Royal Mail Wholesale

Consultation proposing changes to the Access Letters Contract D+2 Service Standard and Compensation Target / Introduction of Access Reliability Targets and Compensation Scheme for D+2, D+3 and D+5

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Section 1
Introduction

1.1 This Royal Mail Wholesale consultation seeks your valued feedback on two associated aspects of the Access Letters Contract (**ALC**):

a. Changes to the Access D+2 Service Standard and Compensation Targets; and
b. Introduction of Access reliability standards and compensation targets (for D+2, D+3 and D+5).

1.2 The full extent of our proposals and rationale are set out in section 3 of this consultation document.

1.3 In this document where we have referenced:

a. "D+2" we are referring to the Access D+2 (Priority) service;
b. "D+3" we are referring to the Access D+3 (Standard) service;
c. "D+5" we are referring to the Access D+5 (Economy) service.

1.4 We encourage our customers to send us their views on the proposals by 5pm on 3 October 2025 via email to ravi.chauhan@royalmail.com.

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Section 2
Background

The current contractual framework

2.1 In early 2023 we agreed changes to the pre-existing quality and compensation framework within the ALC with contract holders. Those agreed changes have been effective since May 2023. We have since introduced the new D+3 service on 28 July 2025 which is supplemented with a corresponding quality and compensation framework.

2.2 Below is a brief overview of the current contractual framework:

a. Service standards	For the existing **D+2** service, a service standard applies whereby Royal Mail aims to deliver or attempt to deliver **95%** of D+2 mailing items by the next Working Day after the day of handover by the Access operator into our Mail Centres. For the existing **D+3** service, a service standard applies whereby Royal Mail aims to deliver or attempt to deliver **95%** of D+3 mailing items by the second Weekday after the day of handover by the Access operator into our Mail Centres. For the existing **D+5** service, a service standard applies whereby Royal Mail aims to deliver or attempt to deliver **97.5%** of D+5 mailing items by the fourth Working Day after the day of handover by the Access operator into our Mail Centres. From 23 September 2025 the delivery aim will be amended, by virtue of ALC notice number 120, such that Royal Mail will aim to deliver or attempt to deliver **97.5%** of D+5 mailing items by the fourth ***Weekday*** after the day of handover by the Access operator into our Mail Centres
b. Compensation targets	A compensation target applies to all of the above-mentioned service levels where, if Royal Mail's performance against the service standard falls below those compensation targets, the relevant compensation provisions within the ALC are triggered, and contract holders may be eligible to receive a rebate. The current compensation target for **D+2 and D+3** is **92%** and for **D+5** it is **94.5%**.
c. Measurement frequency	Royal Mail measures its performance against the contractual service standards on a quarterly basis. We publish our performance against the service standard within 60 working days after the end of the quarter and pay any eligible compensation within 30 days of the end of the quarter in which we published our performance against the service standard. We measure with upper confidence limit on the quality survey capped at +1%.
d. Compensation rates and cap	To calculate eligible compensation, the calculation methodology follows a tiered approach (akin to income tax/ stamp duty) i.e. failed D+2 items below

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	92% but no lower than 90% will be subject to a lower compensation rate (currently 1.990 pence per item), and failed items below 90% will be subject to a higher compensation rate (currently 4.264 pence per item). The same compensation rates apply to the D+2, D+3 and D+5 services. Royal Mail may change the above compensation rates to reflect any changes to the Access prices in accordance with the terms of Clause 13.2(d)(iv).
e. Compensation cap	Compensation is capped each quarter at a total aggregate amount for all services across all contract holders (including agency customer volume) as follows: £3m in each of Q1, 2 & 4, and £2m in Q3 (to allow for the Black Friday and Christmas excluded periods), i.e. a total of £11 million. If the cap is exceeded, we will work out the percentage of such excess and reduce the rebate amounts by customer on a pro rata basis by reference to that percentage.
f. Exclusions	Royal Mail may exclude certain items from the service standard and compensation calculations e.g. items affected by Disruptive Events, under forecast volumes, missorts, containers of mailing items handed over to the wrong IMC and late arrival items (i.e. where the customer has arrived at the IMC outside of their Access slot) etc.

Feedback from customer 121s

2.3 In June 2025 we invited Access customers to participate in 121s at which we took customers through our minded proposals in respect of the new D+2 Service Standard and Compensation Target. We did not put forward any specific proposals regarding Access reliability targets given that, at the time of engagement, we were still awaiting Ofcom's decision on USO Reform, however we did say that any such Access targets should align to any changes to First and Second Class reliability targets which Ofcom decides to make.

2.4 Thirteen Access customers participated in the 121 sessions. Five of those agreed to our proposals. The headline feedback, which we have considered seriously, from the remaining participating customers was:

a. Three customers said the D+2 compensation rates should be increased to reflect the respective price increases which become effective from 28 July 2025, whereas others agreed with the existing contractual mechanism (Clause 13.2(d)(iv)) which Royal Mail already invokes to increase rates based on changes to Access prices;
b. Two customers considered that the £11m annual compensation cap should be increased to reflect price increases and to account for inflation;
c. One customer suggested a change provision should be introduced into the ALC which provides a mechanism for changing the annual compensation cap to reflect price increases and to account for inflation; and
d. One customer proposed we introduce a corresponding compensation regime for any reliability targets we introduce.

2.5 In respect of point (a), a contractual mechanism to adjust the compensation rates to reflect any changes to the Access prices already exists, by way of Clause 13.2(d)(iv) of the ALC. The compensation rates applied across all available Access service levels (i.e. D+2, D+5 and now D+3) are set at a flat rate (i.e. the same rates are applied to the calculation of eligible compensation for Royal Mail's failure to meet each of the service standards below the compensation targets). This is despite the D+5 service being lower priced than the D+3 service. Since 2023, each time Royal Mail has changed its Access prices, we have in turn

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adjusted the compensation rates equal to the weighted average percentage change (calculated by reference to volumes) to the postage payable for Letters and Large Letters as a result of such price change. To illustrate, in line with this contractual process we would be increasing the compensation rates to reflect the price changes which took effect from 28 July 2025 such that the Band 1 and Band 2 compensation rates (currently 1.990 pence and 4.264 pence per item respectively), will increase to c. 2.044 pence and c. 4.379 pence per item for Band 1 and Band 2 respectively based on an assumed volume of 100m D+2 items.

2.6 Regarding points (b) and (c) we are not proposing to change the current compensation cap which was only recently agreed with customers in 2023. We believe customers' interests are protected, without changing the current compensation cap or introducing a change mechanism, through other change proposals we are making, including the introduction of a compensation scheme for failure to meet reliability targets.

2.7 Regarding point (d), whilst this was not in our original proposals for the 121s, we agree with the suggestion raised by a customer that any eventual Access reliability targets should be supplemented by a corresponding compensation regime for Royal Mail's failure to meet those targets (point (d) above). We put forward our proposals in respect of this request at Section 3.

Access Quality of Service following changes to the Universal Service

2.8 Royal Mail acknowledges that our quality of service for Access mail, as well as for USO mail, has not recovered to the levels which customers were used to experiencing compared to pre-Covid pandemic levels. We are working hard to address this. However, managing decline in overall letter volumes has continued to be exceptionally challenging against a backdrop of rising costs and an increasing number of delivery points. To bring this to life, we deliver to 4 million more delivery points than 20 years ago. This takes place when there has been a 67% reduction in annual letter volumes from the 20 billion peak in 2004/2005, falling to 6.7 billion in 2023/24. This has resulted in a reduction in economies of scale and increasing unit costs for the business.

2.9 Ofcom's recent USO Reform Decision is aimed to allow us to make operational changes which will help to address some of these financial challenges and improve our quality of service. We agree with Ofcom that quality of service targets need to rebalance reliability and speed. At the same time, the national speed target's level should not drive disproportionate cost for Royal Mail and thereby to customers through potentially excessive prices. Hence, we welcome Ofcom's decision[1] to move to a national First Class target of 90% from 1 April 2026. In Access, we are aligned to this thinking and at section 3 of this consultation document we provide full details of our proposal for where the long-term D+2 Service Standard should sit in relation to the USO First Class target.

2.10 At the same time, as we have previously stressed to customers, USO reform is a transformational change entailing very significant operational changes. Our USO reform plan includes additional costs solely to improve quality of service. This will be spent on improving the performance of our delivery offices across the country, helping to deal with workload volatility, sick absence and the other factors which have made it hard to improve quality of service.

2.11 We are confident in our plan to improve quality of service, but there will be a transitional period following USO reform taking effect to account for the magnitude of the transformation. During 2025/26 through into 2026/27, we will also be transforming our existing network into our new alternate day delivery model for non-First Class/ Priority letters through duty structure changes that deliver most of the benefit of

[1] *Para 6.59, "Review of the universal postal service and other postal regulation" – Ofcom Statement (published 10 July 2025)*

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USO reform. The reform represents the most significant change to our operations in decades. It will take time for us to operationalise change and for the changes to bed in.

2.12 Therefore, to account for this transitional period, as you will note from section 3 of this consultation document, we have proposed alignment with Ofcom's decision[2] such that any changes to the Access quality and compensation regime take effect from 1 April 2026, with the exception of the reliability target compensation scheme which we are proposing shall take effect from 1 April 2027.

"Tail of mail" targets

2.13 Royal Mail welcomes Ofcom's decision to introduce reliability targets which we absolutely agree are a positive step to rebuild customers' trust, giving customers confidence that their mail will arrive within a reasonable time.

2.14 To meet with this, Ofcom has decided to introduce new 'tail of mail' targets set at: 99% of First Class mail to arrive within three days; and 99% of Second Class mail to arrive within five days from 1 April 2026. The new targets supplement the primary USO service standards, designed to ensure that if letters miss the primary target, customers have confidence that they will arrive within a reasonable period of time.

2.15 In Royal Mail Wholesale we intend to introduce tail of mail targets across the Access D+2, D+3 and D+5 service levels which supplement the primary service standards. Section 3 below sets out our proposals in more detail.

2.16 During our 121 discussions with customers on the topic of new reliability targets one customer said that Royal Mail should back up its stated commitment to providing greater reliability by offering an enhanced compensation scheme incorporating reliability compensation. We agree with this and section 3 below sets out our proposal in more detail.

[2] *Para 6.185, "Review of the universal postal service and other postal regulation" – Ofcom Statement (published 10 July 2025)*

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Section 3

Our proposals for change

D+2 Service Standard and Compensation Target

3.1 The existing D+2 service standard aim is 95%, maintaining a 2% gap to the equivalent pre-USO reform Retail First Class service standard, which was set at 93%. The difference between the Retail and Access service standard accounts for failures which may arise across Royal Mail's own upstream network.

3.2 Ofcom has decided to adjust the Retail First Class target to 90%[3] to better reflect evolving user needs, changing features of the postal market, and the implications of targets for the financial sustainability of the universal service. This target remains high by international first class letter standards.

3.3 To reflect the Ofcom decision, we propose to revise the D+2 service standard to 92%, thereby maintaining the 2% gap to the revised Retail First Class target. And further, to align to this proposed change, we also propose changing the D+2 compensation target from 92% to 89%, maintaining the prevailing 3% gap between our existing Access service standards and compensation targets.

3.4 As outlined in paragraph 2.2(d) above, Clause 13.2(d)(iv) of the ALC includes a mechanism to change the compensation rates in line with Royal Mail price changes. We propose to maintain the current approach of having the same Band 1 and Band 2 rate apply to each service standard. This approach means that the D+2 price increase that took effect on 28 July will apply equally to the compensation rates for D+2, D+3 and D+5 services. Band 1 rates will increase from 1.990p to 2.044p and Band 2 rates from 4.264p to 4.379p.

Implementation

3.5 Aligning with Ofcom's decision that the revised USO quality targets will become effective from April 2026, it is our proposal that the revised D+2 service standard and compensation target will take effect from 1 April 2026.

Questions

Q1. Do you agree with our proposal to set the Access D+2 service standard at 92%? Please provide reasons.

Q2. Do you agree with our proposal to set the Access D+2 compensation target at 89%? Please provide reasons.

Q3. Do you agree with the implementation timeline at paragraph 3.5?

New reliability targets and compensation

3.6 Royal Mail acknowledges Ofcom's research findings that people value reliability, and that this is more important to most people than speed. Reliability, meaning mailing items will be delivered within a reasonable amount of time, is of particular importance for certain types of letters such as those concerning health and financial matters.

3.7 Corresponding with Ofcom's decision, in Access we are proposing to introduce similar reliability targets for Access services set at: 99% of D+2 mail to arrive within four days; 99% of D+3 mail to arrive within

[3] *Para 6.59, "Review of the universal postal service and other postal regulation" – Ofcom Statement (published 10 July 2025)*

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five days; and 99% of D+5 mail to arrive within 7 days. The table below illustrates the Access proposals against the equivalent USO reliability targets:

Service	D+1	D+2	D+3	D+4	D+5	D+6	D+7
1c USO	90.0%	-	99.0%	-	-	-	-
2c USO	-	-	95.0%	-	99.0%	-	-
Access D+2		92.0%	-	**99.0%**	-	-	-
Access D+3	-	-	95.0%	-	**99.0%**	-	-
Access D+5	-	-	-	-	97.5%	-	**99.0%**

3.8 These targets, much like the USO targets, are stretching but proportionate, balancing customer needs, affordability and achievability. As we said during the customer 121s, a reliability target set above 99% would risk undermining the entire basis of the USO reforms given the significant costs which would be incurred to meet such higher target.

3.9 We are also proposing to introduce a compensation scheme which will entitle customers to compensation (additional to the compensation customers may be eligible for in respect of Royal Mail's failure to meet the core Access service standards) in the event we fail to meet the reliability targets.

3.10 The scheme will have its own compensation target of 96% maintaining the 3% gap which is uniform between our existing Access service standards and compensation targets.

3.11 Failure to meet the reliability targets below the compensation target will attract a pence per item compensation rate of 1p.

3.12 For the avoidance of doubt the reliability target compensation scheme falls within the overarching contractual compensation scheme and is subject to the same exclusions that apply to calculation of the core Access service standards and compensation, and the annual compensation cap of £11m.

Implementation

3.13 Aligning with Ofcom's decision that the changes to the USO quality targets will become effective from April 2026, it is our proposal that the Access reliability targets will be introduced and commence to be measured against from 1 April 2026.

3.14 To account for the transition period (see paragraph 2.11 above) we propose to commence the reliability compensation scheme from 1 April 2027. We believe this strikes the right balance, providing customers with financial recourse in the near future once operational changes have bedded in, whilst acknowledging the size of the operational transformation and the increased risk exposure placed on Royal Mail as a result of the Access reliability targets being introduced into the ALC.

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Questions

Q4. Do you agree with the levels at which we have proposed to set the Access reliability targets? Please provide reasons.

Q5. Do you agree with our proposal in respect of the reliability target compensation scheme? Please provide reasons.

Q6. Do you agree with the implementation timeline at paragraph 3.13 and 3.14?

Additional exclusions

3.15 Currently under the ALC, in calculating its performance against the respective service standards Royal Mail can deduct from the calculations the following types of mailing items:

a. Mailing items which are posted on a different service standard (for example D+5 items are excluded from the calculation of the D+2 service standard and vice versa);

b. Mailing items which are handed over to us by an Access contract holder that are not accepted by us in line with the ALC;

c. Mailing items the delivery of which is affected by a Disruptive Event;

d. Mailing items which have been lost; and

e. Mailing items with a delivery address outside the United Kingdom.

3.16 Further to this, when calculating the Performance Rebate Amount (i.e. the compensation) which is owed to Access contract holders, Royal Mail can deduct from the calculation the following types of mailing items:

a. Mailing items listed at paragraph 3.15 (a) to (e) above;

b. Any mailing items impacted by Disruptive Event that occurred during a relevant Service Standard Period and which has not already been excluded as part of the service standard calculation;

c. Any missorted mailing items and any mailing items in misrouted containers which we accept;

d. Mailing Items which we accept but which exceed the tolerance prescribed for "under-forecasted" items; and

e. Any mailing items which are handed over by an Access contract holder outside of the Access Window or outside of their booked Access Slot.

3.17 The new D+3 service standard introduces a third service level into the ALC, in addition to D+2 and D+5, meaning our operational team will need to be able to distinguish between items which are posted on each of those service levels and give those items the appropriate treatment for processing and delivering purposes. We have already notified of specification changes to the D+2 service which Access customers will need to comply with, for example, the requirement for customers to present a new class identifier on D+2 mailing items and container labels.

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3.18 Where customers do not comply with certain specification requirements this may have an adverse impact on Royal Mail's ability to deliver mailing items to the relevant service standard, in which case it is reasonable that the ALC allows for non-compliant mailing items to be excluded from both the service standard and compensation calculations.

3.19 On this basis we propose that the ALC prescribes that the following types of D+2 mailing items be excluded from the D+2 service standard and compensation calculation:

a. Mailing items which do not bear the D+2 "1" Class Identifier;

b. Mailing items which do not bear the D+2 "1" Class Identifier on the bag or tray label;

c. Mailing Items within Yorks which do not bear the D+2 "1" Class Identifier on the York Card; and

d. D+2 Manual Items and/or D+2 Mailmark Large Letters presented in the same York containing D+3 Mailing Items, D+5 Mailing Items and/or D+2 Mailmark Letters.

Implementation

3.20 Aligning with Ofcom's decision that the revised USO quality measures will become effective from April 2026, it is our proposal that the additional exclusions set out above will take effect from 1 April 2026,

Questions

Q7. Do you agree with our proposals to introduce the above additional exclusions? Please provide reasons.

Q8. Do you agree with the implementation timeline at paragraph 3.20?

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Section 4

Next steps

We encourage our customers to send us their views on the proposals set out in section 3 by 5pm on 3 October 2025. Please send your feedback to Ravi Chauhan (Access Contract Manager) at ravi.chauhan@royalmail.com.

Following the closing date for comments, we will consider the responses with a view to finalising our proposals and sharing these with you in the form of a response document by 14 November 2025. During this period of dialogue, Royal Mail will seek to engage with all customers directly wherever possible to ensure a full understanding of their views.

We look forward to receiving your feedback.

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