

# ECONOMY AND FAIR WORK COMMITTEE

**21<sup>st</sup> Meeting, 2023 (Session 6), Wednesday 28  
June 2022**

## **Evidence session with Royal Mail**

### **Background**

1. On 29 March, the Committee agreed to hold an evidence session with Royal Mail on proposed service changes and associated industrial action on businesses in Scotland.
2. In advance of this session, the Committee issued a call for written views from interested businesses and communities, including rural and island communities.
3. The UK Parliament's Business, Energy and Industrial Strategy (BEIS) Committee [took evidence from Royal Mail and the Post Office](#) and recalled Royal Mail's Chief Executive Officer to give further evidence under oath on [22 February](#). The BEIS Committee published its report on [17 March](#).

### **Call for views**

4. The Committee's [call for views](#) closed on 8 June. Written responses [can be found here](#). Royal Mail's written response to the inquiry is attached at **Annexe A**.

### **Witnesses**

5. The Committee will hear from—
  - Ross Hutchison, Operations Director for Scotland; and
  - Ricky McAulay, Operations Development Director, Royal Mail.

**Economy and Fair Work Committee Clerks  
23 June 2023**

## Written evidence from Royal Mail

I welcome the opportunity to provide written evidence to the Scottish Parliament's Economy and Fair Work Committee. Royal Mail is conscious of the importance of our services to rural and urban localities. We are proud to serve households and businesses across Scotland, playing a key part in community life, providing quality jobs across the country and a boost to the economy.

As the UK's sole designated Universal Service Provider (USP), we are the only carrier to serve the whole of the country and to do so at the same price, regardless of geographical location or distance. Unlike our competitors, Royal Mail does not surcharge to deliver to customers living in the more rural and remote parts of Scotland. We remain committed to providing an affordable and sustainable 'one price goes anywhere' service on a range of letters and parcels to all 2.8 million addresses in Scotland.

Royal Mail works to be an active, valued and trusted part of every community, through employment opportunities, community investment and the services we provide. Royal Mail provides one in every 175 jobs in the UK economy<sup>1</sup> and is a major employer in Scotland, delivering c.11,000 jobs. We have four mail centres and 167 delivery offices in Scotland; and Tallents House – the national distribution centre for Royal Mail's stamps and collectibles operation across the whole of the UK – is based in Edinburgh with c.160 employees.

We are committed to recruiting diverse talent so that our workforce better reflects the diversity of the communities we serve. Every year we welcome hundreds of apprentices, interns and graduates as part of our early careers schemes in all parts of the UK. We are also incredibly proud that the average tenure for Royal Mail employees is 18 years. Around 98% of our employees are on permanent contracts.

International Distributions Services (IDS) has invested £3.7bn since privatisation, including over £900m in Royal Mail in the last three years. This includes direct investment in Scotland for new parcel sorting machines and optimised layouts to support the automation in Edinburgh and Glasgow Mail Centres, as well as an investment in electric vehicles and related infrastructure in several delivery offices in Edinburgh and Glasgow. We also made significant improvements to delivery offices in Falkirk, Dunbar, Huntley, Johnstone and Lochmaddy most recently. Beyond this, the Scottish economy and our Scottish customers benefit indirectly from investment in other parts of the UK, e.g. the parcel super hub in the North West, launched in June 2022, which serves the country.

Most mail is transported via road in Scotland but we also use ferries and air to move mail to the Scottish Islands and rail to transport mail to the rail hub in Wishaw, North Lanarkshire. Royal Mail plays a vital role in the Scottish economy, contributing c.£900m to Scotland through direct and indirect contributions in 2021-22<sup>2</sup>. This

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<sup>1</sup> Cebr: The Contribution of Royal Mail to the UK Economy: A study on the economic contribution of Royal Mail's UK business to the UK (May, 2022)

<sup>2</sup> Cebr: The Contribution of Royal Mail to the UK Economy: A study on the economic contribution of Royal Mail's UK business to the UK (May, 2022)

comes from the employment we provide, the taxes we pay and the suppliers we work with. For example, we have a partnership with Post Office and collect from c.1,000 Post Office branches across Scotland, including in some of the most remote parts of the country. In doing so, I am proud to say Royal Mail supports residents and business – especially small and medium sized businesses (SMEs) – and all at a universal, affordable price.

### **The need for change**

I understand that Members of the Committee may have concerns about some of our proposed service changes, and the impact of industrial action last year. I would like to set out some context to the current situation which I hope will be helpful to the Committee.

Across the whole of the UK, Royal Mail delivered c.20 billion letters in 2004-5. This was down to c.7 billion in 2022-23. In that time the number of UK addresses Royal Mail delivers to has grown by around 3.8 million. Current projections are that letter volumes will halve again in the next decade. Compared to pre-pandemic levels (2019-20) addressed letter volumes (excluding elections) were down 25% reflecting the continued structural decline in the letters market. In 2022-23 domestic parcel volumes were also down 22% to 1.1 billion from 1.4 billion in 2021-22, although they were up 2% compared to pre-pandemic levels (2019-20).

As a result of the decline in letter volumes, changes in post-pandemic parcel volumes and 18 days of industrial action last year, Royal Mail made an adjusted loss of £419 million (compared to £416 million profit in 2021-22). The industrial dispute and the ongoing risk to our business means that we have also had to write down the value of the Royal Mail business by £539 million to £900 million. This is known as an 'impairment' and is a requirement under accounting rules. This is on top of the £419 million losses reported.

This structural decline in letters is a long-term trend. In 2019-20 we forewarned of material losses in the UK business. Although we subsequently benefited from additional parcel volumes and delivery of test kits during the pandemic, we were clear then that the financial benefits of increased parcel traffic during the pandemic could not be assumed to represent permanent change in the Company's financial performance.

Such losses are not sustainable without change. Ten years ago (2012/13) the money we made from letters (letters revenue) covered all our people costs, including wages, pensions and national insurance. Last year (2022/23), letters revenue covered less than two thirds of our people costs. Royal Mail is undergoing a major transformation programme. Our operations and working practices need to change and the agreement we have reached with the Communication Workers Union (CWU) is key to this. But this will not be sufficient in itself to put the business back on track. We remain committed to the Universal Service and proud to deliver it, but it is important to recognise that the Universal Service must be adapted to deliver what consumers want today. A viable Royal Mail and a sustainable USO are interdependent, and I have set out more on our approach to that below.

Despite the challenges of the last year, Royal Mail has made real progress in what we offer our customers. This includes enhancing parcel collections from the

doorstep, introducing automatic next day redelivery and providing more safe place options for deliveries.

Further to this, in recognition of the growing demand for healthcare at home and the increasing pressures on the NHS, Royal Mail Health launched last year to help transform the quality of healthcare. Royal Mail Health is helping to address the challenges the NHS is facing whilst also supporting change. This will put power in the hands of patients across Scotland so that they can access the healthcare and medical products they need through different services. Royal Mail Health already delivers healthcare and medical products direct to homes in communities across Scotland, freeing up time for both doctors and pharmacists to focus on face-to-face appointments.

### **Reaching agreement with the CWU**

Following 18 days of strike action last year and a year of talks, we agreed the Business Recovery, Transformation and Growth Agreement with the CWU in April 2023, subject to ballot. If ratified by CWU members in a ballot, the agreement will provide greater job security and increased rewards – through both pay and profit share – for our employees, including those in Scotland. It will enable us to deliver improved services for customers, reduced costs and environmental impact, and improved quality of service. Part of the agreement includes start times for deliveries being moved back to help Royal Mail to deliver this. The agreement will also allow Royal Mail to compete on next day services and develop a more innovative, customer focused and low carbon product range. These are all positive moves for residents and businesses across Scotland.

Our new infrastructure, combined with the new working practices contained in the CWU agreement, allows Royal Mail to significantly expand parcel services, improve quality of service and ensure we can offer price-competitive and environmentally friendly services. This will benefit our customers across Scotland, whilst delivering our commitments to the Universal Service, and will underpin a return to growth and future job security for colleagues.

### **Improving quality of service**

Our customers rely on us to deliver their items safely, securely and in good time. I am sorry that we have not always delivered the high standards of service our customers expect to receive. Royal Mail's quality of service has been significantly affected by several issues. At a national level these include high levels of staff absence and 18 days of strike action. In Scotland, it has also been impacted by local issues including challenges in the recruitment of employees and the lack of a reliable ferry service in some areas. I understand the impact this has had on residents and businesses across Scotland. I and my team have a laser focus on driving up the quality and reliability of our service.

I want to reassure Members of the Committee that a turnaround plan is already underway. We are seeing an encouraging improvement but there remains much more to do. We have increased our engagement with Ofcom on quality of service and are cooperating fully with them in their work. UK consumers choose Royal Mail

as their most trusted delivery company<sup>3</sup>. We do not take that trust for granted. We are working hard to restore trust from our customers where it has been eroded by recent issues.

### **The sustainability of the Universal Service**

According to Ofcom, a financially sustainable Universal Service should be achieving an EBIT margin of 5-10%. Since privatisation, the Universal Service network has only achieved this twice. We remain committed to the Universal Service, and we believe that everyone, wherever they live, should expect a high standard of service. However, with the rapid decline in letter volumes and the increasing parcel volumes compared to pre-pandemic, we must adapt the USO if we are to meet the needs of our customers, now and in the future, and ensure that it is financially sustainable.

On 17 November 2022, we announced we had approached the UK Government to seek a move to a five-day letter service (Monday to Friday). Doing so while continuing to improve parcel services, including increasingly offering parcels seven days a week, will better meet changing customer needs. Both our own research and Ofcom's show that a five-day letter service would meet the needs of 97% of consumers and SMEs, including low income, rural or older consumers. A move to five-day letter service would also mean fewer vans on the road. Saturday parcel-only delivery would result in c.22,000 fewer delivery vans across the UK and a 10 per cent reduction in overall emissions.

I am conscious of the importance of the USO in Scotland, particularly for rural and remote communities, given that we are the only carrier to serve the whole of the country with a one-price-goes-anywhere service. I therefore appreciate the opportunity to speak to Members of the Committee about what businesses and communities think about the proposed service changes. We continue to innovate to keep communities across the UK connected. For example, we have trialled the use of drones to deliver mail to a number of remote areas of Scotland including the Orkney Islands, helping to support the community there with a service that is expected to be less affected by poor weather. Whilst regulatory change remains an important factor in securing regular drone routes, we continue to look at opportunities for trials. Royal Mail has conducted four drone trials since December 2020, and three of them have been in Scotland.

In recent years, I recognise Scotland's rural communities have raised concerns about the practice of surcharging parcels by a number of parcel operators. I want to provide reassurance that Royal Mail remains committed to serving customers across Scotland with the same 'one price goes anywhere' service on a range of letters and parcels as elsewhere.

Royal Mail is committed to ensuring that the Universal Service is sustainable and meets the needs of our customers, both today and in the future. But the need for change is urgent. Being required to provide a service that the vast majority of customers have said they no longer need, at significant cost, increases the threat to the Universal Service's sustainability. In the recent agreement with CWU, Royal Mail and the CWU have agreed to work on a plan to ensure the Universal Service can be sustained in the longer term. Royal Mail has discussed the need for change with

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<sup>3</sup> The Royal Mail Consumer Research Tracker

both unions, CWU and Unite CMA, over the last few years and engaged with a range of third parties including charities and business organisations in Scotland and the rest of the UK as we have developed our proposals on USO reform. We will continue to engage with and listen to representatives of all communities, and our customers.

### **Net zero in Scotland**

Finally, I know Scotland has ambitious climate change legislation and aims to reduce greenhouse gas emissions through a Just Transition to a net zero economy and society. We have a part to play here. Royal Mail's 'feet on the street' network enables deliveries to be as environmentally friendly as possible and makes us the greenest option for delivering parcels<sup>4</sup>. Last year, we published our Steps to Zero strategy to set out how Royal Mail aims to become a net zero emissions business by 2040.<sup>5</sup>

We are taking decisive steps to help tackle the global climate emergency and prepare our business for a low-carbon future. Steps to Zero outlines how we intend to accelerate our net zero ambition and align it with a 1.5°C decarbonisation pathway to reduce greenhouse emissions. To do this, we are moving towards a fleet of electric and low carbon fuel vehicles; increasing our rail operations; and trialling new low and zero emissions heavy vehicle technologies so we can deploy them at scale when the technology is available.

As part of this, we have deployed electric vehicles across seven delivery offices in Edinburgh and Glasgow and a number of micro electric vehicles in Dell and Uddingston. We have been trialling a dual fuel hydrogen vehicle in Aberdeen in conjunction with the local authority. We are also committed to purchasing and generating 100% certified renewable energy for our building and on-site electric vehicle charging throughout Scotland. We want to work with our partners to reduce emissions and play our role in the Just Transition to net zero.

I look forward to discussing these points, and answering any questions you might have, with the members of the Economy and Fair Work Committee later this month.

Yours sincerely

**Ricky McAulay**  
**Operations Development Director**  
**8 June 2023**

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<sup>4</sup> When measured in terms of the CO<sub>2</sub>e emissions per parcel reported by the UK parcel delivery companies who currently publicly report these statistics.

<sup>5</sup> You can read more about Royal Mail's Steps to Zero Strategy here:  
<https://www.royalmail.com/sustainability/stepstozero>