users should be limited and offset by the long term benefits of reform.
 - **Transparent in relation what they are intended to achieve:** The reasons for the proposed changes to the frequency of Second Class letter deliveries and the effects of the proposed changes to postal users is explained in this section. The proposed modifications to the Order and DUSP Condition 1 are explained above and clearly set out in Annex A7 and A8 to this consultation.
- 5.85 We consider our proposals to be consistent with our duties in section 29 of the Act, in that they should contribute to the continued provision of a universal service by supporting its financial sustainability and efficiency.
- 5.86 We also consider that our proposals are consistent with our general duties set out in section 3 of the Communications Act 2003 Act, as they should further the interests of citizens and consumers in relation to post by helping to support the continued provision of a universal service and to lead to lower price rises in the future than would be the case if there were no reform of the USO.

Consultation questions

Question 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? Please provide reasons and evidence in support of your views.

6. Proposed changes to USO quality of service targets

The purpose of this section

In this section we set out proposals for adjustments to the quality of service targets that Royal Mail must meet for USO services.

In brief

- Royal Mail is required to meet certain quality of service targets, including headline targets in relation to on-time delivery of First and Second Class mail. The low standard of quality of service that people and businesses have received in recent years is not acceptable, and we have taken action in relation to Royal Mail's failures, most recently imposing a financial penalty of £10.5m for underperformance in 2023/24. We will continue to closely monitor Royal Mail's performance, and will not hesitate to take further enforcement action including significant financial penalties if we find it is not taking meaningful steps towards improvement.
- We consider it important to separate the question of the actions Royal Mail must take to drive improvement, from consideration of what targets are appropriate to a changing postal market, in the context of a reformed USO. The current targets were set almost two decades ago, and in this time the postal market has changed significantly as the way that people use the post has evolved. These changes have made it harder, and more costly per piece of mail, to maintain performance at high levels of quality of service. As we now consider changes to the USO specification, including those with implications for quality of service performance, it is right that we assess whether the targets are still appropriate. This also reflects international experience, as many comparable countries have adapted to changing market dynamics by reviewing and updating their regulatory targets.
- In assessing the set of targets, we have been guided by the objectives set out in Section 2, namely how targets can lead to consumer benefits through meeting reasonable user needs, support the financial sustainability and efficiency of the universal service, and incentivise Royal Mail to provide a high-quality service. We recognise that users generally prioritise reliability and affordability over speed, and likewise recognise that relatively small changes to quality of service targets can have significant cost implications. We have taken account of stakeholder feedback to our CFI, Royal Mail's suggested changes to the targets, and other sources of available evidence such as past performance data as well as comparable targets and practices in other countries.
- We are proposing three changes to First Class targets: a revised national D+1 target of 90% in line with changes in the postal market; a reset postcode area D+1 target of 87% to support universal and equal service; and a new D+3 'tail of mail' target of 99.5% to ensure reliability. We are proposing two changes to Second Class targets: an adjusted national D+3 target of 95% to reflect the proposed shift to alternating weekday delivery of Second Class letters; and a new D+5 'tail of mail' target of 99.5% to ensure reliability.

- Together, we consider that slightly lower primary targets for First and Second Class, paired with new ‘tail of mail’ targets, should provide greater focus on the outcomes users value most, including reliability and affordability, and be achievable for Royal Mail while remaining stretching by international standards.

Background

Aims of the quality of service targets

- 6.1 Ofcom requires Royal Mail to meet a set of quality of service performance targets related to the provision of USO services. The targets reflect the fundamental characteristics of the USO, such as timeliness, reliability, universality, and accessibility. These characteristics are important for individuals and businesses across the UK.
- 6.2 This set of targets is an important part of incentivising Royal Mail to deliver its services in line with the specification of the universal service, and therefore in achieving consumer benefits from a USO that meets reasonable user needs. The targets also help to give postal users transparency around the performance of Royal Mail, supporting individuals and businesses in understanding the nature of the services they are using.
- 6.3 While each target is an individual metric against which aspects of performance can be measured and assessed, as a package the targets are mutually reinforcing. Combinations of targets on collection, delivery, and particular services work together to ensure that there are end-to-end incentives for a high-quality service. In some cases, multiple targets exist for the same service, including First Class as set out in Table 6.1 below. Generally, this is to incentivise the right balance of different outcomes. Collectively, the targets serve to set an overall performance framework to which Royal Mail is held.
- 6.4 The targets only apply to USO services. While we do not regulate quality of service targets for non-USO services, access mail is subject to commercially agreed standards negotiated between Royal Mail and access operators. It is relevant to note that access (and other bulk) mail is delivered through the same network as USO services, which means that operational decisions made in order to meet USO targets are likely to also impact access (and other bulk) mail delivery performance. We discuss quality of service in the context of access mail further in Section 7 on our proposed changes to the access obligation.

Existing quality of service targets

- 6.5 Royal Mail has been subject to performance obligations since 2001, with the present set of targets being in effect since 2005/06, and covering performance against expected speed of delivery, collection activities, delivery route completions, as well as performance across UK postcode areas. Ofcom has overseen the targets, as defined in DUSP condition 1, since we took over postal regulation in 2011.²⁰⁵

²⁰⁵ Table 1 of [DUSP Condition 1](#) sets out domestic standards, performance targets, and monitoring obligations.

Table 6.1. Quality of service targets in DUSP condition 1

Target	Specification
Collections	Royal Mail to serve at least 99.9% of public access points, each day on which a collection is required.
Deliveries	Royal Mail to complete at least 99.9% of all delivery routes, each day on which a delivery is required.
First Class delivery (i)	Royal Mail to deliver at least 93% of First Class items within one working day of collection on a national (UK) basis.
First Class delivery (ii)	Royal Mail is also subject to a separate postcode area (PCA) target which requires it to deliver 91.5% of First Class mail within one working day of collection in each postcode area in the UK apart from HS, KW and ZE (118 of 121 postcode areas in the UK).
Second Class delivery	Royal Mail to deliver at least 98.5% of Second Class items within three working days of collection on a national basis.
Special Delivery Guaranteed (SDG) by 1pm	Royal Mail to deliver at least 99% of Special Delivery items the next working day by 1pm on a national basis.

- 6.6 These targets were made meaningful and achievable by being set below 100%, recognising that certain events invariably affect delivery performance, and may be beyond Royal Mail’s reasonable control. To illustrate what these targets mean in practice, a 90% target for deliveries would require Royal Mail to deliver 9 in 10 items on time, with allowance for 1 in 10 items to be delivered late (i.e. after the target delivery date).
- 6.7 Royal Mail is obliged to monitor its performance nationally against these targets using an appropriate testing methodology and to report on its performance to Ofcom, consumer advocacy bodies, and to the public. In practice, this means that some current targets are measured by an independently commissioned large-scale mail survey with test items sent throughout the year, and results verified by a third-party auditor. Other targets are measured based on self-reported data from Royal Mail, and then checked by an independent auditor.
- 6.8 Royal Mail publishes updates on its performance quarterly in its ‘Quality of Service Reports’,²⁰⁶ as well as through the publication of an annual summary. Royal Mail must meet the targets throughout the 12 months ending on 31 March each year.²⁰⁷ If Royal Mail fails to meet the targets, we can open an investigation and consider taking enforcement action.

²⁰⁶ Royal Mail, 2024. [Quality of Service Reports](#).

²⁰⁷ An exemption applies for the Christmas period, however DUSP 1.10.5 requires Royal Mail to notify Ofcom and the consumer advocacy bodies and publish, no later than two months from the end of each Christmas period, its performance during that Christmas period.

Reporting obligations also serve to provide transparency to users about Royal Mail's performance against the set of targets.

- 6.9 Targets apply across both letters and parcels. The national performance targets, for example the headline targets for First Class and Second Class delivery, measure an average of Royal Mail's success in delivering sample mail items on time. The performance of these sample items is then statistically weighted according to standardised best practice, in order to reflect the true proportions of letters and parcels that make up the volumes seen in Royal Mail's network, as well as other factors to ensure that the averages are representative of Royal Mail's true performance.
- 6.10 In an international context, the UK has more stretching targets than apply in comparable European countries. This includes the levels of the main targets for First and Second Class deliveries. While some countries do have higher target levels for universal services, these countries tend to be smaller in terms of population or geography, or otherwise have materially different patterns in their use of the mail. The UK also has more stretching obligations for local performance across the UK, as most countries do not have an equivalent of the PCA target which applies to First Class delivery performance in each postcode area. As noted in our CFI, where comparable countries have undertaken reform to their USO specifications, adjustments have usually been made to quality of service targets.²⁰⁸

Royal Mail's performance to date

- 6.11 In the period between the introduction of the current target levels in 2005/6, and until 2019/20, Royal Mail largely sustained levels of quality of service which were either meeting targets or close to target levels, with some exceptions.²⁰⁹ However, in 2020/21, Royal Mail's services were disrupted by the Covid-19 pandemic, leading to a significant and sudden drop in quality of service. This was followed by industrial action which also affected performance significantly. Problems with performance have continued. In contrast to the relatively stable performance prior to 2019/20, Royal Mail's performance since 2020/21 has fallen far below target levels, with less than 75% of First Class mail delivered on time in three of the past four years, against a target of 93%.
- 6.12 We remain concerned that Royal Mail's quality of service continues to be significantly below pre-pandemic levels with inadequate action taken to address the causes of failure and drive consistent improvement. Recognising the insufficient or ineffective steps Royal Mail has taken to mitigate issues with its quality of service performance, we imposed a fine of £5.6m in relation to 2022/23, where only 73.7% of First Class mail, and 90.7% of Second Class mail, was delivered on time.²¹⁰ More recently, we imposed a financial penalty of £10.5m in relation to performance in 2023/24, recognising Royal Mail's failure to

²⁰⁸ Ofcom, 2024. [The future of the universal postal service – Call for Input](#), p.51

²⁰⁹ This includes a £1.5m penalty imposed on Royal Mail in 2018/19 for their performance 1.5% below the First Class target.

²¹⁰ Ofcom, 2023. [Investigation into Royal Mail's quality of service performance in 2022/23](#).

significantly and continuously improve as well as the harm to consumers, given only 74.5% of First Class mail and 92.4% of Second Class mail was delivered on time.²¹¹

- 6.13 Royal Mail has said that improving quality of service is a priority and has set out an action plan for the financial year 2024/25. Under this plan, Royal Mail's ambition has been to incrementally reduce underperformance. The action plan also set out secondary metrics, against which Royal Mail has started to report its performance for First and Second Class items which have missed their headline target (performance on late items such as these is also referred to as the 'tail of mail'). They accordingly set a goal to deliver at least 95% of First Class items within two days (i.e. one day after the item is due), and 99% of Second Class items within five working days (i.e. two days after the item is due), in the last month of this financial year.²¹² Its plan is supported by an investment of [§<] £ low tens of millions in 2024/25 and will focus on improvements to a range of organisational structures and processes.²¹³ We welcome Royal Mail setting out a structured path to improvement, and providing additional transparency around delayed mail. We will continue to monitor their progress closely as set out in our 2023/24 Post Monitoring Report.²¹⁴
- 6.14 However, given the scale of ongoing failures in recent years and the precipitating events, including the Covid-19 pandemic, we believe it is important to separate consideration of the actions that Royal Mail must take to address its current underperformance from the question of what quality of service targets are most appropriate for the postal market in the context of a reformed USO.
- 6.15 Thinking about quality of service for the longer term, we recognise that the postal market has been slowly changing, in material ways, over the almost twenty years since current targets were set. As described in Sections 2 and 3, the post and other communications services are being used differently today, the outcome of which is that letter volumes have been in structural decline, parcel volumes have increased, and the number of delivery points has grown.
- 6.16 Further, we recognise that in response to the changing market, Royal Mail has been undertaking long-term changes to its operations, which have also impacted its ability to achieve high quality of service. Attempts to realise efficiency gains by improving productivity are essential to the sustainability of the universal service. They are also positive for consumers to the extent that they avoid excessive costs being passed on to people and businesses through price rises. However, efficiency initiatives have reduced the resource cushion available to deal with unexpected variations in amount of mail to be processed and delivered, by more than [§<].²¹⁵ This means that, as volumes of mail fluctuate, there is less spare resource in periods where volumes are low, but it also means that, when there are spikes in mail volumes, there is less resource available to process and deliver the increased

²¹¹ Ofcom, 2024. [Investigation into Royal Mail's quality of service performance in 2023/24](#).

²¹² Royal Mail, 2024. [Q1 2024/25 Quarterly Quality of Service & Complaints Report](#), p.1

²¹³ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024

²¹⁴ Ofcom, 2024. [Post monitoring report – postal services in the financial year 2023-24](#).

²¹⁵ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024

volumes of mail, potentially contributing to delays and missed targets. Simultaneously, Royal Mail has been adapting the way in which its transport network uses different modes of travel to move mail around the country, reducing its use of flights and rail, and moving towards slower but more reliable road transport.

- 6.17 In particular, we consider these longer-term trends are relevant to our consideration of the appropriateness of current quality of service targets, as we expect that they are likely to contribute to it being more difficult to consistently achieve high quality of service targets at a reasonable cost, and we expect these trends to continue.

Stakeholder views on quality of service

Overall feedback to our CFI from stakeholders

- 6.18 Many respondents to our CFI expressed concerns about Royal Mail's recent poor performance, with some stakeholders citing operational reasons as a contributing factor. One stakeholder said that Royal Mail's resourcing and staffing challenges, including staff shortages and low retention rates, led to a crisis in performance.²¹⁶ Several stakeholders attributed poor performance to the longer-term trends in the postal market including changes in the proportions of letters and parcels making up overall volumes, noting the increase in parcel volumes and the suspected prioritisation of parcel over letter deliveries.²¹⁷
- 6.19 Looking forward, stakeholder comments largely reflected evolving user priorities. Several stakeholders emphasised the importance of reliability with many seeing service reliability and certainty of arrival as key factors, often considering them to be more important than speed of delivery.²¹⁸ For example, Whistl noted that its survey found that just over half (52%) of its clients said service reliability was the most important factor and most likely to influence future postal volumes.²¹⁹
- 6.20 Despite noting the challenges in achieving target levels of quality of service, several stakeholders perceived a reduction of the current targets as an unattractive option, citing concerns over a further erosion of consumer confidence.²²⁰ Further, some stakeholders said that more needs to be done to improve reliability. Some said that 'tail of mail' targets would help to increase reliability and provide more information on the scale of delays.²²¹

²¹⁶ [Communication Workers Union response](#) to the 2024 Call for Input.

²¹⁷ [Greeting Cards Association](#), [Strategic Mailing Partnership](#) and [Caroline Lucas MP](#) responses to the 2024 Call for Input.

²¹⁸ [Federation of Small Businesses](#), [Post Office](#) and [Immediate Media](#) responses to the 2024 Call for Input.

²¹⁹ [Whistl UK Limited](#) response to the 2024 Call for Input.

²²⁰ [Greeting Cards Association](#), [Germinal GB](#), [Federation of Small Businesses](#), [Communications Consumer Panel](#), [Thortful](#), [Twizler](#) and [Communication Workers Union](#) responses to the 2024 Call for Input.

²²¹ [Citizens Advice response](#) to the 2024 Call for Input.

- 6.21 Other stakeholders said that changes to the current delivery patterns must be accompanied by higher levels of quality of service.²²² Stakeholders specifically emphasised the need for improvements in reliability and greater confidence in the quality of service.²²³

Specific stakeholder views on quality of service targets

- 6.22 Some stakeholders, including the Communication Workers Union and Unite CMA noted that the targets, historically based on the predominantly letter-based market, need adjustment to account for the shift away from letters to parcels. Unite CMA recognised a reduction of the First Class target to 90% as a feasible approach.²²⁴
- 6.23 As part of its proposal for changes to the USO specification, Royal Mail suggested the following changes to quality of service targets to reflect structural shifts in the dynamics of the postal market, and its corresponding view that it cannot meet current targets at reasonable cost:²²⁵
- a) Reduce the First Class national target from 93% to 90% of mail delivered within one day.
 - b) Remove the First Class postcode area target, or otherwise reduce it from 91.5% to 86% of mail delivered within one day in each postcode area, with an additional permission to fail in six postcode areas each year, separate from the existing exemption of three specific hard-to-reach postcode areas.
 - c) Reduce the Second Class national target from 98.5% to 95% of mail delivered within three days.
 - d) Introduce new ‘tail of mail’ targets, for First Class at 96% of mail delivered within two days, and for Second Class at 99% of mail delivered within five days. Royal Mail subsequently revised their proposal such that their preferred targets were 99% of mail delivered within five days for both First Class and Second Class.²²⁶
 - e) Reconsider previous requests for changes to the deliveries target, namely a change from measuring completed delivery routes to measuring delivery points served; and an extension of the Christmas exemption period to include ‘Cyber Week’.²²⁷

Research on user preferences about quality of service targets

- 6.24 Quality of service targets should support consumer benefits from a USO that meets the reasonable needs of users which were described in Section 3. While we can understand the preferences and habits of postal users at a high level, testing specific user preferences on quality of service target levels is more challenging, and awareness of the relevant targets, as well as the specifics of Royal Mail’s performance levels is generally low. The disparity

²²² [Mail Users Association](#), [Action with Communities in Rural England](#), [CFH Docmail Limited](#) and [Credit Services Association](#) responses to the 2024 Call for Input.

²²³ [Action with Communities in Rural England response](#) to the 2024 Call for Input.

²²⁴ [Communication Workers Union](#) and [Unite CMA](#) responses to the 2024 Call for Input.

²²⁵ [Royal Mail response](#) to the 2024 Call for Input.

²²⁶ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

²²⁷ ‘Cyber Week’ is a period during which online retailers offer discounts on their products. It normally runs from ‘Black Friday’ at the end of November through to early December.

between Royal Mail's recent performance and its current targets likely further adds to the difficulty of assessing the preferences of users with regard to specific target levels.

- 6.25 Generally, the preferences and expectations of users have evolved in the time since current targets were set. Users greatly value the reliability element of the USO, and our evidence from user needs research and stakeholder responses show that users often prioritise this aspect over the speed and frequency of delivery. Our 2024 research found that 88% of users said that it was important that letters and cards were delivered on time. This is consistent with our research in 2023 and 2020 which found that 88% and 87% of users respectively said that it was important to them that they could be confident that 90% of letters and cards were delivered on time.²²⁸
- 6.26 We understand that users still need strong assurances of a high level of quality of service, specifically in the context of the USO changes which may reduce the frequency of deliveries for Second Class letters. Our 2020 qualitative research found that users were generally less willing to accept lower quality of service requirements, especially if other aspects of the service were to be reduced.²²⁹ This aligns with CFI responses which indicate that users want improvements to quality of service and Royal Mail's accountability to provide reliability, particularly in the context of accepting a reduced service for Second Class letters.
- 6.27 We have limited evidence that users' preferences differ significantly between levels of quality of service, and as noted above there are difficulties in testing precise preferences. In our 2020 review of user needs we found that a reduction to 90% for First and Second Class mail would meet 97% of residential users' needs, a 1 percentage point decrease from the 98% of residential users needs that are met by the current target level. For SME users, 91% would see their needs met by the reduced 90% targets. A reduction to 80% would meet the needs of 95% of residential users and 90% of SMEs.²³⁰ More recent research commissioned by Royal Mail in 2024 found that differences between targets made only a very minimal difference to users' views of the acceptability of First Class services.²³¹
- 6.28 Higher levels of quality require higher levels of investment, particularly so for faster services such as First Class which require more resource and allow less flexibility for delays. Improving quality of service is also more expensive at higher levels of performance, for example, improving from 90% to 95% is much more costly than improving from 70% to 75%. In some cases, the cost of higher quality means that postal operators must raise prices in order to sustain their operations. We know from our research that, along with reliability, affordability ranks as one of the most important aspects of the USO. We have some evidence of how users view the trade-offs between quality and affordability. For instance, our 2020 user needs research found that users saw a reduction in quality of service targets to 90% as being equivalent to a 1-5p price rise, in terms of how it affected their willingness

²²⁸ Yonder, 2023. [Consumer Survey Research on Post](#), p.9

²²⁹ Jigsaw Research, 2020. [UK Postal User Needs: Qualitative Research Report](#), p.36

²³⁰ Ofcom, 2020, [Review of postal users' needs](#), p.70-71

²³¹ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

to pay.²³² More recent research commissioned by Royal Mail in 2024 likewise found that users' views on the acceptability of First and Second Class services were much less responsive to changes in quality than to changes in price.²³³ This could indicate that users are more willing to accept reduced quality of service than price rises linked to investments in higher quality.

Our assessment of changes to quality of service targets

- 6.29 Ofcom last reviewed quality of service obligations as part of our 2022 Review of Postal Regulation.²³⁴ At that time, stakeholders expressed concerns with Royal Mail's performance, particularly noting that it had not recovered to pre-pandemic levels. At the same time, we received a number of proposals, including from Royal Mail, for minor technical changes to several targets including a statistical adjustment to the postcode area target for First Class, a change to the methodology of the delivery completion target, and the removal of the Christmas Exemption. At the time of our 2022 review, Royal Mail submitted that it supported all of the main quality of service targets that made up the regulatory framework. We did not assess the levels of the First and Second Class targets, and our detailed assessment of specific proposals for other targets found that the changes would not be in the interests of users.
- 6.30 The scale of challenges facing the USO has since become more apparent, as noted in our 2022/23 post monitoring report²³⁵ and our CFI. While our initial position in our CFI was that reducing quality of service targets was not an attractive option on its own, we also said that, if changes were made to the USO delivery specification, we would need to review our quality of service framework.²³⁶
- 6.31 We consider it justified to assess whether the targets can be rebalanced to best serve their role as part of the reformed USO. This recognises the context of declining letter volumes and therefore increased unit costs for delivery, evolving use of the mail and associated expectations of the USO focusing more on reliability and affordability than speed, and the financial position of Royal Mail. In particular, this entails assessing the targets against the objectives described in Section 2, such that targets lead to consumer benefits, support the financial sustainability and efficiency of the universal service, and incentivise a high-quality service. This includes considering reductions to targets where a more proportionate balance between these objectives can be struck moving forwards. It also includes considering how new 'tail of mail' targets could be introduced to better achieve certain objectives. We remain clear that users need a high-quality service from Royal Mail, and

²³² Ofcom calculations from Jigsaw Market Research (Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#))

²³³ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

²³⁴ Ofcom, 2022. [Statement: Review of Postal Regulation](#).

²³⁵ Ofcom, 2023. [Post monitoring report – postal services in the financial year 2022/23](#)

²³⁶ Ofcom, 2024. [The future of the universal postal service – Call for Input](#), p.70

consideration of changes to quality of service targets is by no means intended to accommodate the recent failures of Royal Mail in this regard.

First Class targets

A revised First Class D+1 national target in line with market changes

6.32 We consider it warranted to assess whether the current target requiring 93% of First Class mail to be delivered next working day (D+1) is still appropriate and proportionate given: (i) evolving user needs and the trade-off between outcomes; (ii) changing features of the postal market; and (iii) the financial position of the universal service. We consider in this sub-section whether an adjustment to the target might lead to better outcomes for consumers and contribute to a more sustainable USO.

Evolving user needs and trade-offs between outcomes

6.33 While users ideally wish for inexpensive, quick, and consistently reliable delivery, there are inevitable trade-offs between these features in practice, and quality of service targets can play a role in incentivising balanced outcomes in the interests of consumers. The level of investment necessary to meet quality of service targets is one factor that drives prices and, at any level of investment in quality of service, Royal Mail faces trade-offs in how it deploys resources. 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). The current 93% target incentivises prioritisation of quick, next-day delivery of a very high proportion of mail. However, this has come at significant cost to Royal Mail - even as it has failed to achieve its targets - and likely also necessitates less focus on consistent delivery of items that have missed the next-day target, leading to longer and less predictable delays.

6.34 The current 93% target could also contribute to greater price rises in the future than would otherwise be the case, due to Royal Mail's need to recoup the associated costs of achieving this level of performance. As an example, Royal Mail has estimated that additional price increases for First Class services associated with the costs of improving their quality of service from 90% to 93% could be material, in the order of [£] per First Class stamp.²³⁷ While this appears to be a reasonable estimate of the price rise necessary were revenues required to be raised solely from First Class stamps, other mechanisms for raising revenues may mean less significant price rises.

6.35 In contrast to the balance struck by the current target, the available evidence set out in the previous sub-section on user preferences suggests that users prioritise affordability and see price rises as less acceptable than reductions in the level of the target for next-day deliveries. The evidence also indicates users prioritise certainty that their packages will be delivered within a reasonable time, including the expectation that mail items which have missed their initial targets be delivered promptly and consistently. This could indicate that

²³⁷ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

the current target level is not incentivising a balance of consumer outcomes aligned with user preferences.

Changing features of the postal market

- 6.36 The postal market has changed significantly since the 93% target was set in 2005. As previously set out, Royal Mail is serving more delivery points, while delivering fewer letters and more parcels. In particular, the decline in letter volumes and decrease in call rates²³⁸ have meant that the impact of unexpected variations in volumes – in other words the volatility of volumes – is more significant and harder to manage. The impact of this volatility on Royal Mail’s network has been further amplified as it has tried to make efficiency savings which improve productivity but reduce the resource buffer available to deal with spikes in demand. Parcels also make up an increasing proportion of overall volumes, and are more resource intensive to deliver than letters, making it more expensive to meet the same levels of performance. The situation in the UK is not unique, and many comparable countries have undertaken reforms to their USO regimes which have included revision to their quality of service targets.
- 6.37 We consider that these changes to the market and Royal Mail’s operations have meant that the burden associated with meeting current target levels no longer reflects the context of the market at the point when the target was set. Further declines to First Class letter volumes could increase the costs incurred to manage volatility.

The significance of increasing costs associated with the universal service

- 6.38 In the context of these market changes, the costs associated with meeting the current 93% target for First Class have become more significant for the financial sustainability of the universal service. These costs do not generally scale linearly with changes to volume, as managing volatility becomes a more significant issue at lower volumes. This has likely meant that as volumes have declined, economies of scale have become harder to realise and volatility has become more expensive to manage. Partially as a result, unit costs associated with achieving target levels of performance have increased since 2005/6.
- 6.39 Further, the costs associated with quality of service performance do not scale linearly with changes to target levels, as more of a resource buffer is required to achieve high levels of performance, particularly for next day services such as First Class which have limited flexibility for delay. We recognise that the incremental cost of improving performance increases significantly at higher levels of performance, indicating diminishing returns on investment. To illustrate this, Royal Mail has estimated that £20-30m investment is necessary to improve from 77% to 82.5%, a further £60-80m p.a. investment is necessary to improve to 90%, and an additional £120-180m p.a. investment is necessary to improve from 90% to 93%.²³⁹ These costs of investment in quality would need to be borne by Royal Mail in the form of lower returns, but it is also likely that some portion of these costs would have to be recovered from users through price rises. Given Royal Mail’s short term financial

²³⁸ As explained in Section 4, call rates refer to the proportion of addresses on a route that Royal Mail must collect or deliver from.

²³⁹ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

position, the cumulative investment could require the use of much of Royal Mail's available cash.²⁴⁰

Our assessment and provisional conclusions

6.40 Taking into account the above evidence on evolving user needs, changing features of the postal market, and the implications of targets for the financial sustainability of the universal service, we consider that the current 93% target is no longer striking the right balance for consumers, given the cost implications for the provision of a USO specified in this way.

6.41 We have therefore assessed alternative options for the First Class D+1 target, including 90%, 85%, and 80%. In doing so, we have been guided by the policy objectives set out in Section 2, namely how an alternative target level could lead to consumer benefits, support the financial sustainability and efficiency of the universal service, and incentivise a high-quality service.

- a) **90%** - This option would represent a three percentage point decrease in the target level. There is international precedent for this level of target for next-day services. 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.²⁴¹ Due to the incrementally increasing scale of investment necessary to achieve high levels of quality of service, reducing the target from 93% to 90% would materially reduce the expected level of investment to meet the target, by £120-180m p.a.²⁴² In response to our CFI, Royal Mail proposed a target level of 90%, which it has stated would better reflect the reality of its operational and commercial situation, and help to support a financially sustainable universal service. It also anticipates that it may mitigate the need for material, [~~£~~] price increases that could otherwise be necessary to recoup investments in reaching the current 93% target. A 90% target could also allow for some retargeting of Royal Mail's investment towards consistent and reliable delivery of mail including for items which have missed their initial target, and delivery in harder to reach areas. In these ways, a 90% target could support a better balance of consumer outcomes on price and confidence in delivery within a reasonable window of time, while maintaining a very high target level for next-day delivery.
- b) **85%** - This option would represent an eight percentage point reduction to the target. There is precedent of countries similar to the UK operating next-day services with this

²⁴⁰ Royal Mail, 2025. Annual Report and Financial Statements, available at: [Companies House](#)

²⁴¹ Cullen International, 2024: Other countries with 90% targets for next-day services include Portugal, Latvia, and Estonia. Countries with targets above 90%, such as Belgium, generally tend to have differences in their geographic, economic and/or demographic characteristics which are material to quality of service performance.

²⁴² Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

target level.^{243 244} It would entail a reduction in the expectation of investment to meet the target of potentially £180m-£260m p.a. as compared to the current target level. [X].²⁴⁵ This target level could provide greater flexibility to adapt to future declines in volumes, achieve efficiency savings, and limit the investment in quality of service which Royal Mail would need to make. For consumers, the decreased expectation of investment could help mitigate the extent of future price increases, as well as enable more sustainable investment in other outcomes such as ‘tail of mail’ performance or limitation of geographical variation in performance. That said, we note there is uncertainty around the extent to which users currently see 85% as sufficiently high-quality in the context of First Class, as well as the extent to which this level of quality could contribute to substitution away from First Class.

- c) **80%** - This option would represent a 13 percentage point reduction. It would bring the UK in line with some other European countries such as Germany or Italy which have opted for this level of target at D+1.²⁴⁶ It could correspond to a reduced expectation of investment to meet the target in the order of £200m-£290m p.a. as compared to the current target level. From the user perspective, our 2020 review of user needs tested the views of users on a hypothetical 80% target and found that it would meet the needs of 95% of residential users, and 90% of SMEs. However, users perceived an 80% target as being equivalent to a price rise of up to 25p, indicating a much more significant impact on their willingness to pay for a reduced service.²⁴⁷ Further, as quality of service levels decrease, more users are likely to substitute to alternative means of communication. This indicates that, at an 80% target level, the needs of these users are no longer being best met by First Class services. It would also have the effect of reducing revenues, exacerbating the impacts of falling volumes on volatility in ways that make it more difficult to consistently achieve high levels of performance. In 2020, we estimated that a reduction to 80% could cause substitution on a scale that could offset the cost savings and in practice such a change may reduce profitability.²⁴⁸ Further, we are concerned that this would represent the continuation of a level of quality that is similar to Royal Mail’s recent performance, for instance it achieved 79.1% in the first quarter of 2024/25.

6.42 On this basis, our assessment is that the options of 90% or 85% are potential alternatives which could strike a better balance than the current 93% target, while an 80% target is not likely to be appropriate.

²⁴³ Frontier Economics, 2023: When France operated a First Class service their target for next-day delivery was 85%. France has replaced this fully paper-based next-day service with a digital service that allows users to write a letter on the La Poste website and have it printed and delivered the next day.

²⁴⁴ Cullen International, 2024: Other countries including Lithuania maintain this target level for their next-day services.

²⁴⁵ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

²⁴⁶ Cullen International, 2024.

²⁴⁷ Ofcom calculations from Jigsaw Market Research (Jigsaw, 2020. [UK Postal Users Research: Quantitative Research Report](#))

²⁴⁸ Ofcom, 2020. [Review of postal users’ needs](#) p.73

- 6.43 Our proposal is to change the existing First Class target to require 90% of mail to be delivered within one working day (D+1). We believe this would better align the target to benefit consumers in ways they value, and support the financial sustainability of the universal service, as compared to maintaining the current target. We also note that Royal Mail has proposed this level as one that is operationally and commercially achievable. 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.
- 6.44 With any reduction to the current First Class national target, we would expect Royal Mail to refocus its efforts on delivering a highly reliable service in line with the outcomes consumers value, including improved performance in hard-to-reach areas, and more consistent 'tail of mail' performance. We discuss incentivisation of geographic and 'tail of mail' performance in subsequent sub-sections.

A reset of the First Class D+1 postcode area target to support an equal service

- 6.45 Currently, in addition to the national target for 93% of First Class mail to be delivered D+1, Royal Mail must deliver at least 91.5% of First Class mail within one working day in each of the postcode areas (PCA) in the UK.²⁴⁹ The aim of this target 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. Without such a target, there would be greater flexibility for Royal Mail to overperform in some areas to balance out underperformance in others, while still meeting the national 93% target. In 2022 we reviewed the PCA target and affirmed its role in incentivising a high-quality of service across the UK, including in harder to reach areas.²⁵⁰
- 6.46 In light of our proposed reduction to the national target, maintaining the current 91.5% PCA target would, in effect, continue to hold Royal Mail to a higher level of overall performance than the national target, and therefore undermine the objectives of our proposal. We therefore consider that the PCA target would also need to be reset at a lower level, proportional to the revised national level. In particular, we need to consider whether the current 1.5 percentage point difference between the national and PCA targets should be maintained, or whether there are reasons to widen the difference between these two targets as the national target is reduced.
- 6.47 Generally, the results of individual PCAs are similar to the national average in any given period, with some overperforming and others underperforming. This is because a significant portion of the failures and delays which contribute to quality of service performance is due to random events such as weather or transport disruptions which occur independently in different parts of the UK. These events can be planned for in a general sense, and mitigated by increasing the buffer of resource available to deal with random disruptions, but are less predictable in the specifics of exactly when and where they will occur. The cumulative effect of a large number of these independent random events is that

²⁴⁹ With the exception of three postcode areas - Hebrides, Kirkwall, and Lerwick – which are exempt from the target due to their remoteness. Royal Mail is required to report regularly on performance in these areas to provide transparency.

²⁵⁰ Ofcom, 2022. [Statement: Review of Postal Regulation](#) p.98-99

most PCAs end up with results near to the national average, with fewer PCAs significantly overperforming or underperforming.

- 6.48 Overall, the results of individual PCAs in any given year tend to be broadly normally distributed, reflecting the random geographic distribution of many factors which affect quality of service performance. As part of the quality of service framework, while the national target for First Class sets an overall level of expected performance, the role of the PCA target is therefore to ensure that Royal Mail makes efforts to limit the variance of this distribution to a reasonable degree, as well as not to let some areas consistently underperform.
- 6.49 In historical data, we observe that, in years when national performance has been lower, the gap between the lowest-performing and highest-performing PCAs has been greater.²⁵¹ This means that, in such years, the performance of some PCAs declines further, relative to the higher performing PCAs, compared to years when the national performance is higher.
- 6.50 In the context of our proposed revision to the national target, we expect that there would be a slightly larger difference between the lowest-performing and highest-performing PCAs, as compared to a scenario where the current national target was being met. 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. We would expect the types of cost savings associated with lower national performance to result in individual PCAs being slightly more exposed to random events which affect their quality of service performance. More generally, the effect of random events on performance is also greater at the PCA level than it is at the national level, due to there being less aggregation of performance and because the factors that cause variations in performance are generally more difficult to predict and manage at more local levels.
- 6.51 We therefore do not think that keeping the current 1.5 percentage point gap between the First Class national target and PCA target is appropriate in the context of lowering the national target. We expect that, in practice, the cost of maintaining this level of PCA performance is likely to limit the extent to which benefits from the change to the national target can be realised. Further, it could overstep the role of the current PCA target in limiting geographic variation, and in effect may become the primary binding target for First Class quality, requiring a higher level of national performance than 90%.
- 6.52 Given this, and taking into account the dynamics of PCA performance as set out above, we have considered how to reset the PCA target with regard to the objectives set out in Section 2. This includes supporting consumer outcomes of receiving equal service across the UK, the financial sustainability of expected investments in quality of the universal service, and the role of the PCA target in supporting an overall high-quality service.
- a) Our starting point is to estimate the distribution of PCA results assuming national performance close to our proposed national target of 90%. Based on the distribution of annual PCA results when Royal Mail was closest to 90% national performance, we

²⁵¹ Ofcom analysis of Royal Mail published PCA performance between 2012/13 and 2023/24.

would expect virtually all (over 99.7%) of PCAs to achieve or surpass 86%.²⁵² Royal Mail has proposed, then, that the PCA target could be reset to this level (86%) to reflect the 90% national target, with an additional dispensation for the failure of six PCAs in any given year. However, we consider that this level, on its own, would not represent an effective target in incentivising Royal Mail to limit the extent of local variation in performance, as we would expect all PCAs to receive this level of performance. Further, given the application of a confidence level when measuring and enforcing the PCA target to tackle underperformance, it is likely that this option would be insufficiently stretching based on past performance data.²⁵³

- b) In line with the objective of the PCA target in upholding the equality of the universal service, we consider that, in order to be meaningful, the target should be set at a more stretching level than it would be set based solely on statistical analysis of past PCA performance. This serves to ensure that there is sufficient incentivisation to avoid consistent or sustained failures in particular areas and aligns with our enforcement approach including the use of confidence intervals. We consider that adjusting upward from our statistical starting point of 86% by an additional percentage point, to 87%, would set a meaningful floor on local variation and represent a commitment to users about universal and equal service. This would set the PCA target three percentage points lower than the proposed national target of 90%, and would represent a balance between limiting underperformance while not incurring disproportionate costs.

6.53 Taking into account the dynamics of PCA performance, the role of the PCA target as a supporting target to the primary national target for First Class, and our policy objectives, we propose a reset PCA target requiring **87% of items to be delivered within one working day (i.e. D+1)** in each postcode area of the UK apart from HS, KW, and ZE. As this proposal reflects our proposed 90% national target for First Class, in the case that we consider an alternative national target, we would need to re-assess a proportional PCA target according to the principles set out above.

6.54 In addition to resetting the level of the PCA target, in its CFI response Royal Mail proposed that, in the case of a lower PCA target, it should also be permitted to fail in six PCAs in any given year. We consider that this dispensation could mean that the target would be insufficiently stretching overall, and in particular insufficiently motivating for Royal Mail to tackle consistent underperformance in particular areas as the same PCAs could be allowed to fail each year. We are therefore not proposing to add additional dispensations for PCAs to fail the PCA target at the reset level, nor are we making any changes to the current exemption to this target for three remote PCAs, which will continue to be monitored

²⁵² Standard deviation is a measure the spread of a distribution. This estimation, based on analysis of Royal Mail published PCA performance between 2012/13 and 2023/24, reflects the statistical principle that 99.7% of data should fall within three standard deviations either side of the mean of the distribution. We estimate three standard deviations to be 3.9% based on historical data when performance was around 90% nationally.

²⁵³ PCA performance is measured based on a sample of mail rather than observing the performance of all mail items, and therefore quality of service results are estimates with associated confidence intervals (historically these have ranged between $\pm 1\%$ and $\pm 2\%$ for individual PCA results). When we enforce the PCA target, we consider what the highest performance may have been, taking into account the upper bound of the confidence interval.

separately. 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.

A new First Class D+3 ‘tail of mail’ target in support of reliability and certainty

- 6.55 We know reliability of delivery is a key priority for users, and more important than speed for many users. Having certainty about how mail will consistently be delivered goes beyond understanding whether mail will be delivered on its target date. It also requires understanding the window of time during which a piece of mail is likely to arrive, as inevitably some mail is delivered early, and some late. Making this window as narrow and predictable as possible are important parts of ensuring a reliable service.
- 6.56 While the existing quality of service targets measure the proportion of mail that arrives to specification (i.e. on time), they do not provide any transparency for users or incentivisation for Royal Mail in relation to items which have missed their target. On a voluntary basis, Royal Mail has started to report its performance on specific ‘tail of mail’ metrics since the start of 2024/25, and has proposed adding ‘tail of mail’ targets to the regulated quality of service framework.
- 6.57 Many other comparable countries have introduced supporting targets in order to measure the ‘tail of mail’ and incentivise universal service providers to provide a reliable service for items that have missed their primary target, thereby limiting the extent of delays, and providing greater assurance to users regarding reliability.^{254 255}
- 6.58 The introduction of a ‘tail of mail’ target for First Class would serve multiple purposes. It is our view that this would support better outcomes for consumers by incentivising Royal Mail to provide a reliable and consistent service for items that have missed their initial delivery target, by taking action to reduce the scale and frequency of delays. At the same time, supplementing the existing targets in this way would provide an additional layer of confidence to users that delayed mail will be delivered consistently within a set time period. This represents a way of further rebalancing the set of targets towards the outcomes that users value.
- 6.59 A high target level for this supporting ‘tail of mail’ target is necessary for user certainty and incentivisation of performance. We consider that, for the benefits of this target to be realised, it should be set in such a way that virtually all mail should be captured, whereas lower target levels (e.g. 95%) could mean more marginal differences between the level of primary and supporting targets, and thus less consumer confidence and weaker incentivisation. The day on which the ‘tail of mail’ is measured (e.g. D+3 or D+5) should also reflect a reasonable window of time, balancing the need to limit the scale of delays for people and businesses, while ensuring that it is achievable for Royal Mail to deliver to a high

²⁵⁴ Cullen International, 2024.

²⁵⁵ Note: ‘Tail of mail’ targets have also been part of previous regulatory regimes for postal services in the UK, e.g. prior to 2005, 99.9% of mail was required to be delivered within three working days of its main target.

target level in support of consumer confidence. We have considered several options in terms of how to balance these outcomes:

- a) **96% at D+2:** Royal Mail has proposed that the ‘tail of mail’ target for First Class should be 96% at D+2, in the context of a revised 90% D+1 target for First Class. We recognise that this option has elements which would be positive for consumers. In particular, a D+2 ‘tail of mail’ target would be set only one day after the primary target, and therefore incentivise Royal Mail to limit long delays by seeking next-day delivery of any items which have missed the primary target. On the other hand, the target level of 96% would mean that, of the 10% of mail which would be permitted to miss the initial target at D+1, roughly half (4%, being the difference between 96% and 100%) would also be permitted to miss the ‘tail of mail’ target at D+2 and then have no associated target for delivery. From the perspective of user confidence and certainty of delivery, the 96% level is therefore likely to be insufficiently high, as there would still be many items which could slip through and provide no indication of by when these items should be delivered.
- b) **99.5% at D+2:** A second option would be to take the D+2 aspect of Royal Mail’s proposal, and consider a higher target level, such as 99.5%. Royal Mail must already meet a 99.5% target for postal packets deemed delivered across USO services (with no specified time), and this would align with the level of that backstop. This would maintain the benefits of seeking to limit the scale of delays, as well as capturing virtually all mail items. However, in the context of Royal Mail’s past performance of First Class mail at D+2, achieving this level of target would be likely to incur operational costs of a scale which could precipitate price rises counter to the interests of consumers, be less likely to be achieved, or bring additional risks to the financial sustainability of the universal service.
- c) **99.5% at D+3:** A third option would be to consider a high target level of 99.5% at a slightly slower delivery speed of D+3. While some European countries have D+2 ‘tail of mail’ targets for next-day services, more commonly these supporting targets are set at D+3.²⁵⁶ This would mean that the ‘tail of mail’ target would be two working days after the primary target of next-day delivery, thereby allowing an additional opportunity to attempt redelivery. In this context, it could strike a more proportionate balance than the previous two options, by limiting delays to two working days, supporting a high target level such that users have confidence that virtually all mail should be delivered in this window, without incurring as significant costs which might be passed on to consumers or create other risks. It would also align with the Second Class speed of D+3, such that users could benefit from delayed First Class mail being delivered no later than the Second Class specification.
- d) **99% at D+5:** Royal Mail has also proposed that a target level of 99% could be imposed at D+5. In contrast to the next-day specification for First Class, this target would give

²⁵⁶ Cullen International, 2024: Countries with D+2 supporting targets for D+1 services include Austria and Germany (until 2025). Countries with D+3 supporting targets for D+1 services include France (until 2023), Belgium, Ireland, Lithuania, Estonia, Portugal (until 2024).

Royal Mail four additional working days to deliver delayed mail, and would mean that delayed First Class mail could be delivered slower than Second Class mail.

- 6.60 Taking into account all of the above factors, and in the context of our proposal for a revised 90% D+1 target, our proposal is to introduce a ‘tail of mail’ target for First Class mail that would require **99.5% of items to be delivered within three working days (i.e. D+3)**.²⁵⁷ Based on past performance, this 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.²⁵⁸ To the extent that this operational flexibility can enable cost savings, we expect that this would support better outcomes for consumers by avoiding costs being passed on to people and businesses. This would also align with ‘tail of mail’ targets used by other European countries, putting the UK at the top of the range of comparable countries.²⁵⁹
- 6.61 While we anticipate that there would be benefits from the introduction of a ‘tail of mail’ target, we maintain that it would play a supporting role, and that the target for D+1 delivery to specification would remain the primary target to which Royal Mail must be held accountable in relation to First Class. Users expect to mail to be delivered on-time, in return for what they have paid. The purpose of the ‘tail of mail’ target is therefore to support the primary target, incentivising Royal Mail to limit the scale of delays and giving users an improved guarantee of the delivery window for mail items. Nonetheless, we consider that a ‘tail of mail’ target which Royal Mail achieves would bring material benefit to consumers by providing confidence that their First Class letters would be delivered in a timely way, and additionally helping to repair the damage to confidence that has arisen due to Royal Mail’s poor performance on quality of service.

Second Class targets

An adjusted Second Class D+3 target to reflect the proposed alternate weekday delivery model

- 6.62 We recognise that the proposed reforms to Second Class letter delivery could make it more difficult to meet the current quality of service target of 98.5% of Second Class mail delivered within three working days (i.e. D+3), and have therefore considered whether it is appropriate to maintain this level. As set out in previous sections, we are proposing reforms to the Second Class letter delivery specification as it is our view that these changes would promote better outcomes in terms of consumer benefits, as well as supporting the financial sustainability of the universal service. While any impact of these reforms on quality of service may be possible for Royal Mail to mitigate through further investment in Second Class quality of service, we recognise that such investment would necessarily reduce the

²⁵⁷ As this proposal reflects our proposed 90% D+1 national target for First Class, in the case that we considered an alternative national target we would need to re-assess a proportionate ‘tail of mail’ target according to the principles set out above.

²⁵⁸ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

²⁵⁹ Cullen International, 2024: This includes Ireland 99.5% D+3, France 99% D+3 (until 2023), Belgium 97% D+3 (First Class letters) and 97% D+2 (parcels), and Germany 99% D+4 (from 2025).

anticipated cost savings, and could be counterproductive to the policy objectives of supporting consumer outcomes and financial sustainability, as outlined in Section 2.

- 6.63 In practice, the move to deliveries on alternate weekdays, with no Saturday deliveries, would decrease the number of opportunities Royal Mail has to attempt delivery of Second Class letters within three working days of collection. As described in Section 5, the alternate weekday delivery model means that each delivery address would be served every other day between Monday and Friday, with a weekly alternating pattern between Monday, Wednesday, Friday deliveries, and Tuesday, Thursday deliveries. Depending on when a Second Class letter is posted, and what delivery route the recipient is on, Royal Mail would either have a single delivery opportunity on D+2, or delivery opportunities on D+1 and D+3. Royal Mail currently has three delivery opportunities (i.e. on D+1, D+2, and D+3), so the change in delivery model would mean that they have either one, or two, fewer opportunities to deliver any given Second Class letter.
- 6.64 This reduction in delivery opportunities would be expected to impact Royal Mail's performance, effectively making current Second Class targets harder to achieve. Some letters may have to be delivered earlier than it currently would in order to make the sole delivery opportunity on D+2. However, it is likely that not all letters that would currently be delivered on D+3 would be able to be expedited such that they are processed and ready for delivery on D+2. In these cases, where letters could not be delivered on D+2 to requisite delivery points, they would be delayed until D+4, and would therefore be delivered late.
- 6.65 More generally, there would be an increased reliance on successfully delivering items where Royal Mail has opportunities to do so, and the impact of any failures would be amplified. For items where there would be only a single opportunity for delivery before the D+3 target, this risk would be particularly acute. For other items, the alternate weekday delivery pattern would mean that mail processed on D+2 would be held back to be delivered on D+3. In this case there is also likely to be an increased reliance on successfully completing delivery and a higher associated impact of any failures on D+3.²⁶⁰
- 6.66 An additional implication of the change in delivery specification affects the routing time calculation through which quality of service is measured. As set out in Section 5, we are proposing for collections to operate with the same frequency as now. However, under our proposed changes, the deemed date of collection for Second Class letters and parcels received on Saturdays will be Mondays, otherwise Royal Mail would have to fully process such letters on a Saturday which would risk negating some of the benefits of the reform. For the purpose of calculating routing times, and therefore measuring quality of service, this would mean that for items posted between Wednesday and Saturday, the D+3 window for on-time delivery would start, and end, one day later than it does currently (see Table 5.2 in Section 5).

²⁶⁰ This is to say, under the current specification a failure to deliver a letter on a given day might not mean that the letter ends up being delivered late, as there are opportunities to attempt redelivery. However, under the proposed alternate weekday delivery model, where there are fewer opportunities to deliver letters - in some cases only one opportunity within the D+3 timeframe - failing delivery would be more likely to mean that the letter is delivered late.

- 6.67 Applying the alternate weekday delivery model to past performance data, Royal Mail has produced an approximate estimate of the impact on overall quality of service which: (1) accounts for the changes to (a) the calculation of collection dates and (b) the changes to delivery dates to accommodate the new model; but (2) does not account for the impact of changes in reliance on successfully completing delivery where the opportunity exists. This could mean that it may underestimate the potential challenges of moving to the new delivery model. Further limitations of the statistical impact analysis include representativeness issues with the past performance data, which introduce further uncertainty, including the potential for impacts on quality of service to be more significant than projected.
- 6.68 Taking into account these sources of uncertainty, together with Royal Mail's estimate of the minimum impact of moving to an alternating weekday delivery schedule of between 1% to 3% less Second Class mail delivered at D+3,²⁶¹ our provisional assessment is that maintaining the current target of 98.5% would be disproportionate and counterproductive in the context of our proposed reforms to the USO for Second Class letters.
- 6.69 Our proposal is to revise the existing target to **require 95% of items to be delivered within three working days (i.e. D+3)**. This would reflect the likely impacts of moving to the reformed delivery model for Second Class letters, while maintaining an overall high-quality service for consumers. In its CFI response Royal Mail supported the option of a revised 95% target at D+3 for Second Class mail as appropriate for its new delivery model for Second Class letters. As this change would reflect the operational shift to the alternate day delivery model, we expect this to support the overall policy objective of realising a financially sustainable universal service, and better achieve consumer benefits of a USO in line with user needs. Given available evidence on user preferences, we consider that a 95% target represents a high-quality of service. In comparison with similar countries, 95% sets a high bar for quality, indeed higher than many other European countries.²⁶²

A new Second Class D+5 'tail of mail' target in support of reliability and certainty

- 6.70 We recognise that many of the reasons for proposing a 'tail of mail' target for First Class also apply to Second Class, namely as a means of rebalancing incentives to provide a high-quality and reliable service by reducing the scale of delays. Furthermore, from user research and responses to our CFI, we understand that stakeholders value additional certainty about quality of service in the context of the reductions to delivery frequency such as the alternating weekday model. For these reasons, we have assessed whether introducing a 'tail of mail' target for Second Class could serve the objectives set out in Section 2, as part of a reformed regulatory framework.
- 6.71 Royal Mail has also recognised the value of a 'tail of mail' target for Second Class, and proposed a 99% target at D+5. Our provisional assessment is that D+5 is an appropriate

²⁶¹ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

²⁶² Cullen International, 2024: Aligned with Germany's D+3 target of 95%, and France's target for its D+3 service while it operated, and higher than other European countries including (Norway's 85% for D+3 for letters, Poland's 85% for D+3 letters, and Spain's 93% for D+3 letters).

date at which to set the 'tail of mail' target. The alternating weekday schedule would limit delivery opportunities as Second Class letters would be delivered every other day. An implication of this would be that if an item were not delivered by the third working day after collection (i.e. D+3), Royal Mail would not always attempt redelivery on the next weekday (i.e. D+4). In contrast, by the fifth working day after collection (i.e. D+5), all items which have missed the D+3 target would have had at least one additional delivery opportunity. We therefore consider that D+5 is the earliest appropriate date at which to set a 'tail of mail' target to incentivise reduction of delays for items which have missed the initial target. We consider that a later target date (e.g. D+7 or D+9) would not provide a stretching enough target in line with the objective of achieving the greatest consumer benefits by reducing delay.

- 6.72** 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).**

Our proposed changes to quality of service targets

An updated framework

- 6.73** In summary, we are proposing the following changes to the quality of service targets that Royal Mail is required to meet in relation to USO services:
- a) The First Class national target to require 90% of items to be delivered next day (i.e. D+1).
 - b) The First Class postcode area target to require 87% of items to be delivered next day (i.e. D+1) in each of 118 postcode areas of the UK.
 - c) A new First Class 'tail of mail' target to require 99.5% of items to be delivered within three days (i.e. D+3).
 - d) The Second Class target to require 95% of items to be delivered within three days (i.e. D+3).
 - e) A new Second Class target to require 99.5% of items to be delivered within five days (i.e. D+5).
- 6.74** We have proposed these changes in consideration of the ways in which the postal market has changed in the time since the current targets were set nearly two decades ago, as well as the available evidence on the preferences and priorities of users of the mail and the likely implications of targets for users and for Royal Mail. It is our view that, collectively, these changes serve to further the policy objectives set out in Section 2, namely that this set of proposed targets would support consumer benefits of a reformed USO in line with user needs, that it would support the financial sustainability of the universal service, and crucially that it would incentivise a high-quality and reliable service.

Proposed changes to DUSP Condition 1

- 6.75 In order to implement the proposals set out above, we are proposing to modify Table 1 in DUSP Condition 1 accordingly.
- 6.76 Annex A8 contains a statutory notification of our proposed changes to DUSP Condition 1. Schedule 1 to Annex A8 is a copy of DUSP Condition 1 marked up to show our proposed modifications, and Schedule 2 contains a table setting out the proposed modifications in an accessible format.

Legal tests

- 6.77 In accordance with section 36(3) of the Act, we consider it necessary to modify the quality of service targets set out in DUSP Condition 1 as described above in order to secure the provision of the First Class and Second Class services set out in the Order.²⁶³
- 6.78 In assessing the trade-offs of changing various quality of service targets, we have had regard for the way in which the set of targets acts as a framework to collectively hold Royal Mail's service offering and operations to account. It is our view that this set of changes meets the legal tests for making changes to the DUSP conditions as set out in paragraph 1 of Schedule 6 of the Act, as follows:
- 6.79 **Objectively justifiable:** We consider that the rebalancing of the set of quality of service targets is justified by the evidence we have outlined, including that of the material changes in the operation of the letters market, the significance of the increasing costs associated with the universal service, and user needs. In assessing proposed revisions to existing targets, as well as the introduction of new 'tail of mail' targets, we have considered the balance between available evidence on costs and user needs as well as statistical analysis of past performance and international comparisons. In the case of the primary national D+1 target and associated PCA target for First Class mail, modest reductions are justified in order to support the sustainability of the universal service while realigning to better outcomes for consumers, reflecting the balance that must be struck between the affordability of prices, ensuring a high-quality service, and reliability. We consider that the change to the D+3 target for Second Class is justified as a proportionate adjustment to the new model for Second Class letter delivery while maintaining a high standard for users. Our proposals for the introduction of new 'tail of mail' targets for both First Class and Second Class reflect our understanding of the needs of consumers for reliability, addressing a gap in incentivisation and ensuring that almost all mail will be delivered within a reasonable time.
- 6.80 **Proportionate in relation to what they are intended to achieve:** We have considered and described the way in which First Class and Second Class targets remaining at current levels could lead to disproportionate costs for Royal Mail, which could ultimately lead to increased prices for consumers and add to the risks to the sustainability of the USO. It is our view that our proposed changes are proportionate in that they strike the right balance between the outcomes for consumers – ensuring a high-quality, reliable and affordable

²⁶³ Section 36(3) of the Act.

postal service (recognising that there may be some trade-off between these) – and the burden on Royal Mail.

- 6.81 **Not unduly discriminatory:** We consider that the proposals for changes to quality of service targets do not unduly discriminate as modifications to the DUSP conditions necessarily only apply to Royal Mail. We recognise that there is some uncertainty around the distributional impacts of the new alternate weekday delivery model for Second Class, and the reduced Second Class target. We are conscious that lower targets generally allow for more variation in performance at the local level. We will continue to monitor geographic variation closely as Royal Mail tests the proposed delivery model, and will consider whether any additional measures are necessary to ensure universal and equal service. We further consider that the revision to the PCA target for First Class mail and introduction of ‘tail of mail’ targets for First Class and Second Class mail should support provision of a more equal service across the UK.
- 6.82 **Transparent:** We have set out our reasoning in relation to the overall approach we have taken in putting forward proposed changes to the set of targets, as well as each of the individual changes we are proposing, in this consultation document.

Consultation Questions

First Class:

Question 6.1

Do you agree with our proposal to set the First Class national D+1 performance target to be 90%? Please provide reasons and evidence for your view.

Question 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)? Please provide reasons and evidence for your view.

Question 6.3

Do you agree with our proposal to introduce a new First Class 'tail of mail' target of 99.5% at D+3? Please provide reasons and evidence for your view.

Second Class:

Question 6.4

Do you agree with our proposal to set the Second Class D+3 performance target to be 95%? Please provide reasons and evidence for your view.

Question 6.5

Do you agree with our proposal to introduce a new Second Class 'tail of mail' target of 99.5% at D+5? Please provide reasons and evidence for your view.

7. Proposed changes to the access condition

The purpose of this section

This section sets out our proposals for changes to the obligation on Royal Mail to offer access to its postal network.

In brief

- Most letters sent today are bulk mail, i.e. letters sent by large organisations such as banks, government departments, the NHS or local authorities. However, bulk mail is not part of the USO.
- Royal Mail offers its own bulk mail services on a commercial basis, but we also require Royal Mail (by way of the Universal Service Provider Access Condition (USPA Condition)) to offer access to its network to other postal operators so that they can offer competing bulk mail services. Royal Mail must also offer access directly to large users of mail. The mail sent using access services (known as ‘access mail’) makes up the majority of the bulk mail market.
- An updated delivery model is needed for both USO letters and access mail if Royal Mail is to achieve the cost savings from reform.
- We are proposing to regulate the provision of new D+3 access services under the USPA Condition, which will aim to deliver letters within three weekdays after collection from the sender under the same alternate weekday delivery model as that proposed for Second Class letters. We believe that this proposed change will continue to allow a dynamic competitive market to exist for bulk mail that meets the needs of large organisations and their customers.
- We are proposing to remove Saturday as a delivery day for D+5 access services, so that this mail can be delivered under the alternate weekday delivery model.
- In Royal Mail’s plan for reform, it proposed removing existing D+2 access services from regulation. We currently do not see a case for removing D+2 access from the USPA Condition, as we do not consider the market has yet changed in a manner that would justify this. However, we will keep this under review. We are proposing to update the Royal Mail retail services for the D+2 access margin squeeze control.
- We are also making proposals to improve transparency around our assessment of the margin squeeze control on access services, how we define access services in the USPA Condition, and how Royal Mail should publish quality of service information about D+3 access.

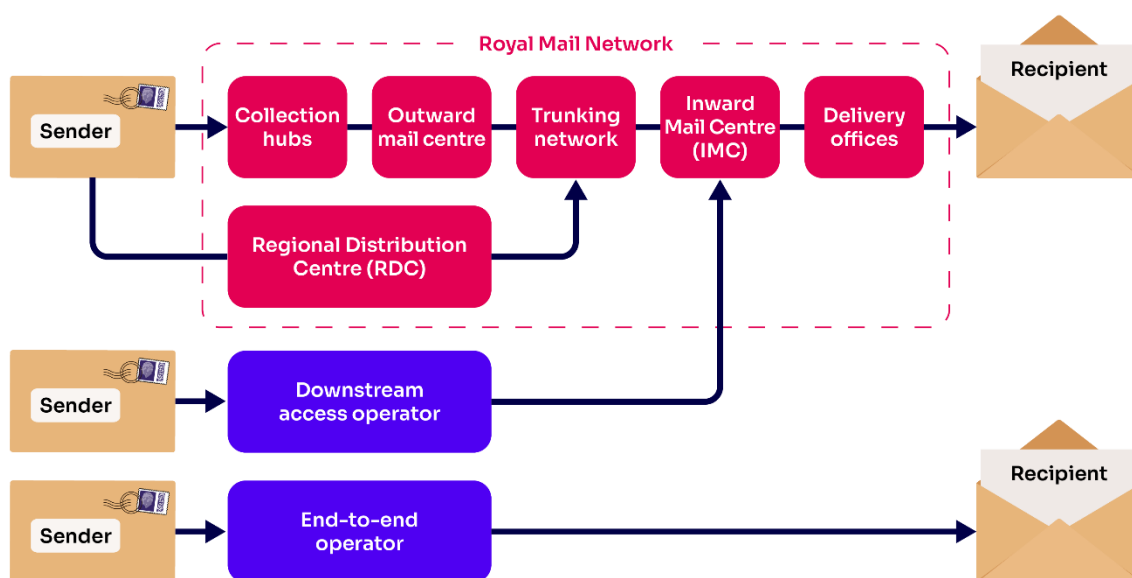
Introduction

- 7.1 By way of the USPA Condition, Ofcom requires Royal Mail to offer third parties, including other postal operators and large users of mail, access to its postal network to use its ‘final mile’ letter delivery services. This enables these postal operators to collect bulk mail from businesses and other organisations, sort it, and distribute it to Royal Mail’s inward mail

centres (“IMC”)²⁶⁴ from where it is delivered to individuals and institutions (see Figure 7.1 below). Large users of mail with access can also sort their own mail and distribute it to Royal Mail’s IMC for delivery. We refer to this mail as ‘access mail’. This access mail ensures that large mail users benefit from price and service competition in the collection and sorting of mail while also being able to take advantage of Royal Mail’s unique position in letter delivery. Royal Mail also offers its own bulk mail services to businesses and organisations through its retail arm, Royal Mail Retail. These retail services are not subject to regulation and compete directly with access operators for customers.

7.2 Bulk mail, inclusive of access mail and Royal Mail’s own retail mail, represents the majority of all mail. In 2023/24, 9 billion letters were sent. Of this, bulk mail represents 5.7 billion items, or 63% of the total. At 4.8bn letters, access mail represents 83% of bulk mail letters.

Figure 7.1: Postal service value chain, including end-to-end and access mail



7.3 Royal Mail uses the same network to deliver bulk mail as single piece mail sent using USO services, and is required to deliver access mail from Monday to Saturday. Given this, and that the majority of letters sent are bulk mail, the proposals in Section 5 of this consultation would only enable Royal Mail to implement a modernised delivery model for a minority of letters in the market, limiting the costs savings to be made from reform. To ensure that the costs savings from reform – and the benefits to consumers through lower prices in the long term – are meaningful, Royal Mail also needs to be able to deliver most bulk mail under the proposed alternate weekday delivery model. Accordingly, this section assesses the impact

²⁶⁴ ‘Inward Mail Centre’ or ‘IMC’ means the part of the mail centre in which the activities related to the processes of final sorting for delivery (in that mail centre’s catchment area) of mail received from the upstream part of Royal Mail’s network, or from other postal operators, to the final addresses take place. The upstream part of Royal Mail’s network consists of the processes related to collection and distribution of mail to Inward Mail Centres.

of changes to the regulation of access that would support this outcome and sets out our proposals for modifications to the USPA Condition.

The bulk mail market

7.4 In this section, we set out how the bulk mail market operates and how access mail operates within the bulk mail market.

Bulk mail

7.5 Bulk mail refers to a range of services provided to senders of large volumes of mail, usually organisations like the NHS, government agencies, local authorities and banks. These services are priced at a significant discount to standard letter and large letter stamp products, with discounts reflecting both the large volumes sent and the way mail has been presented by bulk mail end customers or access operators, among other factors.

7.6 Bulk mail services are typically available to customers either via Royal Mail's own retail offerings, or by using an access operator as explained further below. We refer to 'bulk mail' to capture all mail sent using either Royal Mail's retail offerings or an access operator.

7.7 From workshops Ofcom carried out with large users of mail in 2019 and 2020, we understand that, while large users anticipate using post less in the future, other forms of communication are not a complete substitute. Some end-customers of large users continue to prefer to receive bills and statements by post. Many large users also told us that prices, quality of service, speed and/or tracking were important factors informing their decisions on how much mail to send.²⁶⁵ This aligns with the type of response we received from large users of mail services in our CFI.²⁶⁶

Access mail

7.8 Access mail refers to mail that is collected and sorted by a party other than Royal Mail, before handing it over to Royal Mail for delivery (generally at the IMC as per Figure 7.1 above). This could be another postal operator, or the customer itself, depending on the specific agreement in place.²⁶⁷ We refer to any party that has access as an 'access operator'. Access operators make arrangements with Royal Mail for the delivery of mail to end customers based on standardised terms.

7.9 Royal Mail's own retail division, Royal Mail Retail, competes with access operators in the provision of bulk mail services. As Royal Mail has a nationwide network of mail centres and delivery offices, it benefits from significant economies of scale in the delivery of mail, making it more efficient in the 'final mile' delivery. As that 'final mile' would be very costly

²⁶⁵ Ofcom, 2020. [Consultation: Modifications of the USP Access Condition for regulating access to Royal Mail's postal network](#), p.11.

²⁶⁶ [PPA](#) and [NHS England](#) responses to the 2024 Call for Input.

²⁶⁷ We note that there are a variety of ways access mail can be processed and handed over to Royal Mail for delivery – namely, via access operators, via agency agreements or via Customer Direct Access (CDA) arrangements.

for access operators to replicate, we require Royal Mail to grant access to its network to support effective competition in the bulk mail market. Our regulatory regime seeks to protect access operators from anti-competitive behaviour that could arise from Royal Mail's dominant position in the post supply chain, for example by requiring that it: provide access on fair and reasonable terms, conditions and charges;²⁶⁸ comply with a control to prevent a price squeeze on mandated access services;²⁶⁹ and publish such information as is reasonably necessary for the purposes of securing transparency as to the quality of service of its downstream access services.²⁷⁰

7.10 The USPA Condition currently requires Royal Mail to offer two types of access services for letters, both of which include delivery from Monday to Saturday:

a) **D+2 access services**

Royal Mail is required to offer access at its IMCs for 'D+2' Letter and Large Letter products, to enable access operators to offer services which aim to deliver mail within two working days (or later) after collection from the sender. In practice, this means letters sent using this service must be delivered by Royal Mail the day after the mail is injected into its network because, as per the table 7.1, D is the day the access operator collects the mail from the sender.²⁷¹

b) **D+5 access services**

Royal Mail is also required to offer access at its IMCs for 'D+5' Letter products, to enable access operators to offer services which aim to deliver mail within five working days (or later) after collection from the sender. Again, D is the day on which the access operator collects the mail from the sender, such that letters sent using this service are in practice delivered within four working days after handover at the IMC.²⁷²

²⁶⁸ USPA Condition 3.

²⁶⁹ USPA Condition 6.1.

²⁷⁰ USPA Condition 8.1.

²⁷¹ An access operator may collect mail from its customers but not hand it over to Royal Mail on the next day. In such a scenario, D remains the day on which the mail is collected and therefore the access operator would be providing a 'later than D+2' service to its customers.

²⁷² Similarly to D+5, an access operator may not hand mail over to Royal Mail the day after it collects it from its customers. It would therefore be providing a 'later than D+5' service to its customers.

Table 7.1: access services specification

	D	D+1	D+2	D+3	D+4	D+5
D+2 access services	Customer hands mail to access operator	Access operator hands mail to Royal Mail	Royal Mail delivers mail			
D+5 access services	Customer hands mail to access operator	Access operator hands mail to Royal Mail	Royal Mail delivers mail or defers delivery	Royal Mail delivers mail or defers delivery	Royal Mail delivers mail or defers delivery	Royal Mail delivers the remainder of the mail

7.11 Royal Mail also offers parcel access and D+1 (i.e. next day) access letters, but these are unregulated and based on commercial terms.

Access volumes and revenues

7.12 In 2023-24, D+2 access services remained the largest segment of the access market with 2.9 billion letters (61%) out of 4.8 billion total access letters, while D+5 services accounted for 1.9 billion (39%). However, D+5 volumes rose by 52%, and D+2 volumes fell by 25% in this year, with overall access volumes declining from 5.1 billion to 4.8 billion. Despite falling access volumes, Royal Mail’s access revenue grew slightly from £1.5 billion to £1.6 billion, likely supported by price increases.

7.13 We have received information from Royal Mail showing that D+5 access volumes were 49% of all access letters in the latest four full quarters for which it had data,²⁷³ demonstrating the continued trend away from D+2 access to D+5. We expect that part of the reason for this is because there is demand for less expensive mail with a longer delivery time. However, we also know that some large users of mail are switching to D+5 access services as a result of price sensitivity and concerns over quality of service.

Royal Mail’s responses and proposed access services

7.14 As set out in Section 2, Royal Mail’s response to the CFI set out proposals for the changes it believed need to be made to access services as part of its plan for modernisation of the

²⁷³ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

universal service. The changes to access were aimed at aligning delivery of access mail with the proposed alternate weekday delivery model for Second Class USO letters. At a high level, Royal Mail suggested the introduction of new D+3 access services – aiming to deliver mail within three weekdays after collection from the sender – and the removal of Saturday delivery from D+5 access. Both of these services would then be delivered on alternate weekdays aligned with Second Class letters. Its proposal was that the new D+3 service would replace the existing D+2 service.

- 7.15 Royal Mail’s proposals aim to move the majority of letters, including Second Class USO and access letters, to an alternate day delivery model with the goal of increasing efficiency and reducing costs. By delivering both USO and access letters together on the same alternate day schedule, Royal Mail argued it could consolidate two days’ worth of mail onto a single route, cutting per unit costs²⁷⁴ and supporting lower prices for end users. Royal Mail deems this flexibility important given that access mail makes up the majority of total volumes, and without the ability to align the delivery of access services with Second Class letters, it risks operational complexities and higher fixed costs. We present each of Royal Mail’s proposed changes to the access obligation in further detail below.

Proposal to introduce D+3 access services and change the specification of D+5 access services

- 7.16 As set out above, Royal Mail’s proposed changes would mean it could deliver Second Class USO letters and D+3 and D+5 access services under the alternate weekday delivery model. Though unregulated, we expect that Royal Mail would seek to align its Second Class and Economy²⁷⁵ retail bulk mail options to align with USO and access mail, allowing it to move as much mail as possible to an alternate day model.
- 7.17 As D+3 access services would be offered within the existing regulatory framework, they would be available on reasonable request; on fair and reasonable terms, conditions and charges; and subject to the other protections within the USPA Condition that currently apply to D+2 and D+5 access. We would also assess whether to subject D+3 to a margin squeeze control.
- 7.18 On 28 October 2024, Royal Mail announced publicly it was commencing voting with its access customers on introducing D+3 access services on a commercial (i.e. unregulated) basis, prior to any changes to the USPA Condition. In that announcement it provided technical specifications for the D+3 service and noted that it expected the service to be effective from the date of any regulatory change. We note, however, that Royal Mail has informed its customers of the importance in realising the cost savings from a new alternate

²⁷⁴ [Royal Mail](#) response to the 2024 Call for Input, p.43-44.

²⁷⁵ Royal Mail aim to deliver Second Class retail mail 2-3 working days after collection and Economy retail mail 6 working days after collection.

day delivery model and would likely seek to launch D+3 services irrespective of the outcome of Ofcom's consultation on reform.²⁷⁶

Proposal to deregulate D+2 access services

- 7.19 As part of its plan for modernisation, Royal Mail proposed that it should no longer be required to offer the current D+2 access services. In its response to the CFI, it noted the high per unit cost of delivering D+2 access mail and proposed the services be removed from regulation so that it could stop offering them and move the vast majority of D+2 access mail to D+3. As this would mean Royal Mail would be delivering most bulk mail under the alternate weekday delivery model, this would enable it to maximise the costs savings from reform. However, it has subsequently said that it plans to continue offering D+2 access for delivery from Monday to Saturday on an unregulated commercial basis, to meet some continued demand and give access operators time to transition to slower access services while still moving most D+2 access mail to D+3.²⁷⁷
- 7.20 Royal Mail has stressed that, following the introduction of the D+3 service and the alternate weekday delivery model, the unit costs of delivering access mail on D+2 would be very high. D+2 mail would need to be delivered alongside First Class letters via a more expensive van delivery channel on those days where a Second Class delivery was not due via the alternate weekday delivery pattern. Therefore, Royal Mail has said that D+2 should not be regulated so that it is free to manage the access volumes remaining on D+2 by having full pricing flexibility, or being able to withdraw the service all together if needed. Royal Mail's view, which we set out in more detail below, is that continuing to regulate D+2 access would lead to volumes on those services staying higher for longer, potentially impacting its ability to realise cost savings from reform. It also argued that there should be no competition concerns arising from the deregulation of D+2, given the access market is working well.²⁷⁸

Assessment of our proposals

- 7.21 In this section, we assess whether to:
- a) Introduce D+3 access services into the USPA Condition;
 - b) Amend the delivery specification of D+5 access services; and
 - c) Deregulate D+2 access services.
- 7.22 We also consider a range of ancillary issues to support our proposals.

²⁷⁶ Royal Mail. [Royal Mail Wholesale - Royal Mail's proposal for the introduction of a D+3 service - voting commences today](#) [accessed 24 January 2025].

²⁷⁷ Royal Mail. 6 December 2024. Submission to Ofcom on D+2.

²⁷⁸ Royal Mail. 6 December 2024. Submission to Ofcom on D+2.

D+3 access services

- 7.23 Under new D+3 access services, D would be the day an access operator collects mail from its customer and D+1 would be the day the operator completes the mail handover²⁷⁹ to Royal Mail at the IMC. As D+3 mail would be delivered alongside Second Class letters under the alternate weekday delivery model, a proportion of D+3 mail would be delivered on D+2 and the remainder on D+3, depending on when the addressee was due a Second Class letters delivery. For example:
- For **route A** delivery points, Second Class letters and D+3 access mail would be delivered on Monday, Wednesday and Friday.
 - For **route B** delivery points, Second Class letters and D+3 access mail would be delivered on Tuesdays and Thursdays.
 - As Saturday would not be a delivery day, the delivery frequency would rotate each week for route A and route B to ensure an even number of deliveries to route A and route B across a two week period.
- 7.24 As explained in Section 5 at paragraph 5.31, both route A and route B customers would continue to receive First Class and other letters (such as registered and international) every day from Monday to Saturday. On days where a Second Class delivery is due, First Class mail would be delivered on walking routes along with Second Class letters. On days where a Second Class delivery is not due, Royal Mail would deliver First Class mail by van, along with parcels.

Table 7.2 – How D+3 access services would work alongside the services we currently regulate

	D	D+1	D+2	D+3	D+4	D+5
D+2 access services	Customer hands mail to access operator	Access operator hands mail to Royal Mail	Royal Mail delivers mail			
D+3 access services	Customer hands mail to access operator	Access operator hands mail to Royal Mail	Royal Mail delivers X% of delivery points with due access mail	Royal Mail delivers the remainder of delivery points with due access mail		

²⁷⁹ This is the point at which Royal Mail collect and/or accept a posting or number of postings from an access operator. As noted above, in reality handover to Royal Mail may occur later than the day after the access operator collects mail from the sender.

D+5 access services	Customer hands mail to access operator	Access operator hands mail to Royal Mail	Royal Mail delivers mail or defers delivery	Royal Mail delivers mail or defers delivery	Royal Mail delivers mail or defers delivery	Royal Mail delivers the remainder of the mail
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7.25 Therefore, under the proposals, some mail would be delivered the day after handover, as it is now, and some would be delivered a day later. We anticipate that the percentage of mail delivered to a D+2 specification and D+3 specification would fluctuate over time depending on volumes on any given week.

Impact assessment

7.26 We consider below the impact of regulating a D+3 access service, in order to inform our proposals on this issue. Our assessment compares the impact of regulating such a service against doing nothing. It assumes that Second Class letters delivery would move to an alternate weekday pattern as proposed in section 5 of this consultation. It also assumes that Royal Mail would continue to offer both of the current regulated access services, namely D+2 and D+5.

Royal Mail is likely to offer a D+3 access service whether or not it is required to do so

7.27 Royal Mail is free to offer access services on an unregulated commercial basis. As explained above at paragraph 7.18, Royal Mail has been engaging with stakeholders and making preparations to introduce a D+3 access service, for delivery on alternate weekdays. We understand that Royal Mail intends to proceed with introducing this service whether or not we regulate it.

7.28 This is because achieving the forecast cost savings from reform of the universal service is dependent on most letter volumes, including USO letters and bulk mail, moving to the alternate weekday delivery model. As such, if the delivery of Second Class letters were reformed but Royal Mail continued delivering access mail six days a week, the predicted cost savings would not be realised.

7.29 We therefore consider it highly unlikely that Royal Mail would continue to offer only the D+2 and D+5 access services currently required by the USPA Condition, but rather that it would introduce a D+3 access service. The remainder of our assessment therefore considers the impact of regulating D+3 access, compared to a scenario where Royal Mail offers D+3 on an unregulated commercial basis.

We are concerned about the impacts on the access ecosystem if we do not regulate D+3 access services

7.30 If we did not incorporate D+3 access into the USPA Condition, access operators and their customers would retain the regulated product choices they have now (D+2 and D+5) and additionally have the option of using the new D+3 access service on commercial terms.

- 7.31 We expect Royal Mail would increase the price of D+2 access to reflect its increased cost base and to incentivise volumes to shift to a slower, less costly access service (though it would still have to comply with the regulatory margin squeeze control). We therefore expect material volumes would move from D+2 to D+3, in particular those sent by more price-sensitive but less time-sensitive customers. As such, there would likely be material volumes of access mail outside of any regulatory safeguards if D+3 were not regulated.
- 7.32 We are concerned about the ability of Royal Mail to harm competition in the bulk mail market in this scenario, due to its position in the relevant wholesale (downstream) market and its vertically integrated structure, which could enable it to reserve for itself large volumes of customers that prefer D+3. It could achieve this by offering D+3 access on less favourable terms and conditions than its own upstream operations. For example, it could ensure its own retail D+3 services can be delivered to the specification of the D+3 access service and then price its retail services at such a level as to cause a margin squeeze. Further, in the absence of access regulation, there is a risk that Royal Mail may refuse to provide access for the purposes of downstream D+3 access in the future but continue to provide its own D+3 retail bulk services.
- 7.33 In the light of the above, we consider it would be appropriate to regulate D+3 access to support effective competition in the bulk mail market. We set our proposals for the scope of that regulation from paragraph 7.49 below.

We do not expect switching from D+2 to D+3 to have a significant impact on users, and expect regulating D+3 to confer benefits on them

- 7.34 As outlined above, we would expect D+3 access services to become an important input for access operators going forward, over time replacing D+2 access services as the ‘standard’ form of access. We have therefore considered how access operators, large users of mail and end users may be impacted by the regulation of a D+3 access services where the delivery specification includes alternate weekday delivery.
- 7.35 The impact will largely depend on how large users adjust to D+3, and whether they or their end users need a faster service or Saturday delivery. Following our CFI we engaged with large users of mail and set out below examples of where a move to an alternate weekday D+3 access service could impact them.
- 7.36 One financial institution informed us that increasing D+2 access price rises would lead to further e-substitution or a move to slower alternatives such as D+5. Therefore, if the proposals were implemented, we consider some volumes could be likely to transfer to D+3 access services. In respect of letters that move to D+3, that same financial institution told us that it sends bank cards and pin numbers separately in the post for security reasons and if mail is deferred there is a greater possibility the letters could be in the network at the same time. It also informed us that clarity over when letters will be delivered becomes more important under D+3 because it plans call centre resourcing around customer communications sent in the post.²⁸⁰ We discuss proposals for transparency on D+3 delivery performance from paragraph 7.54 below.

²⁸⁰ HSBC. 25 November 2024. Response to our draft information request.

- 7.37 We also engaged with government departments, including one that sends particularly significant volumes of mail. The majority of the current volumes sent by this department are on D+2 access services, and we understand that a significant proportion of these volumes would likely move to D+3 access services if our proposals were implemented. We note that the department currently utilises Royal Mail First Class retail bulk services (with a next day routing time) for urgent mail. Though unregulated, we understand that Royal Mail would continue to offer this service.²⁸¹
- 7.38 In response to our CFI, concerns were raised about later delivery of NHS letters, and a minority (12% and 15% respectively) of participants in our 2024 user needs research, as per paragraph 3.76, said that service changes meaning standard business letters could be delivered a day later and not on a Saturday would not meet their needs in terms of receiving healthcare appointment letters and medical test results. We have therefore carefully considered any impact on the NHS sending medical letters to patients. As with other types of large user, we consider that the NHS will likely be cost sensitive and therefore significant volumes are likely to move to D+3 access services.
- 7.39 At the margin, we acknowledge that a move from D+2 to D+3 access could lead to a patient receiving notification of an appointment or test results a day later. Whether this would create difficulties for recipients such as missed appointments or increase the stress experienced by patients would depend on how the NHS decides to send its mail, and in particular its ability to manage posting letters to take into account the alternate weekday delivery model. We note that there have been ongoing discussions with NHS Trusts and central bodies who send out letters setting out the range of product options that could be utilised to meet different time sensitivity requirements.²⁸² In recognition of the importance of this mail, we understand from Royal Mail that it is developing a specific solution for NHS letters sent via its own retail service or by access operators. This takes the form of an NHS barcode on NHS letters and means that, in the event of national or local disruption, NHS mail could be identified and extracted by Royal Mail's sorting machines and then passed to a delivery office for priority delivery. [§<].²⁸³ These solutions would provide a quality of service backstop for important healthcare letters and should enable NHS Trusts to prepare for any changes caused by moving to a slower service. They are also an example of how the market can respond to the needs of specific large users that may not be met by existing services in the regulated and unregulated bulk mail market.
- 7.40 We recognise that large mailers may need to reconsider some of their self-imposed timelines to make use of a letters service that does not deliver on Saturday, and under which some letters will arrive a day later than currently. This could include adjusting when mail is put into the system to ensure it still reaches the recipient in the time they would expect. Where necessary, large mailers could also select a faster service that delivers on a Saturday to meet their needs, though we acknowledge that such a service would be more expensive.

²⁸¹ Department of Work and Pensions (DWP). 25 November 2024. Response to our draft information request.

²⁸² Royal Mail, 23 October 2024 presentation to Ofcom, 23 October 2024. slide 32.

²⁸³ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

- 7.41 Overall, our analysis suggests that moving from the 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.
- 7.42 We note that large users of mail are responsive to the needs and demand of individual recipients or end users. At paragraph 3.64 our 2019 user needs research indicates that deliveries five or three days a week would meet the needs of most end users. We also know from our 2024 research at paragraph 3.72 that if standard business letters were no longer delivered on a Saturday, the majority of users say it would have little impact on them or that it would be inconvenient but not cause a big problem. As large users are responsive to the needs of their end users, this suggests the impact on most users of most access mail moving to D+3 would be relatively limited.
- 7.43 As regulating D+3 access would support competition in the access market, we expect it would confer benefits to users of access mail by keeping prices competitive and promoting innovation and service development. Requiring Royal Mail to offer D+3 access would also increase choice. As explained further below, we anticipate that regulating D+3 would make it a more attractive product, supporting volumes shifting from D+2 to D+3. This would support Royal Mail's ability to achieve the full extent of the potential cost savings from reform, reducing its overall costs and therefore the extent of future price increases, which would confer benefits on large users and access operators that may not otherwise arise if D+3 access services were unregulated.

We expect including D+3 access services within the USPA Condition could promote its use and the achievement of net cost savings

- 7.44 For the alternate weekday delivery model to work, Royal Mail has explained that it needs to reduce the volume of next day letters so it can consolidate more mail into delivery on alternate weekdays – which includes First Class USO letters and D+2 access mail – and instead carry the majority of its volumes on Second Class and D+3 or D+5 access products (and its own Royal Mail Retail bulk equivalents).²⁸⁴ These products would allow Royal Mail to hold mail back until an address is due a delivery on a walk route, which under the reforms would be every other weekday. This would reduce the number of visits required to an individual address each week, with a larger number of items delivered on each visit.
- 7.45 Royal Mail has suggested that the scale of net cost savings achieved by the move to an alternative weekday delivery model would be dependent on the level of take-up of the new D+3 access services.²⁸⁵ In response to the introduction of the new service and the alternate weekday delivery model, both access operators and their customers may need to make changes to how they prepare and inject mail into Royal Mail's delivery network. These users may be cautious about making the investments to realise these changes if the service could be withdrawn at any time by Royal Mail or priced in a way which excluded access operators, both of which would be possible if D+3 were unregulated. Therefore, the application of

²⁸⁴ Royal Mail response to information requested under the section 55 of the Act (the statutory information request) dated 5 December 2024.

²⁸⁵ Royal Mail, 9 December 2024. Submission to Ofcom on D+2.

access regulation to new D+3 access services would likely provide these users with greater reassurance about the longevity of these services and the fair, reasonable and non-discriminatory nature of their pricing. This, in turn, is more likely to lead to them adopting these services and to Royal Mail achieving more of the net cost savings it envisages from the move to the alternate weekday delivery model. Achieving these net cost savings may be expected to keep pricing lower than it otherwise would be, while meeting user needs. This may be characterised as a form of efficiency to which the access regulation of D+3 contributes or, at the very least, does not undermine.

- 7.46 In addition, regulating D+3 access should continue to support competition between Royal Mail and access operators, which should contribute to minimising the costs of these upstream services to users as well as contributing to upstream innovation and service development.

Provisional conclusion on whether to regulate D+3 access

- 7.47 Taking all the above into account, we provisionally conclude that regulating proposed D+3 access services would mitigate the risks to competition arising from D+3 being unregulated. While we recognise that there could be some impact should significant volumes of D+2 mail move to D+3 alternatives, which we expect to be more likely if D+3 were regulated, we do not expect it to have any significant impact on large users of mail and note that alternative bulk mail products would remain available. We consider that it should in fact confer benefits to users of access services – such as lower prices arising from competition and lower costs for Royal Mail – which may not occur without regulation. We also expect regulating D+3 access to lead to greater confidence for users to invest in their systems to allow the uptake of D+3 access services and that this, in turn, should contribute to Royal Mail achieving the forecast net cost savings from the proposed move to an alternate weekday delivery model. This could ultimately lead to better outcomes for consumers by reducing future price rises and allowing Royal Mail to employ its resources at a lower cost while still meeting the needs of users.
- 7.48 Having provisionally concluded that it would be appropriate to introduce a D+3 access service to the USPA Condition, we set out below our proposals on the scope of the regulation, including the protections we are proposing to impose.

Extent of the D+3 access service

D+3 access services are currently unregulated

- 7.49 The USPA Condition currently defines ‘D+2 Access’ as access to the universal service provider’s postal network at the IMC for the purposes of providing retail services that aim to deliver letters two working days (or later) after collection from the sender. This has been

the way D+2 access has been described since the USPA Condition was first imposed on Royal Mail in March 2012.^{286 287}

- 7.50 We considered whether the ‘or later’ wording within the definition of ‘D+2 Access’ in the USPA Condition had the effect of covering the introduction and regulation of D+3 access services. We came to the view that it does not. D+3 access services would be materially different from D+2 access services and we would expect them to have a separate market. That is because D+3 access services would be delivered in line with Royal Mail’s alternate weekday model with Second Class letters, whereas D+2 access is a six day service that will be more costly – and therefore more expensive – to deliver. As such, if these proposals, subject to consultation and our assessment below, were implemented, we would regulate three access markets: D+2 access, D+3 access and D+5 access.

We propose to apply the USPA Condition to D+3 Letters and Large Letters

- 7.51 The current obligation to provide D+2 access applies to both Letters and Large Letters.²⁸⁸ The obligation to provide D+5 access applies to Letters only. This is because, when we introduced new D+5 access services in 2021, including Large Letters would have been uneconomic as Royal Mail’s sorting machines did not have the capability to defer Large Letters.²⁸⁹
- 7.52 As explained above at paragraph 7.31, we expect material volumes of letters would move from D+2 to D+3 access if we implemented our proposals. To support customers moving between these services, we consider D+3 access should also apply both to Letters and Large Letters. In 2021, Royal Mail did not have the ability to defer Large Letters using its sequencing machines; it is our understanding that this situation has not changed. However, we understand that Royal Mail is proposing to manually defer D+3 Large Letters at the delivery office so they can be delivered under the alternate day delivery model.²⁹⁰ As such, we propose the regulated D+3 access service to apply to both Letters and Large Letters.
- 7.53 We accept that this means Royal Mail could also offer D+5 access for Large Letters services by manually deferring those items at the delivery office. However, we are not currently aware of any demand for this service. We are therefore not proposing to extend our regulatory regime to cover Large Letters for D+5 access, but we will keep this issue under review and will consider intervening if it appears that there is a case for doing so.

²⁸⁶ Ofcom, 2012. [Securing the Universal Postal Service](#), p.142.

²⁸⁷ Before that March 2012 statement, Postcomm, prior to its integration into Ofcom, conducted an analysis of markets in post. As part of that work, it found that there was a D+1 letters market and a D+2 and later than D+2 letters market. In essence, it defined letters markets by those for next day delivery and those for later than next day delivery.

²⁸⁸ “Letters” means any item up to length 240mm, width 165mm, thickness 5mm, and weighing no more than 100g. “Large Letters” means any item larger than a Letter and up to length 353mm, width 250mm, thickness 25mm, and weighing no more than 750g.

²⁸⁹ Ofcom, 2021. [Statement: Modifications of the USP Access Condition for regulating access to Royal Mail’s postal network \(ofcom.org.uk\)](#) p.28-29.

²⁹⁰ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

Delivery performance reporting requirements

- 7.54 The alternate weekday delivery model means that a proportion of D+3 access mail would be delivered D+2 and the remainder on D+3, as per Table 7.2 above.
- 7.55 We have carefully considered what additional information D+3 access customers might need to make an informed choice about buying these services and to input into industry discussions on the appropriate quality of service targets, design and compensation scheme for the services. Royal Mail must comply with reporting requirements in relation to D+5 access.²⁹¹ We have therefore considered whether the same or similar requirements should apply to D+3 access, given that both services could be delivered over several days rather than on a specific day like D+2. The information, if we were to replicate the reporting requirements currently stipulated for D+5 access services, would include all of:
- a) An overall D+3 quality of service reporting figure, measuring the volume of items delivered by D+3 across industry, and which is published on a quarterly and annual basis. We expect this could help users understand how well the service has been delivering to specification, and input into industry negotiations.
 - b) D+3 quality of service reports for individual access operators and/or mailing customers (provided on an individual basis), stating actual performance for their own mail, containing both an overall measurement of mail delivered by D+3 and a breakdown of mail delivered on D+2 and D+3. We expect this could help them to monitor their own service, to inform future purchasing and product choice decisions.
 - c) A publicly available breakdown of D+3 delivery day performance across all volumes, measuring the volume of items delivered on D+2 and D+3. We do not expect this distribution to be exactly 50/50 and acknowledge it may vary according to different factors (including individual mail profile, volumes of other mail, time of year, etc). The provision of this information could allow potential customers to make better informed choices about their take-up of the service by being able to observe actual average performance. It would also provide a reference point to help active D+3 access users understand how their mail is being delivered compared to the market as a whole.
- 7.56 Unlike with the current D+2 access services, D+3 access operators and large users would not have a known single day that their mail is due to be delivered to the end user after injection at the IMC. We consider the provision of this information could enable access operators to have more informed conversations with Royal Mail about quality of service, and that it would allow large users of mail to make more informed decisions as to the services they buy. [§<],²⁹² we consider that the provision of this information should be required by regulation as access to data and delivery information, as identified above, are important factors in ensuring the introduction of D+3 access services confer benefits on access operators and users of access services. We expect Royal Mail would need some lead in time to develop its systems to report on the delivery performance of D+3 access. We are therefore proposing that it begins quarterly reporting in relation to the second full financial

²⁹¹ See USPA Condition 8.

²⁹² Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

year quarter after the obligations come into force, and yearly in respect of the first full financial year after the obligations come into force.

Pricing of D+3 access services

- 7.57 Due to Royal Mail's monopoly position, we have had long standing concerns about the risks to competition in the bulk mail market if we did not have some form of pricing regulation. When we took over postal regulation in 2011, rather than direct pricing controls we imposed an ex-ante margin squeeze test on D+2 access to prevent Royal Mail from charging its retail services at a similar or lower level than the charge it requires from downstream access operators for equivalent access to its network. This is to ensure pricing remains at a level that allows efficient access operators to compete effectively.²⁹³ We applied this margin squeeze control to D+5 access when we introduced it in 2021.^{294 295}
- 7.58 As explained in paragraph 7.32 above, one of the reasons we are proposing to regulate D+3 access is because of the risk of Royal Mail imposing anti-competitive pricing if it were not regulated. Royal Mail has significant market power in the downstream market for post and as explained above, there is a risk that it could set the margin between its retail prices and wholesale prices at such a point where an equally efficient competitor in the downstream market would be unable to earn sufficient margins to compete effectively.
- 7.59 Having established the theoretical risk of a margin squeeze, we then considered where this could occur in practice by identifying Royal Mail retail services which are similar or equivalent to the proposed D+3 access services. It is because of the similarity of these access and retail services that we consider them to compete directly, and therefore there to be a risk of margin squeeze.
- 7.60 For the purposes of the USPA Condition, we refer to these equivalent Royal Mail retail services as Relevant Retail Services.²⁹⁶ Many of the Relevant Retail Services for D+2 access, as currently set out in USPA Condition 6, would instead be delivered to a similar specification to D+3 access, including being delivered to a similar routing time and also under the alternate weekday delivery model. We therefore consider that, under our proposals, the current list of D+2 Relevant Retail Services would compete directly with D+3 access services and that the risk of margin squeeze would be between these retail and wholesale services.

We propose to apply a margin squeeze control to D+3 access services

- 7.61 The purpose of the current margin squeeze control under USPA 6 is to prevent Royal Mail from exploiting its monopoly position and engaging in margin squeeze practices in relation to the provision of D+2 and D+5 access services, thereby supporting effective competition in the market. The control seeks to prevent access prices being too high and/or retail prices too low such that the margins of access operators are insufficient to allow them to compete

²⁹³ Ofcom, 2012. [Securing the Universal Postal Service](#), p.8.

²⁹⁴ USPA Condition 6.

²⁹⁵ Ofcom, 2021. [Modifications of the USP Access Condition for regulating access to Royal Mail's postal network](#), p.29-33.

²⁹⁶ See USPA Condition 6.8.

effectively with Royal Mail's retail bulk services. This ex-ante regime has been our long standing approach to pricing regulation in the access market, as opposed to formal price controls or an ex-post pricing regime.

- 7.62 The margin squeeze control includes two tests (the basket test and the contract test), which must be carried out at the start of each financial year and updated quarterly. The tests must use forecast revenues and costs, because USPA Condition 6 requires that Royal Mail has a reasonable expectation that it passes the tests in that financial year. To assess compliance with the margin squeeze control, Royal Mail is required to calculate the relevant upstream revenues for the products within the scope of USPA Condition 6 as the difference between end-to-end retail revenues and the relevant downstream revenues of the products.²⁹⁷ The relevant downstream revenues are calculated by assuming the unit downstream revenues for USPA Condition 6 products are equal to the prices of their equivalent access products (as if Royal Mail charged itself for the access products to offer retail services).
- 7.63 We have identified a risk of margin squeeze in relation to D+3 access, as explained above. We consider this risk to be equivalent to the risks we identified when imposing a control on D+2 and D+5 access, and have not identified any reason why a similar approach to pricing regulation would not be appropriate or reasonable for D+3 access services. Our objectives in pricing are the same as with the current D+2 and D+5 services, being to prevent anti-competitive pricing strategies from Royal Mail on its wholesale and retail options where there is a risk of margin squeeze. As such, we propose that the new D+3 access services should be subject to the same test under the margin squeeze control as is now set out in USPA Condition 6.
- 7.64 We also considered other options for pricing regulation such as formal price controls or an ex-post pricing regime. We took the view that imposing price controls on Royal Mail would not be reasonable and would place an overt, and at this stage unjustifiable, burden on its commercial freedom, as it would require Royal Mail to set D+3 access prices at a particular level. We noted in our 2022 Review of Postal Regulation that we thought imposing price controls would likely have limited additional benefits and potentially higher costs and risks,²⁹⁸ and consider this reasoning to apply here. We do not consider an ex-post pricing regime, where we analyse Royal Mail's pricing looking backwards, to be appropriate either, as it limits the real time protections for access operators.
- 7.65 In addition to the reasons above, it could lead to confusion over our pricing regime if we were to start a distinct and new pricing regime for D+3 access letters.

Subject to some amendments, we are proposing that the D+3 margin squeeze be assessed against the current Relevant Retail Services for the D+2 access control

- 7.66 As discussed above, we are proposing to regulate D+3 access services and bring the equivalent Relevant Retail Services under the margin squeeze control in USPA Condition 6.

²⁹⁷ Thereafter on a quarterly basis Royal Mail is required to submit forecast and actual financial information demonstrating compliance with the basket test. It must also provide details of any new bespoke contracts entered into demonstrating compliance with the contract test.

²⁹⁸ Ofcom, 2022. [2022 Review of Postal Regulation](#), p.251.

We have also acknowledged that the current list of retail services listed for D+2 access will become equivalent to D+3 access following the proposed reforms.

- 7.67 On a technical level, we are proposing to remove certain products, such as OCR letters and high sort letters, from the list of Relevant Retail Services as Royal Mail has informed us they are legacy products that it no longer offers.²⁹⁹
- 7.68 We have established a risk of margin squeeze in relation to D+3 retail and access services, and that this risk would exist between proposed D+3 access services and the current retail services listed under the D+2 Relevant Retail Services. This is because, under the proposed reforms, those retail services would more closely resemble D+3 access services than D+2. Therefore, we propose our Relevant Retail Services for D+3 access should include the products Royal Mail continues to offer, namely those that will be adapted to meet its alternate day delivery model. We would not include the legacy products that Royal Mail no longer offers on a retail basis. The updated list of services can be found in Schedules 1 and 2 to Annex A9 of this consultation.

Ancillary D+3 access obligations

- 7.69 The effectiveness of competition in the upstream bulk mail market depends on access being granted on terms and conditions which do not place access operators at a disadvantage to Royal Mail's retail services.
- 7.70 To support this outcome for D+2 and D+5 access, we require Royal Mail to offer access on fair and reasonable terms and conditions and not to unduly discriminate. We also impose other protections related to the process for postal operators and users of postal services to request access contracts or variations to existing contracts; notification and publication requirements; and information relating to quality of service. These additional requirements seek to strike the right balance between protecting access operators and promoting effective competition, and giving Royal Mail sufficient commercial flexibility in how it manages its business.
- 7.71 We do not see any reason why we should not apply the same conditions to D+3 access, and consider that these protections form part of the necessary safeguards to promote effective competition in the access market.
- 7.72 We therefore propose to impose on Royal Mail the following requirements in relation to D+3 access:
- to provide D+3 Access on fair and reasonable terms, conditions and charges (USPA Condition 3);
 - to adopt a reasonable, transparent and timely process for access operators to make requests for access contracts (or variations to existing access contracts) (USPA Condition 4);

²⁹⁹ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

- not to unduly discriminate against any particular persons or against a description of persons in relation to access matters, and restriction on use of information obtained in connection with giving access (USPA Condition 5);
- to provide sufficient notice of changes to standard terms and conditions to access operators (USPA Condition 7); and
- to publish quality of service information for its access services (USPA Condition 8).

7.73 We propose to implement those proposals by making the proposed modifications to the USPA Condition as specified in the statutory notification published at Annex A9.

D+5 access services

7.74 As outlined above, in order to realise the full extent of the costs savings from reform, Royal Mail must be able to deliver the vast majority of letters on alternate weekdays. This includes D+5 letters, which made up 39% of the access mail market in the previous financial year. We therefore assess below the impact of modifying the current D+5 access obligation to remove Saturday delivery.

Impact assessment

7.75 D+5 access services were introduced following consultation in 2021. They are offered by Royal Mail to access operators, who can in turn offer them to their customers, as ‘economy’ products. The services benefit large users of mail and end users because they come at a discounted price to D+2 access services. They also benefit Royal Mail because D+5 access services allow it to defer mail delivery and reduce the number of visits required to an individual address each week, with a larger number of items delivered on each visit.

7.76 D+5 services are accounting for an increasing share of the total access market, as noted at paragraph 7.13. It is therefore clear that D+5 access services have become increasingly important to access operators and their customers who value a cheaper but slower service.

7.77 We have considered whether we could leave D+5 access regulation unchanged. That would mean D+5 access services would continue to be delivered six days a week. We consider this would add complexity to Royal Mail’s alternate day delivery model, requiring it to operate a system that would enable it to deliver D+5 mail on a Saturday in vans, alongside priority mail like First Class. This would reduce the savings it could make from consolidating mail into fewer weekly deliveries to an address, undermining its ability to maximise the potential net cost savings from reform and the consequential consumer benefits.

7.78 We have therefore considered the impact of removing Saturday as a delivery day for D+5 access. We explained when introducing D+5 access that we expected customers of the new services to be those who are less time sensitive and do not require certainty of delivery day (i.e. customers who are prepared to trade off a wider/uncertain delivery window for a lower price), and expect this remains the case. Indeed, since their introduction, D+5 access services have never purported to offer a delivery specification that can guarantee delivery

on a particular day.³⁰⁰ We therefore do not anticipate that the removal of Saturday delivery from D+5 access will have a materially negative impact on users of that service.

- 7.79 As regards the impact on end users, our most recent research found weekday letter delivery to be important to 80% of residential users and 82% of SMEs. However, Saturday delivery was deemed less important: only 57% of residential users and 35% of SME users said Saturday delivery was important. In any case, there would continue to be options in the market for delivery of letters on Saturday for any large users whose end users need it, though we recognise that such options are likely to be more expensive.

Provisional conclusion

- 7.80 Taking all of the above into account, we are proposing to remove Saturday delivery from the specification for D+5 access. We consider that the limited impact, if any, on users of D+5 access and their end users of removing Saturday delivery is justified by the potentially significant impact that its maintenance would have on Royal Mail's ability to realise the costs savings from reform, and the consumer benefits flowing from those savings, such as lower price rises.

D+2 access services

Royal Mail has proposed the deregulation of D+2 access

- 7.81 As outlined above, Royal Mail's proposal for reform of the access obligation is to replace D+2 access with D+3. This is because Royal Mail believes it needs the vast majority of letters volumes to shift to the alternate weekday delivery model in order to realise the full extent of the costs savings from reform. Regardless of whether D+2 access mail remains regulated, operationally it would be handled the same as First Class letters in a reformed universal service network, being delivered six days a week. This means that maintaining D+2 volumes at or near their current level would be very costly.³⁰¹ Royal Mail has argued that continuing to regulate D+2 would restrict its commercial flexibility and therefore its ability to incentivise volumes to move, for example through pricing.
- 7.82 As noted at paragraph 7.19, if we were to deregulate D+2 access then Royal Mail has proposed that it would continue to offer the service on a commercial basis to its current delivery specification of six days a week Monday to Saturday. We understand that Royal Mail, after consultation with its customers, has come to the view that offering D+2 access would give access users additional choice as they decide whether the price/delivery window relationship still works for them. It has said it would also give customers more time to

³⁰⁰ Ofcom, 2021. [Statement: Modifications of the USP Access Condition for regulating access to Royal Mail's postal network](#), p.24.

³⁰¹ Royal Mail informed us that based on its modelling it expects next day (both USO and non-USO) letter volumes to reduce by 75% (from [£<] letters annually now to around [£<] letters annually) to reduce the risk of not realising cost savings. Next day volumes include First Class USO mail, international mail, First Class retail bulk mail, and D+2 access mail.

transition to an alternative access service.³⁰² It has argued that D+2 should not be regulated so that it is not restricted in how it can price the service to incentivise customers to move to D+3 or D+5 access. It has also said that it would like to be able to withdraw the service if needed, for example if volumes on the service remained too high such that the full extent of the potential cost savings proved difficult to realise.³⁰³

- 7.83 We understand Royal Mail's concerns, and that the cost savings from reform depend on letter volumes moving to the alternate weekday delivery model. In the light of Royal Mail's position, we have considered below whether there is a case for removing regulation from D+2 access.

There may remain significant demand for D+2 access following any reform, at least in the short term

- 7.84 We recognise that transitioning to a new delivery model could be difficult and time consuming for some access users, who may require a period of adjustment while they consider how to adapt their operations and continue to meet their customers' needs. For example, the Professional Publishers Association informed us that for specialist publishers tight deadlines for printing and sending mail would make an immediate transition to D+3 access unmanageable and that delivery six days a week, including Saturday, would remain important.³⁰⁴ The Electoral Commission had similar concerns over time sensitivity and noted in particular concerns over statutory deadlines for sending time critical mail like postal votes, which will sometimes go via an access operator.³⁰⁵
- 7.85 From information shared with us by access operators we note that one large public sector customer trialled using a D+5 service for some of its mail but was unhappy with the delivery speed so moved back to D+2.³⁰⁶ We also note that some access customers have raised concerns about the inability to move to D+3 services due to sector specific regulations.³⁰⁷
- 7.86 We understand that these concerns have been raised by access customers in their discussions with Royal Mail, and that this is part of the reason it would continue to offer D+2 access on a commercial basis. Further, we understand that Royal Mail would also continue to offer D+2 as some access users have said that they wish to keep using that service, notwithstanding that prices would increase, as a slower service would not meet their requirements.³⁰⁸
- 7.87 Though we expect that eventually material volumes would move to D+3 access, we cannot at this stage predict with any certainty how the market would react to the introduction of D+3 access and an increase in the price of D+2. For the reasons above, however, we

³⁰² Royal Mail, 24 November 2024. Submission to Ofcom on implementation approach for D+2 and D+3 access products.

³⁰³ Royal Mail, 6 December 2024. Submission to Ofcom on D+2.

³⁰⁴ Meeting between Ofcom and the Professional Publishers Association. 10 October 2024.

³⁰⁵ Meeting between Ofcom and the Electoral Commission. 28 November 2024.

³⁰⁶ Whistl response to information requested under section 55 of the Act (the statutory information request) dated 13 December 2024.

³⁰⁷ Citipost response to the information requested under section 55 of the Act (the statutory information request) dated 13 December 2024.

³⁰⁸ Royal Mail, 6 December 2024. Submission to Ofcom on D+2.

consider that there would likely continue to be demand for D+2 access, at least for a period after the implementation of any reform. We are concerned that deregulating D+2 now could leave significant volumes of letters without the minimum regulatory protections in the USPA Condition, which could negatively impact users of access mail and impair their ability to manage a transition to a different access service.

We are concerned about the potential impact on competition of deregulating D+2 access

- 7.88 Our regulation has and continues to achieve the goal of promoting effective competition in the bulk mail market, as evidenced by access mail making up the majority of bulk mail volumes.
- 7.89 While we recognise that the cost savings from reform depend on sufficient letter volumes shifting to delivery under the alternate weekday model, this must be achieved in a way that continues to promote competition. We have explained above that there is uncertainty around how the market would react to our proposals on access, but that the evidence suggests significant volumes could remain on D+2 access following any reform, at least in the short term. As such, 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. Though Royal Mail would continue to offer D+2 access on a commercial basis, if it were not required by regulation, then Royal Mail could withdraw the service at any time (subject to any contractual agreement), and we note that it has cited this as a reason the service should be deregulated. We consider it important to ensure D+2 continues to be offered, at least while access customers adapt to a modified access market.
- 7.90 Given all of the above, we do not currently consider there to be a case for removing D+2 access services from regulation. We note in particular the uncertainty of how the market would respond to the introduction of D+3 access, the likelihood that there would remain significant volumes on D+2 access in the short term after reform, the potential impact on users and the risks to competition to which deregulation of D+2 would give rise.
- 7.91 However, we understand Royal Mail's concerns that continuing to regulate D+2 access could reduce the volumes that shift to a slower service and could therefore mean that it is unable to realise the full extent of the cost savings from reform.³⁰⁹ We also recognise that higher costs for Royal Mail could ultimately mean greater price rises for consumers in the longer term. We will therefore keep this matter under review, including how the market develops following any reform, and remain open to revisiting whether to regulate D+2 access if factors arise that suggest it may no longer be appropriate to do so. For example, D+2 volumes may decrease to a level where it may no longer be proportionate to regulate the service. Alternatively, evidence may emerge that the level of D+2 volumes is having such an impact on the ability of Royal Mail to achieve the cost savings from our proposed reforms, and on the financial sustainability of the universal service, that we should

³⁰⁹ Royal Mail, 6 December 2024. Submission on D+2.

reconsider whether the right balance is being struck with the need to protect users and competition.

- 7.92 In the meantime, however, we believe there would be incentives for customers to move to D+3 access, including the regulation of the service making it a more attractive option (as to which, see paragraph 7.43 above), and because Royal Mail would increase the price of D+2 access. On this latter issue, we have considered the future of pricing regulation of D+2, given our proposal on the application of the margin squeeze control to D+3 access. We set out our proposals below.

Pricing of D+2 access services

- 7.93 Under USPA Condition 6, we impose a margin squeeze control on the price of D+2 access to prevent Royal Mail from exploiting its monopoly position and engaging in anti-competitive pricing practices. This control lists several Royal Mail retail services – referred to as Relevant Retail Services – that we consider to be sufficiently similar or equivalent to D+2 access and therefore to present a risk of margin squeeze.
- 7.94 As explained in paragraphs 7.57-7.68, we are proposing to apply a margin squeeze control to D+3 access services. Given the similarities in their specification as to delivery frequency and speed, we consider that the current Relevant Retail Services for the D+2 control would become more similar to D+3 access under our proposals, such that there would be a risk of margin squeeze on D+3 access in relation to those services. As such, we are proposing that these services become the Relevant Retail Services for the D+3 control.
- 7.95 We have consequently assessed whether there continues to be a risk of margin squeeze on D+2 access and, if so, in relation to which Royal Mail retail services. If we were to implement our proposals, then D+2 access services would, by their delivery specification, more closely resemble Royal Mail's First Class retail bulk services. These services are also delivered six days a week from Monday to Saturday, and we understand that they would have a similar cost base as they would also be delivered on vans on days where a walk route is not scheduled. Though the First Class retail services have a next day routing time, we consider this to be substantially similar to D+2 access as Royal Mail is required to deliver D+2 mail the day after an access operator has injected it at the IMC.
- 7.96 We have therefore come to an initial view that there could be a margin squeeze risk between the newly priced D+2 access and First Class retail bulk services. Although these products are not completely equivalent, we consider it likely that they would both be seen as premium bulk mail products and would compete to a significant extent. As such, in the absence of a margin squeeze control, Royal Mail could price its First Class retail options at a level where D+2 access customers would be incentivised to move to those retail services.
- 7.97 Our provisional conclusion is therefore that D+2 access could be subject to a margin squeeze in relation to First Class retail services, and that it should accordingly remain within a margin squeeze control where Royal Mail's First Class retail services are the Relevant Retail Services. The proposed margin squeeze control would work in the same way as the existing controls and so Royal Mail would be required to set its charges on a reasonable expectation that they would comply with the control. While we recognise there may be some uncertainty in relation to forecasting at a time of change for the market, that risk of

uncertainty should not prevent the control from working given our approach is based on Royal Mail's reasonable expectation of complying with the control.

- 7.98 We recognise that Royal Mail needs sufficient commercial flexibility to incentivise customers to move to D+3, including on the pricing of D+2, to realise the full extent of the cost savings from reform. We acknowledge its concern that D+2 remaining subject to pricing regulation may therefore mean it would struggle to incentivise volumes to move. However, we currently do not believe that being subject to the proposed margin squeeze control would mean that Royal Mail would not have sufficient headroom to price its proposed D+2 access services at a level it deems commercially acceptable. Further, subjecting D+2 access services to pricing regulation would benefit access operators and large users, who can have confidence that we are monitoring for margin squeeze risks and guarding against Royal Mail undertaking anti-competitive pricing strategies. We therefore consider that a margin squeeze control on D+2 would strike the right balance between affording Royal Mail sufficient flexibility and protecting access operators and their customers.
- 7.99 In Annex A9, we propose to specify Royal Mail's First Class Mailmark and manual business and advertising Letters and Large Letters, Royal Mail 24 Large Letters and poll cards as the Relevant Retail Services for D+2 access. That is because, as explained above, we consider those retail letters to have inward processing and delivery attributes which would be substantially equivalent to the D+2 Letters and Large Letters access services under our proposals.

Other issues concerning the USPA Condition

- 7.100 During our assessment of potential changes to the USPA Condition, we have become aware of other issues concerning access, including through stakeholder engagement. We have considered these issues below.

Access pricing

- 7.101 During our engagement with stakeholders following the CFI, the Mail Competition Forum (MCF) suggested that, in addition to the margin squeeze control, Ofcom should consider introducing new headroom protections between access mail and Royal Mail retail products³¹⁰ and price controls at a product level on specific services.³¹¹
- 7.102 In our 2022 Review of Postal Regulation, we explained that we did not believe a price cap on Royal Mail's access charges was necessary.³¹² We stated that providing Royal Mail with commercial flexibility over pricing was important to support the financial sustainability of the universal service. As the structural decline in letters volumes continues, the unit cost of delivering letters increases. Our view remains that allowing Royal Mail the commercial freedom to address these challenges, including through pricing of its access services,

³¹⁰ MCF, August 2024. Presentation to Ofcom.

³¹¹ MCF, August 2024. Presentation to Ofcom.

³¹² Ofcom, 2022. [Statement: Review of Postal Regulation](#), p.249.

remains an important way for Royal Mail to address the challenges to financial sustainability.

- 7.103 We have additional legal duties when imposing price controls, including it having to appear to us that Royal Mail might fix and maintain prices at an excessive high level with adverse consequences for postal users. In analysing whether this is the case currently, we considered how competition is working in the access market. We estimate that in the last three years for which we have full data, the access share of the total bulk mail letters market has grown from 84% in 2021/22 to 86% in 2023/24.³¹³ This suggests that our current regulation is supporting competition in the bulk mail market. In the light of such information, it does not appear to us that Royal Mail's pricing regime is having adverse consequences for postal users. We therefore have not identified any immediate competition concerns that would warrant further intervention on pricing.

Margin squeeze control transparency

- 7.104 As outlined above, Royal Mail must send Ofcom information regarding the margin squeeze control on a yearly and quarterly basis. This includes ex-ante forecasts, ex-post actual results and contracts. We review the information provided, assess whether the margin squeeze control is being complied with, review new contract changes and where appropriate, ask Royal Mail further questions.
- 7.105 While we do assess the information reported to us as stated above, this is not signalled externally. We are aware some stakeholders are concerned our current approach is therefore not sufficiently transparent. Our previous position has been that, if we considered there were grounds to open an investigation into Royal Mail's compliance with the margin squeeze control (based on its submissions or because of a dispute or complaint brought by a third party), this would be made public through Ofcom's Enforcement Bulletin.³¹⁴ However, we acknowledge that the current process means the market may have little understanding and limited visibility of how Ofcom assesses Royal Mail's compliance with the margin squeeze control. We recognise that, under our proposals, there would be three types of access services subject to a margin squeeze control which could be more complex and therefore further limit the understanding of the market as to whether Royal Mail is complying with the control.
- 7.106 We believe that publishing information related to the assessments we carry out would provide more confidence to the postal market that we are regularly checking that Royal Mail is complying with the margin squeeze control. We therefore intend, through our annual Post Monitoring Report, to comment on whether Royal Mail, based on its submissions to us during the financial year, has been compliant with the margin squeeze test. If we found that Royal Mail was not complying with the control, then the process would remain as set out above.

³¹³ This is information provided as part of our [regulatory reporting requirements](#).

³¹⁴ Ofcom, 2022. [Statement: Review of Postal Regulation](#), p.256.

Quality of service

- 7.107 The regulatory framework currently addresses the quality of access services by enabling users to monitor Royal Mail's delivery of items following injection into its network, to support the contractual arrangements which include performance targets access operators have with Royal Mail, rather than by using more prescriptive regulation to set specific performance targets.
- 7.108 USPA Condition 8 therefore requires Royal Mail to publish all such information as is reasonably necessary for the purposes of securing transparency around the quality of service it provides in relation to D+2 and D+5 access. In respect of its D+5 access services, Royal Mail is also required to report publicly on the proportion of mail that is delivered on D+2, D+3, D+4 and D+5. Royal Mail fulfils this requirement through the publication of its 'Quality of Service and Complaints Report'³¹⁵ every quarter, as well as publishing an additional yearly summary.
- 7.109 Royal Mail and access operators have also agreed a set of quality of service targets through contractual agreement. Currently these are 95% for D+2 access mail and 97.5% for D+5 access mail. There are separate levels agreed by access operators and Royal Mail which, if not met, mean Royal Mail is required to pay compensation. For the avoidance of doubt, the quality of service targets and compensation for access are independent of the quality of service targets we have set for USO services, as discussed in section 6.

The impact of the proposals above on our quality of service regime

- 7.110 We are aware that the proposal for D+3 and D+5 access mail to be delivered every other weekday could add increased uncertainty for access operators and their customers over when letters will be delivered to their intended destination. We understand that where a letter fails to meet its target routing time then it will not be automatically delivered the next weekday, but the next weekday that the delivery address is due a walk delivery. However, [redacted].³¹⁶
- 7.111 To illustrate this, take a D+3 access letter that is meant to be delivered by Thursday on a given week. The walk route delivery schedule for the addressee that week is Tuesday and Thursday, but the letter is not delivered on time. It would not be delivered on Friday, as the address is not scheduled a walk route delivery that day, nor will it be delivered on Saturday as that is not a delivery day under our proposals for D+3 access. That means the letter would be delivered at the earliest the following Monday, when the address is next scheduled a walk route delivery. However, as set out above we note that [redacted], though the risk is unlikely to be eliminated completely.
- 7.112 One access operator suggested that the increased adoption of Mailmark across letters services means Royal Mail have access to better data. Mailmark letters have a printed barcode that contains more information about where a letter comes from and its

³¹⁵ Royal Mail, [Quarterly Quality of Service & Complaints Report \(internationaldistributionsservices.com\)](https://internationaldistributionsservices.com) Q4 2023/2, p.9.

³¹⁶ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

destination. Providing this data to access operators, with increased oversight of a letter's journey through Royal Mail, would allow access operators to better estimate when mail will be delivered, including if it misses its target routing time. It was suggested this would be particularly beneficial for campaigns and organisations that allocate other resources around when post will be delivered.³¹⁷ In the absence of such information it is harder for those businesses to plan.

- 7.113 This sentiment was shared among other organisations operating in the bulk mail market. It was suggested that, if Ofcom were to make proposals to reform the universal service and access obligation, then there should be a requirement for Royal Mail to share more information regarding delivery.³¹⁸ It was specifically suggested that Royal Mail could improve the reports that it provides to access operators on Mailmark data to give customers a better understanding of when mail is likely to reach an end customer.³¹⁹
- 7.114 Royal Mail currently has two options for customers who want to utilise data for a better understanding about the journey of their sent items: a more intensive, data rich option known as Mailmark Direct Data and a summary level option for customers who require lighter use of Mailmark information, known as Mailmark PDF reports.
- Mailmark Direct Data provides a posting customer access to their Mailmark postings at an item level. The data is not 'real time' data, and the delivery status is based on sortation scans prior to mail arriving at the delivery office.
 - Mailmark PDF reports provide a data summary of an eManifest³²⁰ through visual illustration of scanning data. Information is accessible through the Royal Mail website. Reports provide a quick overview of total volumes of an eManifest and how mail is performing in processing and predicted delivery.³²¹
- 7.115 The solutions outlined above only provide a predicted date in terms of delivery. After sortation scanning, large users of Royal Mail's network have little oversight of whether their mail has arrived at a delivery office,³²² gone out on a walk route, or been delivered.
- 7.116 Our initial view is that access operators and large users of mail that transition to D+3 access services will have less certainty over when their mail is delivered. We have received evidence, referenced at paragraph 7.36 above, that the proposals would make it more difficult for some large users of mail to plan their business operations and this could negatively impact their use of post.
- 7.117 However, we accept that regulating to require data-sharing could take time and require investment on Royal Mail's part. In our discussions with Royal Mail, it has suggested that

³¹⁷ [CFH response](#), p.5.

³¹⁸ [CFH Docmail response](#) to the 2024 Call for Input, p.3.

³¹⁹ [Mail Users Association response](#) to the 2024 Call for Input, p.3.

³²⁰ An eManifest refers to the electronic manifest that contains detailed information about a batch of mail items sent through Royal Mail's Mailmark service. It links Mailmark barcodes on individual pieces of mail to specific mailing details such as sender information, mail type, and volumes.

³²¹ Royal Mail, 20 June 2024. Presentation to Ofcom.

³²² The local mail depot where business or residential mail is delivered from and from where undelivered items can be collected.

extending Mailmark reporting beyond its current specification would be disproportionate. For example, it has observed that scanning on delivery would be time, labour and cost intensive.³²³

- 7.118 Our initial view is that mandating scanning of every Mailmark letter prior to posting at an address point would not be proportionate to the benefits on offer at this time. It would require Royal Mail to undertake a significant systems investment, which could reduce any cost savings Royal Mail would make by virtue of reform. Importantly, we note that Royal Mail has already developed the existing Mailmark reporting for the benefit of its customers and its own delivery operations without this being required by regulation, and that it would be open to Royal Mail and its customers to agree additional reporting on a commercial basis. We also note that [X]. Taking everything into account, we believe that expanding our regulation to cover Royal Mail's own Mailmark reporting system would be disproportionate at this time.

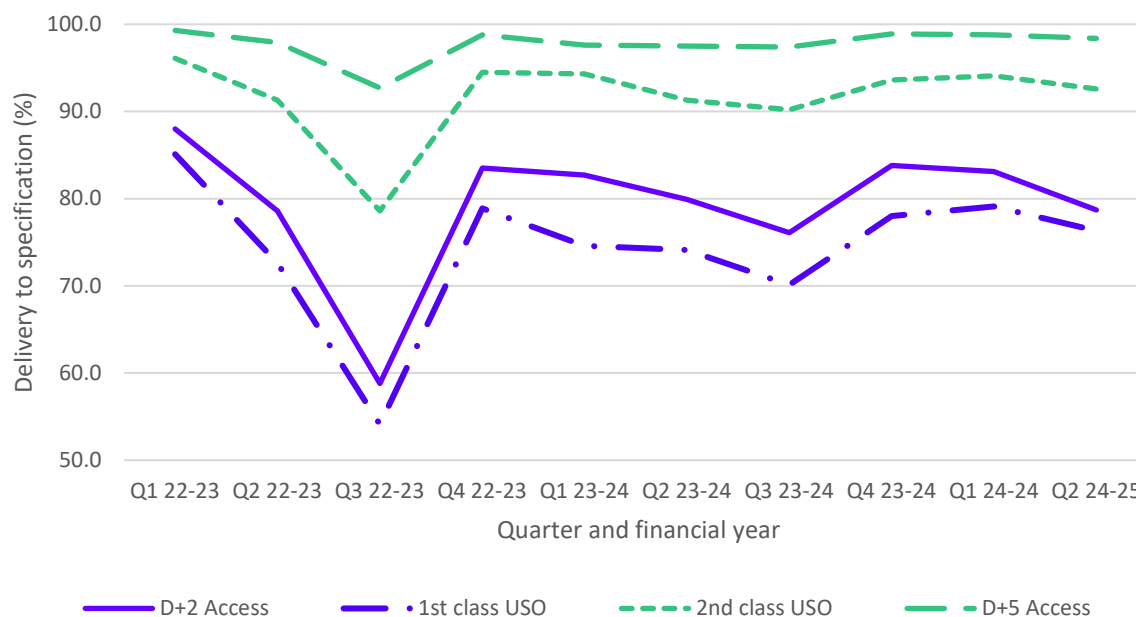
Quality of service enforcement and compensation

- 7.119 Due to Royal Mail's poor quality of service performance across USO and access mail in recent years, there have been calls for Ofcom to impose more demanding requirements on Royal Mail in relation to access quality of service. For example, one suggestion from the MCF included improved oversight and investigation of access quality of service, an access target set higher than the Second Class USO target and Ofcom publishing a penalty formula explicitly linked to quality of service failures by Royal Mail.³²⁴
- 7.120 We have considered whether there is a case for revisiting and potentially increasing the requirements on Royal Mail in relation to access quality of service. As part of this assessment, we have considered whether imposing specific performance targets for USO services but not access mail may incentivise Royal Mail to prioritise USO mail. If this were the case, then we may consider there to be a reason to intervene.
- 7.121 We have compared the quality of service performance of First Class and Second Class USO mail, and D+2 and D+5 access mail. As illustrated in figure 7.2 below, our analysis suggests that a greater proportion of D+2 access letters are delivered on time than First Class mail (including letters and parcels), and more D+5 access letters are delivered on time than Second Class mail. This suggests that, while it may be easier or more difficult for Royal Mail to meet the different routing times of these services, it does not discriminate between or prioritise the delivery of items sent using any of them. For example, if USO mail was prioritised at the expense of access mail in busy periods, we would expect to see a narrowing or potentially a crossover of the First Class mail and D+2 access services quality of service performance, but that is not the case.

³²³ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

³²⁴ MCF, August 2024. Presentation to Ofcom.

Figure 7.2: Quality of service achieved by Royal Mail for access services and USO services



Source: Ofcom analysis of Royal Mail’s quarterly quality of service and complaints reports.

7.122 Given the lack of evidence that Royal Mail prioritises delivery of USO mail over access mail, we are not convinced that there is a case for imposing more formal oversight of Royal Mail’s commitments in relation to access quality of service. In any case, if we were to impose, for example, enforceable performance targets on Royal Mail, there is no guarantee that such an intervention would better incentivise a high quality of service of access mail. As Royal Mail delivers USO and access mail using the same network, any difficulties in delivering items on time are unlikely to be unique to access mail. This is supported by the evidence that quality of service levels for USO products and access products broadly follow similar trends over time. As such, imposing quality of service targets for access products, and enforcing in the event Royal Mail fails to meet those targets, would be unlikely to incentivise a divergence between USO and access performance. The imposition of any such regulation would therefore be unlikely to achieve its intended aim. Furthermore, while we must take various factors into account when considering penalties for USO failures (such as financial sustainability of the USO and efforts to improve quality of service), these same obligations do not apply to compensation arrangements which are currently made on a commercial basis.

7.123 In consideration of the above, we do not consider there currently to be a case for considering further regulation in relation to the quality of access services. As noted previously, quality of service targets and compensation rates are currently set by negotiation between access operators and Royal Mail, subject to existing regulatory protections such as the requirement that access be offered on fair and reasonable terms and conditions. If an access operator believes Royal Mail has failed to comply with such obligations, then it can inform Ofcom of the alleged breach, or issue a formal access dispute.

Changing how access services are defined

- 7.124 As currently formulated, the USPA Condition specifies the regulated access services as ‘D+X’ services. As illustrated in Table 7.2 above, D stands for the day the access operator collects mail from the sender. D+1 is assumed as the day that the access customer hands mail over to Royal Mail at the IMC. D+2 is then the target delivery day for current D+2 access services. Under the proposed D+3 access services, some mail would be delivered D+2 and some D+3 depending on the walk route a particular road is on.³²⁵ For D+5 access services mail is delivered from D+2 onwards.
- 7.125 It has been suggested by the MCF that the way we define access services is confusing for customers.³²⁶ We agree that this system could be clearer for users of postal services. Under the current wording, ‘D’, i.e. the day the access operator collects mail from the sender, is a regulatory construct because D does not always occur one day before an access operator hands mail over to Royal Mail at the IMC. An access operator might, for example, choose to hold mail back until it has a greater volume to feed into the IMC. In those circumstances, the access operator would be providing “later than D+X” services to its customers.
- 7.126 To provide greater clarity on the service that access operators’ customers can expect to receive, we are proposing to amend the definitions of “D+2 Access” and “D+5 Access” to more clearly delineate between:
- a) the service for which the access operator is granted access, where the aim is to deliver mail within a certain number of days after the operator collects mail from the customer; and
 - b) the delivery obligation on Royal Mail, where the target routing time is calculated from the day the access operator hands over mail at the IMC.
- 7.127 To achieve this, and to improve comprehension of the description of access services, we have proposed incorporating the definitions “D+2 and later than D+2 Letters and Large Letters services” and “D+5 and later than D+5 Letters services” into the definitions of “D+2 Access” and “D+5 Access”, so that all the relevant information is contained in one place in the USPA Condition.
- 7.128 For example, we propose that the revised definition of “D+5 Access” states that it means access to the universal service provider’s postal network at the IMC for the purposes of an access operator providing postal services that aim to deliver letters within five weekdays after collection from the sender, but that these services are for delivery by Royal Mail no later than the fourth weekday after handover by the access operator at the IMC. We believe this will make clearer to the customers of access operators that the routing time for their mail will depend on the date on which the access operator hands it over at the IMC and that, as such, they may receive a “later than D+X” service. We propose to describe D+3 access in a similar way.
- 7.129 In addition, we note that the reporting requirements on Royal Mail for D+5 quality of service, and those we are proposing for D+3 quality of service, require Royal Mail to report

³²⁵ Royal Mail, 20 June 2024. Submission to Ofcom.

³²⁶ MCF, 10 July 2024. Submission to Ofcom regarding USO/access changes for discussion.

on the number of days *after handover* that mail is delivered. We expect this will also assist access customers in understanding the service they are buying and when their mail may be delivered.

- 7.130 As an alternative to the above approach, we considered whether to change the way access services are described from “D+X” to “H+X”, where H represents the day of handover. For example, D+5 would become H+4. Though we see some merit in this change, we consider that it could cause more confusion in the industry given the longstanding description of access services as “D+X”. It is also relevant that the routing times for USO services are described as “D+X”. Further, we expect access operators to enable their customers to understand the service they are purchasing, including that their mail may be delivered later than, for example, five days after collection. On balance, we consider that our proposed amendments to how we describe the access obligations are the most effective way of ensuring clarity on the services that customers can expect to receive.
- 7.131 The relevant amendments to the USPA Condition are set out in Schedules 1 and 2 to Annex A9 of this consultation.

Prohibition on Royal Mail using information gained from giving access to its postal network

- 7.132 USPA Condition 5.3 requires Royal Mail to use all reasonable endeavours to ensure that no information it possesses, as a result of providing access, is disclosed to, or used by, any trading business of Royal Mail or person associated with Royal Mail. Related to this, USPA Condition 5.4 contains a number of exemptions to USPA Condition 5.3. These include where Ofcom consents in writing to the disclosure or use of information, or where the person to whom the information relates has consented in writing to disclosure or use. In simple terms, these rules seek to ensure that Royal Mail does not use the information it gains from access operators in giving access to its network to obtain a competitive advantage over access operators.
- 7.133 We assessed whether there was a need to reform the conditions set out in USPA 5 in our 2022 Review of Postal Regulation.³²⁷ In that review we came to the decision that the restriction against Royal Mail’s disclosure and use of access related information should remain. This was due to the power Royal Mail has as both a wholesaler and a competitor to access operators via its retail divisions.
- 7.134 Since that review we are aware that additional concerns have been raised about the impact of USPA Condition 5 on the access market through the 2023 dispute between Whistl and Royal Mail.³²⁸ That dispute involved concerns about whether Royal Mail can pass the costs of complying with its access obligations onto an access operator and whether an access operator can provide an ongoing consent in writing to the disclosure or use of information Royal Mail would obtain by providing a requested access product.

³²⁷ Ofcom, 2022. [Annex 6 - Access Regulation - supporting evidence](#), pp.11-12.

³²⁸ Ofcom, 2023. [Dispute between Whistl and Royal Mail](#).

- 7.135 The MCF asked us to consider whether revisions could be made to relax USPA 5, specifically suggesting that barriers to sharing information place an unduly high bar on the success of new access service requests. It was suggested this change would place access operators on a more equal footing with Royal Mail.³²⁹ The reasons for this include a view that Royal Mail can pass on unnecessary costs for new service access requests by citing USPA Condition 5.3 ring-fencing, while some access operators consider equally effective safeguards can be provided by contractual agreement.³³⁰
- 7.136 We consider there continue to be good reasons for having rules on the sharing of information Royal Mail gains from giving access to its network. Given its role as both a wholesaler and competitor to access operators, Royal Mail could gain commercially sensitive information about an access operator's customers, giving it an unfair competitive advantage in the bulk mail market. We are therefore not proposing to change our regulatory regime at this time, but we will keep this issue under review and will consider intervening if it appears that there is a need to do so.

Requirement for fair and reasonable terms, conditions and charges

- 7.137 USPA Condition 3 currently requires that the provision of D+2 and D+5 access is provided on fair and reasonable terms, conditions and charges. We are proposing that this provision also apply to the proposed D+3 access services. The MCF has additionally asked us to be more specific in our definition of fair and reasonable terms, conditions, and charges. It has asked that we are more explicit on what is acceptable with fully enforceable regulatory powers for any breaches.
- 7.138 While we do not set out explicitly what we consider to be fair and reasonable terms, conditions and charges, our regulatory regime sets a minimum standard for access. We set minimum expectations in terms of delivery specifications, transparency around quality of service, and pricing. This regime supports commercial negotiations between Royal Mail and access operators when agreeing the terms and conditions of access.
- 7.139 When setting up the access regime in 2012, we explained that we did not consider a prescriptive approach to setting fair and reasonable terms and conditions to be necessary. Our assessment has not changed, as we still consider it preferable for access to be established through commercial negotiations underpinned by minimum regulatory protections. In any case, any prescriptive conditions as to what constitutes fair and reasonable terms and conditions could become outdated or irrelevant as the access market evolves. We therefore consider it remains more appropriate to allow Royal Mail and access operators to freely negotiate those terms and conditions, with the option of bringing any disputes to Ofcom which we can consider on a case-by-case basis.

³²⁹ MCF, August 2024. Presentation to Ofcom.

³³⁰ Ofcom, 2023. [Dispute between Whistl and Royal Mail](#), p.23.

7.140 Taking the above into account, and noting that our regulation has so far supported effective competition in the access market, we currently do not see any reason to revisit this provision of the USPA Condition.

Provisional conclusions

- 7.141 As set out in section 2, our policy objectives are to put in place a reformed regulatory framework which will promote the following outcomes:
- Lead to consumer benefits through a USO that meets reasonable user needs;
 - Support the financial sustainability and efficiency of the universal service;
 - Incentivise Royal Mail to provide a high-quality service; and
 - Encourage innovation and competition in the postal industry.
- 7.142 Bulk mail is not part of the USO specification, but letters delivered via bulk mail services are important to consumers, large businesses, and to the financial sustainability of the universal service. As noted above, because bulk mail makes up the majority of all mail it is necessary that any changes to the USO are replicated in access so Royal Mail has the opportunity to realise the full extent of cost savings from an alternate weekday delivery model.
- 7.143 We are therefore proposing to regulate D+3 access services, for delivery on alternate weekdays. We expect these proposals to confer benefits on large users of mail by continuing to support the use of bulk mail services going forward, expanding consumer choice and maintaining regulatory protections. This is important because bulk mail letters make up the majority of all letters sent and the access market accounts for a significant portion of Royal Mail's revenue, which helps to support the sustainability of the universal service. Regulating D+3 access should make it a more attractive option for access customers, supporting the necessary shift in volumes from D+2 to this service to enable Royal Mail to achieve the projected cost savings from reform. Removing Saturday delivery from D+5 access should also contribute to this outcome. Our initial view is therefore that the proposed changes to the access market would support the financial sustainability of the universal service, and lead to consumer benefits.
- 7.144 We are also making proposals to increase the oversight of quality of service in access through mandating regular Royal Mail reporting of the performance of D+3 access services. In the round, we expect these proposals to incentivise Royal Mail to provide a high quality service to access operators.
- 7.145 Finally, we have explained that the regulation of D+3 access and the continued regulation of D+2 access would support effective competition in the bulk mail market and provide less disruption for customers following the change in Royal Mail's delivery schedule for non-priority mail. A competitive market should produce better outcomes for consumers, including lower prices, increased innovation and service development.

Consultation questions

Question 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? Please provide reasons and evidence for your views.

Question 7.2

Do you agree with our proposal to change the specification of D+5 access services to remove Saturday as a delivery day? Please provide reasons and evidence for your views.

Question 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? Please provide reasons and evidence for your views.

Question 7.4

Do you agree with our proposals for pricing transparency and amending how access services are defined? Please provide reasons and evidence for your views.

Proposed modifications to the USPA Condition

- 7.146 To implement our proposals, we are proposing to make the following modifications to the USPA Condition.
- 7.147 In order to regulate D+3 access, we are proposing to:
- a) Insert a new definition of "weekday", to mean any day which is not a Saturday, Sunday or a public holiday;
 - b) Insert a new definition of "D+3 Access", to mean access to Royal Mail's network at the IMC for the purpose of providing retail services that aim to deliver Letters and Large Letters three weekdays after collection from the sender, for delivery by Royal Mail no later than the second weekday after handover at the IMC. To avoid the calculation of routing times commencing on Saturday, we are proposing that the definition state that, if letters are handed over on a Saturday, then handover will be deemed to have occurred on the next weekday;
 - c) Insert a new definition of "D+3 Access Operator", which means a postal operator who has or seeks D+3 Access, and update the definition of "Access Operator" to include D+3 Access Operators;
 - d) Insert a new definition of "D+3 Access Contract", to mean a contract between Royal Mail and a postal operator or user for the provision of D+3 Access;
 - e) Apply the substantive provisions of the USPA Condition to D+3 access by referring to the above definitions as appropriate (see USPA Conditions 2.1A, 2.2, 4.1, 4.1A, 4.3, 4.4, 5.1, 6.8, 7.3, 7.4, 8.1, and 8.1B). The effect of these modifications would be to require Royal Mail to offer D+3 access subject to the same regulatory obligations as exist for D+2 and D+5 access. This includes the margin squeeze control, the relevant retail services for which are specified in the proposed modifications to USPA Condition 6.8; and
 - f) Insert a new USPA Condition 8.1ZA, which would require Royal Mail to report on the proportion of D+3 access letters delivered on D+2 and the proportion delivered on D+3.
- 7.148 We are also proposing to modify USPA Condition 4.2 to require Royal Mail to publish a Statement of Process which covers D+3 Access within three months after our modifications enter into force.

- 7.149 As regards D+5 access, we are proposing to modify:
- a) The definition of “D+5 Access” to refer to delivery on weekdays, rather than working days, which would remove the obligation to deliver on Saturdays;
 - b) The definition of “D+5 Access” to state that, if letters are handed over on a Saturday, then handover will be deemed to have occurred on the next weekday, which would avoid the calculation of routing times commencing on a Saturday; and
 - c) The quality of service obligation in USPA Condition 8.1A so that it requires Royal Mail to report on the number of weekdays rather than working days after handover that mail has been delivered, given that Saturday would no longer be a delivery day.
- 7.150 We have proposed updating the relevant retail services for the D+2 Access margin squeeze control in USPA Condition 6.8.
- 7.151 Our proposed modifications to make clear that Royal Mail is required to deliver access mail a certain number of days after handover at the IMC are described at paragraphs 7.124 to 7.131 above.
- 7.152 We are also proposing to make some minor modifications, for example to update the definition of “Regulatory Accounting Guidelines” so that it refers to the guidelines as amended from time to time, rather than a specific date.
- 7.153 Annex A9 to this Consultation is a statutory notification of the modifications we are proposing to make to the USPA Condition. Schedule 1 to Annex A9 is a copy of the USPA Condition marked up with our proposed modifications, and Schedule 2 contains a table setting out the proposed modifications in an accessible format.

Our assessment of our proposed modifications of the USPA Condition against the statutory tests

- 7.154 Under section 38(4) of the Act, we may only impose or modify a USPA Condition if we consider it appropriate for:
- a) Promoting efficiency;
 - b) Promoting effective competition; and
 - c) Conferring significant benefits on the users of postal services.
- 7.155 We have set out in this section why we believe our proposals achieve these outcomes. We note they are closely aligned to our policy objectives, and therefore refer in particular to the summary in paragraphs 7.141 to 7.145 above which also supports why our proposals satisfy these tests.

The price control test set out in section 38(5) of the Act

- 7.156 Under section 38(5) of the Act, we may not impose price controls unless it appears to us that the universal service provider might otherwise:
- a) Fix and maintain some or all of its prices at an excessively high level with adverse consequences for users of postal services, or
 - b) Impose a price squeeze with adverse consequences for users of postal services.

- 7.157 We have explained above at paragraphs 7.57-7.68 and 7.93-7.99 that we consider there to be a risk of Royal Mail squeezing margins in relation to the provision of both D+2 and D+3 access, and that such a price squeeze could give rise to adverse consequences for the users of postal services.
- 7.158 We therefore consider that our proposed margin squeeze control in relation to the current D+2 access services and the proposed D+3 access services satisfies the test in section 38(5) of the PSA 2011.

The factors set out in section 38(8) of the Act

- 7.159 Section 38(8) of the Act requires that we take into account, in particular, five factors when deciding in a particular case what obligations to impose in a USPA Condition:
- the technical and economic viability, having regard to the state of market development, of installing and using facilities that would make the proposed access unnecessary;
 - the feasibility of giving the proposed access;
 - the investment made by the universal service provider concerned in relation to the matters in respect of which access is proposed;
 - the need to secure effective competition in the long term; and
 - any rights to intellectual property that are relevant to the proposal.
- 7.160 We have already explained above why we consider there is a need to extend the USPA Condition to D+3 access services to secure effective competition in the upstream bulk mail market going forwards. Our proposed extension is therefore needed to maintain effective competition in the longer term.
- 7.161 In that regard, we also note that Royal Mail has already announced that it will introduce this form of access and asked wholesale customers to vote on its introduction. As a result, we consider that our proposals regarding D+3 access services are feasible, as well as technically and economically viable. Further, we believe that access operators do not have a viable option other than to use Royal Mail's postal network to deliver end-to-end bulk mail services. Therefore, we do not believe that there are facilities alternative to those of Royal Mail that would make the proposed access unnecessary.
- 7.162 We have also taken these factors into account in relation to our proposed margin squeeze control. We consider that, in the absence of such a control, competition may not be effective due to Royal Mail's ability to price anticompetitively. In that context, we propose to impose a form of control based on what we consider to be an appropriate measure of costs and which gives Royal Mail the opportunity to charge prices to recover its costs, taking account of investment in its network.

General test set out in paragraph 1 of Schedule 6 to the Act

- 7.163 In addition to above-mentioned specific statutory tests, we must also be satisfied that the general test in paragraph 1 of Schedule 6 to the Act is met in relation to our proposed modifications of the USPA Condition.
- 7.164 In that regard, we consider that our proposed modifications are:

- **Objectively justifiable:** We have explained above that we consider modifying the USPA Condition to require access at the IMC for the provision of the new D+3 access services would promote effective upstream competition, secure efficiencies and confer significant benefits on users of postal services. We have also explained that the introduction of D+3 access, and the removal of Saturday delivery from D+5 access, would help Royal Mail to achieve the costs savings from reform of the universal service by supporting a shift in volumes away from next day services. This should lead to better outcomes for consumers, including lower price rises in the long term than would be the case without reform. In addition, we have explained the reasons why a margin squeeze control in respect of both D+2 and D+3 access services is warranted to protect against the risk of Royal Mail imposing a price squeeze on these services. We have considered the broader impact of our proposals, and have based our assessment on information provided by Royal Mail and affected stakeholders, such as access operators and users of access services.
- **Not unduly discriminatory:** As with existing D+2 and D+5 access, our proposals to regulate D+3 access reflects Royal Mail's position as the only postal operator with a downstream delivery network capable of facilitative participation by access operators in the relevant markets. We therefore consider that they would not be unduly discriminatory. We note that the price of D+2 access would increase under our proposals in Section 5, and that introducing a regulated D+3 product would be an appropriate alternative for users who may be particularly price sensitive. As regards our proposals to remove Saturday delivery from D+5 and modify the D+2 margin squeeze control, these would affect all users equally.
- **Proportionate in relation to what they are intended to achieve:** We consider that our proposal to regulate D+3 access and modify the D+5 margin squeeze control represent the minimum interventions to promote effective competition in the bulk mail market, while also supporting the financial sustainability and efficiency of the universal service. The impact of our proposal to remove Saturday delivery from D+5 access is the minimum intervention needed to support the financial sustainability of the universal service.
- **Transparent:** The reasons for, and effect of, our proposals are set out in full in this section. Our proposed modifications to the USPA Condition are explained above and clearly specified in the statutory notification published at Annex A9 of this consultation.

7.165 We consider that our proposed modifications are consistent with our duties in section 29 of the Act. They should contribute to the continued provision of a universal service by supporting its financial sustainability and efficiency and enabling Royal Mail to realise the full extent of the costs savings from reform.

7.166 We also consider that our proposals are consistent with our duties under section 3 of the Communications Act 2003 to further the interests of citizens and of consumers, where appropriate, by promoting competition. In particular, we have explained that we consider that our proposals would promote effective upstream competition and the interests of consumers would also be furthered in respect of choice, price, quality of service and money, given that access operators would be able to offer retail services based on either D+2, D+3 or D+5 regulated access. The costs savings that Royal Mail could make as a result of our proposals should also lead to consumer benefits.

7.167 Finally, we note our on-going duty under section 6(1) of the Communications Act 2003 to keep our regulation under review with a view to securing that it does not impose or maintain burdens that are or have become unnecessary. As explained in paragraph 7.91, should we proceed with our proposals to introduce D+3 access then we will monitor the market's response to its introduction, and are open to revisiting whether our regulation of D+2 access services is still appropriate.

8. Impact of our proposals on financial sustainability

The purpose of this section

This section sets out our estimates of the potential savings that Royal Mail could make from our proposals for changing our regulation and compares them against Royal Mail's estimates using its own proposals. We then consider the impact this would have on the financial sustainability of the provision of the universal service.

In brief

- A change to the frequency of Second Class letter deliveries, related changes to the access obligation and revision of USO quality of service targets, as per our proposals in Sections 5 to 7, could lead to material cost savings for Royal Mail. Our estimate is that the potential savings for financial year 2025/26 could be £250m to £425m. Realising the savings quickly will be a very significant operational challenge, involving changes to every aspect of Royal Mail's delivery pipeline.
- The cost savings alone would not be sufficient to ensure the financial sustainability of the USO. In addition to our proposals for reform, Royal Mail must also achieve significant growth in parcels, manage effectively the decline in letter volumes, and improve its efficiency by adapting its network to volume and workload changes.
- However, the potential savings, both in terms of the cost savings from moving to the alternate day delivery model and the reduced requirement to invest due to lower quality of service targets, are a significant and likely necessary component of returning the USO to long term financial sustainability.

Introduction

- 8.1 We explain in Section 4 the duties applicable to making our proposals for change, including our duty to have regard to the financial sustainability of the provision of the universal service. We have therefore considered the financial impact of the proposals we have set out in Sections 5 to 7. We have done this by modelling the potential cost savings that could be made were our proposals to be adopted.
- 8.2 In our CFI, we presented our modelling which underpinned our estimates of both the net cost of the USO and potential net savings of changes to the scope of the universal service. These were set out in Annex 7³³¹ of the CFI, alongside a detailed description of the structure of our modelling. We have continued to develop this modelling for this consultation, based on feedback received on the CFI.
- 8.3 The model we used in the CFI was a bottom-up estimation of the revenues of the Reported Business and the costs of the delivery portion of the Reported Business. It modelled Royal

³³¹ Ofcom, 2024. See [Annex 7 - Our Approach to the net cost calculation](#).

Mail's products at a granular level, including how consumers might switch between and away from products in response to changes to the service they receive. It also modelled Royal Mail's delivery network at a detailed geographic level, building up estimates of the time involved in delivery routes based on volumes, geographic information and detailed engineering assessments of the time required to perform each part of a delivery route.

- 8.4 As part of its response to the CFI, Royal Mail also provided us with its proposal to change the scope of the universal service, which included their modelling of the financial impact of key elements of its proposed changes, namely the net cost savings that could be realised if those changes were implemented. Below we explain our approach to estimating the potential net savings and compare this to Royal Mail's approach.
- 8.5 We have also scrutinised Royal Mail's own modelling to understand its expectations of how costs and revenues may change as a result of changes to the universal service.

Royal Mail's estimate of the financial impact of its proposed reforms

- 8.6 To support its response to the CFI, Royal Mail produced its own modelling to estimate the net cost savings of key elements of its proposals.³³² The model forecasts the savings that would be made in financial year 2025/26 should an alternate day delivery model for non-priority letters be adopted. This model estimates annual net cost savings which could be up to £300m in the financial year 2025/26.³³³ Cost savings and revenue losses of a similar order of magnitude would be expected each year, compared with a counterfactual of the USO as currently scoped, though they will change based on changes in volumes and in Royal Mail's baseline operations.
- 8.7 Royal Mail's estimate is based on a top-down model produced by Royal Mail and based on its 2023 business plan.³³⁴ It considered what impact the operational and pricing changes would have had on the forecasted volumes for that year and produced a range of possible outcomes. From these, Royal Mail estimated the impact on costs and revenues. Like our own, its modelling did not consider transition costs but instead looked at the cost savings and revenue impacts that would be made after introducing a new operating model. Royal Mail's modelling also focused on one particular year, though its model also estimated the impact over time. Royal Mail's top-down modelling approach differs from our bottom-up modelling approach.

³³² Please see Section 2, p.18-21 of this document for a summary of Royal Mail's proposals.

³³³ [Royal Mail response](#) to the 2024 Call for Input, p.7.

³³⁴ Royal Mail response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

Table 8.1: Royal Mail estimates of potential savings of alternate-day delivery, 2025/26 FY

	£m
Revenue impact	-100
Cost saving	400
Net saving	300

Source: Royal Mail USO model

8.8 We have reviewed Royal Mail’s model and compared it to our own, making adjustments to our assumptions to enable us to check the results. In the next subsection we will explain the changes we have made to our modelling since the CFI and discuss the outputs of the updated model.

Ofcom’s estimate of the financial impact of our proposed reforms to delivery structure

8.9 As set out above, we have further developed our models to estimate the potential net savings of our proposal to reduce the delivery frequency of Second Class, D+3 access and D+5 access letters. We have made several changes to our model to improve its use for this purpose.

Parcel route delivery efficiency

8.10 Royal Mail responded to the CFI noting that one of the outputs of our modelling, the number of parcel deliveries within an hour, was operationally unreasonable.³³⁵ It explained that it assumed a much lower rate of deliveries per hour and argued that this lower assumption was more realistic.

8.11 We have reviewed the modelling of parcel routes and agree with Royal Mail’s assessment that the CFI modelling was missing some time elements that would arise in practice. For example, our previous modelling did not include the time required for a postal worker to park and retrieve items from a van, and assumed an unrealistically high drive speed for these routes. These changes have reduced the number of deliveries per hour that parcel routes can achieve to a level we believe is achievable in practice. This has added to the cost base of the modelled rescope network, and reduced the net savings modelled.

Volume movements due to operational and pricing changes

8.12 In our modelling we consider the impact of each change to Royal Mail’s product offering by considering the change due to operational changes and the change due to price.³³⁶ This involved considering how consumers would change which products they purchased in response to operational and price changes. We considered four distinct routes for impacted

³³⁵ [Royal Mail response](#) to the 2024 Call for Input - Annex A2.11.

³³⁶ This approach is set out in more detail in [Table A7.3 of Annex 7](#) (Our approach to the net cost calculation) in the 2024 Call for Input.

volumes to take, with some customers uptrading to more expensive Royal Mail products (e.g. a user of Second Class switching to First Class), others downtrading (e.g. the reverse), others switching to access products which still make use of Royal Mail's delivery network, and some leaving the market entirely.

- 8.13 We have largely maintained our approach to the operational impacts of changes to delivery frequency, using the same assumptions as for our 2.5 day delivery scenarios from the CFI modelling.
- 8.14 We have reviewed the assumptions that Royal Mail has made in relation to the volume impacts of its proposals for reform on First Class products. We consider that Royal Mail has taken a cautious approach and assumed a large volume of customers would choose to leave the market due to the price increase.
- 8.15 After reviewing Royal Mail's modelling, we have refined the assumptions we made in relation to the impact of the First Class price changes. We now consider that the assumptions made in our CFI modelling assumed too few volumes leaving the market and too many volumes downtrading to other Royal Mail products. We have therefore updated our assumptions to have a larger proportion of volumes leaving the market due to increases in the prices of First Class letters.
- 8.16 However, we have not replicated Royal Mail's assumptions as we consider them to be too pessimistic given they assume a degree of volumes leaving the market which we think is excessive considering the price change assumptions.
- 8.17 We note that estimating the impact on volumes of changes in pricing can be particularly challenging. Therefore, we consider that there is more uncertainty about this impact relative to the impact of the proposed changes in delivery on the costs of delivery, which we have described above.

Price elasticity assumptions

- 8.18 Some respondents to the CFI commented on our use of elasticities in our revenue modelling and argued that they were incorrect and that there is real world evidence of price increases impacting demand by more than our estimates.³³⁷ We use price elasticity assumptions to determine the overall level of volumes affected by a given change in price, reflecting a subset of consumers switching away some or all of their use of First Class letters in response to an increase in prices.
- 8.19 For some customers, this switching will be to Second Class letters rather than choosing not to send a letter at all. These additional Second Class volumes would provide Royal Mail with revenues and the letters would be delivered at lower cost to Royal Mail relative to First Class. Therefore, Royal Mail has an incentive to take this effect into account when setting First Class letter prices, leading to higher First Class prices and lower First Class letter volumes than would be the case in the absence of this effect. In terms of price elasticities, this incentive means that, for First Class letters, we have raised elasticities above unit-

³³⁷ P. 8 of [Thortful](#) and pp. 1-2 of [Moonpig](#) responses to the 2024 Call for Input.

elasticity, meaning that, on average, price increases are revenue-negative rather than revenue-positive, as they were in the CFI.

- 8.20 While this reduces revenue gains from price increases, it does not mean that price increases are strictly revenue-negative for Royal Mail in our modelling. This is because some proportion of volumes affected by a price increase will switch to other (usually, but not always, cheaper) Royal Mail products and will therefore still bring in some revenue.

Efficiency

- 8.21 Some respondents argued that we should consider Royal Mail’s efficiency in more depth as part of our assessment and should consider how operational issues or inefficiencies were contributing to the financial issues, including a bottom-up cost comparison against international comparators to benchmark efficiencies.³³⁸
- 8.22 As we explain in Section 4, we remain of the view that Royal Mail has not made as much progress as we would expect towards improving efficiency. To help address this, in our 2022 Review of Postal Regulation,³³⁹ we introduced further reporting requirements for Royal Mail to provide more transparency in public about its progress on efficiency. However, we also remain of the view that there are commercial incentives for Royal Mail to drive efficiency and that further regulation will not promote higher efficiencies. Our proposed changes to the universal service are not intended to compensate Royal Mail for its inefficiencies; they are intended to better meet user needs, and also provide Royal Mail with further operational and commercial flexibility to deliver the universal service and other mail at a lower level of costs and make progress on achieving financial sustainability for the universal service.
- 8.23 Efficiency improvements are separate to the cost savings we expect from changes to the scope of the universal service. There are few overlaps between the categories of changes to Royal Mail’s cost base that are potential efficiency-driven changes under the current scope of the universal service and those which are made possible by the proposed changes to the universal service.
- 8.24 Therefore, while efficiency improvements are always a key factor in our assessments of the financial sustainability of the universal service, they are less relevant to our specific modelling of the proposed changes to the universal service as they affect both the pre- and post-reform estimates. This means that they largely, but not entirely, ‘net-off’ and are not particularly determinative of cost savings.

³³⁸ P. 13 of [Greetings Card Association](#), p.3 of [Moonpig](#), pp. 29-30 of [Consumer Scotland](#), p.24 of [Post Office](#), p.2 of [Quadient](#), p.2 of [British Independent Retailers Association](#), pp.2-3 of [Strategic Mailing Partnership](#), p.2 of [Direct Commerce Association](#), pp.1-3 of [National Federation of Sub Postmasters](#) responses to the 2024 Call for Input.

³³⁹ Ofcom, 2022. Statement: Review of Postal Regulation.

8.25 We have maintained the CFI modelling approach of taking a high-level view of efficiency gains, reducing the pre- and post-reform cost bases by a base assumption of 9% to account for efficiencies.³⁴⁰

General improvements and error corrections

8.26 During our review of the modelling, we used for the CFI we discovered an error relating to how volume movements were being passed between products during our revenue calculations. This exacerbated the modelled revenue losses in the CFI modelling. We have corrected this for this consultation, which has had the impact of increasing revenues in modelled scenarios, increasing the modelled net savings.

8.27 We have made various other small amendments to our modelling to improve its operation and accuracy.

Constructing our range

8.28 Given that modelling significant changes to Royal Mail's network involves a lot of uncertainty, it is appropriate to model a range for our estimate of net cost savings. We have done this by modelling ranges for various key inputs. The inputs we have varied to create our range are:

- a) **Elasticities** – we have flexed our elasticity assumptions by a factor of ± 1.2 (i.e. a base assumption elasticity of 1 would turn into a range of 0.83 to 1.2);
- b) **Switching patterns** – we have tested a range of ways in which customers respond to price changes by switching to other products or leave the market; and
- c) **Efficiency** – we have included a range of efficiency gains of 5%-14% (base case: 9%) to adjust the cost base from which savings can be made.

Projecting the savings forward to 2025/26 and timing implications

8.29 Our model uses a base year of 2021/22 as explained in Annex 7 of the CFI. Due to the resource burden that updating the base year would require of both Royal Mail and Ofcom, we have not sought to update the base year of the modelling for this document. However, this makes it more difficult to compare our estimates with Royal Mail's, as they relate to different years. In order to aid comparison, we have projected our estimates forward to the 2025/26 financial year, matching the year that Royal Mail's modelling has focused on. As explained below, this is an 'end-state' projection and not a forecast of what Royal Mail should realise in 2025/26 as it does not take account of transition costs and time required to implement changes.

8.30 We have projected the cost and revenue impacts separately and account for several key factors that we expect would lead to differences in outputs were we to base our modelling on the 2025/26 financial year.

³⁴⁰ Our modelling approach with regard to efficiency is set out in paragraphs A7.97-A7.98 in [Annex 7 \(Our approach to the net cost calculation\) of the 2024 Call for Input](#).

- 8.31 To project costs, we have:
- a) Accounted for changing volume levels and mix (capturing how people may change their use of different Royal Mail letter products), which drive changes in the number of hours we expect could be saved under a new operational delivery model. This slightly reduces the potential cost saving (for example because lower letter volumes mean lower savings from changing how these letters could be delivered);
 - b) Accounted for wage rate growth which means that an hour saved in 2025/26 is worth more than an hour saved in 2021/22, increasing the potential saving; and
 - c) Deducted cost savings which may otherwise be double-counted, relating to Royal Mail 'delivery to specification' initiatives³⁴¹ which have a similar effect to the savings we have modelled – holding mail to be delivered in larger bundles where possible.
- 8.32 The overall effect of these factors is to slightly reduce the amount of cost savings that we expect could be made, as set out in more detail below.
- 8.33 To project revenues, we have:
- a) Accounted for changing volume levels and mix which slightly reduces the overall revenue base on which impacts are made, as our proposed changes to delivery frequency are focused on letters and only have secondary effects on parcels; and
 - b) Accounted for price rises which have come in since 2021/22, which reduces the effect of raising First Class prices as the price rise starts from a higher base and is thus proportionally a smaller increase. This reduces the potential revenue gains from price rises as these have already been realised.
- 8.34 The overall effect of these factors is to reduce modelled revenues in financial year 2025/26 relative to the base year (2021/22) after making our proposed changes to delivery frequency, particularly at the top end of our range where price-related effects are largest, as explained further below.
- 8.35 For the avoidance of doubt, although the figures in our modelling have been projected forward to financial year 2025/26, this does not mean we expect the scale of these cost and revenue changes to be achievable in financial year 2025/26. Rather, as explained, we consider that it will take Royal Mail some time to introduce the proposed changes and realise the benefits from them. We have projected our modelling forward to financial year 2025/26 in order to provide a better comparison to Royal Mail's modelling of the net benefits and to take account of certain dynamics which we know have occurred since financial year 2021/22, which is the year for which we have detailed figures to inform our bottom-up modelling.
- 8.36 We would expect implementation of our proposals to take well over a year before the full benefits of reform would be achieved, with some benefits being realised more quickly and

³⁴¹ These initiatives aim to reduce the number of times a single letter is delivered on its own to a delivery point by holding back mail which is ready to be delivered earlier than it could be while remaining within specification (e.g. a Second Class letter that would be delivered on D+2 could be held back to D+3). By holding back mail in this way, some proportion of these letters get paired with another letter going to the same address, and therefore that mail is delivered in a single visit rather than two visits over two days, saving cost.

the rest phasing in over time. Royal Mail would then continue to benefit from a lower cost base achieved by reform.

8.37 Both Royal Mail’s and our modelled estimates of the profitability are of ‘end state’ operations, comparing costs and revenues with and without our proposed reforms. They do not account for the costs of implementing the changes or the timings of when the full savings of reform would be realisable. These factors are interlinked – a faster implementation of a new operational model may involve higher transition costs in the form of voluntary redundancy, route revision costs or other administrative costs.

Our estimate of net savings from changes to the universal service

8.38 Using our updated model and projecting savings forward, we have estimated the potential savings that Royal Mail could make relative to a counterfactual in which the universal service remains unchanged. Our estimated net savings from our proposals are set out in Table 8.2 below.

Table 8.2: Ofcom estimate of 2025/26 net savings, £ millions (m)

	Range (£m)
Cost savings	£375m to £450m
Revenue losses	-£100m to £0m
Net savings	£250m to £425m

Source: Ofcom modelling. Note - figures rounded to the nearest £25m, therefore net savings is not the sum of the cost savings and revenue losses presented in this table.

Comparison of our estimate and Royal Mail’s

8.39 There are several major differences in the overall approaches that Royal Mail and Ofcom have taken to modelling. Our model is a bottom-up model, using a base year of 2021/22, while Royal Mail’s is largely top-down and based on more recent base year data. While we have projected our outputs to present them for the same output year as Royal Mail have chosen, some material differences in outputs are to be expected given the differences in approach. We note that Royal Mail’s estimated net savings are towards the bottom end of our range.

8.40 We are not convinced that revenue impacts would be as extreme as Royal Mail has modelled. In particular, we anticipate that more mail would downtrade to a cheaper product rather than leave the market entirely and so would still generate revenues for Royal Mail. This leads us to generally expecting better revenues following a change in the universal service scope than Royal Mail.

8.41 Our view of costs (as opposed to revenues) is more closely aligned with Royal Mail and we have not seen any significant deviations between its expectations of cost movements with those estimated by our updated cost modelling.

- 8.42 Overall, given the uncertainties around any forecast of revenues following a major change in operations and pricing strategy, we consider that both our and Royal Mail's estimates are credible and broadly consistent with one another.
- 8.43 We believe that the potential savings from our proposed reforms are material and, if realised, would significantly improve the financial sustainability of the provision of the universal service.

Quality of service

- 8.44 As set out in Section 6, we are proposing to revise the First Class national D+1 target to 90%. In that section we also set out Royal Mail's estimate of the costs associated with the different levels of quality of service targets (see paragraph 6.40).
- 8.45 Royal Mail has estimated that it would cost £120m-£180m p.a. to improve from 90% to 93% of First Class mail being delivered within D+1. The reduction of the First Class national target would save Royal Mail those costs.
- 8.46 However, as discussed in Section 6, Royal Mail is not currently performing to the level of current targets, including those for First and Second Class. Therefore, these savings have already been realised in the financial analysis presented in Section 4 and, so, should not be considered as additional cost savings, relative to current cost levels, which Royal Mail could achieve through the proposals we are making.
- 8.47 Royal Mail has estimated that £20-30m [§<] investment is necessary to improve from 77% to 82.5%, and a further £60-80m p.a. investment is necessary to improve from that level of performance to 90%.³⁴²

Potential impact on financial sustainability of the USO

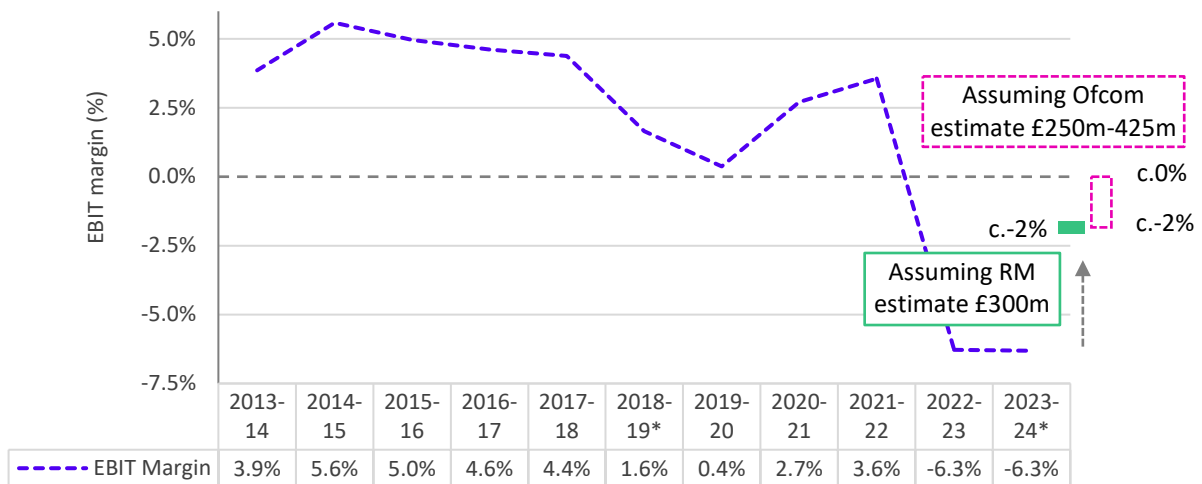
- 8.48 One of our policy objectives is to ensure that the regulatory framework underpinning the USO supports the financial sustainability of the universal service. However, no regulatory framework on its own can ensure its financial sustainability. Many necessary elements of financial sustainability lie outside of regulation, including commercial performance in non-USO products which make use of the same delivery network as the universal service, the transition between letters and parcel volumes over time, and the efficiency of the network.
- 8.49 As set out above, we estimate that our proposals could give rise to net cost savings in 2025/26 of £250m-£425m for Royal Mail, while Royal Mail's estimate is up to £300m. Achieving these net cost savings would provide a considerable increase in the rate of return of the Reported Business, i.e. its EBIT margin. Relative to Royal Mail's 2023/24 returns, our proposals could increase the EBIT margin by c.4%-6% by our estimate or up to c.4% by Royal Mail's estimate. As explained in Section 4, we consider the 5-10% EBIT margin range to be

³⁴² Royal Mail's response to information requested under section 55 of the Act (the statutory information request) dated 5 December 2024.

consistent with a commercial rate of return and the proposed reforms could provide a significant contribution in restoring the EBIT margin to the 5-10% range.³⁴³

8.50 As set out above, we consider the EBIT margin of the Reported Business as a first order indicator of the financial sustainability of the USO. Therefore, universal service reform could potentially make a significant positive contribution towards the financial sustainability of the USO. To put these estimates in the context of the EBIT margins of the Reported Business, we show these impacts illustratively relative to the 2023/24 EBIT in Figure 8.1 below.

Figure 8.1: Estimated impact of proposals on Royal Mail EBIT



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis. *52-week adjusted figures

8.51 Our analysis of the forecasts of the EBIT margin of the Reported Business suggests that, although the potential saving from universal service reform would have a material impact, it is not sufficient, in itself, to ensure the return of the EBIT margin to 5-10% range and the long term financial sustainability of the USO.

Challenges to achieving expected savings

8.52 Both our estimate and Royal Mail’s estimate of the net savings from universal service reform assume the full potential of the reform is realised. In practice, the extent of the actual net savings which may be realised will depend on Royal Mail’s success in implementing the necessary operational changes, including the roll-out of the new alternate weekday delivery model. Realising the net savings unlocked by our proposals, and doing so quickly, will be a very significant operational challenge, involving changes to every aspect of Royal Mail’s delivery pipeline. Making major changes to such complex systems will

³⁴³ For example, the scale of our net savings estimate could largely or entirely cover Royal Mail’s EBIT loss - 6.3% in 2022/23 and 2023/24 financial years. This is before considering transition costs which, in the short term, would reduce the impact of reform on Royal Mail’s EBIT margin.

inevitably be difficult and it will take time for changes to bed in and for details to be worked through.

- 8.53 The actual net savings will also depend on Royal Mail's customers' responses to the changes in the service levels (e.g. Second Class letters no longer being delivered on Saturdays and access being provided on D+2, D+3 and D+5), and also to customers' responses to new prices (e.g. any increase in First Class letters and D+2 access).

Conclusion

- 8.54 As explained in Section 4, Royal Mail's financial performance in recent years means that there are material risks to the financial sustainability of the USO. These reforms will support the sustainability of the USO, because:
- a) the reforms would provide Royal Mail with the further operational and commercial flexibility it needs to transform its network and product portfolio and more effectively meet the challenges it faces;
 - b) both our estimate of £250m-£425m (equivalent to EBIT margin increase of 4%-6%) and Royal Mail's estimate of up to £300m (equivalent to EBIT margin increase of up to 4%) for the potential net savings from changes to the delivery structure represent a significant increase in the rate of return of the universal service network; and
 - c) Royal Mail's estimate of £120m-£180m (equivalent to EBIT margin reduction of 1.5%-2.5%) for the cost of getting from 90% First Class quality of service to current targets presents a financial headwind that is removed by our proposals.
- 8.55 However, while we consider the proposed reform is necessary for the financial sustainability of the universal service, our analysis suggests that it is not sufficient on its own. The long term financial sustainability of the universal service will also be dependent upon Royal Mail realising the full potential net cost savings of the reforms, achieving significant growth in parcels, effectively managing the decline in letter volumes, and improving its efficiency by adapting its network to the volume and workload changes.

9. Next steps and update on other work

Consultation timing and planned statement timing

- 9.1 This consultation closes on 10 April 2025.
- 9.2 We welcome views from all stakeholders on the proposals set out in this document.
- 9.3 Annex A1 provides further information on how to respond to this consultation.
- 9.4 We plan to publish a statement in summer 2025. We currently intend any regulatory changes we decide to make to come into effect on the day we publish our statement. We believe implementing any regulatory changes immediately is appropriate as it would give Royal Mail the flexibility to begin changing its operating model for both USO and access as soon as possible. This is because these changes are likely to be complex and would require Royal Mail to make significant changes to its network.

Royal Mail pilots

- 9.5 Royal Mail has told us that it plans to run a pilot programme which will involve pilots of its proposed operating model in a mix of locations in the UK. It has said that these pilots are necessary because of the significance and complexity of the potential operational changes. Furthermore, Royal Mail has said that it is necessary to run the pilots from February 2025 in order to be able to implement any regulatory changes as soon as possible after statement, if Ofcom decides to make any such changes.
- 9.6 We have obtained information from Royal Mail on the extent of the pilots and likely impact on consumers. Royal Mail has estimated that the pilots will cover about 4% of delivery points. Given the relatively small impacts on consumers and the potential benefits that could be realised from facilitating faster implementation, if we do decide to proceed with our proposals, we are unlikely to take enforcement action should it proceed with pilots in the way that has been proposed. However, we will monitor the impact of any pilots on consumers through our post monitoring programme and, if it becomes clear that there is a material adverse impact on consumers, we may decide to take a different approach.

Further planned work

- 9.7 In September 2024, we published a document setting out our next steps, where we explained that we envisaged undertaking further work on the reform of postal regulation beyond the proposals set out in this consultation. We provide an update on our plans below.
- **Quality of service.** In Section 6 we have set out our proposals for changes to various quality of service targets. Given the extent of our proposals, we now expect our further work in this area to be focussed on our work to monitor Royal Mail's actions to improve

its quality of service both now and in particular during the implementation of the proposed changes to the USO.

- **Affordability and pricing.** The safeguard cap on Second Class letter prices is due to expire in March 2027. Ahead of this, we 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.
- **Post monitoring.** We will continue with our post monitoring programme of work, in particular focussing on the risks to the financial sustainability of the provision of the USO. This will include discussions with Government, particularly in light of the expected change in ownership of International Distributions Services (IDS) Plc), and Royal Mail's implementation of its recovery plan to improve its quality of service.

9.8 Alongside this further work we will continue to engage with other stakeholders on the issue of ensuring that specific vulnerable groups have access to post. Consumer bodies have drawn attention to the needs of vulnerable people without a fixed address. We continue to believe this to be an important issue but one which goes beyond the scope of Ofcom's remit, in particular because it is likely to involve action being taken by the Post Office, which Ofcom does not regulate, as well as Royal Mail. In October 2024, we convened a roundtable including the Government, Royal Mail, Post Office and consumer bodies to discuss the issue. We are ready to continue co-ordinating discussions on this issue when other stakeholders have developed their thinking on the way forward.

A1. Responding to this consultation

How to respond

- A1.1** Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 10 April 2025.
- A1.2** You can download a response form from <https://www.ofcom.org.uk/post/royal-mail/consultation-review-of-the-universal-postal-service-and-other-postal-regulation/>. You can return this by email or post to the address provided in the response form.
- A1.3** If your response is a large file, or has supporting charts, tables or other data, please email it to futurepostaluso@ofcom.org.uk as an attachment in Microsoft Word format, together with the cover sheet. This email address is for this consultation only and will not be valid after 10 April 2025.
- A1.1** Alternatively, post responses to the address below, marked with the title of the consultation:
- Future Development of the Postal USO Team
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A1.2** We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files; or
 - upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.3** We will publish a transcript of any audio or video responses we receive (unless your response is confidential).
- A1.4** We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt of responses submitted to us by email.
- A1.5** You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.6** It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.
- A1.7** If you want to discuss the issues and questions raised in this consultation, please contact the team by email: futurepostaluso@ofcom.org.uk.

Confidentiality

- A1.8** Consultations are more effective if we publish the responses before the consultation period closes. This can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish responses on the Ofcom website at regular intervals during and after the consultation period.
- A1.9** If you think your response should be kept confidential, please specify which part(s) this applies to and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.10** If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.11** To fulfil our pre-disclosure duty, we may share a copy of your response with the relevant government department before we publish it on our website. This is the Department for Business and Trade (DBT) for postal matters.
- A1.12** Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our Terms of Use.

Next steps

- A1.13** Following the consultation period, Ofcom plans to publish a statement in summer 2025.
- A1.14** You can register for email updates alerting you to new Ofcom publications.

Ofcom's consultation processes

- A1.15** Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 2.
- A1.16** If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.17** If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:
Corporation Secretary
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

Ofcom has seven principles that it follows for every public written consultation:

Before the consultation

- A2.1** Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

During the consultation

- A2.2** We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3** We will make the consultation document as short and simple as possible, with an overview of no more than two pages. We will try to make it as easy as possible for people to give us a written response.
- A2.4** We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5** A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6** If we are not able to follow any of these seven principles, we will explain why.

After the consultation

- A2.7** We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish the responses on our website at regular intervals during and after the consultation period. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

A3. Consultation coversheet

Basic details

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

Confidentiality

Please tick below what part of your response you consider is confidential, with your reasons why:

- | | |
|--------------------------------|--------------------------|
| Nothing | <input type="checkbox"/> |
| Name/contact details/job title | <input type="checkbox"/> |
| Whole response | <input type="checkbox"/> |
| Organisation | <input type="checkbox"/> |
| Part of the response | <input type="checkbox"/> |

If you selected 'Part of the response', please specify which parts:

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

Yes No

Declaration

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom aims to publish responses at regular intervals during and after the consultation period. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

A4. Consultation questions

Please tell us how you came across about this consultation.

- Email from Ofcom
- Saw it on social media
- Found it on Ofcom's website
- Found it on another website
- Heard about it on TV or radio
- Read about it in a newspaper or magazine
- Heard about it at an event
- Somebody told me or shared it with me
- Other (please specify)

Questions

Question 2.1: Do you agree with the provisional conclusions set out in our Equality Impact Assessment? Please state your reasons and provide evidence to support your view.

Question 2.2: Do you agree with our assessment under the Welsh Language Standards? Please state your reasons and provide evidence to support your view.

Question 3.1: Do you agree that we have identified the reasonable needs of post users? Please provide reasons and evidence for your views.

Question 3.2: Do you agree that the market is meeting the reasonable needs of post users? Please provide reasons and evidence for your views.

Question 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? Please provide reasons and evidence in support of your views.

Question 6.1: Do you agree with our proposal to set the First Class national D+1 performance target to 90%? Please provide reasons and evidence for your view.

Question 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)? Please provide reasons and evidence for your view.

Question 6.3: Do you agree with our proposal to introduce a new First Class 'tail of mail' target of 99.5% at D+3? Please provide reasons and evidence for your view.

Question 6.4: Do you agree with our proposal to set the Second Class D+3 performance target to 95%? Please provide reasons and evidence for your view.

Question 6.5: Do you agree with our proposal to introduce a new Second Class 'tail of mail' target of 99.5% at D+5? Please provide reasons and evidence for your view.

Question 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? Please provide reasons and evidence for your views.

Question 7.2: Do you agree with our proposal to change the specification of D+5 access services to remove Saturday as a delivery day? Please provide reasons and evidence for your views.

Question 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? Please provide reasons and evidence for your views.

Question 7.4: Do you agree with our proposals for pricing transparency and amending how access services are defined? Please provide reasons and evidence for your views.

A5. Legal and regulatory framework

Overview

A5.1 This annex outlines:

- Ofcom’s statutory duties in relation to postal services;
- Royal Mail’s obligations as the universal service provider; and
- Ofcom’s power in relation to the imposition, modification and revocation of regulatory conditions.

Ofcom’s statutory duties

Duties in relation to post

A5.2 The Communications Act 2003 (the CA 2003)³⁴⁴ sets out Ofcom’s general duties that apply across all of our functions. Under section 3(1), our principal duty is to further the interests of citizens in relation to communications matters, and further the interests of consumers in relevant markets, where appropriate by promoting competition.

A5.3 The Postal Services Act 2011 (the PSA 2011)³⁴⁵ sets the legal framework for the regulation of postal services.

A5.4 The PSA 2011 also imposes on Ofcom a specific duty in relation to post, which we must treat equally to our duty under the CA 2003 where possible. That duty is to carry out our functions in relation to postal services in a way that we consider will secure the provision of a universal postal service.³⁴⁶

A5.5 Though “provision of a universal postal service” is not defined in the PSA 2011, this phrase must be read in accordance with sections 30 to 33.³⁴⁷ These sections require Ofcom to, by order, set out the services that must be provided as part of the universal service. These services must include at least the minimum requirements referred to below in A5.14.

³⁴⁴ [Communications Act 2003 c. 21 \(legislation.gov.uk\)](#).

³⁴⁵ [Postal Services Act 2011 c. 5 \(legislation.gov.uk\)](#).

³⁴⁶ Section 29(1) of the PSA 2011.

³⁴⁷ Section 65(2)(a) of the PSA 2011.

- A5.6** In performing our duty under the PSA 2011, Ofcom must have regard to the need for the provision of the universal postal service to be: (a) financially sustainable; and (b) efficient before the end of a reasonable period³⁴⁸ and for its provision to continue to be efficient at all subsequent times. The need to be financially sustainable includes the need for a reasonable commercial rate of return³⁴⁹ for the universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of a universal postal service.³⁵⁰
- A5.7** The PSA 2011 does not require that we give more weight to financial sustainability or efficiency. We must take them both into account in arriving at a judgement as to how best to carry out our functions.

Other considerations under the CA 2003

- A5.8** There are a number of factors that we must also take into account when exercising our principal duty under the CA 2003.
- A5.9** Section 3(5) of the CA 2003 provides that in performing our duty to further the interests of consumers, Ofcom must have regard in particular to the interests of those consumers in respect of choice, price, quality of service (QoS) and value for money.
- A5.10** We must also have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed, as well as any other principles appearing to us to represent the best regulatory practice.³⁵¹ Those principles include ensuring that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome; that we seek the least intrusive regulatory mechanisms to achieve our policy objectives; and that we consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation upon a market.
- A5.11** When they appear to us to be relevant in the circumstances, we must also have regard to considerations including (but not limited to):
- i) the desirability of promoting competition in relevant markets;
 - ii) the desirability of encouraging investment and innovation in relevant markets;
 - iii) the needs of persons with disabilities, of the elderly and of those on low incomes;
 - iv) the opinions of consumers in relevant markets and of the public generally;
 - v) the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and

³⁴⁸ “A reasonable period” is defined in section 29(5) of the PSA 2011 as such period beginning with the day on which the relevant provisions of PSA 2011 come generally into force as Ofcom considers, in all the circumstances, to be reasonable.

³⁴⁹ We use a Reported Business profit (EBIT) margin in the range of 5% to 10% as a first order indicator of whether Royal Mail is earning a commercial rate of return on its provision of the universal service. Margins consistently below 5% could indicate that the universal service faces sustainability challenges.

³⁵⁰ Section 29(4) of the PSA 2011.

³⁵¹ Section 3(3) of the CA 2003.

- i) the extent to which, in the circumstances of the case, the furthering or securing of the interests of citizens and consumers is reasonably practicable.³⁵²

- A5.12** Although where possible we must treat our duties under section 3 of the CA 2003 and section 29 of the PSA 2011 equally, the latter would take priority if there were conflict between them.³⁵³
- A5.13** Section 6(1) of the CA 2003 also requires Ofcom to keep our regulation under review with a view to securing that it does not involve imposing or maintaining burdens which are or have become unnecessary.
- A5.14** In accordance with section 2B of the CA 2003, we must also have regard to the UK Government's Statement of Strategic Priorities (SSP) for telecommunications, management of radio spectrum and postal services.³⁵⁴ The SSP sets out the Government's primary objective to secure the provision of a financially sustainable and efficient universal postal service, subject to which the Government wants a competitive postal market which delivers good outcomes for consumers and other users of postal services.

Implementation of the regulatory framework to provide the universal postal service

- A5.15** The specification of the universal postal service is set by a combination of both legislation and regulation:
- a) the minimum requirements set by Parliament in section 31 of the PSA 2011;
 - b) the Postal Services (Universal Postal Service) Order 2012 (the Order)³⁵⁵ set by Ofcom, which must reflect the minimum requirements and adds the detailed scope of services that must be offered;³⁵⁶ and
 - c) the regulatory conditions which implement the above legislation by imposing binding obligations on the designated universal service provider, Royal Mail Group Limited (Royal Mail), including key quality of service targets.

The minimum requirements

- A5.16** Section 31 of the PSA 2011 sets out various requirements that, as a minimum, must be included in the universal postal service:
- a) At least one delivery of letters every Monday to Saturday and of other postal packets every Monday to Friday to the home or premises of every individual or other person in the United Kingdom or to such identifiable points as approved by Ofcom.
 - b) At least one collection of letters every Monday to Saturday and of other postal packets every Monday to Friday for the purpose of onwards transmission in connection with the

³⁵² Section 3(4) of the CA 2003.

³⁵³ Section 3(6A) of the CA 2003.

³⁵⁴ Department for Digital, Culture, Media & Sport, 2019. [Statement of Strategic Priorities.](#)

³⁵⁵ [The Postal Services \(Universal Postal Service\) Order 2012 \(legislation.gov.uk\).](#)

³⁵⁶ Section 30(1) of the CA 2003.

- provision of the universal service (including onwards transmission outside of the United Kingdom).
- c) A service of conveying postal packets from one place to another by post at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom (including conveyance outside of the United Kingdom).
 - d) A registered items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
 - e) An insured items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
 - f) The provision free of charge of such postal services as are specified in the universal postal service order to such descriptions of blind or partially sighted persons as are so specified.
 - g) A service of conveying free of charge qualifying legislative petitions and addresses.

Universal Postal Service Order 2012

- A5.17** Ofcom is required by section 30(1) of the PSA 2011 to make an order setting out: (a) a description of the services that it considers should be provided in the UK as a universal postal service, and (b) the standards with which those services are to comply.
- A5.18** While the Universal Service Order must include, as a minimum, each of the services listed in the minimum requirements, it can impose additional services beyond these. For example, as set out below, the Order requires the universal service provider to provide two classes of single piece services – priority and standard – whereas the minimum requirements require only one class. The Order also requires these two classes of services to be delivered within a specified routing time (i.e. target delivery period), the Signed For add on to these two classes of service, Special Delivery Next Day by 1pm, and certain addressee services.
- A5.19** The universal service comprises the following services:
- a) the delivery services described in Article 6 of the Order;
 - b) the collection services described in Article 7 of the Order; and
 - c) the services described in Schedules 1, 2 and 3 to the Order.³⁵⁷
- A5.20** The delivery services described in Article 6 are:
- a) At least one delivery every Monday to Saturday of letters originating from anywhere in the world; and
 - b) At least one delivery every Monday to Friday of other postal packets originating from anywhere in the world.
- A5.21** The collection services described in Article 7 are at least one collection:
- a) every Monday to Saturday from access points for letters for the end-to-end services at affordable prices and the free end-to-end services; and
 - b) every Monday to Friday from access points for other postal packets for the end-to-end services at affordable prices and the free end-to-end services.

³⁵⁷ Article 5 of the Order.

A5.22 The end-to-end services at affordable prices contained in Schedule 1 include:

- a) A priority single piece service (i.e. 1st Class) for the conveyance of postal packets other than insured items, with a routing time of D+1;³⁵⁸
- b) A standard single piece service (i.e. 2nd Class) for the conveyance of postal packets other than insured items, with a routing time of D+3;
- c) A registered and insured service for items weighing no more than 10 kilograms with a routing time of D+1;
- d) A return to sender service;
- e) Incoming and outgoing services for the conveyance of postal packets to and from the EU; and
- f) Incoming and outgoing services for the conveyance of postal packets to and from the rest of the world.

A5.23 Before making or modifying a universal postal service order, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services.³⁵⁹

Designated Universal Service Provider (DUSP) conditions

A5.24 In order to secure the provision of the universal postal service, section 36 of the PSA 2011 empowers Ofcom to impose DUSP Conditions on the designated universal service provider, Royal Mail Group Limited (Royal Mail). We may also modify or revoke existing DUSP Conditions.³⁶⁰ These regulatory conditions, which are the means by which Ofcom requires Royal Mail to provide the USO, specify in greater detail aspects of the services that must be provided as part of the universal postal service. For example, they set quality of service standards for key services and requirements about the geographic distribution of access points (e.g. post boxes).

A5.25 We have exercised our condition-setting powers and have imposed a set of DUSP Conditions on Royal Mail as the designated universal service provider. At the date of this consultation, there are two DUSP Conditions in force:

- a) DUSP Condition 1,³⁶¹ which contains (among other things):
 - i) Royal Mail's obligations to provide the services contained in the Order; and
 - ii) The quality of service targets for certain of those services – in particular, Royal Mail must deliver 93% of First Class mail by D+1 and 98.5% of Second Class mail by D+3.

³⁵⁸ "Routing time" is defined in Article 3(1) of the Order, expressed using the formula D + n, 'D' meaning the deemed date of collection and 'n' meaning the number of working days after the deemed date of collection. 'Working day' is defined as any day which is not a Sunday or a public holiday and deemed date of collection is defined in Article 3(2) of the Order as, subject to certain specified exceptions, the day on which the postal packet is collected.

³⁵⁹ Section 30(3) of the PSA 2011

³⁶⁰ Paragraph 2(1) of schedule 6 to the PSA 2011

³⁶¹ [Designated Universal Service Provider Condition 1 \(ofcom.org.uk\)](https://www.ofcom.org.uk/consult/condocs/dusp/cond1/).

- b) DUSP Condition 3³⁶² which imposes a safeguard cap on the price of Second Class letters.

Access

USP Access Condition

- A5.26** In addition to the DUSP Conditions, Ofcom has imposed on Royal Mail a universal service provider access condition (USPA),³⁶³ which requires Royal Mail to offer access to its nationwide delivery network to competitor letter operators.³⁶⁴
- A5.27** Under the USPA, Royal Mail must provide two access services: a D+2 letter service and a D+5 letter service.³⁶⁵ It must provide these services on fair and reasonable terms, conditions and charges.³⁶⁶ The provision of these services is also subject to a margin squeeze control.³⁶⁷

Modifying the regulatory framework

Modifying the Order

- A5.28** We may modify the Order only after having carried out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of postal users.³⁶⁸
- A5.29** Prior to making any modifications to the Order, we must:
- a) give notice of our proposal to make an Order to such persons that appear to us likely to be affected by the proposal;
 - b) publish notice of our proposal which sets out the general effect of the Order³⁶⁹ in a way that we consider appropriate for bringing it to the attention of people we consider are likely to be affected by it; and
 - c) Consider any representations that are made to us before the time specified in the notice, which must be no less than 30 days after the notice is published.³⁷⁰

³⁶² [Designated Universal Service Provider Condition 3 - Safeguard cap price control for second class standard letters and large letters \(as at 1 April 2024\) \(ofcom.org.uk\)](#).

³⁶³ [Universal Service Provider Access Condition \(ofcom.org.uk\)](#).

³⁶⁴ Under section 38 of the PSA 2011.

³⁶⁵ USPA Condition 2.

³⁶⁶ USPA Condition 3.

³⁶⁷ USPA Condition 6.

³⁶⁸ Section 30(3) of the PSA 2011.

³⁶⁹ Section 403(5) of the CA 2003. We must also state that we propose to make the order in question and specify an address from which a copy of the proposed order may be obtained.

³⁷⁰ Section 403(4) to (6) of the CA 2003.

Modifying the DUSP Conditions

- A5.30** In order to impose a DUSP condition (including a modified DUSP condition), we must consider it necessary to secure the provision of a service set out in the Order, in accordance with the standards set out there.³⁷¹
- A5.31** We must also be satisfied that the modification: (a) is objectively justifiable; (b) does not discriminate unduly against particular persons or a particular description of persons; and (c) is proportionate and transparent in relation to what it is intended to achieve.³⁷²
- A5.32** The procedure for imposing, revoking or modifying a condition is set out in paragraph 3 of Schedule 6 to the PSA 2011:
- a) Before imposing, modifying or revoking a condition, we must publish a notification: (i) stating our proposal; (ii) setting out the effect of our proposal; (iii) giving our reasons for the proposal; and (iv) specifying the period within which representations about the proposal can be made (which must be at least one month beginning with the day after the day the notification is published).
 - b) We may then only give effect to a proposal where we have: (i) considered every representation made to us; and (ii) had regard to every international obligation of the United Kingdom notified to us by the Secretary of State.
 - c) We must then publish a notification setting out the imposition or modification or stating that the DUSP Condition has been revoked in a manner which is appropriate for bringing it to the attention of the persons who we consider are likely to be affected by it.

Modifying the USPA Condition

- A5.33** Ofcom may only impose a USPA condition (including a modified condition) where it appears to us to be appropriate for:
- a) Promoting efficiency;
 - b) Promoting effective competition; and
 - c) Conferring significant benefits on the users of postal services.³⁷³
- A5.34** We must take into account:
- a) The technical and economic viability, having regard to the state of market development, of installing and using facilities that would make the proposed access unnecessary;
 - b) The feasibility of giving the proposed access;
 - c) The investment made by the universal service provider concerned in relation to the matters in respect of which access is proposed;
 - d) The need to secure effective competition in the long term; and
 - e) Any rights to intellectual property that are relevant to the proposal.³⁷⁴

³⁷¹ Section 36(3) of the PSA 2011.

³⁷² Paragraph 1 of Schedule 6 to the PSA 2011.

³⁷³ Section 38(4) of the PSA 2011.

³⁷⁴ Section 38(8) of the PSA 2011.

- A5.35** We must also be satisfied that the modification: (a) is objectively justifiable; (b) does not discriminate unduly against particular persons or a particular description of persons; and (c) is proportionate and transparent in relation to what it is intended to achieve.³⁷⁵
- A5.36** There are further tests that must be satisfied and factors to take into account if we are seeking to impose price controls in the access condition:
- a) It must appear to us that Royal Mail might otherwise fix and maintain some or all of its prices at an excessively high level, or otherwise impose a price squeeze, with adverse consequences for users of postal services.³⁷⁶
 - b) We must have regard to such of the costs incurred by Royal Mail in providing the postal network to which access is given as we consider appropriate.³⁷⁷
 - c) We may have regard to the prices at which services are available in comparative competitive markets and determine what we consider to represent efficiency by using cost accounting methods.³⁷⁸
- A5.37** The procedure in paragraph A1.28 above also applies to imposing or modifying a USPA condition.

Other duties

Economic growth duty

- A5.38** Section 108 of the Deregulation Act 2015³⁷⁹ sets out Ofcom's duty to have regard to the desirability of promoting economic growth when exercising its regulatory functions. In order to consider the promotion of economic growth, Ofcom will exercise its regulatory functions in a way that ensures that regulatory action is taken only when it is needed, and any action taken is proportionate.
- A5.39** The government's statutory guidance on this duty³⁸⁰ provides that regulators should have regard to medium and long-term growth by ensuring that key policy decisions and strategic choices are informed by consideration of key drivers of economic growth. The drivers that we consider relevant to the postal industry include innovation, competition, efficiency and productivity, trade and environmental sustainability. We have therefore considered these drivers when formulating the proposals set out in this consultation, designed to put the universal service on a more sustainable footing so that it can support businesses and households across the UK.

³⁷⁵ Paragraph 1 of Schedule 6 to the PSA 2011.

³⁷⁶ Section 38(5) of the PSA 2011.

³⁷⁷ Section 38(6) of the PSA 2011.

³⁷⁸ Section 38(7) of the PSA 2011.

³⁷⁹ [Deregulation Act 2015 c. 20 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2015/20/section/108).

³⁸⁰ Department for Business & Trade, 2024. [Growth Duty: Statutory Guidance](#).

Public sector equality duty

- A5.40** Section 149 of the Equality Act 2010 (the 2010 Act)³⁸¹ imposes a duty on Ofcom, when carrying out its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation. The 2010 Act also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share specified protected characteristics and persons who do not.
- A5.41** Section 75 of the Northern Ireland Act 1998 (the 1998 Act)³⁸² also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and have regard to the desirability of promoting good relations across a range of categories outlined in the 1998 Act. Ofcom's Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the 1998 Act.

Welsh language duty

- A5.42** The Welsh Language (Wales) Measure 2011³⁸³ established a legal framework to impose duties on certain organisations to comply with standards in relation to the Welsh language. The standards issued to Ofcom are listed in Ofcom's compliance notice effective from 25 January 2017.³⁸⁴
- A5.43** The Welsh Language Policy Making Standards require Ofcom to assess: (a) opportunities for persons to use the Welsh language; and (b) treating the Welsh language no less favourably than the English language, when formulating a new policy or reviewing or revising an existing policy.

³⁸¹ [Equality Act 2010 c. 15 \(legislation.gov.uk\)](https://www.legislation.gov.uk).

³⁸² [Northern Ireland Act 1998 c. 47 \(legislation.gov.uk\)](https://www.legislation.gov.uk).

³⁸³ [Welsh Language \(Wales\) Measure 2011 nawm 1 \(legislation.gov.uk\)](https://www.legislation.gov.uk).

³⁸⁴ Welsh Language Commissioner, 2017. [Compliance Notice](#).

A6. Equality impact assessment

- A6.1** This annex outlines our provisional Equality Impact Assessment. We have given careful consideration to whether the proposals in this document will have a particular impact on specific protected characteristics (including race, age, disability, sex, sexual orientation, gender reassignment, pregnancy and maternity, marriage and civil partnership and religion or belief in the UK and also dependents and political opinion in Northern Ireland), and in particular whether they may discriminate against such persons or impact on equality of opportunity or good relations. We have also considered impacts on other groups such as vulnerable people, different socio-economic groups, and those living in different parts of the UK.
- A6.2** To assist in our assessment, we have used existing and newly commissioned research. This assessment helps us comply with our duties under the Communications Act 2003, Equality Act 2010 and the Northern Ireland Act 1998.
- A6.3** We consider that our proposals are likely to have limited adverse impacts. Specifically:
- More reliant users:
 - > Our research suggests that some groups are more reliant on postal services, including those without access to the internet, with restricted mobility, living in rural locations and older users.
 - > More reliant users may find slower and reduced Second Class deliveries particularly frustrating, potentially leading to feelings of isolation, especially for those with fewer communication alternatives or who are digitally excluded. Additionally, these users may face higher absolute costs when sending letters, particularly time-sensitive ones, as they might need to switch to more expensive services, which could disproportionately impact those who are both highly reliant and financially vulnerable.
 - > Despite increased reliance on postal services, our research found that for these groups' letter needs were similar to 'typical' users in that they prioritise reliability and affordability, and that speed of delivery is rarely critical.
 - Lower quality of service:
 - > The move to deliveries on alternate weekdays, with no Saturday deliveries, decreases the number of opportunities Royal Mail has to attempt delivery of Second Class letters within three working days of collection.
 - > Therefore, our analysis suggests that quality of service for Second Class letters may decline slightly under an alternate weekday delivery model compared to current actual performance with some postcodes seeing a disproportionate decline. To the extent there is an impact, it is likely to be more pronounced where actual quality of service performance is already lower. However, we believe the proposed new 'tail of mail' target (as outlined in Section 6) will provide additional incentives for Royal Mail to deliver a high-quality and reliable service across the UK.
 - Time-sensitive letters:
 - > Under the proposed alternate weekday delivery model, letters to be delivered on specific days and some Second Class letters (i.e. those posted on Wednesday to Saturday) could be delivered a day later than under the current USO and would still

meet the D+3 routing time for those items.³⁸⁵ Therefore, some senders of time-sensitive letters may have to switch to faster and more expensive services, such as First Class, or post a day earlier where possible, to meet their needs.

- > For commercial organisations sending time-sensitive letters, this could mean higher costs being passed onto consumers, or letters being removed as a communication option. Alternatively, these organisations could amend their processes to post letters earlier. For public sector organisations sending time-sensitive letters, this could mean increased pressure on financial budgets therefore opting for a slower delivery speed due to lower costs. This could mean individuals receive time-sensitive letters later than currently expected. Any increase in costs to individual senders could also be particularly impactful for financially vulnerable people. In addition, digitally excluded people with few or no other communication options could also be particularly affected due to compounded communication barriers.
- > We understand that there could be additional specific impacts on public sector processes that have statutory deadlines, such as postal voting, court procedures and claiming certain benefits. If deadlines were missed due to slower delivery this could impact individuals' access to public services. For instance, some benefits require claimants to submit extensive evidence within specific timeframes, where missing the deadline could lead to delays in receiving benefit payments. This could be particularly detrimental to people who are digitally excluded or who are financially vulnerable. However, public sector bodies would continue to have access to faster services which mitigates any time-sensitivity risks, albeit at a higher cost to the sender.
- Medical testing:
 - > Certain groups are more likely to use letters for medical testing and sampling. We believe that most postal medical testing would not be adversely affected by our proposals beyond those that are sent Second Class between Wednesday and Saturday which could arrive one day later than now.
 - > We understand that certain samples, such as those that use fresh blood or require rapid results, may necessitate a faster, more expensive service to maintain sample stability and provide time-sensitive results within a medically necessary time. In these cases, the Second Class service could become untenable, requiring the sender to opt for a different service. This could have similar impacts on individuals as outlined in the above section on 'time-sensitive letters'.

Our provisional view is that the benefits of our proposals for reform of the postal service, and the potential costs and risks of inaction, outweigh any costs or adverse effects arising from the proposals. We therefore consider our proposals.

³⁸⁵ Second Class letters sent on a Wednesday are currently due for delivery on Saturday. Under our proposals they would instead be due for delivery on the next delivery day, which is Monday as Sunday is not a delivery day.

A7. Regulatory impact assessment

Introduction

- A7.1** This document sets out in summary form a Regulatory Impact Assessment (RIA) for the draft Postal Services (Universal Postal Service) (Amendment) Order 2025,³⁸⁶ which seeks to amend the Postal Services (Universal Postal Service) Order 2012 (the “**Order**”).³⁸⁷
- A7.2** Ofcom’s full reasoning is set out in the document, entitled “Review of the universal postal service and other postal regulation”, published on 30 January 2025 and available on Ofcom’s website at <https://www.ofcom.org.uk> (the “**Consultation**”). Any conflict should be resolved in favour of that document.
- A7.3** Ofcom acts in accordance with Government practice that, where a statutory regulation is made, an RIA must be undertaken. We also comply with our duty under section 7 of the Communications Act 2003 (the “**2003 Act**”) which imposes a duty on Ofcom to carry out impact assessments where our decisions would be likely to have a significant effect on businesses or the general public, or when there is a major change in our activities.
- A7.4** Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policymaking. As a matter of policy, we are committed to carrying out and publishing impact assessments in relation to the vast majority of our policy decisions.
- A7.5** For further information about our approach to impact assessments, see the guidelines, [Better policymaking: Ofcom’s approach to impact assessment](#), which are on our website.
- A7.6** The assessment is consistent with the Government practice on RIAs and Ofcom’s duty under the 2003 Act.
- A7.7** You should send any comments on this RIA to Ofcom by the closing date for this consultation on 10 April 2025. We will consider all comments before deciding whether to implement our proposals.

Background

- A7.8** Under the Postal Services Act 2011 (the (“**2011 Act**”), Ofcom has responsibility for regulating postal services in the United Kingdom.
- A7.9** Ofcom’s primary statutory duty in relation to post, set out in section 29 of the 2011 Act, is to carry out our postal functions in a way that we consider will secure the provision of a universal postal service. In performing that duty, we must have regard to the need for the provision of a universal service to be: (a) financially sustainable, which includes the need

³⁸⁶ See Schedule 1 to this annex.

³⁸⁷ [SI 2012/936](#).

for a reasonable commercial rate of return for the universal service provider on expenditure it incurs for or in connection with providing the universal service; and (b) efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times.

- A7.10** Ofcom’s primary duty in section 3 of the 2003 Act also applies to our postal functions. That duty is to further the interests of citizens in relation to communications matters, and to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- A7.11** Under section 30 of the 2011 Act, Ofcom must by order provide a description of the services we consider should be provided in the universal service, and the standards with which they must comply. That description and the relevant standards are contained in the Order. Before making or modifying such an order, Ofcom must carry out an assessment of the extent to which the market for the provision of postal services in the UK is meeting the reasonable needs of the users of those services (a “user needs review”).
- A7.12** In January 2024, Ofcom published a Call for Input (“CFI”)³⁸⁸ calling for a national debate on the future of the UK’s postal services, highlighting that letter volumes had halved since 2011. We set out evidence that, though people still rely on letters, their needs have changed, and therefore the universal service needs to change to better align with those needs. We suggested options for reform, including reducing the frequency of delivery days for letters and slowing down their delivery times. We explained that the consequences of a universal letters service that does not align with user needs is that people could pay higher prices than necessary. We also found the evidence to indicate an increasing risk of the current universal service obligation becoming unsustainable both financially and operationally. We therefore consider the need for reform to be clear and urgent.
- A7.13** Royal Mail, as the designated universal service provider, responded to the CFI with a proposal for modernising the universal service. In September 2024, we explained that this proposal largely aligned with one of the options for reform that we identified in our CFI.³⁸⁹ We noted that it could be effected solely through modifications to Ofcom’s regulation, including by modifying the Order, and therefore could be implemented quickly. Given the urgent need for reform, we considered it appropriate to carry out a detailed assessment of the proposal to consider whether it would be a suitable basis for reform of the universal service. That assessment is contained in the Consultation.

Proposals

- A7.14** Having carried out a review of user needs,³⁹⁰ Ofcom’s proposals for reform of the universal service are set out below. These proposals require modifications to the Order, as detailed in the Schedules to this RIA. Schedule 1 contains the draft wording of the legal instrument to amend the Order. Schedule 2 contains a version of the Order marked up against the

³⁸⁸ Ofcom, 2014. [The future of the universal postal service – Call for input.](#)

³⁸⁹ Ofcom, 2024. [Future of the universal postal service – summary of responses to our Call for Input and next steps.](#)

³⁹⁰ See Section 3 of the Consultation.

current Order, with additions shown in red text and yellow highlight, and deletions shown in struck through text and yellow highlight.

A7.15 The Order currently specifies the following letters services as part of the universal service:

- a) At least one collection every Monday to Saturday from access points for letters;³⁹¹
- b) At least one delivery every Monday to Saturday of letters originating from anywhere in the world to the home or premises of every individual or other person in the UK and delivery points approved by Ofcom;³⁹² and
- c) Two classes of domestic single piece services:
 - i) Priority, for delivery one working day after deemed collection, i.e. First Class;³⁹³ and
 - ii) Standard, for delivery within three working days after deemed collection, i.e. Second Class,³⁹⁴

where working days are every day except Sunday and public holidays in the place of collection or delivery of the postal packet concerned.³⁹⁵

A7.16 Ofcom is proposing to modify the description of services in the Order to specify the following:

- a) At least one collection every Monday to Friday of standard letters;
- b) Delivery on any day from Monday to Friday of standard letters; and
- c) A standard domestic single piece service with a routing time of three working days after deemed collection, where working days are every day except Saturday, Sunday and public holidays in the place of collection or delivery of the postal packet concerned.

A7.17 The effect of these modifications would be to remove Saturday as a delivery and collection day for standard (i.e. Second Class) letters, and as a working day for the purpose of calculating the routing time for such letters. Though delivery of standard letters could be effected on any day from Monday to Friday, they would have to continue to be delivered within a routing time of three working days after deemed collection. In practice, therefore, standard letters would have to be delivered at least twice a week.

A7.18 Ofcom is not proposing any substantive changes to the description of delivery and collection services for priority (First Class) and other letters (such as registered and insured letters). Priority and other letters would therefore still be collected and delivered every day from Monday to Saturday. We are however proposing minor consequential amendments to these descriptions in order to distinguish between priority and other letters, and standard letters.

A7.19 Ofcom is not proposing any changes to the delivery and collection services for parcels.

³⁹¹ Article 7 of the Order.

³⁹² Article 6 of the Order.

³⁹³ Paragraph 2 of Schedule 1 to the Order.

³⁹⁴ Paragraph 3 of Schedule 1 to the Order.

³⁹⁵ Article 3(2A) of the Order.

Impact assessment

A7.20 A full assessment of the impact of Ofcom’s proposals is contained in the Consultation. A summary is set out below.

Impact on citizens and consumers

A7.21 As outlined above, the effect of Ofcom’s proposed modifications to the Order would be to remove Saturday as a delivery and collection day for standard (Second Class) letters, and as a working day for the purpose of calculating their routing time. In practice, this would mean that some letters – namely those posted on a Wednesday to Saturday – could arrive one day later than they currently do.³⁹⁶

A7.22 We consider these proposed changes would continue to meet the reasonable needs of users. Our full user needs assessment is contained in Section 3 of the Consultation, and explains that evidence shows that people do not need a six day a week service for most letters that they send and receive, and that most users do not regard Saturday deliveries as essential. Speed is generally not a critical factor for most letters sent, and users consider reliability and certainty of delivery to be more important. Nevertheless, our research shows that users have an occasional need for a faster, next day, six day a week letters service. This will continue to be available through the inclusion of a priority letters service in the Order.

A7.23 Users also value a postal service that is affordable. Article 8 of the Order specifies that the end-to-end services in Schedule 1 to the Order, which include priority and standard single piece services, are to be provided at uniform and affordable prices. Standard letters are also currently subject to a regulatory safeguard cap to ensure affordability.³⁹⁷ We estimate that our proposed reforms to the universal service could save the designated universal service provider, Royal Mail, between £250m and £425m in financial year 2025/2026 (with ongoing savings going forwards), though as explained in the Consultation the extent to which these savings may be realised would depend on the proportion of letter volumes that are delivered under the reformed delivery model. We recognise in Section 5 of the Consultation that Royal Mail may use the pricing of priority letters as a lever to incentivise a shift in volumes. Though this may result in price increases for priority letters in the short term, we expect that Royal Mail would increase these prices in any case in order to cover an increasing per unit cost base. We expect that any costs savings should support the financial sustainability of the universal service and, in the longer term, lead to lower and/or fewer price rises for users in respect of both priority and standard letters. Our proposals should therefore support an affordable universal service, as well as its continued provision. We will in any event monitor prices to assess whether it would be appropriate to intervene to ensure affordability.

³⁹⁶ Second Class letters sent on a Wednesday are currently due for delivery on Saturday. Under our proposals, they would instead be due for delivery on the next delivery day, which is Monday as Sunday is not a delivery day.

³⁹⁷ Ofcom, 2024. [Safeguard cap price control for Second Class standard letters and large letters.](#)

- A7.24** We explained in Sections 3 and 5 of the Consultation that we are aware that some groups of users say they are more reliant on post, and have said that the proposed reforms would not meet their needs. However, evidence shows that the needs of these users are similar to those of ‘typical’ users. As set out more fully in Section 5, we expect that user needs as a whole would continue to be met by our proposed changes to the Order.
- A7.25** In any case, the groups of users that say they are more reliant on post generally refer to their need to receive letters regarding medical appointments, benefits and financial matters. Almost all of these types of letters come from large organisations such as financial institutions, the NHS, and other public bodies. We explain in Section 5 of the Consultation that our proposed changes would likely have an impact on the bulk mail market, as we would expect it to lead to Royal Mail increasing the price of priority (i.e. D+2)³⁹⁸ access services. However, we explain in Section 7 of the Consultation that, if our proposals were to go ahead, we expect Royal Mail would introduce a new commercial D+3 access service³⁹⁹ that would be delivered alongside standard Second Class letters, as this would enable it to maximise the costs savings from a reformed universal service. Taking all of this into account, we consider that our proposed changes would not have a significant impact on these users, as overall their needs would still be met by the services available in the bulk mail market, including access. We have also proposed modifications to Royal Mail’s access obligation in Section 7 of the Consultation, including to regulate D+3 access.

Impact on Royal Mail

- A7.26** We estimate that our proposed reforms could save Royal Mail between £250m and £425m in financial year 2025/2026, with ongoing savings after that. As set out in Section 8 of the Consultation, we consider the proposed changes to be necessary for the financial sustainability of the universal service. However, our analysis suggests that they would not be sufficient on their own. The financial sustainability of the universal service will also be dependent upon Royal Mail realising the full potential net cost savings of the reforms, achieving significant growth in parcels, effectively managing the decline in letter volumes, and improving its efficiency by adapting its network to the volume and workload changes.

Impact on investment and innovation

- A7.27** These savings would be achieved by granting Royal Mail more commercial flexibility and enabling it to operate more efficiently. As set out in Section 5 of the Consultation, we expect that these costs savings would contribute to Royal Mail’s ability to invest and innovate to improve customer choice and experience across the range of services it provides.

³⁹⁸ “D+2 access” refers to a service that aims to deliver mail within two working days after the access operator has collected it from the sender.

³⁹⁹ “D+3 access” refers to a service that aims to deliver mail within three weekdays after the access operator has collected it from the sender.

Impact on competition

- A7.28** We expect that Royal Mail's greater ability to invest and innovate should enable it to compete more effectively in the competitive segments of the postal market, in particular parcels. This should contribute to the continued development of a competitive postal market in the UK.
- A7.29** As noted above, we expect our proposals will impact the bulk mail market, and we are also proposing modifications to Royal Mail's access obligation as discussed in Section 7 of the Consultation. We assess the impact of our proposals on the bulk mail market in that chapter, including the impact on competition.

Cost to business, including small business

- A7.30** Ofcom's user needs review in Section 3 of the Consultation assesses the needs of both residential customers and small and medium enterprises ("SMEs"). While we consider our proposals would continue to meet the needs of SMEs, we recognise that some SMEs use single piece services and that they may have to incur some costs to reorganise their business to account for the changes to standard letter delivery. These costs may arise from having to send mail sooner, or using a priority service instead. However, we expect these costs to be manageable, and, as explained above, consider our proposals should lead to lower prices in the longer term than would be the case without reform. This may therefore offset any costs arising from our proposals.
- A7.31** As noted above, our proposed reforms could save Royal Mail between £250m and £425m in the financial year 2025/2026, with ongoing savings going forwards. While Royal Mail will necessarily incur some transition costs to implement a reformed delivery model for standard letters, we expect the savings from reform to exceed any costs arising from its implementation.

Cost to Ofcom

- A7.32** Ofcom will incur one-off administrative costs associated with amending the Order. We believe these costs will be offset by the benefits to consumers outlined above.
- A7.33** We do not expect there to be any ongoing costs.

Equality Impact Assessment

- A7.34** The Consultation includes Ofcom's full Equality Impact Assessment at Annex 6. The assessment outlines that our research indicates that certain groups, such as older people, rural communities, disabled individuals and those who are digitally excluded, are more reliant on letters than others.
- A7.35** We anticipate some adverse impacts on these groups, in particular where they have other needs that make them more reliant on post. For example, users in these groups may switch to the more expensive priority service because they consider standard letters no longer meet their needs. Users that are more reliant on post and financially vulnerable may therefore be particularly impacted by our proposals. However, our research has found that even for groups that may be more reliant on letter post, their needs under the universal service were similar to those of 'typical' users in that they prioritise reliability and affordability, and that speed of delivery is rarely critical.

A7.36 As explained above, we expect our proposals to lead to costs savings, supporting the financial sustainability of the universal service and lower prices in the longer term than would be the case without reform. This should benefit users who are more reliant on post by supporting the continued provision of an affordable universal service.

Summary of overall conclusion

A7.37 For all the reasons set out in the Consultation and summarised above, we consider the benefits arising from our proposals to justify the costs. We are therefore proposing to modify the Order as outlined above.

Declaration

I have read the Regulatory Impact Assessment and Ofcom's consultation document and I am satisfied that the benefits justify the costs.

Signed

A handwritten signature in black ink, appearing to read 'F. Farragher', written in a cursive style.

Fergal Farragher

Policy Director, Office of Communications

A8. Statutory Notification: Proposed modification of Designated Universal Service Provider Condition 1 (the “Notification”)

Notification of proposed modifications to Designated Universal Service Provider Condition 1 pursuant to section 36 of, and in accordance with section 53 of, and Schedule 6 to, the Postal Services Act 2011

Background

- A8.1** On 1 October 2011, responsibility for postal regulation transferred to Ofcom under the Postal Services Act 2011 (the “Act”). Ofcom subsequently imposed on Royal Mail, as the designated universal service provider, certain designated universal service provider conditions to make provision for matters set out in sections 36 and 37 of the Act. These included Designated Universal Service Provider Condition 1 (“DUSP 1”), which specifies the services that Royal Mail must provide as part of the universal service. Ofcom subsequently modified DUSP 1.^{400 401} The current condition has been in force since 1 March 2017 (the “Existing DUSP 1”).^{402 403}
- A8.2** On 24 January 2024, Ofcom published a Call for Input (“CFI”) titled ‘*The future of the universal postal service*’,⁴⁰⁴ setting out evidence that suggests the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future. Ofcom sought input from all interested parties to generate an informed public debate on how the universal service should be modernised for the future.
- A8.3** On 5 September 2024, Ofcom published the document ‘*Future of the universal postal service - Summary of responses to our Call for Input and next steps*’⁴⁰⁵ that summarised the

⁴⁰⁰ Ofcom, 2013. [Technical and minor amendments in postal regulation – Notifications of technical and other minor amendments to the Universal Postal Service Order and related conditions.](#)

⁴⁰¹ Ofcom, 2014. [Statutory notification of amendments to post box reporting requirements and other minor changes to DUSP 1.](#)

⁴⁰² Ofcom, 2017. [Statutory Notification: new DUSP condition 1.](#)

⁴⁰³ [Designated Universal Service Provider Condition 1.](#)

⁴⁰⁴ Ofcom, 2024. [The future of the universal postal service – Call for Input.](#)

⁴⁰⁵ Ofcom, 2024. [Future of the universal postal service – Summary of responses to our Call for Input and next steps.](#)

responses received to the CFI, including Royal Mail's response which set out its proposal for reform. Ofcom confirmed its intention to conduct work:

- a) undertaking a full assessment of whether those proposed reforms would meet reasonable user needs;
- b) assessing the impact of any changes on the financial sustainability and efficiency of the universal service;
- c) assessing the impact of changes on different postal user groups and access operators; and
- d) considering what, if any, regulatory interventions are needed to mitigate any negative impacts.

Proposals

A8.4 Ofcom hereby proposes, in accordance with section 53 of, and Schedule 6 to, the Act, and pursuant to its powers under section 36 of the Act, to make modifications to the Existing DUSP 1.

A8.5 The proposed modifications to the Existing DUSP 1 are specified in the Schedules to this Notification:

- a) Schedule 1 is marked up against the Existing DUSP 1 to show the changes which are being proposed to its substance. Additions are shown in red text and yellow highlight. Deletions are shown in struck through text and yellow highlight.
- b) To ensure accessibility, Schedule 2 contains a table setting out the proposed changes.

For the avoidance of doubt, the proposed changes contained in each Schedule are identical.

A8.6 Ofcom proposes to give effect, with or without modifications following its consideration of any representations on these proposals, and after having had regard to every international obligation of the United Kingdom notified to Ofcom by the Secretary of State, to the proposed modifications to DUSP 1 on the publication of a statutory notification pursuant to paragraph 3(1) of Schedule 6 to the Act, or at such other later time as Ofcom considers appropriate.

A8.7 The effect of, and Ofcom's reasons for making, these proposals are set out in the accompanying consultation document.

Ofcom's duties and legal tests

A8.8 Ofcom is satisfied that these proposals satisfy the general test in paragraph 1 of Schedule 6 to the Act.

A8.9 In making these proposals, Ofcom has also considered and acted in accordance with its duties under the Act, including its duty in section 29, and its general duties in the Communications Act 2003, including those in section 3.

A8.10 A copy of this Notification and the accompanying statement have been sent to the Secretary of State in accordance with paragraph 5(1)(a) of Schedule 6 to the Act and section 24A(1) of the Communications Act 2003.

Making representations

A8.11 Representations may be made to Ofcom about the proposals set out in this Notification by no later than 10 April 2025.

Interpretation

A8.12 Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this Notification and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act or for the purpose of the USP access condition (as relevant).

A8.13 In this Notification—

- a) “**Act**” means the Postal Services Act 2011 (c.5);
- b) “**DUSP 1**” means the Designated Universal Service Provider access condition referred to at paragraph A8.1 of this Notification;
- c) “**Ofcom**” means the Office of Communications; and
- d) “**Royal Mail**” means Royal Mail Group Ltd, whose registered company number in England and Wales is 04138203, which is the current universal service provider for the purposes of section 38 of the Act.

A8.14 For the purpose of interpreting this Notification—

- a) headings and titles shall be disregarded;
- b) expressions cognate with those referred to in this Notification shall be construed accordingly; and
- c) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.

Signed by

A handwritten signature in black ink, appearing to read 'Fergal Farragher', written in a cursive style.

Fergal Farragher

Policy Director

24 January 2025

A9. Statutory Notification: Proposed modification of the Universal Service Provider Access Condition (the “Notification”)

Notification of proposed modifications to the Universal Service Provider Access Condition pursuant to section 38 of, and in accordance with section 53 of, and Schedule 6 to, the Postal Services Act 2011

Background

- A9.1** On 1 October 2011, responsibility for postal regulation transferred to Ofcom under the Postal Services Act 2011 (the “Act”). Ofcom subsequently imposed on Royal Mail, as the designated universal service provider, the Universal Service Provider Access Condition (“USPA”) to make provision for matters set out in section 38 of and Schedule 3 to the Act. The USPA requires Royal Mail to grant access to its network subject to various conditions such as fair and reasonable terms, as well as a margin squeeze control.
- A9.2** Ofcom subsequently made several modifications to the USPA,^{406 407 408} including on 5 March 2021 to include the provision of an access service which aims to deliver letters within five working days after collection by the access operator from the customer (called “D+5 Access”). Ofcom made several other modifications to the USPA to support the provision of the new D+5 Access service. The current USPA has been in force since 5 April 2021 (the “Existing USPA”).⁴⁰⁹
- A9.3** On 24 January 2024, Ofcom published a Call for Input (“CFI”) titled ‘*The future of the universal postal service*’,⁴¹⁰ setting out evidence that suggests the universal service needs to change to better align with the needs of consumers and to ensure it can continue to be affordable and sustainable in the future. Ofcom sought input from all interested parties to

⁴⁰⁶ Ofcom, 2013. [Modification to the control preventing Royal Mail margin squeeze – Removal of unrecoverable VAT from the calculation of downstream costs in USPA6.4.](#)

⁴⁰⁷ Ofcom, 2017. [Review of the Regulation of Royal Mail.](#)

⁴⁰⁸ Ofcom, 2018. [Amendments to the Universal Service Provider Access Condition in relation to the margin squeeze control.](#)

⁴⁰⁹ [Universal Service Provider Access Condition.](#)

⁴¹⁰ Ofcom, 2024. [The future of the universal postal service – Call for Input.](#)

generate an informed public debate on how the universal service should be modernised for the future.

- A9.4** On 5 September 2024, Ofcom published the document '*Future of the universal postal service - Summary of responses to our Call for Input and next steps*'⁴¹¹ that summarised the responses received to the CFI, including Royal Mail's response which set out its proposal for reform. Ofcom confirmed its intention to conduct work:
- a) undertaking a full assessment of whether those proposed reforms would meet reasonable user needs;
 - b) assessing the impact of any changes on the financial sustainability and efficiency of the USO;
 - c) assessing the impact of changes on different postal user groups and access operators; and
 - d) considering what, if any, regulatory interventions are needed to mitigate any negative impacts.

Proposals

- A9.5** Ofcom hereby proposes, in accordance with section 53 of, and Schedule 6 to, the Act, and pursuant to its powers under section 38 of the Act, to make modifications to the Existing USPA.
- A9.6** The proposed modifications to the Existing USPA are specified in the Schedules to this Notification:
- a) Schedule 1 is marked up against the Existing USPA to show the changes which are being proposed to its substance. Additions are shown in red text and yellow highlight. Deletions are shown in struck through text and yellow highlight.
 - b) To ensure accessibility, Schedule 2 contains a table setting out the proposed changes. For the avoidance of doubt, the proposed changes contained in each Schedule are identical.
- A9.7** Ofcom proposes to give effect, with or without modifications following its consideration of any representations on these proposals, and after having had regard to every international obligation of the United Kingdom notified to Ofcom by the Secretary of State, to the proposed modifications to the USPA on the publication of any statutory notification pursuant to paragraph 3(1) of Schedule 6 to the Act, or at such other later time as Ofcom considers appropriate.
- A9.8** The effect of, and Ofcom's reasons for making, these proposals are set out in the accompanying consultation document.

⁴¹¹ Ofcom, 2024. [Future of the universal postal service – Summary of responses to our Call for Input and next steps](#).

Ofcom's duties and legal tests

- A9.9** Ofcom is satisfied that these proposals satisfy the general test in paragraph 1 of Schedule 6 to the Act, that it is appropriate for the purposes specified in section 38(4) of the Act and that the conditions in section 38(5) are met. Ofcom has taken into account the factors in section 38(8) of the Act and has had regard to such other factors referred to in section 38 as are relevant to this proposal.
- A9.10** In making these proposals, Ofcom has also considered and acted in accordance with its duties under the Act, including its duty in section 29, and its general duties in the Communications Act 2003, including those in section 3.
- A9.11** A copy of this Notification and the accompanying statement have been sent to the Secretary of State in accordance with paragraph 5(1)(a) of Schedule 6 to the Act and section 24A(1) of the Communications Act 2003.

Making representations

- A9.12** Representations may be made to Ofcom about the proposals set out in this Notification by no later than 10 April 2025.

Interpretation

- A9.13** Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this Notification and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act or for the purpose of the USPA (as relevant).
- A9.14** In this Notification—
- a) “**Act**” means the Postal Services Act 2011 (c.5);
 - b) “**USPA**” means the Universal Service Provider Access condition referred to at paragraph A9.1 of this Notification;
 - c) “**Ofcom**” means the Office of Communications; and
 - d) “**Royal Mail**” means Royal Mail Group Ltd, whose registered company number in England and Wales is 04138203, which is the current universal service provider for the purposes of section 38 of the Act.
- A9.15** For the purpose of interpreting this Notification—
- a) headings and titles shall be disregarded;
 - b) expressions cognate with those referred to in this Notification shall be construed accordingly; and
 - c) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.

Signed by

A handwritten signature in black ink, appearing to read 'F. Farragher', written in a cursive style.

Fergal Farragher

Policy Director

24 January 2025

A10. Glossary

Term	Definition
Access	Access refers to Royal Mail granting access operators or mail users the use of its network for the purposes of final mile delivery. Access to Royal Mail's network takes place at the Inward Mail Centre when an access operator or mail user hands mail over to Royal Mail.
Access operator	A postal operator or user of a postal service which has or seeks access to Royal Mail's network.
Access point	Any box or other facility provided for the purpose of accepting single-piece postal items into Royal Mail's network.
Act	The Postal Services Act 2011.
Addressed letters	All letters other than unaddressed letters.
Bulk mail	Bulk mail refers to large volumes of mail, sent by large organisations. These services are outside of the USO and priced at a significant discount to standard letter and large letter stamp products, with discounts reflecting both the large volumes sent and the way mail has been presented by bulk mail end customers or access operators, among other factors.
Delivery route	The route taken by a Royal Mail delivery person (whether by van, on foot or by other means) to deliver mail.
Delivery point	The home or premises, or approved alternative delivery point, at which Royal Mail delivers mail.
D+X	'D+X' (e.g. D+1, D+3, D+5) indicates the total number of working days between the day on which the sender sent the item ('D') and it being delivered ('X'). For example, D+1 refers to the scenario where a customer posts a letter on Monday and it is delivered the next working day on Tuesday, i.e. on D+1. The item must be sent before the last time for collection and on a day on which collection is required in order for D to be the day on which it was sent. Where a sender sends an item on a Sunday, 'D' is deemed to be Monday.
D+2 Access	Access to Royal Mail's postal network at an inward mail centre (IMC) for the purposes of an access operator providing retail services that aim to deliver Letters and Large Letters two working days (or later) after collection from the sender, for delivery by Royal Mail the next working day after the Letters and Large Letters were handed over by the access operator at the IMC.
D+3 Access	Access to Royal Mail's postal network at the IMC for the purposes of an access operator providing retail services that aim to deliver Letters and Large Letters within three weekdays (or later) after collection from the sender, for delivery by Royal Mail no later than the second weekday after the Letters and Large Letters were handed over by the access operator at the IMC.

Term	Definition
D+5 Access	Access to Royal Mail's postal network at the IMC for the purposes of an access operator providing retail services that aim to deliver Letters within five weekdays (or later) after collection from the sender, for delivery by Royal Mail no later than the fourth weekday after the Letters were handed over by the access operator at the IMC.
Designated Universal Service Provider (USP)	Any postal operator for the time being designated by Ofcom as the universal service provider under the PSA 2011. The USP is Royal Mail.
Downstream access	Access to Royal Mail's postal network at the point of entry to an Inward Mail Centre or at any point in the postal chain after that.
DUSP condition	A Designated Universal Service Provider condition, which Ofcom may impose on the designated universal service provider under section 36 of the Act.
EBIT	Earnings Before Interest and Tax.
First Class	The USO priority service for letters and parcels, provided by Royal Mail, which has a routing time from collection to delivery of one working day (a D+1 service).
Inward Mail Centre (IMC)	The operations of a Royal Mail mail centre in which the activities related to the processes of final sorting for delivery (in that mail centre's catchment area) of mail received from the upstream part of Royal Mail's network, or from other postal operators etc., to the final addresses take place. IMCs also act as OMCs (Outward Mail Centres) in the upstream part of the network.
Large Letter	Letter weighing up to 750g with a maximum length of 35.3cm, maximum width of 25cm and maximum thickness of 2.5cm
Mailmark	Mailmark is a product option involving the addition of a barcode on Letters and Large Letters. This makes Letters and Large letters machine-readable and uniquely identifiable, which allows for the tracking of items within the Royal Mail network.
Minimum requirements	The services set out in section 31 of the Act that must, as a minimum, be included in a universal postal service.
Parcel	Unless specified otherwise, usually refers to a postal packet that is not a Letter or a Large Letter.
Postal operator	Defined in section 27(3) of the Act as a person who provides the service of conveying postal packets (definition below) from one place to another by post, or any of the incidental services of receiving, collecting, sorting and delivering postal packets.
Postal network	Defined in section 38(3) of the Act as meaning the systems and all the resources used by Royal Mail for the purpose of complying with its universal service obligations (and, accordingly, includes arrangements made with others for the provision of any service).
Postal packet	Defined in section 27(2) of the Act as a letter, parcel, packet or other article transmissible by post.

Term	Definition
Postcode Area (PCA) target	A separate target which requires Royal Mail to deliver 91.5% of First Class mail within one working day of collection in 118 of 121 postcode areas in the UK. This is to make sure that local areas receive an adequate level of service over time.
Quality of service target	A requirement (set out in DUSP 1.9.1) requiring Royal Mail to meet certain quality of service standards and performance targets.
Routing time	Routing time is the speed of delivery and is calculated based on working days. Royal Mail is subject to different routing times for different services.
Royal Mail	Royal Mail Group Limited, whose registered company number in England and Wales is 04138203.
Second Class	The USO standard service for letters and parcels, provided by Royal Mail, which has a routing time from collection to delivery of three working days (a D+3 service).
SME	Small and medium enterprise.
Sorted	Describes mail that has been sorted into geographical areas prior to being collected by the postal operator. Some postal operators call this type of mail 'pre-sorted'.
Standard business letter	Letters sent by second class post by businesses and organisations using bulk mail services.
Standard Letter	Letter weighing up to 100g with a maximum length of 24cm, maximum width of 16.5cm and maximum thickness of 5mm. Note: 'letters' is used to refer to both standard and large letters unless otherwise specified.
Tail of mail target	Specific targets to ensure that both First Class and Second Class letters that miss the primary target arrive in a reasonable period of time.
Unaddressed letters	Advertising letters and some other mail required to be sent by government such as election mail.
Universal Postal Service Order or Order	The Postal Services (Universal Postal Service) Order 2012 (as amended by the Postal Services (Universal Postal Service) (Amendment) Order 2013).
Universal service provider access condition (USPA Condition)	A condition that Ofcom may impose under section 38 of the Act that requires Royal Mail, as the universal service provider, to give access to its postal network to other postal operators or users of postal services.
Universal Service Obligation (USO)	The requirements to provide postal services which are contained in DUSP conditions imposed on Royal Mail by Ofcom under section 36 of the Act.
Universal service provider access condition (USPA Condition)	A condition that Ofcom may impose under section 38 of the Act that requires Royal Mail, as the universal service provider, to give access to its postal network to other postal operators or users of postal services.
Upstream	The activities of collection, outward sortation (where necessary – pre-sorted mail may not require further outward sortation) and trunking.