
Annual Monitoring Update for Postal Services

Financial year 2021-22

[Annual Monitoring Update for Postal Services: Financial year 2021-22](#) – Welsh overview

REPORT:

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Contents

Section

1. Overview	1
2. Introduction	5
3. Market developments	8
4. Consumers of postal services	20
5. Royal Mail Universal Service Performance	38
6. Royal Mail financial performance	45
7. Royal Mail efficiency performance	56

1. Overview

This report sets out key data and trends in the postal sector for the 2021-22 financial year. It also considers the impact of the changing market dynamics on UK postal services and Royal Mail's performance as the effects of the pandemic receded and new challenges have emerged.

Ofcom's regulatory framework is designed to fulfil our duty of securing a universal postal service which meets the needs of users, ensuring the availability of affordable services while taking into account financial sustainability and efficiency. Such a framework needs an effective, ongoing monitoring regime, of which this Annual Monitoring Update (AMU) forms a key part. This helps to promote transparency and to ensure the framework is effective in meeting users' needs and delivering fairness for customers.

This report is issued during a period of continued uncertainty for the postal sector and people who use postal services. The reopening of the high street post pandemic resulted in a reduction of online shopping and parcel deliveries on the previous year, although still above pre-pandemic levels. In contrast, letter volumes which saw a dramatic fall on the prior year, increased as businesses resumed their normal business and marketing mail activity.

Although overall satisfaction with postal services remained high for the wider postal market and for Royal Mail, the pandemic continued to have an impact on Royal Mail's Quality of Service (QoS), through factors such as unexpected changes to the mix of letters and parcels, Covid-19 related absences, and social distancing measures for parts of the year. As a result, it struggled to deliver against its targets. Royal Mail's failure to sustain its QoS standards led to a higher proportion of residential users reporting that they experienced delayed mail compared to before the pandemic as evidenced by our research.

What we have found in 2021-22

The **broader market and consumer trends** were as follows:

- **Total parcel volumes across all UK postal operators decreased** by c.6% to 3.82 billion items with domestic volumes declining slightly (by c.1%). Despite deliveries growing substantially during the pandemic period, volumes have fallen back since the easing of Covid-19 restrictions. International parcel imports and exports declined by over 30% year on year due to global supply chain disruption as well as increased complexity and changes to VAT duties and import/export tariffs. Total parcel revenues declined by 6.6% to £13.6bn in 2021-22 in line with volume reductions (Section 3).
- **Total addressed letter volumes¹ (letters and large letters) increased** by c.3% to 8.05 billion items in 2021-22 relative to the previous year, although down by c.18% compared to 2019-20 pre-pandemic levels. This reflected increased business activity (in particular advertising mail) as Covid-19 restrictions were lifted. Overall, the letters market continues to decline in line with pre-pandemic trends. Total addressed letter revenues increased slightly by 1.1% to £3.78bn but fell by c.10% compared to 2019-20 pre-pandemic levels (Section 3).
- **Most people continue to be satisfied with postal services.** Similar to previous years, more than eight in ten residential customers are satisfied with Royal Mail (81%) and postal services overall (82%). Similarly, around eight in ten small to medium-sized enterprises (SMEs) who use Royal Mail (84%) and other providers (82%) say they are satisfied, a slight increase (up from 79%) on the previous year. However, during this period, the proportion of residential users using Royal Mail who experienced

¹ More information about addressed letters (definitions and product information) can be found in Section 3 (Market Developments) with specific information about Royal Mail products and financial performance discussed in Section 6.

delayed mail in the past 12 months remained high at 31%, up from 23% in 2019-20 (Section 4).

Our main findings on **Royal Mail's QoS, profitability, and efficiency** during 2021-22 are:

- **Royal Mail's QoS continued to be below regulatory targets.** Although Royal Mail's QoS performance for 2021-22 improved compared to 2020-21, it still only met one of its eight QoS targets in 2021-22, with First Class delivery performance at 81.8% against a target of 93% (Section 5). As a result of Royal Mail's failure to reach many of its targets, Ofcom carried out an investigation, with the findings set out in our recently published report.²
- **Reported business³ revenues declined but profits grew,** despite challenging Q4 headwinds facing the wider UK economy. The financeability margin⁴ for 2021-22 was 3.6%, which, although having improved relative to the prior year (up 2.7%), remained below the indicative 5% to 10% range for a commercial rate of return. A recovery of letter revenues and government test kit revenue helped to offset the impact of the decline in parcel volumes year-on-year (Section 6).
- **Efficiency performance continues to prove difficult to assess, with mixed results.** Royal Mail set out to achieve c.£400m of savings in 2021-22, from a series of cost reduction initiatives, to offset some of cost pressures it was facing, but it achieved c.£60m less than planned.⁵ In terms of efficiency, the movement in volumes, costs, and revenues resulted in a slight improvement (0.2%), but productivity showed a slight decline (-0.2%). The changes in its cost base and mix of products as Royal Mail adapted to changing conditions meant that, as in 2020-21, Covid-19 continues to make it difficult to interpret the data and compare the results from previous years (Section 7).

Recent developments

Although this report focuses on 2021-22 (1 April 2021 to 31 March 2022), there have been a number of significant developments since then which we set out below (focusing on the six months from April 2022 to September 2022). Understanding these developments is important given the potential impact they may have on the wider parcel market and on Royal Mail as the designated USO provider.

- **2022 review:** In July 2022, we published our review of postal regulation which introduced some changes to the existing regulatory framework:⁶ strengthening our monitoring of sustainability and efficiency of Royal Mail and introducing new consumer protections in parcel services.
- **Parcels and letters:** Royal Mail's Q1 2022-23 parcel volumes were down 14% on the equivalent period in the prior year, although up by 6% for the same pre pandemic period in 2019. Total letter volumes in Q1 2021-2022 were down c.7% compared to Q1 2021-22, reflecting a continued long-term decline in the letters market.
- **Challenging economic backdrop:** The UK has seen a significant rise in inflation (CPI rose by 10.1% in the 12 months to July 2022) and a deterioration in economic outlook.⁷ Given the relationship between mail volumes and the broader economy, this has the potential to adversely affect volumes and revenues for the sector in the nearer term.

² Ofcom, December 2022. [Investigation into Royal Mail's quality of service performance in 2021-22](#).

³ The monitoring of Royal Mail's performance is focused on its 'Reported Business', which is the part of Royal Mail responsible for the universal service, including the obligations to collect and deliver letters six days a week and parcels five days a week.

⁴ Profit for the Reported Business calculated as revenue less all the costs of products and services provided and Transformation Costs, before the deduction of interest and tax.

⁵ International Distribution Services PLC. 2022, Annual Report and Financial Statements 2021-22, page 67

⁶ Ofcom, July 2022. [Review of Postal Regulation Statement](#). [accessed 7 Nov 2022]

⁷ UK Parliament, Oct 2022. [GDP – International Comparisons: Key Economic Indicators](#). IMF and OECD recently forecast UK GDP growth to be moderate in 2022 (3.6% and 3.4%, respectively) and flat for 2023 (0.3% and 0.0%) [accessed 27 Oct 2022]

- *Quality of Service (QoS)*: Although Royal Mail's QoS performance has shown some indications of improving since 2020-2021, it still continues to remain below target against many of its measures e.g. First Class performance was 85.1% against a target of 93% for Q1 of 2022-23.⁸
- *Royal Mail industrial action by frontline staff*: A number of strikes at Royal Mail have already taken place since late summer, with the potential for further strikes beyond the publication of this report. These strikes are likely to have an impact on both its financial performance and on Royal Mail's ability to meet many of the QoS standards.

Looking forward

Sustainability

In the 2020-21 AMU, we said that unless Royal Mail could become more efficient and adapt to a changing market, there was a risk it would not be able to secure a commercial rate of return for the universal service business.

In our July 2022 statement, we explained that, if successfully executed, Royal Mail's plans showed an improving sustainability picture, with revenues growing and cost efficiencies being made. In the 2022 statement, we also highlighted increased uncertainty about how the parcels market will evolve post-pandemic and the levels of growth Royal Mail could achieve given the challenges associated with, for example, the broader economic environment. In addition, Royal Mail's efficiency performance during the last review period had been concerning and it would need to improve on its historical efficiency performance to meet the ambitions set out in its plans.

Royal Mail's 2021-22 financial statements confirms it failed to meet its own revenue growth and full cost efficiency improvement projections, and performance has continued to deteriorate into the current financial year 2022-23. On 17 November, Royal Mail published its half year results for 2022-23, which included an operating loss for the UK business of £219m. It forecast further losses for the UK business, with a view to returning to profit for the year 2024-25, and explained that its recent deterioration in financial performance was due to a combination of: the impact of the industrial dispute; an inability to deliver productivity improvements; ongoing macro-economic headwinds; and costs that could not be reduced quickly enough in response to falling parcel volumes. Royal Mail also said that a sustainable future must include urgent reform of the Universal Service, and has approached Government to seek an early move to five day letter delivery.

Given these uncertainties and risks, our concerns about the long-term sustainability of the USO have increased from the level indicated in the 2020-21 AMU and 2022 review of postal regulation, and we continue to monitor the situation closely.

Quality of service

As we note in the recently published investigation findings, Royal Mail's performance in the early part of 2022-23 continues to fall materially below the regulatory requirements and we are concerned that its performance may not have improved sufficiently as the impacts of Covid-19 have lessened. Going forward, Royal Mail must bring its QoS performance back in line with the standards required. We therefore welcome Royal Mail's commitment to restoring its service.⁹ We will closely monitor its plans to do so and Royal Mail's performance over the remainder of 2022-23. If Royal Mail fails to meet its targets,

⁸ Q1 QoS performance is to show underlying trends before industrial action in Q2, where First Class performance fell to 72.6%.

⁹ See [Royal Mail Quality of Service, 11 November 2022](#) [accessed 17 Nov 2022]

we will consider whether enforcement action is appropriate.

2. Introduction

- 2.1 Postal services play a key role in our society. The ability to send and receive letters and parcels is important both socially and economically. Postal services are particularly important to consumers who might be more vulnerable, such as those who are more geographically or digitally isolated from their friends and family. Postal services also provide us with the ability to interact with government and other organisations, to access a range of services, and to receive goods directly to our homes.
- 2.2 The universal postal service, provided by Royal Mail, continues to play a key role for senders and receivers of mail items. It ensures that letters and parcels are delivered to around 31 million business and household addresses in the UK, at uniform prices, regardless of destination. Consumers and businesses continue to greatly value its frequency, affordability, pricing uniformity and reliability.
- 2.3 Ofcom has a duty under the Postal Services Act (PSA 2011)¹⁰ to carry out its postal functions in a way that it considers will secure the provision of a universal postal service¹¹, having regard to its financial sustainability and efficiency.¹² The minimum universal service requirements are set by Parliament and require the universal service provider, Royal Mail, to provide certain postal services at affordable, uniform prices throughout the UK.¹³
- 2.4 Our 2022 Review of Postal Regulation Statement (“July 2022 Statement”) sets out the details of our regulatory framework for the next five years alongside various safeguards which support its effective operation.¹⁴ Our regulatory framework includes an active monitoring regime so that we can understand the changing needs of users, the changing market dynamics and the financial sustainability and efficiency of the universal service, as well as any risks to the universal service. While this regime is a continuation of monitoring activities undertaken since 2012, the programme will evolve over the next two financial years in line with decisions made in the July 2022 statement, to ensure a strengthening of our monitoring of USO sustainability and efficiency as well as the introduction of enhanced protections for all parcel customers.
- 2.5 While the monitoring regime continues to evolve, we are retaining our commitment to publish an annual monitoring update which sets out key data and trends in the postal sector, focusing on the provision by Royal Mail of the universal service. To ensure that the regulatory framework continues to work effectively, we monitor a range of factors. These include competition and developments in the parcels and letters markets, consumers’ and businesses’ experiences in the postal sector, Royal Mail’s prices and quality of service (QoS), and Royal Mail’s performance on efficiency and the financial performance of the universal service network.

¹⁰ [Postal Services Act 2011 \(legislation.gov.uk\)](#) is legislation that established the current universal postal service and the legal framework, including Ofcom’s regulation of postal services. [accessed 17 Nov 2022]

¹¹ Section 29(1) of the Postal Services Act 2011.

¹² Section 29(3) of the Postal Services Act 2011.

¹³ Section 31 of the Postal Services Act 2011.

¹⁴ Ofcom, July 2022. [Review of Postal Regulation Statement](#).

Presentation of data in this annual monitoring update

- 2.6 On 5 October 2022, the corporate group entity ‘Royal Mail plc’ changed its name to International Distributions Services plc.¹⁵ We note that while there have been changes to the corporate structure over time, including in November 2021, the universal service is still operated by the same legal entity, Royal Mail Group Limited (for the purposes of this report, we refer to this as the relevant business, ‘Royal Mail’).
- 2.7 The focus of our monitoring is Royal Mail, although we undertake our monitoring within the context of the broader postal services market. This is because Royal Mail is the designated universal postal service provider. We focus on the business operations that are known as the ‘Reported Business’, which covers UK domestic and international postal services. The Reported Business includes all universal services, as well as other services which are delivered over the universal service network, namely access products and retail bulk mail.^{16, 17}
- 2.8 Financial data presented in this report is in nominal terms, unless otherwise stated, except for the market revenue data presented in Section 3, which is in real terms (i.e. adjusted for inflation). This is consistent with how data is presented in Royal Mail’s Regulatory Financial Statements and Ofcom’s Communications Market Reports.¹⁸
- 2.9 Where we report real terms changes, we have elected to use the yearly average Consumer Price Index (CPI) from April to March as the basis for our calculations, as has been our custom since the 2014-15 Annual Monitoring Update.
- 2.10 The metrics in this update are, unless otherwise stated, consistent with those in our previous four annual monitoring updates on the postal market, published between 2017 and 2021 (enabling year-on-year comparisons). The 2022 Annual Monitoring Update comprises both this report and accompanying Post Monitoring Interactive Data available on the Ofcom website, including csv files.¹⁹
- 2.11 Where appropriate, we also include commentary on recent market developments such as market trends in letters and parcels volumes and Royal Mail’s QoS performance (see Section 1, Overview). This allows this report to be placed in the context of the more recent developments and in advance of the 2022-23 full year view, which will be presented in next year’s AMU.

Monitoring postal service across the new review period

- 2.12 As set out in our July 2022 Statement, we have decided that the overall regulatory framework for postal services remains appropriate for the next five years.²⁰ By setting out our regulatory framework over this period, we seek to provide certainty and stability to postal operators and

¹⁵ Royal Mail, 4 October 2022. [Royal Mail plc change of name](#). [Accessed 17 Nov 2022.]

¹⁶ For product descriptions including access products – where third party postal operators insert mail into Royal Mail’s network for last mile deliveries, see Royal Mail’s information on [Universal Service Obligation](#). [Accessed 10 Oct 2022.]

¹⁷ Bulk mail involves Royal Mail collecting large volumes of mail directly from larger businesses (or other organisations) and then using its network to sort, distribute and deliver these. Non-bulk mail is mainly made up of single piece letter services that Royal Mail is required to offer under the USO.

¹⁸ Ofcom, published annually. [Communications Market Reports](#).

¹⁹ Annual Monitoring Updates and interactive data available here: <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring-reports>.

²⁰ See 2022 Review of Postal Regulation Statement, Section 2 – The postal services market and our regulatory framework.

other stakeholders, including investors, which could help when planning and making longer-term investment decisions and therefore encourage investment.

2.13 This report focuses on the period prior to implementation of our findings on 2022 Review of Postal Regulations. This means the key data and our analysis is based on the monitoring programme developed in line with our 2017 Review and any updates to our regulatory reporting framework. We will explain how our monitoring programme continues to develop at the start of this new review period in our 2023 Annual Monitoring Update.

Structure of the report

2.14 This report focuses on the 2020-21 financial year. The structure is as follows:

- Section 1 – Overview
- Section 2 – Introduction (this section)
- Section 3 – Market developments
- Section 4 – Consumers of postal services
- Section 5 – Royal Mail universal service performance
- Section 6 – Royal Mail financial performance
- Section 7 – Royal Mail efficiency performance

3. Market developments

- 3.1 This section covers developments in the postal services market and presents 2021-22 market-wide volumes and revenues data. We first outline trends in the parcels market and then consider the letters market.
- 3.2 Further information about these markets, such as volumes and revenues data across multiple financial years, can be found in the Post Monitoring Interactive Data at pages 4 and 5.
- 3.3 Additional relevant information can also be found at Section 2 of the July 2022 Statement.²¹

Factors impacting the postal market in financial year 2021-22

- 3.4 In our 2020-21 AMU, we noted the unpredictability of consumer behaviour and market dynamics as the UK experienced a social and economic shock during the Covid-19 pandemic. While the significant increase in parcel volumes was not fully anticipated, the financial impact was positive for parcel delivery firms who were able to adjust to meet demand quickly.
- 3.5 Many of the factors resulting from the pandemic which affected market conditions during 2020-21 have largely dissipated. However, some ongoing challenges have had an impact on the postal market during 2021-22. These include:²²
 - a) Ongoing impact of staff absences on operational performance and costs;
 - b) Increased costs of recruitment, including packages aimed at staff retention;
 - c) Impact of fuel and energy price rises, and associated inflation-related costs;
 - d) Fluctuations in consumer spending habits linked to economic challenges, including inflation and the rising cost of living; and
 - e) Increased costs of international trade arrangements and associated cross-border parcel deliveries.
- 3.6 While consumer behaviour continues to adjust over time, consumer expectations when using postal services have become more established during the pandemic, with postal users demanding improved quality of service from parcel operators. Convenience and guaranteed delivery on time, and to the recipient's door, remain important factors when looking at consumer satisfaction rates. We discuss this further in Section 4 looking at our Residential and Business Tracker Survey results.

Parcels market

- 3.7 The parcels market can be split into three segments²³:

²¹ Ofcom, July 2022. [Review of Postal Regulation](#).

²² Information shared during various stakeholder meetings and forums during the year, and in keeping with market announcements from postal operators active in UK market.

²³ For the purposes of the data presented in this section, we have defined a parcel as an addressed postal item that is delivered end-to-end and: (a) is not a letter or a large letter (as defined in footnote 37); (b) weighs no more than 31.5kg; and (c) can be lifted by a single average individual without mechanical aids. Parcel services form part of a broad set of delivery services used by residential and business consumers in the UK, such as two-person and pallets delivery (for large and heavy items) and more generally the logistics services that are used for business supply chains. In contrast to parcel services, these other services do not involve postal items.

- a) **Consumer to business/consumer (C2X)** – these are largely single-piece items from consumer to consumer, or consumer to business. For example, a person sending a birthday present to a relative or an online marketplace seller sending an item to a buyer.
 - b) **Business to consumer (B2C)** – these are deliveries from business to consumer, for example an online retailer sending items bought by online customers. These are generally deliveries that are part of bulk contracts between a business and a parcel operator.
 - c) **Business to business (B2B)** – these are generally bulk deliveries from a business to other businesses, for example a car dealer with multiple sites receiving parts from a manufacturer.
- 3.8 The parcels market has been fast-growing, and the main focus of competition continues to be found in the B2C segment. In recent years, the market has shifted away from B2B towards B2C, as online shopping has grown. Businesses have already moved fulfilment activities closer to their customer base and developed B2C delivery operations to support online retail. As global supply chains have faced disruption over the last financial year, and international trade arrangements have continued to change as a result of the UK exiting the European Union, we observe a decline in international parcel movements over the last 2 years. This aligns with increased reliance on local fulfilment centres, reducing the number of cross-border parcel deliveries, and a focus on B2C parcel deliveries occurring within the UK.
- 3.9 Consumers continue to use parcel management services (such as online resellers and price comparison services)²⁴, which offer access to multiple parcel operators and a range of service options. These services can involve print-at-home labelling (in order to access in-store parcel networks), parcel locker networks, and home collections. Parcel operators have continued to innovate the operations of home collection services in line with technology developments, becoming an alternative to in-store parcel networks or other access points.

Parcel prices

- 3.10 Here we discuss trends in parcel prices of Royal Mail and other parcel operators. In April 2022, Royal Mail made substantial changes to its suite of C2X products as part of its wider efforts to pivot towards becoming a parcels-first operator. In particular, Royal Mail consolidated some of its low-weight parcel offerings into fewer products and reduced prices. For instance, the price of a Second Class 5-10kg medium parcel dropped significantly, down c.72% from 2021 prices in real terms²⁵. On average, and inclusive of CPI adjustment, prices of First Class parcel products in our analysis dropped c.31% and Second Class parcel products dropped 25% from 2021. These changes demonstrate Royal Mail's attempts to become more competitive in a congested market.²⁶
- 3.11 Analysis of global operators and other national universal service providers suggests a similar trend, where in Ireland, France and Germany parcel prices were reduced and restructured in

²⁴ These include online reseller services provided by eBay, Whistl's ParcelsHub, Parcel2Go and Parcel Monkey. Such providers promote multiple delivery operators and their services, including flexible drop off locations or home collections.

²⁵ CPI-based adjustments made.

²⁶ For more information see our [Post Monitoring Interactive Data](#) published alongside this report.

2022 compared to heightened 2021 levels.²⁷ In comparison with a selection of countries, Royal Mail’s heavier parcels are more expensive.²⁸

3.12 Royal Mail’s main C2X competitor for low weight parcels is Evri. On its website homepage²⁹, Evri makes a direct cost comparison against Royal Mail prices across six categories, demonstrating where the Evri product is cheaper. If we compare prices for C2X parcels weighing 1-2KG, at standard delivery, Royal Mail parcels cost £4.35 versus £4.34 from Evri, £3.79 from Yodel and £5.39 from DHL.³⁰

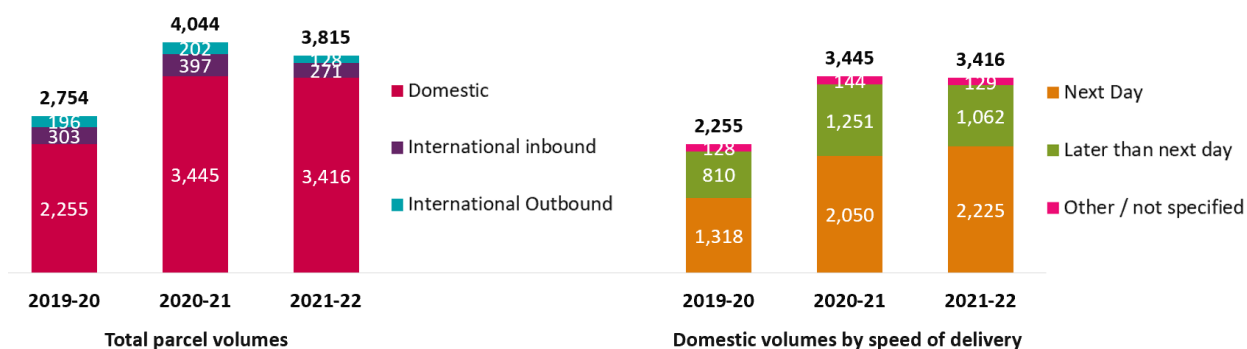
Parcels volumes and revenues³¹

3.13 Total parcel volumes³² decreased by 5.7% to 3.8 billion items in 2021-22, compared with the 47% growth recorded in 2020-21.

3.14 Measured domestic parcel volumes fell by 0.8% year-on-year to 3.4 billion items (compared to 53% rise in prior year). Next day (D+1) delivery items made up 65% of measured domestic parcel volumes during 2021-22, compared with nearly 60% the previous year.

3.15 International inbound volumes decreased by 32% year on year (having risen 31% in 2020-21) and international outbound volumes declined by 36% in the same period (up 3% in 2020-21).

Figure 3.1: Total measured parcel volumes and domestic volumes by speed of delivery (millions)



Source: Ofcom / operator data

Note: Access mail volumes are included in domestic. Figures for 2019-20 and 2020-21 have been restated due to parcel operator data resubmissions. Data for 2021-22 is not directly comparable to that for 2020-21 and 2019-20 due to additional postal operators providing data covering 2021-22.

²⁷ A 1-2 KG parcel from Deutsche Post in Germany cost £5.90 in 2022 and £6.77 in 2021. A 20KG parcel cost £13.92 in 2022 and £14.90 in 2021. For further examples please see [2022 Communications Market Report](#).

²⁸ See international price comparisons in 2022 Communications Market Report.

²⁹ See mid-way down the page at: <https://www.evri.com/>. Worth noting the comparison is made between an in-store Royal Mail price and an online Evri price. When comparing online offerings between the two, the gap between prices is less substantial.

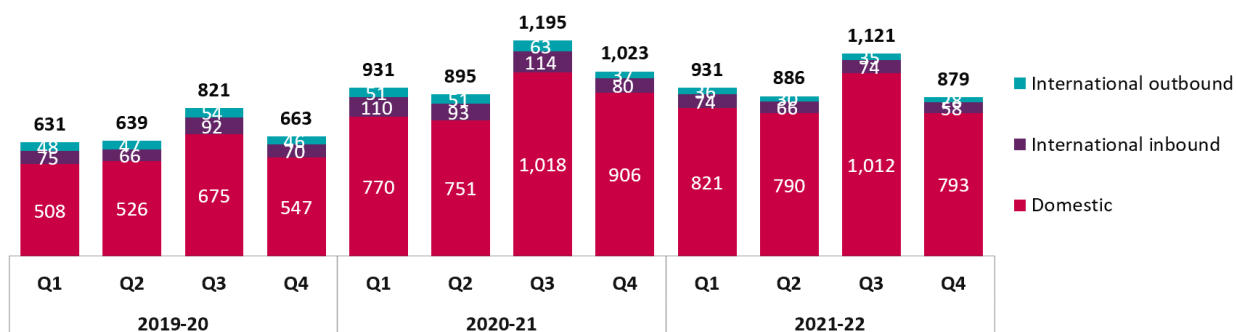
³⁰ Analysis from July 2022.

³¹ Operators from which our market data has been collected are: The Alternative Parcels Company, Amazon (Marketplace, Retail, Shipping), CitySprint, DHL International and DHL Parcel UK, DPD Group, DX, FedEx Express and Fedex UK, Hermes, Menzies Distribution, Royal Mail Group (including Parcelforce), Tuffnells, UPS and Yodel. Data is not collected from smaller operators. Data for 2021-22 is not directly comparable to that for 2020-21 due to additional postal operators providing data covering 2021-22.

³² Our estimate of market-wide parcel volumes is based on a definition that differs from Royal Mail’s definition of parcels (which includes RM 24/48 large letters, some fulfilment letters and large letters), and is therefore not directly comparable to Royal Mail’s parcel volumes reported in Section 6 on financial performance.

3.16 Looking back across three years, measured total parcel volumes on a quarterly basis have fallen back slightly after a sharp rise that coincided with the first national lockdown in March 2020. Parcel volumes and revenues in each quarter of 2021-22 still outperformed pre-pandemic levels (2019-20). Total parcel volumes in Q3 2021-22, which corresponds to peak pre-Christmas demand, was the second highest quarter for volumes, with 1.12 billion parcels.

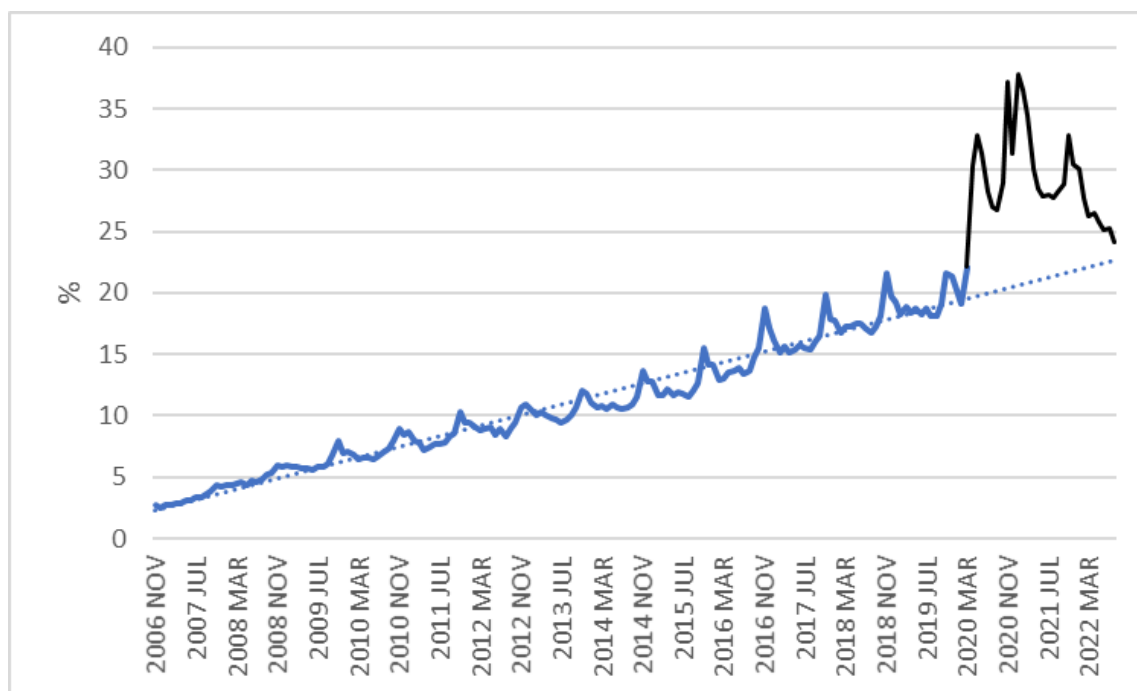
Figure 3.2: Quarterly measured volumes for parcels, 2019-20 to 2021-22 (millions)



Source: Ofcom / operator data

3.17 As seen from ONS data, set out in Figure 3.3, the uplift in online retail activity during the pandemic has almost completely reversed since late 2021, particularly affecting Q4 (January to March) in 2021-22.

Figure 3.3: Online sales as a percentage of total retail sales (ratio, %)



Source: [ONS Internet sales as a percentage of total retail sales \(ratio\) \(%\)](#) [accessed 7 Nov 2022]

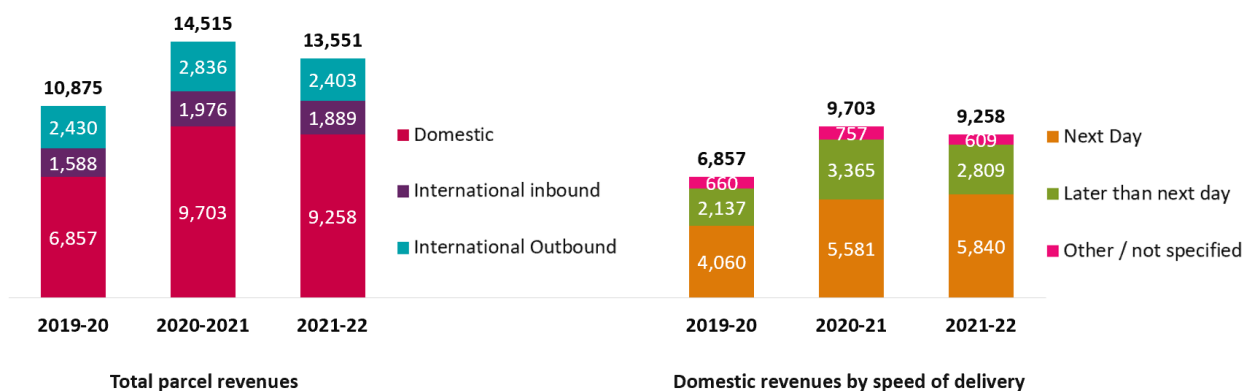
3.18 Parcel revenues decreased by 6.6% in real terms to £13.55bn in 2021-22, compared with 33.5% growth in 2020-21. The average unit revenue per measured parcel fell by 1% year-on-year from £3.59 to £3.55.

3.19 Measured domestic parcel revenues stood at £9.26bn, a decrease of 4.6% in real terms. Domestic parcels continued to increase as a share of total revenues, accounting for 68.3% of

total revenues in 2021-22, up from 66.8% in 2020-21. The average unit revenue for domestic parcel deliveries stood at £2.71 in 2021-22, down from £2.82 the previous year.

- 3.20 Next day (D+1) delivery items made up the majority of measured domestic parcel revenues at 63.1%, a rise of 9.7 percentage points between 2020-21 and 2021-22. The average unit revenue for parcels delivered next day stood at £2.62 (down by 3.6%) and for later than next day at £2.65 (down by 1.6%) in 2021-22.
- 3.21 International inbound parcel revenue contraction was less than the decline seen in volumes, with revenues falling by 4.4% in real terms in 2021-22 to £1.89bn. Average unit revenue for inbound parcel deliveries was up by 40.2% year-on-year from £4.97 to £6.97.
- 3.22 International outbound parcel revenues declined, standing at £2.4bn in 2021-22 down by 15.3% year-on-year. Outbound international parcels accounted for 17.7% of total parcel revenues (19.5% in 2020-21). Average unit revenue for international outbound parcels increased from £14.07 in 2020-21 to £18.76 in 2021-22, a 33.3% rise.

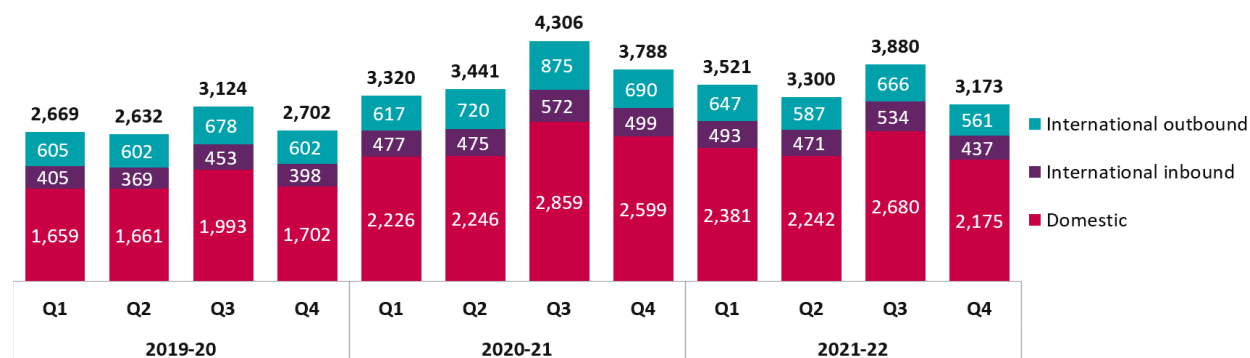
Figure 3.4: Total measured parcel revenues and domestic revenues by speed of delivery (£m)



Source: Ofcom / operator data

- 3.23 Measured total parcel revenues on a quarterly basis follow a similar pattern as for volumes, experiencing a year-on-year fall during the last three quarters of 2021-22 (Figure 3.5).

Figure 3.5: Quarterly measured revenues for parcels, 2019-20 to 2021-22 (£m)



Source: Operator returns / Ofcom estimates. Figures for 2019-20 and 2020-21 have been restated due to parcel operator data resubmissions. Data for 2021-22 is not directly comparable to that for 2020-21 and 2019-20 due to additional postal operators providing data covering 2021-22. Revenue figures adjusted for CPI at Q4 2021-22 prices on a quarterly basis so may differ from annual total.

International trade

- 3.24 Postal operators in the UK continue to adapt operations in line with international trade requirements imposed on either themselves or their customers. Preparations continue to be made for new trading arrangements with the EU including potential requirements for customs declarations and checks on parcels being sent from Great Britain to Northern Ireland.
- 3.25 HMRC's temporary arrangements for customs declarations mean these requirements have still not been applied during financial year 2021-22.³³ There has been continuing uncertainty about declaration requirements and implementation timelines, including for Royal Mail's universal service operations. Postal operators are participating in ongoing discussions with UK Government in support of efforts to make international trade arrangements easier to navigate, in order to increase certainty for businesses reliant on parcel deliveries.
- 3.26 Implementation of the Northern Ireland Protocol is a matter for the UK Government. We continue to engage with the UK Government, postal operators and consumer groups to advise on, and understand, the implications for the postal market.

Updating our monitoring programme to reflect new measures aimed at improving parcel customer experience

- 3.27 We want consumers' service experience to improve in the parcels market. In our July 2022 Statement³⁴ we introduced two new measures to our regulatory framework designed to achieve this objective:
- a) **Complaints-handling guidance:** we issued new guidance for all parcel operators (including Royal Mail) setting out the steps we expect them to take when dealing with consumer complaints to ensure compliance with our existing rules.³⁵ This states that:
- clear and easily accessible contact channels should be available to all to make a complaint;
 - customers should be given clear information on whom to contact, and indeed what the complaint process is; and
 - the complaint should be dealt with by staff who have received appropriate training.
- b) **Disabled consumers' condition:** we also imposed a new regulatory condition requiring all parcel operators to publish and comply with policies and procedures for the fair and appropriate treatment of disabled consumers.³⁶
- 3.28 To allow parcel operators time to make any changes to their operations and train their staff, we have given them until 1 April 2023 to implement the new complaints handling guidance, and until 1 November 2023 to implement the disabled consumers' condition.

³³ HM Revenue and Customs, 2020. [Sending parcels between Great Britain and Northern Ireland](#). HMRC announced on 31 December 2020 that the customs declarations requirements would not apply for most parcels for the first three months of 2021, and this has since been extended. Customs declarations are only required where the goods are either (i) classified as prohibited or restricted goods, or (ii) being sent from one business to another (B2B) where the value of the good is greater than £135.

³⁴ Ofcom, July 2022. Review of Postal Regulation.

³⁵ Ofcom, July 2022. [Guidance for parcel operators on consumer complaints handling procedures](#).

³⁶ Ofcom, July 2022. [Statutory Notification: new Consumer Protection Condition 5](#).

- 3.29 As part of our next steps, we are updating our monitoring programme to allow us to monitor consumer experience of the parcels market more closely. Our aim is that this will allow us to track consumer experience of important interactions with the largest consumer-facing parcel operators, in handling consumer complaints and the treatment of disabled consumers. Accordingly, we plan to expand our consumer research programme and engagement with industry. We intend to use our information-gathering powers to collect information on complaints from the largest consumer-facing operators annually and will publish updates on our work as part of future AMUs.

Letters market

- 3.30 The letters (and large letters)³⁷ mail sector today consists of two main segments:
- a) **Royal Mail end-to-end mail**³⁸ – letters collected and delivered by Royal Mail, which can be further divided into bulk and ‘non-bulk’ mail. Bulk mail involves Royal Mail collecting large volumes of mail directly from larger businesses (or other organisations) and then using its network to sort, distribute and deliver these. Non-bulk mail is mainly made up of single piece letter services that Royal Mail is required to offer under the USO; and
 - b) **Access mail** – bulk mail collected by competing access operators from larger businesses and organisations, which is then inserted into Royal Mail’s network for delivery. Access competition enables other operators to offer postal services to their customers without setting up a ‘last mile’ delivery network, and to compete with Royal Mail in the offer of initial stages of processing post.³⁹
- 3.31 The bulk letters market is characterised by access competition where a postal operator other than Royal Mail collects mail from the customer, sorts it and then transports it to Royal Mail’s Inward Mail Centres, where it is handed over to Royal Mail for delivery.
- 3.32 There remains a lack of competition in end-to-end delivery of letters, with ongoing strong reliance on Royal Mail’s universal service network. Royal Mail is subject to a regulatory condition requiring it to offer access at its Inward Mail Centres to other postal operators and customers for certain letters and large letters, which facilitates a routing time (at the retail level) of two working days or later. These services are referred to as “D+2 access”. “D+2 access” means collection on D+0, sortation and injection into Royal Mail’s delivery system D+1, and delivery on D+2.
- 3.33 Royal Mail also offer “D+5 access” services to meet consumer requirements for a cost-effective service where there is less time dependency for delivery.⁴⁰ The new services defer the mail until there is another item already being delivered to the recipient’s address, subject to a maximum of four working days after it enters the network. We expect that these services will become important for access operators and could account for a material proportion of access volumes in the future.

³⁷ 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.

³⁸ There remains some residual end-to-end services offered by operators other than Royal Mail, accounting for less than 1% of the market, by volume.

³⁹ Royal Mail also offers a similar access service for parcels on a commercial basis.

⁴⁰ D+5 services introduced in 2021.

Letter Prices

Standard stamps and meter services

- 3.34 Royal Mail changed its stamp and meter prices for 2022-23 on 4 April 2022.
- 3.35 First Class stamp prices rose by 10p to 95p, and meter prices rose by 7p to 84p, in nominal terms. This was a more significant increase in price in real terms in 2021-22 compared to previous uplifts. The First Class stamp price rose by 7.5% in real terms, and the meter price rose in real terms by 4.9%.
- 3.36 Second Class stamp prices rose by 2p to 68p⁴¹ and meter prices rose by 1p to 56p. In real terms these prices remained broadly flat with real-terms decreases of 0.9% and 2.1% respectively. We observe that the differential between first and second class prices for stamps has widened further, continuing the trend from the prior year.

Large Letter stamps and meter services

- 3.37 There are four weight steps for large letters: 0-100g, 101-250g, 251-500g and 501-750g. Prices in 2021-22 rose in real terms for large letters across all the weight steps excluding 501-750g compared to the previous year. For the highest weight step prices were frozen.
- 3.38 The average First Class stamp price for large letters rose in real terms by 5.6% and the average meter price rose by 6.0%. The weighted average price for First Class stamps was £1.65 and for metered mail was £1.62.
- 3.39 The average Second Class stamp price for large letters rose in real terms by 0.7% and the average meter price rose by 8.2%. The weighted average price for Second Class stamps was £1.24 and for metered mail was £1.29.

Retail bulk mail services

- 3.40 Royal Mail and other operators offer a number of products and services to business customers who send larger volumes of mail, which are not within the universal service. Prices for retail bulk mail and access services (see below) changed earlier in the year compared to stamp and meter pricing, namely in January 2022.
- 3.41 Business Low Sort 'Optical Character Recognition' (OCR) services⁴² increased the most year on year, with around 10% nominal rises across all categories - First Class, Second Class and Economy services. For advertising and unsorted products, First Class services rose by up to 10% in nominal terms while Second Class and Economy services showed rises of between 2%-5% leading to flat or marginally lower real terms prices year-on-year.

Access services

- 3.42 While business mail prices, excluding advertising mail, increased both in nominal (approximately 10%) and real terms (approximately 5.5%) year-on-year, advertising mail prices increased only by 1% in nominal terms leading to a real terms reduction in price year-on-year.

⁴¹ Ofcom's regulatory framework involves some pricing controls, including for second class stamps.

⁴² Royal Mail uses scanning software with OCR to allow mail to be machine sorted, but the address needs to be printed in specific fonts and sizes for this to work. See: <https://www.royalmailwholesale.com/addressing-your-mail>. [Accessed 7 Nov 2022.]

This reflects market-wide efforts to rebuild advertising mail volumes as the economy opened up following the pandemic.

3.43 However, we note that further price increases have been announced and implemented by Royal Mail, this financial year which took effect in November 2022.

Letters volumes and revenues

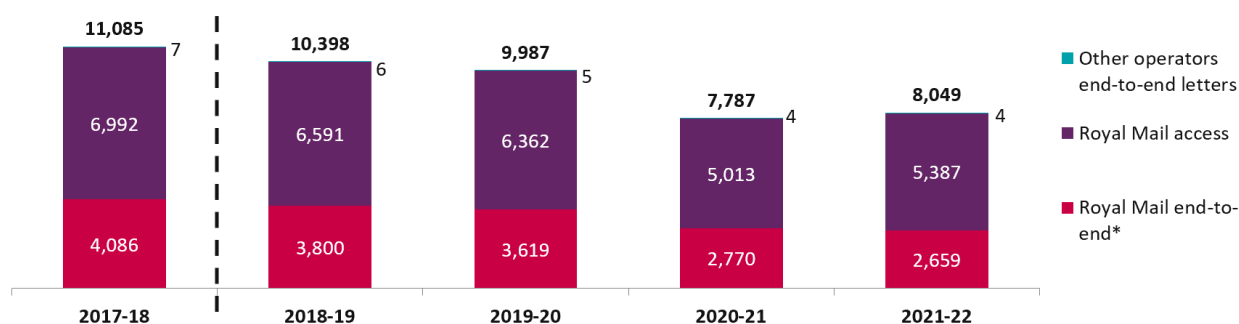
3.44 Addressed letter volumes⁴³ (letters and large letters) increased by 3.4% to 8.05 billion items in 2021-22. This compares with a 22% decrease in 2020-21 and reflects the lifting of restrictions following Covid-19 lockdowns and the resumption of normal business and direct mail activity as sectors opened up again for business.

3.45 Overall spend on direct mail advertising rose in 2021-22. The Advertising Association/WARC reported that expenditure (which includes production and elements of postage) increased by 13.7% in real terms from £0.95bn to £1.08bn.⁴⁴ This compares to a 31.2% decrease in the previous year.

3.46 Access or bulk mail collected by competing access operators⁴⁵ continued to make up the majority of letters sent in 2021-22 at 5.39 billion items, 66.9% of total addressed letter volumes (up from 64.4% in the year to March 2021). Overall access mail volumes increased by 7.5% year-on-year.

3.47 Royal Mail end-to-end addressed letter volumes fell by 4% to 2.66 billion, while the number of letters delivered by end-to-end operators other than Royal Mail fell by 13.4% year-on-year to 3.6 million, representing less than one per cent of total letters volumes.

Figure 3.6: Addressed letter volumes (millions)⁴⁶



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

⁴³ Addressed letter volumes and revenues in this section includes all end-to-end and access volumes (including election mail if applicable). This differs from the definition of addressed letters used in the analysis of the performance of Royal Mail's Reported Business in Section 6, which includes international mail but excludes election mail.

⁴⁴ IAB UK. April 2022. [AA/WARC: Digital drives growth as UK ad spend hits record £32bn](#). Year-on-year growth rate adjusted for CPI (August 2022 figures) at 2021-22 prices by Ofcom. [Accessed 17 Nov 2022.]

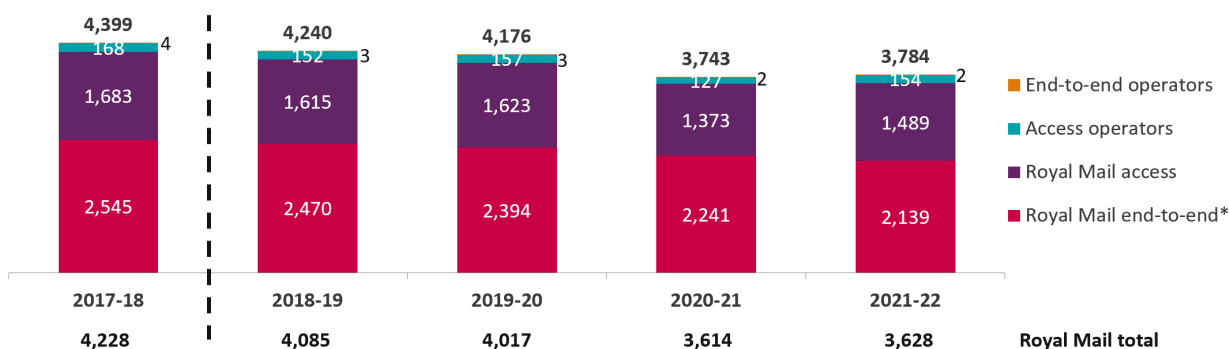
⁴⁵ Where a postal operator other than Royal Mail collects mail from a customer and hands it over to Royal Mail to complete the delivery.

⁴⁶ It is not possible to make direct comparisons between pre- and post-2018-19 on the data in the chart due to a change in methodology (made in 2020) regarding Royal Mail data. The effect of the change in methodology was to increase reported Royal Mail end-to-end letters volumes.

3.48 Total addressed letter revenues for 2021-22 stood at £3.78bn, up 1.1% in real terms year-on-year compared with a 10.4% fall in the previous year. Payments made by access operators to Royal Mail increased by 8.4% to £1.49bn.

3.49 We monitor the revenues retained by access operators for the delivery of mail once payments to other operators (predominantly Royal Mail) have been made. Letters and large letters revenues retained by access operators reporting to us were £154m, a rise of 21.9% year-on-year.

Figure 3.7: Addressed letter revenues, millions (£m)⁴⁷



Source: Royal Mail Regulatory Financial Statements / operator returns to Ofcom / Ofcom estimates.

Notes: Adjusted for CPI at 2021-22 prices. Royal Mail figures relate to the 'reported business'. *Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters revenues, excepting access. Figures exclude international.

Environmental sustainability

Progress by the parcel sector towards net zero⁴⁸

3.50 Postal operators have developed sustainability strategies and increasingly consumers are also able to make more environmental decisions, e.g. to consolidate packet deliveries.⁴⁹ The UK Government has demonstrated its commitment to this through its 2021 Net Zero Strategy, where it has set a net zero target of 2050.⁵⁰ On 26 September 2022, the Department for Business, Innovation and Skills (BEIS) published a review into the UK Government's approach to delivering its net zero target, to ensure that it is delivering net zero in a way that is pro-business and pro-growth.⁵¹

⁴⁷ Due to changes in methodology for Royal Mail end-to-end data it is not possible to make direct comparisons between pre- and post-2018-19 on the data in the chart.

⁴⁸ The United Nations define net zero as "cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance". Further information is available at <https://www.un.org/en/climatechange/net-zero-coalition> [accessed 17 Nov 2022].

⁴⁹ One reason for the increased focus on environmental sustainability is due to the introduction of requirements for firms with over 500 employees and £500 million in turnover to disclose climate-related financial information. These requirements were recommended by the [Task Force on Climate-Related Financial Disclosures](#) (TCFD) [accessed 17 Nov 2022].

⁵⁰ HM Government, October 2021. [Net Zero Strategy "Build Back Greener"](#), page 10 [accessed 24 Oct 2022].

⁵¹ HM Government, September 2022. [Review of Net Zero](#) [accessed 24 Oct 2022].

Recent developments

Reducing emissions within postal networks

Net Zero

- 3.51 Currently, it is difficult to compare operators as there are many ways in which carbon emissions are measured and no agreement around a single reporting system, although some are more respected and/or frequently used. Nonetheless, one area where all postal operators have made public commitments is in relation to when they will become net zero, although they are moving at a different pace, and some will achieve this earlier than others.
- 3.52 Many postal operators have set out policies to reduce their carbon emissions in order to meet their net zero targets. In June 2022, Royal Mail announced its 'Step to zero' plan to reach net zero by 2040. These plans set out how it intends to achieve net zero deliveries and operations; embrace the circular economy; and collaborate with others.⁵² When discussing its parcel collection service, Royal Mail highlights the positive environmental impact of removing the need for the consumer to travel to send items from a post office⁵³ Royal Mail also announced plans in 2021 to introduce an additional 3,000 electric vans; it is introducing all-electric Delivery Offices (the first being Bristol East); and it is trialing micro electric vehicles.⁵⁴
- 3.53 In March 2022 DHL Express announced plans to roll out an additional 270 electric vans across the UK. It intends to expand this so that 100% of its fleet is electric by 2030. In order to reach this goal, DHL Express has focused on developing its own infrastructure, including stand-alone charging points. It now operates 10 fully integrated EV-ready sites.⁵⁵
- 3.54 Different fuels, which may be better for the environment, also offer opportunities to reduce carbon emissions. Evri has begun trialing Green D+ hydrotreated vegetable oil (HVO) in its HGV fleet in Brooklands. It estimates that this would achieve a 90% reduction in emissions.⁵⁶
- 3.55 Delivery by bicycle provides an opportunity to reduce the number of delivery journeys by car or van. In May 2022 Yodel reported that it had delivered 492,000 parcels by bicycle in the last six months. Initially, it undertook a trial period of partnering with Urb-it, who provided Yodel with access to its e-cargo bike fleet, and now plans to expand these operations to other major UK cities.⁵⁷
- 3.56 Postal operators can also reduce the carbon footprint from their delivery hubs. DPD has installed a system comprising over 6,000 solar panels at its Hub in Hinckley, Leicestershire. This system is expected to generate enough power to enable the hub offices to operate off grid during daytime working hours and any excess power will be exported to the national grid. DPD is evaluating expanding this system across other sites in their network.⁵⁸

⁵² Royal Mail. [Steps to Zero](#) [accessed 19 Oct 2022].

⁵³ Royal Mail. [Sustainability at Royal Mail](#) [accessed 19 Oct 2022].

⁵⁴ Royal Mail. [Going Electric](#) [accessed 3 Oct 2022].

⁵⁵ DHL Group (22 March 2022). [The next milestone in the DHL Express Electric Van fleet roll-out](#) [accessed 4 Oct 2022].

⁵⁶ Charged Retail Tech News (28 April 2022). [Evri trials hydrotreated vegetable oil fuel on HGV fleet](#) [accessed 4 Oct 2022].

⁵⁷ Yodel (26 May 2022). [Yodel delivers almost half a million parcels by bicycle in just six months](#) [accessed 4 Oct 2022].

⁵⁸ DPD, 2022. [Reporting on - Clean, Green Delivery](#) [accessed 4 Oct 2022].

- 3.57 As set out above, many postal operators are taking steps to become reduce their carbon emissions and develop their environmental policies.

Offering consumers environmentally sustainable options

- 3.58 Consumer behaviour could impact operators, for example if environmentally sustainable policies and/or sending options became important for them when selecting which postal operator to use to send a letter or parcel. The UK Consumer Home Delivery Review 2021 found that over 70% of those asked, “If a carbon–friendly delivery alternative was available, would you choose it over a traditional method?”, responded that they would.⁵⁹ However, when asked “Would you be prepared to pay more in delivery charges for this?” just under 60% of respondents said that they would not. In a 2022 report, 32% of customers strongly agreed that they would be willing to receive a package a few days later to reduce the environmental impact, an increase of 5% from the previous year.⁶⁰ However, fewer customers (12%) had changed their online shopping behaviour due to sustainability concerns.
- 3.59 Postal operators are also looking to consumers to support shifts towards more environmentally sustainable operations. One way in which they are doing so is to both offer more environmentally sustainable options and inform the consumer of this. For example, Royal Mail has made information available to consumers on which option is the most environmentally sustainable when purchasing postage online, e.g. to send parcels. Amazon also offers delivery options which allow consumers to group items into “as few deliveries as possible”.⁶¹ For example, Amazon Day Delivery combines multiple orders in one box, although this is service is only available to Amazon Prime customers.⁶²

⁵⁹ IMRG, 2021. [UK Consumer Home Delivery Review 2021](#) [accessed 5 Oct 2022].

⁶⁰ International Post Corporation, 2022. [Cross-Border E-Commerce Shopper Survey](#), page 23 [accessed 5 Oct 2022].

⁶¹ Amazon. [Deliveries in the UK](#) [accessed 2 Nov 2022].

⁶² Amazon, [Amazon Day Delivery](#) [accessed 2 Nov 2022].

4. Consumers of postal services

- 4.1 In this section we consider how consumers used and engaged with postal services in the period July 2021 to June 2022. This is a different time period to that reported on in the remainder of this report, which covers the financial year 2021/22, and reflects the most up to date annual data we have at the time of publication of this report.
- 4.2 This section summarises our findings from Ofcom’s ongoing postal market research programme. For this we run two separate surveys to track use of, and attitudes to, post – one focused on residential participants, and the other focused on small and medium enterprise (SME) business customers.
- 4.3 The Post Monitoring Interactive Data includes research findings taken from Ofcom’s residential postal tracker and SME postal tracker for 2012-13 through to 2021-22.⁶³

Residential and SME users’ experience of postal services

- 4.4 Since the start of the pandemic, Ofcom’s residential consumer postal tracker data has been gathered using an online methodology only. The face-to-face element of the research, used to reach those who have limited or no internet access and those who may lack the confidence to complete the survey online, will resume in January 2023.
- 4.5 Ofcom’s SME business tracker is conducted using a mixture of telephone research (using ‘computer-assisted telephone interviews’ – CATI) and online methodologies.
- 4.6 The residential and SME postal tracker data is available from our Statistical Release Calendar⁶⁴ and the data files show further information on the results of the survey broken down by customer segment such as age group or nation.

Summary findings – Residential tracker

- **Overall satisfaction levels remain high for all postal services (82%)** and specifically in relation to Royal Mail (81%). Both measures remain at similar levels to the previous year.
- **Satisfaction among participants in terms of value for money of sending mail is also similar to the previous year** at 73% vs 75% in 2020-21. However, satisfaction with elements of Royal Mail’s service has declined this year, for example on speed of delivery. In addition, the proportion of residential Royal Mail experiencing delayed mail was higher as compared to 2019-20 (31% and 23% respectively as well as in comparison to the pre pandemic period.
- **The biggest rise in reported concerns were for ‘lost mail’ (18%) and ‘damaged mail’ (20%)** (both up by three percentage points compared to the period July 2020 to June 2021)⁶⁵, although ‘misdelivered mail’ remains the most highly reported concern by users of Royal Mail services (37%),
- **Satisfaction levels amongst those who made a complaint to Royal Mail in the past 12 months have improved**, with ‘the time taken to resolve’ (to 63%, up from 46% in 2020-21), ‘the resolution’ (to 63%, up from 50%), and ‘how the complaint was handled’ (to 62%, up from 49%).

⁶³ Calendar year should be assumed when the format such as Q1 2020 is used, with financial year when the format such as Q1 2020-21 is used. When a survey period is different from these e.g., July 2021 to June 2022, this will be made explicit.

⁶⁴ [Ofcom 2022 Statistical Calendar](#). The data from these surveys is published on our website going back to 2012 when the research programme began.

⁶⁵ See also Section 5, which includes information about Royal Mail’s quality of service results and consumer complaints.

- **The level of importance placed on the ‘inclusion of insurance’ for letters or parcels has risen to 67%** compared to 61% in 2020-21. The importance of other services has also risen, including the ‘ability to choose an express or next day service’ (to 71%, up from 65% in 2020-21) and ‘ability to select an evening/weekend delivery’ (to 64%, up from 56%).
- **Participants believe that they receive more parcels, but send and receive fewer letters,** compared to two years ago.

Summary findings - SME business tracker

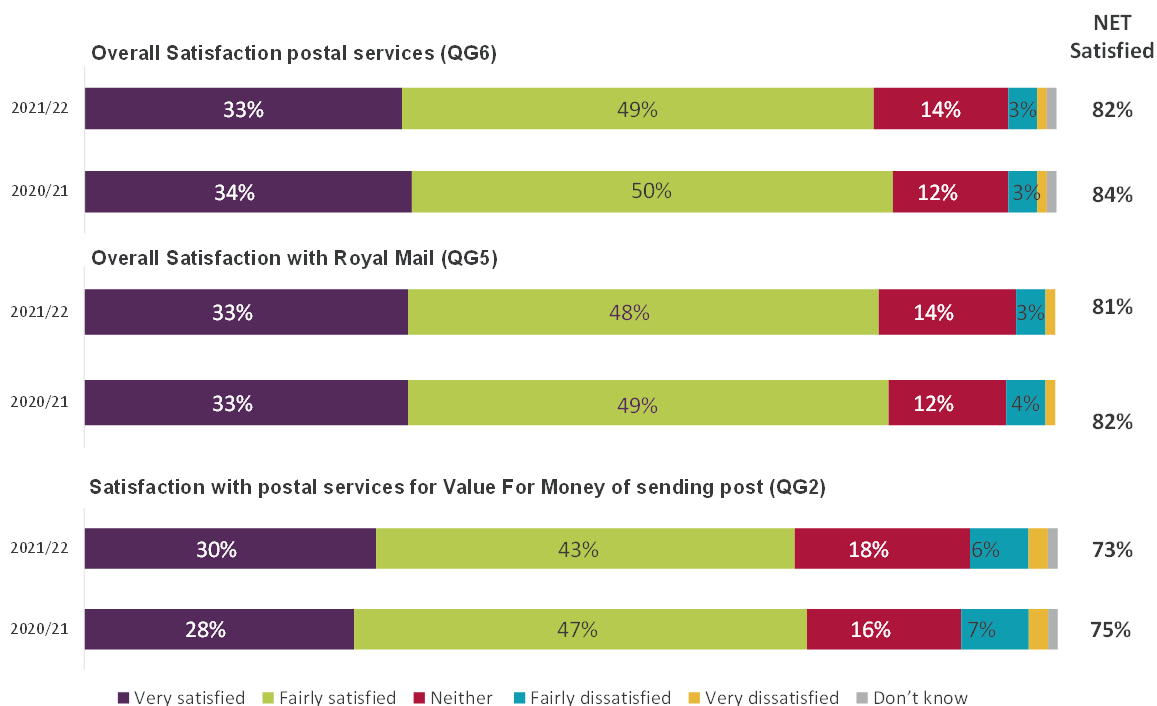
- **Overall satisfaction levels remain high amongst SMEs** and have increased year-on-year for most elements of the service, in particular for those using Royal Mail where eight in ten (84%) SMEs were satisfied, up from 79% in 2020-21. Overall satisfaction with the service from other operators has also risen to 82%, up from 79% in 2020-21.
- **The biggest fall was in satisfaction with ‘latest collection time’ which fell to 65% from 68% in 2020-21** with satisfaction with price of postage falling to 54%, down from 56% in 2020-21.
- **The biggest increase was in satisfaction with the ‘amount/level of lost post’** which rose to 79%, up from 70% in 2020-21.
- **Satisfaction rose for all aspects of other providers’ service with the biggest increase for ‘latest collection time’** which rose to 75% from 67% in 2020-21. Satisfaction with ‘the amount/level of lost post’ also rose to 84% from 78% in 2020-21, with ‘items being delivered intact/ undamaged (up to 87% from 81%) and with ‘delivery consistency/ reliability’ (up to 84% from 77%).
- **The importance of being ‘low cost’ rose to 90% from 84% in 2020-21 when sending parcels,** with ‘Proof of postage’ rising to 92% from 89% in 2020-21; and ‘convenient options to drop the parcel off’ rising to 84%, up from 79%. The importance of most other service factors remained constant.
- **The importance of ‘ability to select specific date/time for delivery’ has fallen for the third consecutive year,** perhaps linked to the impact of the pandemic and customers being able to work at home more.

Satisfaction ratings for postal services amongst residential participants

- 4.7 As shown in Figure 4.1 below, and similar to previous years, the majority of residential participants were satisfied with Royal Mail (81%) and postal services overall (82%), with dissatisfaction levels at 4% for both. Around three quarters (73%) are satisfied with postal services in delivering value for money when sending mail, with 8% dissatisfied.
- 4.8 Overall satisfaction with Royal Mail remains stable in each of the UK nations⁶⁶, with at least eight in ten being satisfied in each of the nations. Northern Ireland reported the highest level of satisfaction (85%); in Wales 84% were satisfied. Satisfaction stood at 83% in Scotland and 81% in England.
- 4.9 Also similar to previous years, satisfaction with postal services overall in terms of delivering value for money when sending mail stands at 73% in England and Scotland, 74% in Wales, and 77% in Northern Ireland. There are no statistically significant differences between urban and rural areas.

⁶⁶ Nations analysis can be found in the data tables: [Residential postal tracker July 2021-June 2022](#).

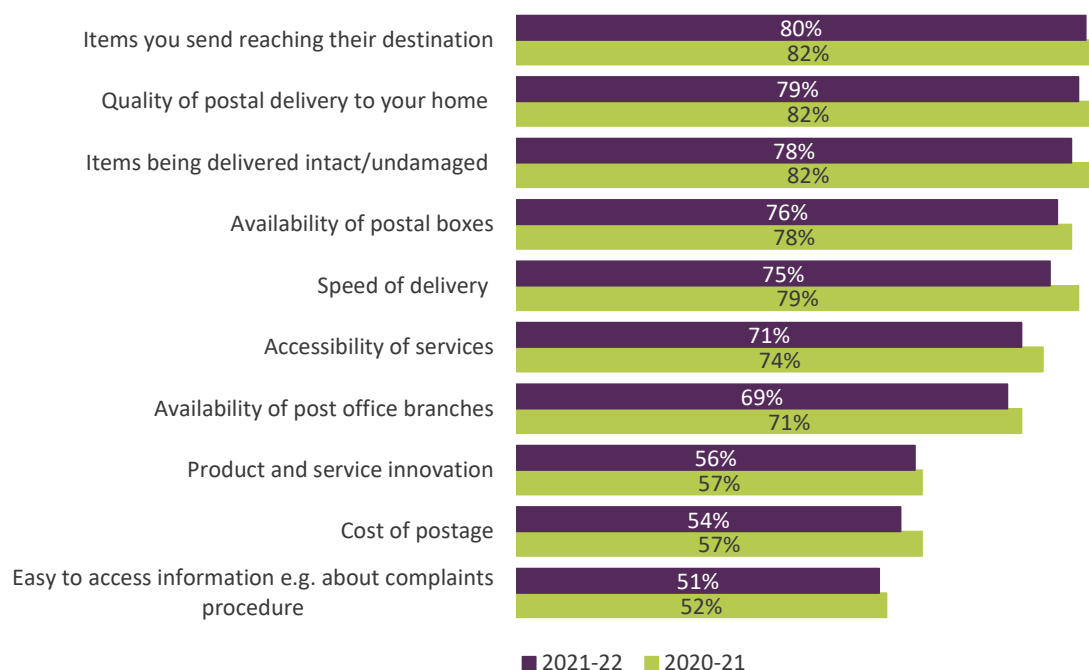
Figure 4.1: Residential participants’ satisfaction with postal services



Source: Ofcom Residential Postal Tracker – QG2: How satisfied are you overall with the postal services in terms of delivering value for money for sending mail? QG5: How would you rate your overall satisfaction with Royal Mail? QG6: How would you rate your overall satisfaction with postal services? (ALL providers)
 Base: All participants, Q3 2021-Q2 2022(5,161), Q3 2020-Q2 2021 (5,147), Q3 2019-Q2 2020 (5,012)

- 4.10 As shown in Figure 4.2 below, residential participants continue to be most satisfied with the same aspects of Royal Mail’s service as in previous years i.e., ‘items sent reaching their destination’ (80%), ‘items being delivered intact/undamaged’ (78%), and the ‘quality of postal delivery to the home’ (79%). In line with previous years, the lowest levels of satisfaction were with ‘easy access to information, for example about complaints procedures’ (51%), ‘cost of postage’ (54%) and ‘product and service innovation’ (56%).
- 4.11 Although the majority remain satisfied, this year has seen statistically significant falls in satisfaction with aspects of Royal Mail’s service across some of the factors measured compared to last year.
- 4.12 Satisfaction with speed of delivery and ‘items being delivered intact/undamaged’ are both down by 4% points while satisfaction with the ‘cost of postage’ and ‘quality of delivery to your home’ are both down by 3% points compared to 2020-21. Both of these satisfaction measures are lower than the levels reported before the Covid-19 pandemic.
- 4.13 Only two elements of Royal Mail’s service that we asked about, ‘ease of accessing information (52%) and ‘product and service innovation (56%) are in line with 2020-21 results.

Figure 4.2: Satisfaction with service from Royal Mail



Source: Residential Postal Tracker – QG3. How would you rate the performance of Royal Mail, as a recipient and sender, in the following areas on a 5-point scale where 1 is very dissatisfied and 5 is very satisfied?

Base: All who use Royal Mail: Q3 2021-Q2 2022 (5,161), Q3 2020-Q2 2021 (5,147)

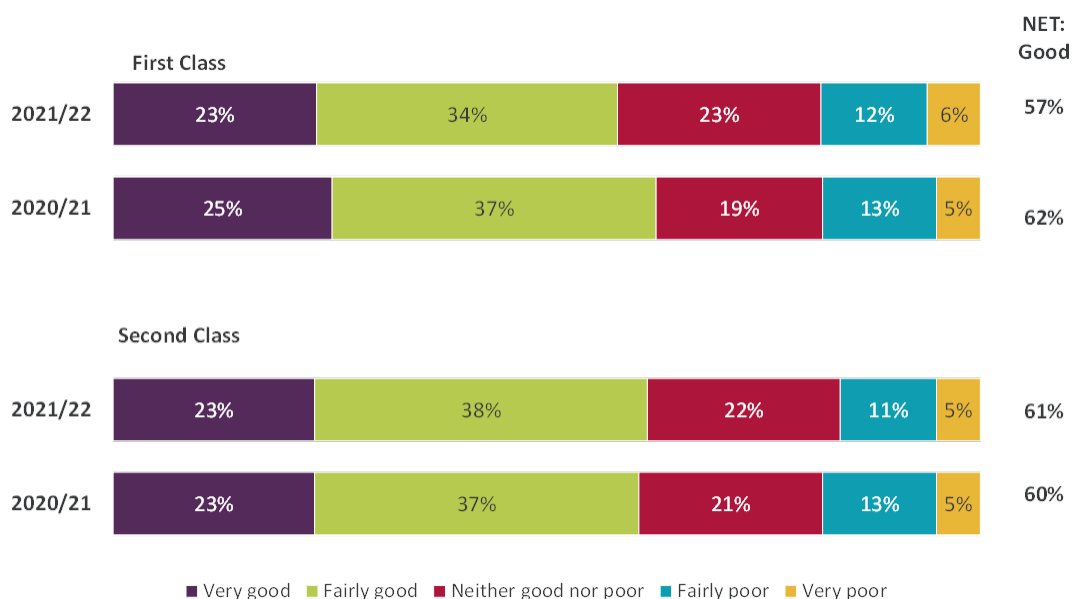
- 4.14 Across the UK nations, participants in Wales and Northern Ireland were more satisfied with the ‘quality of postal delivery to your home (referring to the final stage of the postal delivery service; from delivery van to your letterbox)’ than participants on average across the UK (84% satisfied in Wales and 83% in Northern Ireland compared to 79% overall).
- 4.15 Users in Wales were also more satisfied with ‘items reaching their destination’ (84% compared to 80% overall), ‘items being delivered intact/undamaged’ (83% compared to 78% overall), and ‘speed of delivery (80% compared to 75% overall).
- 4.16 Amongst users in urban locations, satisfaction for various elements of Royal Mail’s service declined statistically significantly compared 2020-21. Fewer users in urban locations were satisfied with the ‘quality of postal delivery to the home (78% compared to 82% in 2020-21), with ‘items arriving intact/ undamaged’ (78% compared to 82% in 2020-21), ‘speed of delivery’ (75% compared to 79% in 2020-21) and ‘accessibility of services’ (71% compared to 75% in 2020-21).

Satisfaction with value for money

- 4.17 Just under six in ten (57%) residential users think that First Class stamps represent good value for money, with a higher percentage (61%) thinking that Second Class stamps are good value. Just under one in five (18%) said that First Class stamps are poor value compared to 16% for Second Class stamps. Perceived value for money of First Class is lower than it was in 2020-21 when it was 62%. Our research shows that, for the first time, residential participants think that

Second Class postage offers better value for money than First Class postage.⁶⁷ This decline in value for money score for First class postage is consistent with the declining satisfaction level in the cost of postage over time.

Figure 4.3: Value for money of postage stamps



Source: Ofcom Residential Postal Tracker – QF4: A 1st class stamp currently costs 95p. How would you rate Royal Mail’s 1st class service in terms of value for money? QF5: A 2nd class stamp currently costs 68p. How would you rate Royal Mail’s 2nd class service in terms of value for money?⁶⁸ Results show net scores combining “very good” and “fairly good” ratings.

Base: All respondents: Q3 2021-Q2 2022 (5,161) Q3 2020-Q2 2021 (5,147)

Problems experienced with Royal Mail services

- 4.18 Participants were asked whether they had experienced one or more of a range of problems with Royal Mail’s service over the past year. Similar to July 2020 – June 2021, when 58% overall reported they had experienced a problem, 57% reported having a problem between July 2021-June 2022. As shown in Figure 4.4 below, the incidences of some of the types of problems encountered were comparable to the previous 12 months.⁶⁹ Almost four in ten (37%) said that they experienced mail being mis-delivered, almost a third (31%) had experienced problems with delayed mail and just under a quarter (23%) said that they had received a card from Royal Mail saying that an item could not be delivered when there was someone at home that could have taken delivery.
- 4.19 However, as Figure 4.4 below suggests, reported incidence of some problems have increased statistically significantly over time. The six-year trend chart shows that the proportion of users who had experience delayed mail in the past 12 months stood at 20% in 2016-17 and has risen to 31% in 2021-22.

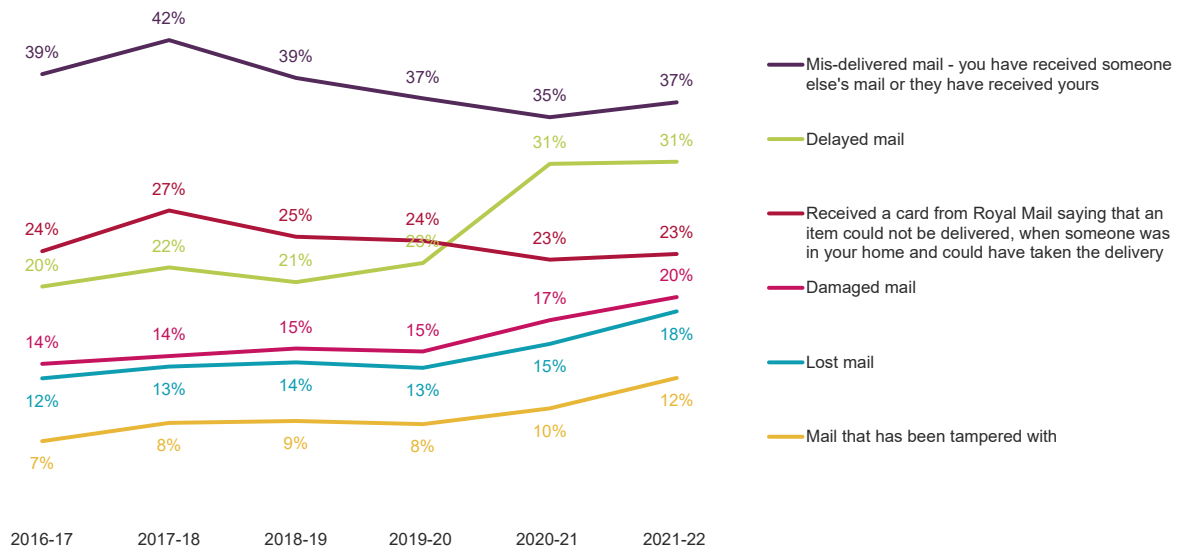
⁶⁷ The price of First Class and Second Class stamps rose on 4th April 2022. Standard First Class postage rose to 95p from 85p while Second Class postage stamps rose to 68p from 66p.

⁶⁸ Pricing information updated within questionnaire in line with change on 4th April 2022.

⁶⁹ See Section 5 for more information about complaints made to Royal Mail during financial year 2021-22.

4.20 Other problems around the security and safe delivery of post have increased progressively, for example, experience of ‘mail being tampered with’ increased from 7% in 2016-17 to 12% in 2021-22. Experience of ‘damaged mail’ also increased from 14% to 20% and ‘lost mail’ increased from 12% to 18% in the same period.

Figure 4.4: Residential participants’ problems with Royal Mail

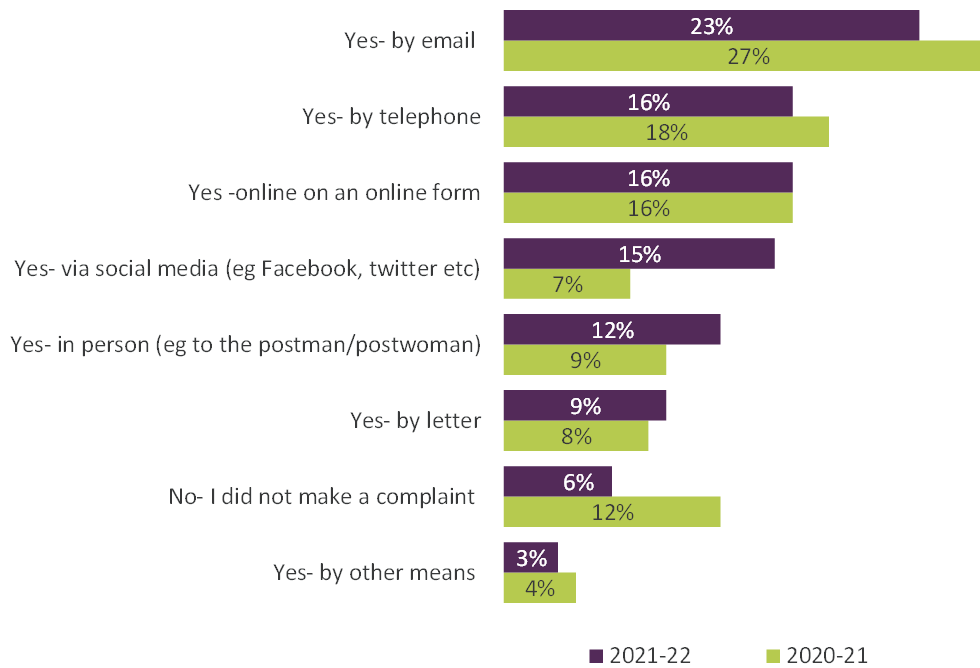


Source: Ofcom Residential Postal Tracker – QH1: In the last 12 months, have you experienced problems with Royal Mail’s service in terms of...e.g., Mis-delivered mail

Base: All Participants Q3 2021-Q2 2022 (5,161), Q3 2020-Q2 2021 (5,147), Q3 2019-Q2 2020 (5,006), Q3 2018-Q2 2019 (5,981), Q3 2017-Q2 2018 (5,861), Q3 2016-Q2 2017 (6,015)

4.21 Overall, 15% of participants said they had a reason to complain to Royal Mail in the last 12 months and most of them went on to make a complaint using various routes. As shown in Figure 4.5 below, just under a quarter of complaints were made by email (23%), followed by telephone and an online form (both 16%). Just 6% of those who had a reason to complain said they didn’t go on to make a complaint to Royal Mail.

Figure 4.5: Residential participants’ routes taken to make complaints to Royal Mail

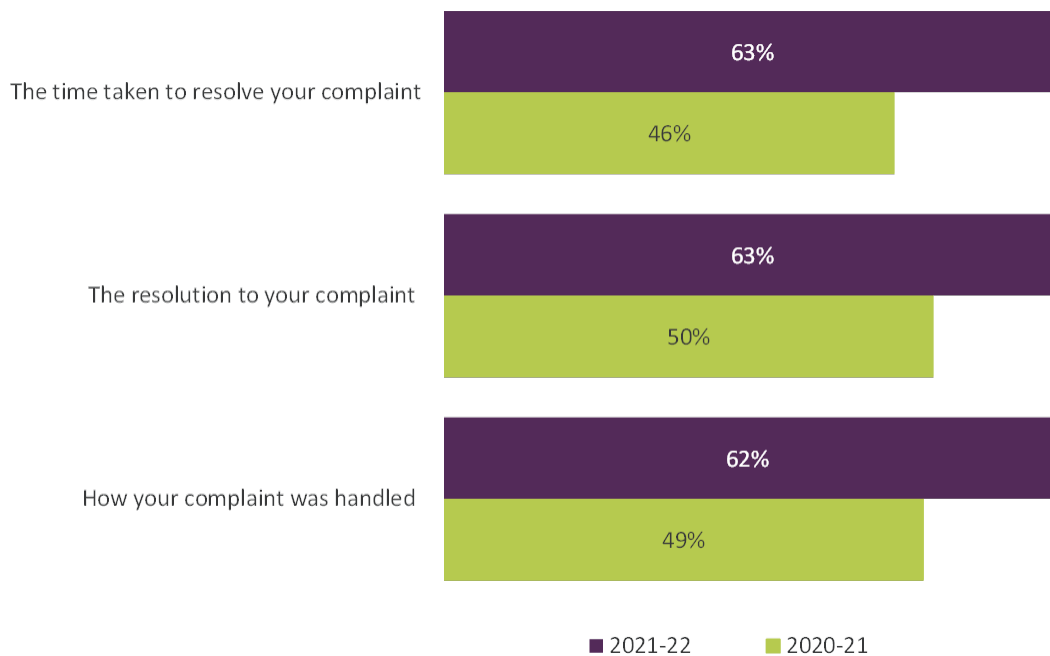


QH3. Did you make a complaint to Royal Mail? Please select the main way you made the complaint.

Source: Residential Postal Tracker Q3 2020-Q2 2021(576), Q3 2021-Q2 2022 (630)

Base: Those who had cause to complain to Royal Mail about its services in the last 12 months

Figure 4.6: Residential participants’ satisfaction with Royal Mail’s complaints resolution



QH7. Thinking of Royal Mail’s response to your complaint, how satisfied were you with...

Source: Residential Postal Tracker Q3 2020-Q2 2021 (495), Q3 2021-Q2 2022 (581)

Base: Those who made a complaint to Royal Mail about its services in the last 12 months

4.22 Figure 4.6 above shows that across all complaints metrics and regardless of the route taken to make the complaint, there are statistically significant increases in satisfaction with the complaints process compared to 2020-21. Satisfaction with the handling of the complaint and resolution of the complaint both rose by 13 percentage points compared to 2020-21 while satisfaction with the time taken to resolve the complaint rose by 17 percentage points to 63% from 46% in 2020-21).

Residential use of postal services

4.23 Our research is one way of understanding consumer perceptions of their use of postal services over time. The findings are based on survey participants' own recollections, which are unlikely to be precisely accurate, so should be treated with some caution. Separately, we collect information from postal operators in relation to actual post volumes and revenues and set out our analysis of that information in Section 4 of this report.

Sending mail

4.24 Participants were asked if they were sending more, less or the same amount of different types of mail as two years ago. For each of the eight types of mail we asked about, the proportion of residential participants saying that they are sending less than two years ago was higher than the proportion reporting that they are sending more, except for tracked post.

Table 4.7: Participants claimed change in frequency of sending different types of post compared to two years ago

Type of mail	Sent more (%)	No change(%)	Sent less (%)	Net more/ Less (%)
Invitations/ greeting cards / postcards	9	56	34	-25
Personal letters (e.g. to a friend/ relative)	10	56	34	-24
Formal letters to organisations/ individuals	10	55	34	-24
Payment for bills	10	53	36	-26
Smaller parcels	18	58	22	-4
Larger parcels	16	60	23	-7
Items requiring a signature	15	62	22	-7
Tracked post	20	59	19	+1
Other items not mentioned**	6	21	8	-2

Source: Ofcom Residential Postal Tracker – QD12: Frequency of sending ... compared to two years ago. (Note this question was asked in alternate months)

Base: All Participants, Q3 2021-Q2 2022 (2,580)

Receiving mail

4.25 Residential participants were also asked about the different types of post that they are receiving more or less of, compared to two years ago.

4.26 Like mail sent, most types of mail received saw reported net decreases except for both smaller parcels and larger parcels. Just under a quarter (23%) reported that they are receiving more smaller parcels that will fit through a letter box, compared to 15% who say they received fewer, and a similar proportion (24%) said they received more larger parcels, compared to 16% who said they received fewer.

Table 4.8: Participants claiming to receive different types of post compared to two years ago

Type of mail	Received more (%)	No change(%)	Received less (%)	Net change (%)
Invitations/ greeting cards / postcards	10	60	29	-19
Personal letters	10	59	30	-20
Letters from organisations that you have a relationship with	12	61	26	-14
Bills, invoices and statements	10	53	36	-26
Magazines you subscribe to	7	63	21	-14
Catalogues and brochures	17	52	29	-12
Newsletters, leaflets and promotions from known organisations	16	55	28	-12
Items requiring a signature	15	65	19	-4
Addressed direct mail from unknown organisations	21	52	25	-4
Smaller parcels	23	62	15	8
Larger parcels	24	60	16	8

Source: Ofcom Residential Postal Tracker – QE11. Thinking about these different types of mail, would you say that you now receive them often than two years ago? Or has there been no change? Please think only about items that are addressed to you personally. (Note this question was asked in alternate months rather than monthly.)

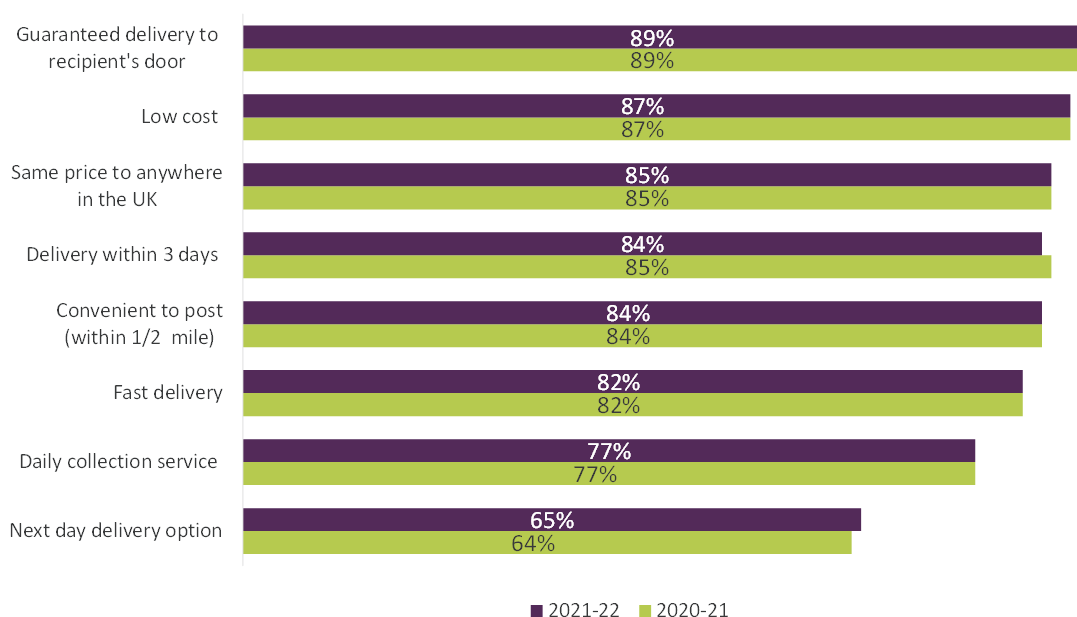
Base: All participants, Q3 2021-Q2 2022 (2,580)

Importance of factors to residential users when sending or receiving post

Sending letters

4.27 Residential participants were asked to rate the importance of several factors when sending letters. In line with 2020-21, the most important factor was ‘guaranteed delivery to recipient’ with around nine in ten (89%) saying it was ‘very important/important’. The lowest level of importance attached was ‘a next day delivery option’ (65%).

Figure 4.9: Factors rated as important for people when sending letters (2020-21 vs 2021-22)



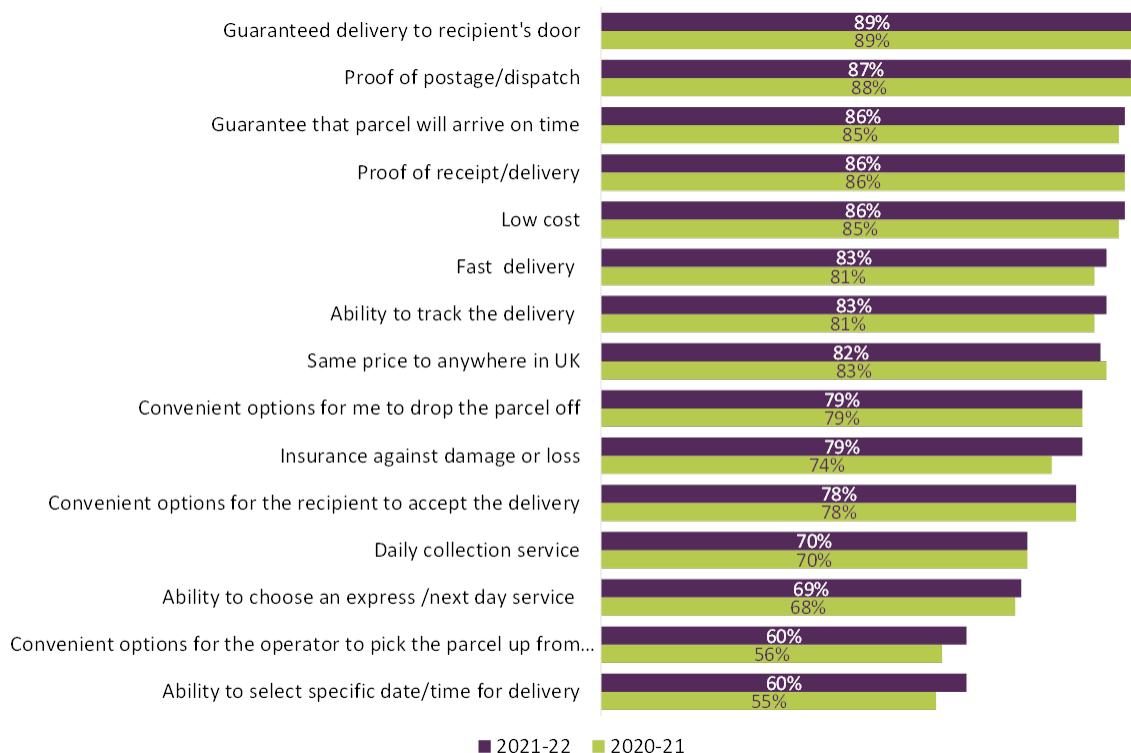
Source: Ofcom residential postal tracker – QD10b. Below, are a list of factors people tell us they consider when sending letters. For each factor, please tell us how important it is to you in choosing a postal provider or service. (NET: “very important” / “important”) Note: this question was asked in alternate months.

Base: All who use Royal Mail for letters or large letters and selected a service, Q3 2021-Q2 2022 (2,580), Q3 2020-Q2 2021 (2,545)

Sending parcels

- 4.28 The importance of the different factors people consider when sending parcels remains broadly unchanged. The most important service factors for parcels remain those around knowing the parcel has been sent and arrived safely and within the desired time frame, i.e., ‘guaranteed delivery to recipient’s door’ (89%), ‘proof of postage/dispatch’ (87%), ‘guarantee that the parcel will arrive on time’, ‘proof of receipt/delivery’ and ‘low cost’ (all at 86%). The importance of factors including the ‘same price to everywhere within the UK’, ‘fast delivery’ and ‘ability to track the delivery’ were also rated as important by at least eight in ten participants.
- 4.29 The factors that were rated as the least important were the ‘ability to select a specific date/time for delivery’ and ‘convenient options for operator to pick parcel up’ (both 60%), though importance of both factors was higher than in 2020-21.
- 4.30 The importance of ‘insurance against damage or loss’ rose from 74% to 79% compared to the previous year.

Figure 4.10: Factors rated as important for people when sending parcels (2021-22 vs 2020-21)



Source: Ofcom Residential Postal Tracker – QD10a: List of factors people consider when sending parcels... (NET: “very important” / “important”)

Base: Those who have sent a parcel or tracked item/item requiring signature in the past month: Q3 2021-Q2 2022 (3114) Q3 2020-Q2 2021 (3,165)

Receiving letters and parcels

- 4.31 Participants were also asked about the importance of various factors when choosing a delivery option for a letter or parcel they will receive. The results show that, like previous years, participants are concerned with the safe delivery of parcels. When asked, 92% said that ‘guarantee that the delivery will arrive intact’ was very important / important, followed by ‘guaranteed delivery to the recipient’s door’ (91%).
- 4.32 The importance of different service factors have remained at similar levels compared to 2020-21. The biggest increases were in ‘availability of nearby collection points in case of failed delivery’ (rose to 77% from 72% in 2020-21), the ‘ability to select a specific date/time for delivery’ up to 76% from 69%) and the ‘ability to choose an express or next day service’ (up to 71% from 65% in 2020-21). In addition, the importance of the ‘ability to select an evening /weekend delivery’ rose from 56% in 2020-21 to 64%.

Table 4.11: Factors rated as important for people when choosing delivery for letters/ parcels that they will receive (2021-22 vs 2020-21)

% important	2020-21	2021-22
Guarantee that the delivery will arrive intact	94%	92% ▼
Guaranteed delivery to recipient's door	91%	91%
Low cost	87%	88%
Ability to track the delivery	89%	88%
Option to reschedule if I am unable to take the delivery	86%	87%
Convenient options for me to accept delivery	87%	87%
Knowledge that they will deliver to a neighbour or a safe place if I am not available to take the delivery	84%	86%
Guarantee that parcel will arrive on time	87%	86%
Proof and details of delivery receipt sent to me if someone else receives it	87%	86%
Proof of postage/dispatch	84%	85%
Free delivery	83%	83%
Fast delivery	80%	82% ▲
Availability of nearby collection point in case of failed delivery	72%	77% ▲
Ability to provide a specific time slot or SMS notification of delivery time	73%	77% ▲
Ability to select a specific date/time for delivery	69%	76% ▲
Ability to choose an express or next day service	65%	71% ▲
Inclusion of insurance	61%	67%
Ability to select an evening/weekend delivery	56%	64% ▲

Source: Ofcom Residential Postal Tracker – QE10b: List of factors people consider when choosing delivery for letters/parcels that they will receive... (NET: “very important” / “important”). Arrows signify a significant increase/decrease, where year-on-year change is subject to significance testing to 95%⁷⁰.

Base: Those who were required to select a postal/delivery option for letters or goods that were delivered to themselves in the previous month: Q3 2021-Q2 2022 (1,693), Q3 2020-Q2 2021 (1,843)

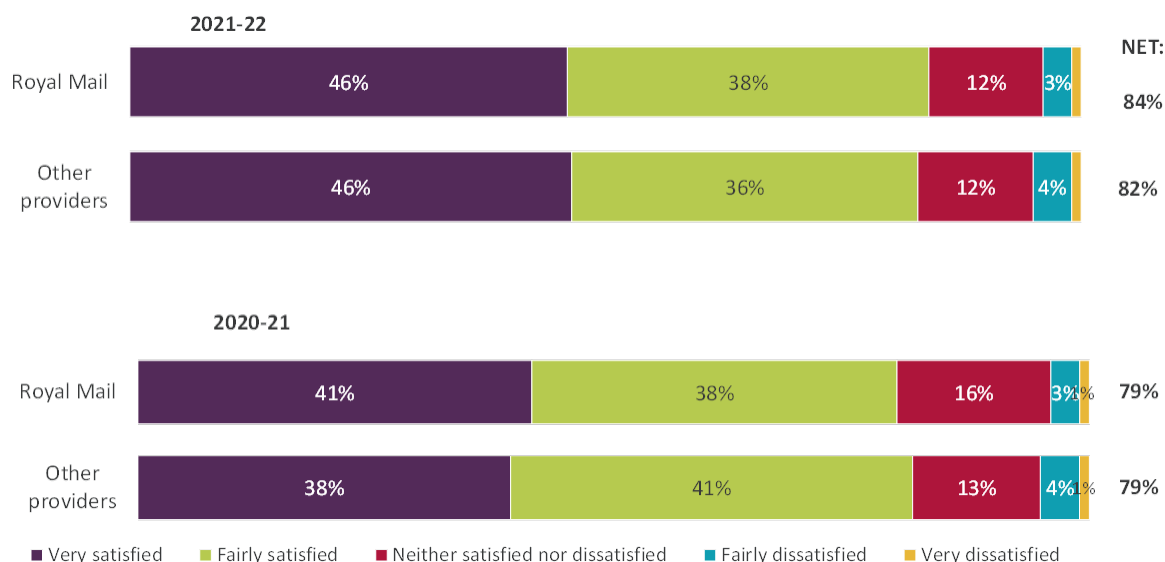
⁷⁰ With a 95 percent confidence interval, you have a 5 percent chance of being wrong that the difference is significant (i.e. the result has a 95% chance of being right).

Small and Medium Enterprise (SME) participants

SME Satisfaction ratings

4.33 Like residential participants, the majority of SMEs are satisfied with the overall service from postal providers. Around eight in ten SMEs who use Royal Mail (84%) said they were satisfied with the overall quality of the service received from Royal Mail as a recipient and sender of post. Satisfaction with other providers was similar and has risen from 79% in 2020-21 to 82%.

Figure 4.12: SME satisfaction with postal services



Source: Ofcom Business Postal Tracker – QRM2: Thinking generally about the service your organization receives, how satisfied are you with the overall quality of the services you receive from Royal Mail as a recipient and sender?

Base: All participants who use Royal Mail: Q3 2021-Q2 2022 (2,170) Q3 2020-Q2 2021 (2,054)

QOP1a: Thinking generally about the service you receive as a whole... how would you rate the quality of the services you receive from [QV4 provider]?

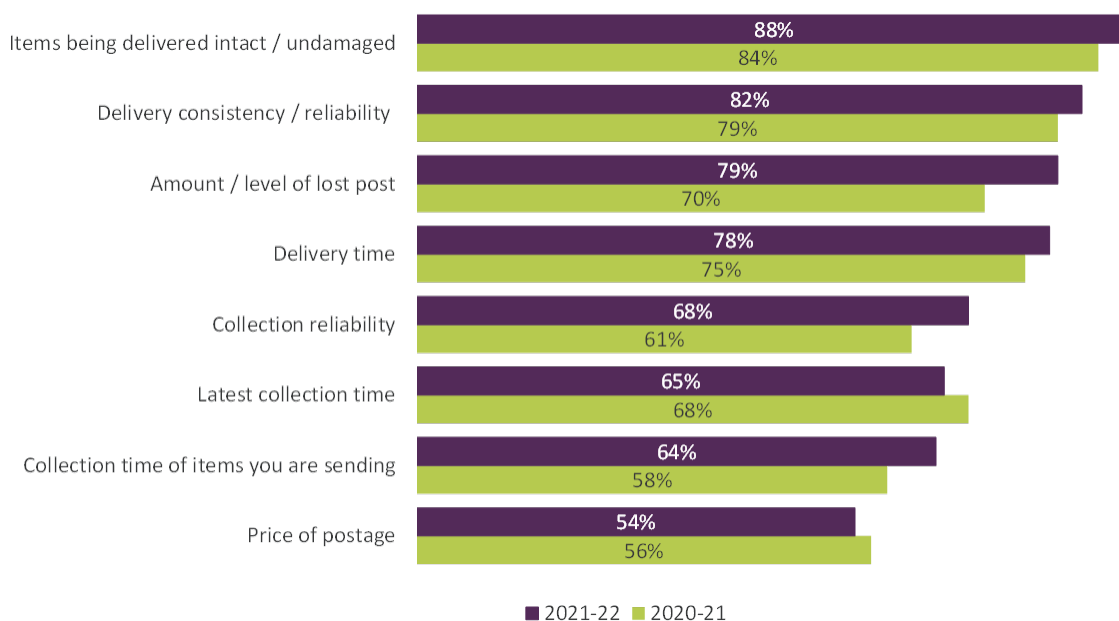
Base: All those who use other providers than Royal Mail: Q3 2021-Q2 2022 (279), Q3 2020-Q2 2021 (595)

Satisfaction with elements of Royal Mail services

4.34 As in previous years, SMEs were most satisfied with the following elements of Royal Mail’s services: ‘items being delivered intact/undamaged’ (88%), ‘delivery consistency/reliability’ (82%), ‘Amount/level of lost post’ (79%) and ‘delivery time’ (78%). Satisfaction is lowest with ‘collection time of items being sent’ (64%) and ‘price of postage’ (54%).

4.35 Satisfaction with ‘amount/level of lost post’ has statistically significantly increased from 70% in 2020-21 to 79% whilst satisfaction with ‘latest collection time’ is down three percentage points compared to 2020-21 from 68% to 65%.

Figure 4.13: SME satisfaction with specific elements of Royal Mail’s service (2021-22 vs 2020-21)



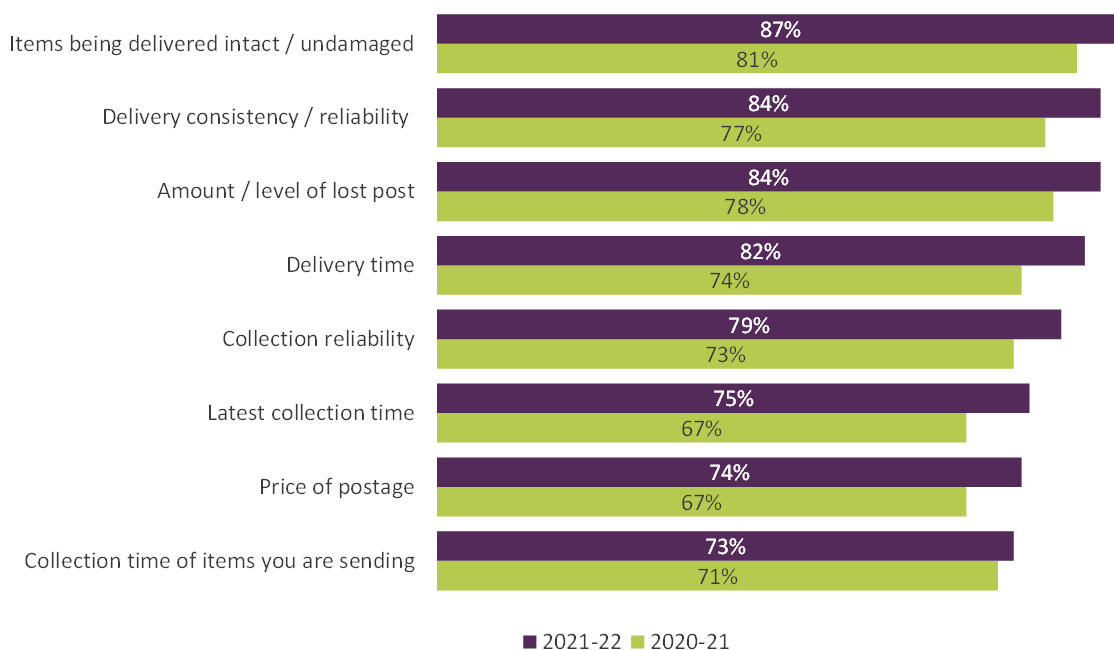
Source: Ofcom Business Postal Tracker – QRM3: How would you rate the performance of Royal Mail, as a recipient and sender, in the following areas on a five-point scale where 1 is very dissatisfied and 5 is very satisfied? (NET: “fairly” / “very satisfied”)

Base: All participants who use Royal Mail: Q3 2021-Q2 2022 (2,146), Q3 2020-Q2 2021 (2,054)

Satisfaction with elements of other providers’ services

- 4.36 Compared to last year, satisfaction increased amongst SMEs using other providers across most of the factors measured. Consistent with SMEs who use Royal Mail, they were most satisfied with ‘items being delivered intact/undamaged’ (87%), ‘delivery consistency/reliability’ and ‘level/amount of lost post’ (both 84%) and ‘delivery time’ (82%)
- 4.37 At least seven in ten participants were satisfied with all factors measured, with the lowest being for ‘collection time for items you are sending’ (73%). There are statistically significant increases compared to 2020-21. Satisfaction with ‘amount/level of lost post’ rose from 78% to 84% (+6 percentage points), ‘collection reliability’ also rose from 73% to 79% (+6 percentage points), ‘price of postage’ rose from 67% to 74% (+7 percentage points) and ‘latest collection time’ is up to 75% from 67% (+8 percentage points).

Figure 4.14: SME satisfaction with specific elements of other postal providers’ service (2021-22 vs 2020-21)

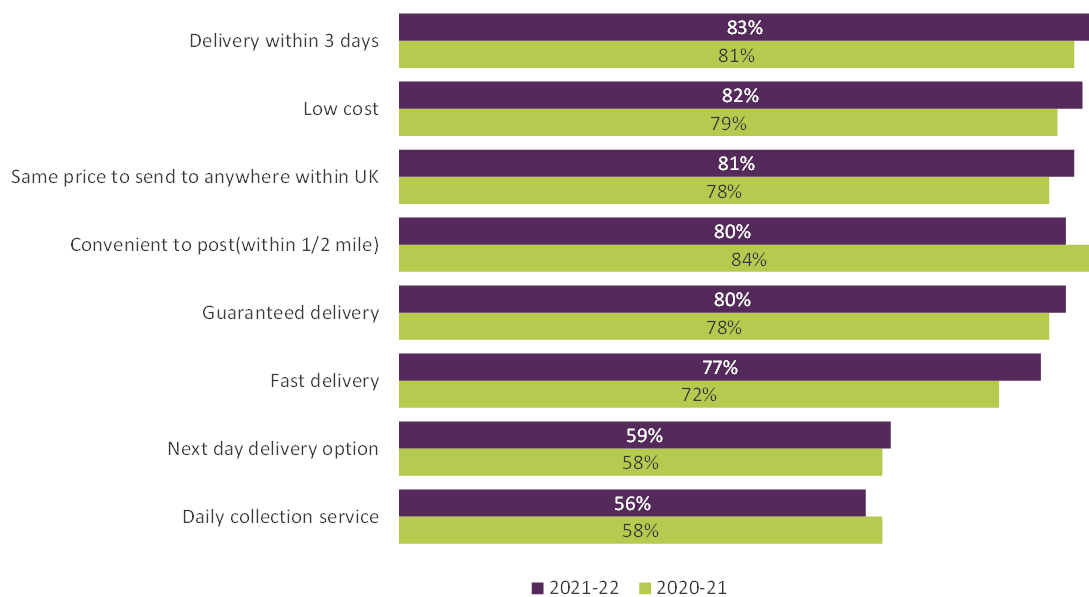


Source: Ofcom Business Postal Tracker – QOP2. As a recipient and sender of post, how would you rate the performance of [QV4 provider] in the following areas on a 5-point scale where 1 is very dissatisfied and 5 is very satisfied: Delivery time (when you receive your mail delivery) Source: Business Postal Tracker
 Base: All those who use other operators 2021-22 (551) 2020-21 (437)

SMEs – Important factors when sending letters

- 4.38 SMEs were asked to rate the importance of several factors when sending letters. Our research shows that, in line with previous years, and residential participants, the same factors are still important compared to 2020-21. Most factors were rated as very important/important when sending letters by at least eight in ten participants. The most important factors were ‘delivery within 3 days’ (83%), ‘low cost’ (82%) and ‘same price to send to anywhere in the UK’ (81%). Other important factors when sending letters are ‘convenient to post’ (within 1/2 mile)’ and ‘guaranteed delivery’ (both 80%). The options receiving the lowest levels of importance attached were ‘a next day delivery option’ (59%) and ‘daily collection service’ (56%).
- 4.39 The level of importance attributed to some factors has increased. Over three quarters rated ‘fast delivery’ as important (compared to 72% in 2020-21) and ‘low cost’ was also rated more important at 82% compared to 79% in 2020-21.
- 4.40 Conversely, the level of importance attributed to other factors has declined year on year. For example, fewer SMEs rated ‘convenient to post’ (within half a mile) as important when choosing a postal provider to send letters (80% compared to 84% in 2020-21).

Figure 4.15: Factors rated as important for SMEs when sending letters (2021-22 vs 2020-21)



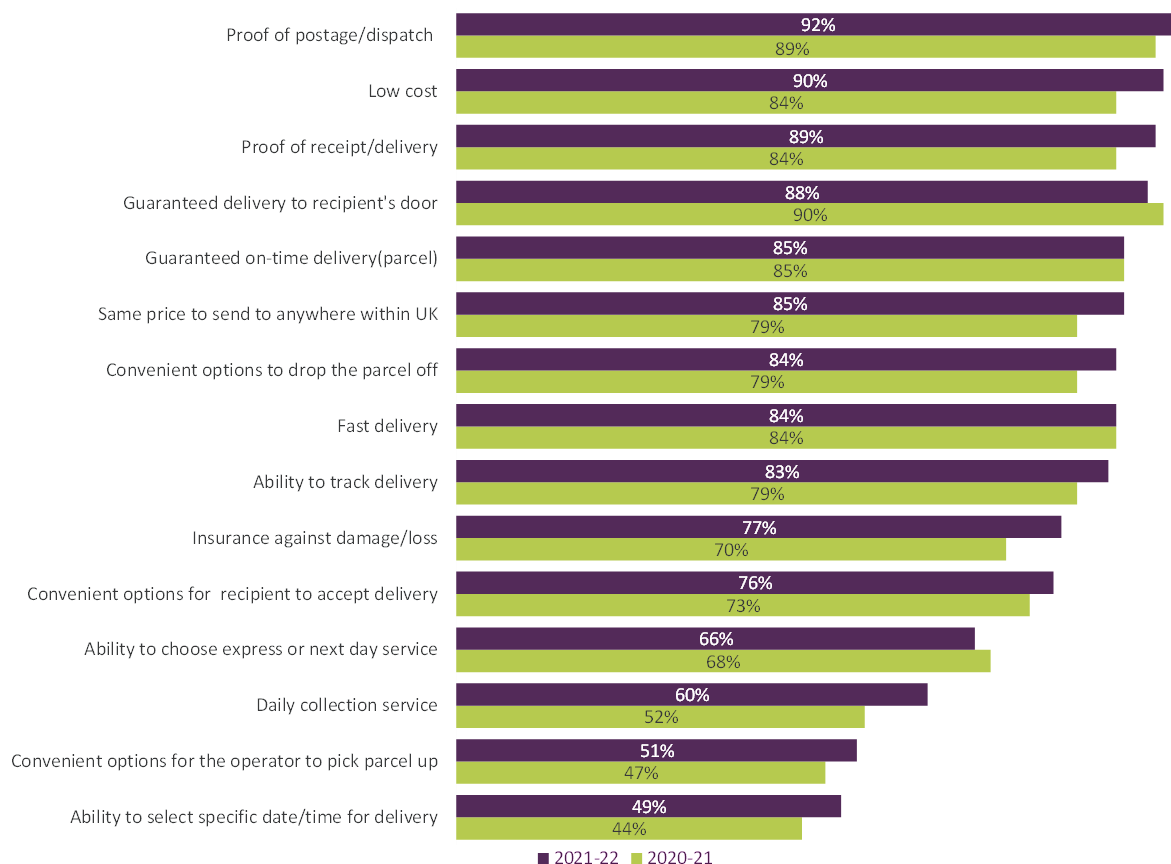
Source: Ofcom Business Postal Tracker – QD10b. Below, are a list of factors people tell us they consider when sending letters. For each factor, please tell us how important it is to you in choosing a postal provider or service. (NET: “very important” / “important”)

Base: All SMEs who use Royal Mail for letters or large letters and selected a service: 2021-22 (1,591), 2020-21 (1,613)

SME – Important factors when sending parcels

4.41 Those who used Royal Mail to send packets and parcels were also asked to rate the importance placed on various factors when choosing a postal service provider. The most important ones remain those related to knowing the parcel has been sent and arrived safely, and within the desired time frame. The factors rated as important by most are ‘proof of postage/dispatch’ (92%), ‘low cost’ (90%) and ‘proof of receipt/delivery’ (89%).

Figure 4.16: Factors rated as important for SMEs when sending parcels (2021-22 vs 2020-21)



Source: Ofcom Business Postal Tracker – QD10a: List of factors people consider when sending parcels... (NET: “very important/ “important”)

Base: All using RM to send parcels and packets /items requiring signature in the past month: Q3 2021- Q2 2022 (719), Q3 2020-Q2 2021 (806)

SMEs – Problems experienced with Royal Mail services

4.42 SMEs were asked whether they had experienced a range of different problems with Royal Mail’s service over the last 6 months. Similar to the previous year, just over a quarter (28%) reported they had experienced a problem between July 2021-June 2022.⁷¹ The problems reported were also similar to those reported in 2020-21. The main issues were related to delivery, with 9% citing problems around ‘delivery consistency’. Linked to this, 8% also cited ‘delivery times’ being a problem. In addition to this, 7% cited problems with the ‘price of postage’.

4.43 Similar to previous years, problems around collection reliability and latest collection time were the least likely to be experienced.

⁷¹ See Section 5 for more information about complaints made to Royal Mail during financial year 2021-22.

Figure 4.17: SMEs' problems experienced with Royal Mail – all SMEs (2021-22 vs 2020-21)



Source: Ofcom Business Postal Tracker – RM4: Have you experienced any problems with your service from Royal Mail (as a sender or recipient of mail) in the last 6 months?

Base: All who use Royal Mail, Q3 2021-Q2 2022 (2,170), Q3 2020-Q2 2021 (2,054). Issues mentioned by less than 3% of participants in 2021-22 are not shown on the chart.

5. Royal Mail Universal Service Performance

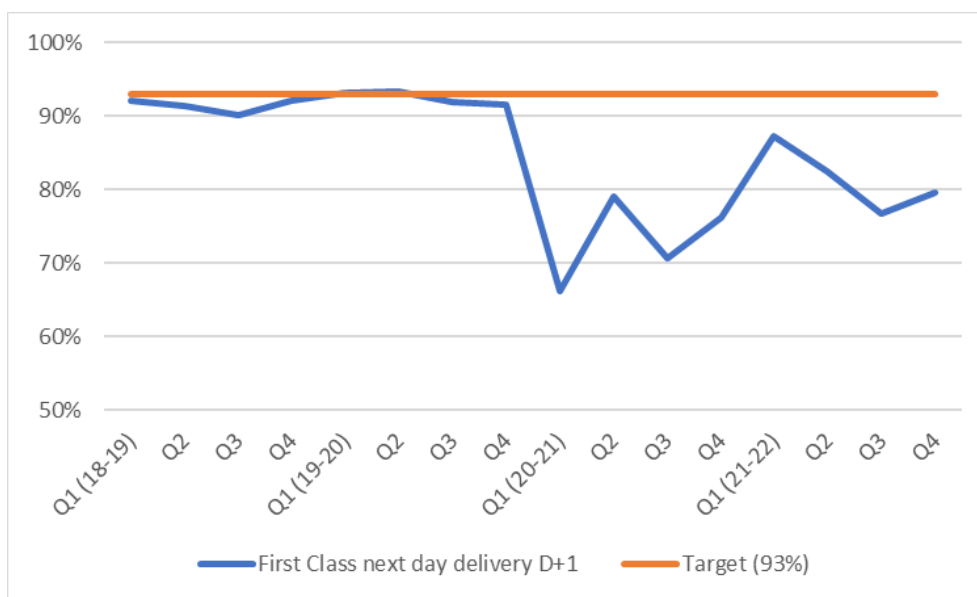
5.1 As the designated universal service provider, Royal Mail is required to collect (from all access points)⁷² and deliver letters six days a week, and parcels five days a week, to all UK addresses, and to provide certain universal postal services (such as national First Class and Second Class services at uniform prices). Royal Mail is also subject to a number of performance targets, known as quality of service (QoS) targets, in order to incentivise high levels of quality for consumers.

Overview of performance against QoS targets

5.2 In this section we consider Royal Mail's performance against the eight QoS targets set for the provision of the universal service during 2021-22. They cover performance against expected speed of delivery, collection activities, delivery route completions, as well as performance across UK Postcode Areas.⁷³

5.3 Royal Mail's performance was below the regulatory targets for all but one measure (correct delivery) in 2021-22. Notably, as demonstrated in Figure 5.1, Royal Mail's performance for First Class deliveries (93% of First Class mail delivered the day after collection) was significantly below target throughout the year, culminating in an end of year result of 81.8%.⁷⁴

Figure 5.1: Quarterly QoS performance for First Class delivery



Source: Royal Mail QoS Quarterly Reports.⁷⁵

5.4 In light of Royal Mail's performance in 2021-22, on 31 May 2022 Ofcom opened an investigation into Royal Mail's compliance with its QoS targets. We note that part of this reporting period (1 April 2021 to 31 August 2021) was treated as a regulatory emergency

⁷² As defined in section 29(11) of the Postal Services Act 2011, "access point" means any box, receptacle or other facility provided for the purpose of receiving postal packets, or any class of postal packets, for onwards transmission by post".

⁷³ See Table 5.2 below for a full list of the targets.

⁷⁴ We refer to Royal Mail's unadjusted figures throughout this section of the report.

⁷⁵ Royal Mail, 2022. [Quality of Service](#). [accessed 20 Oct 2022]

period⁷⁶ due to the ongoing Covid-19 pandemic. However, while the existence of a regulatory emergency period in any part of a year is a factor which Ofcom takes into account when assessing compliance, it does not mean that Royal Mail should not have regard to regulation.

- 5.5 We have now completed our investigation and concluded that, in the particular circumstances of this regulatory period, it would not be appropriate to find Royal Mail in breach of its regulatory obligations. We have published our decision, a summary of which is included below.⁷⁷
- 5.6 Given the potential impact on consumers of this sustained failure to meet its targets across both 2020-21 and 2021-22, we have continued to monitor Royal Mail's performance and the steps it has taken to mitigate the impact of Covid-19 on its provision of the universal postal service.

QoS results 2021-22

- 5.7 Royal Mail's results for Q1 2021-22 showed promise; it reported improved performance in comparison to Q4 2020-21 across all measures, and notably, First Class performance increased by over 10% from 76.2%⁷⁸ to 87.2%.⁷⁹
- 5.8 Royal Mail's performance fell in both Q2 2021-22⁸⁰ and Q3 2021-22⁸¹, with its First Class result falling to 76.8% in Q3 2021-22, before showing a slight improvement and rising to 79.6% in Q4 2021-22.⁸²
- 5.9 Royal Mail's QoS performance typically declines in Q3 given the increased demand on the network over the Christmas period. This year those pressures were exacerbated by high absence rates in December and early January.
- 5.10 While Royal Mail is not required to meet its QoS targets during the Christmas period, it is still required to publish its performance data during the period for transparency and monitoring purposes.⁸³
- 5.11 Royal Mail's First Class performance over the Christmas period has been particularly poor over the past two years. In December 2020, performance was 24.8%.⁸⁴ In December 2021,

⁷⁶ Under the Postal Services Act 2011, the regulatory conditions relating to the universal postal service provide that Royal Mail is not required to sustain these services without interruption, suspension or restriction in the event of an emergency. The statutory framework therefore allows Royal Mail to modify its operations without formal authorisation from Ofcom, if it considers this necessary to respond to the emergency challenges it is facing. For more information about the regulatory emergency period and the actions that Royal Mail took during that period, please see the [Ofcom's Annual Monitoring Update for Postal Services, 2020-21](#), paragraphs 5.14-18.

⁷⁷ [Investigation into Royal Mail's quality of service performance in 2021-22](#).

⁷⁸ Royal Mail, 2021, [Quarterly Quality of Service and Complaints Report 2020/21](#) [accessed 24 Oct 2022].

⁷⁹ Royal Mail, 2021, [Quality of Service and Complaints Report – Quarter 1 2021-22](#) [accessed 24 Oct 2022].

⁸⁰ Royal Mail, 2021, [Quality of Service and Complaints Report – Quarter 2 2021-22](#) [accessed 24 Oct 2022].

⁸¹ Royal Mail, 2021, [Quality of Service and Complaints Report – Quarter 3 2021-22](#) [accessed 24 Oct 2022].

⁸² Royal Mail, 2021, [Quality of Service and Complaints Report – Quarter 4 2021-22](#) [accessed 24 Oct 2022].

⁸³ DUSP 1.9.1 sets out this exclusion and DUSP 1.1.2 (g) defines "Christmas period" as the period commencing on the first Monday in December in any year and ending at the start of the first working day after the New Year public holiday in the following year, or in Scotland, at the start of the first working day after the Scottish New Year public holiday in the following year.

⁸⁴ Royal Mail, August 2021. [Annual Adjusted Quality of Service Report 2020/21](#) [accessed 24 Oct 2022].

performance was 33.4%.⁸⁵ We are conscious that both periods were seriously affected by the Covid-19 pandemic, and the peak of Omicron-related absence in 2021, on top of large volumes of seasonal mail.

5.12 As discussed in our 2022 Review, while some stakeholders have called for Ofcom to reconsider the Christmas exemption, we think it is too soon to establish whether there are systemic problems that particularly apply to the Christmas period, or to set a floor at this stage. However, we have asked Royal Mail to explain its preparation plans for Christmas 2022 with a view to confirming that it is taking all steps to ensure that performance is adequate. We will closely monitor its performance this Christmas and may propose further action in this area if necessary.⁸⁶

5.13 Table 5.2 below, summarises Royal Mail’s QoS performance in 2021-22 and 2020-21, against the performance targets we have set.⁸⁷ The results show that, in comparison to 2020-21, performance improved across seven of the eight measures (excluding the postcode area target, which remains constant). We note, however, that Royal Mail’s performance was still below target in 2021-22, in some cases significantly so, for all but one of the measures (‘Items correctly delivered’).

5.14 This data is also shown graphically in the QoS section of the online Interactive Data.

Table 5.2: QoS performance 2020-21 and 2021-22 summary

KPI	Target and description		2020-21 Result	2021-22 Result	Change from prior year
First Class delivery	93.0%	Items delivered day after collection	74.7% X	81.8% X	▲
Second Class delivery	98.5%	Items delivered within 3 days of collection	93.7% X	95.4% X	▲
Postcode Area (PCA) ⁸⁸ Target: First Class single piece mail	118/118 PCAs	91.5% items delivered day after collection	0/118 X	0/118 X	■
PCA Target (with confidence interval)	118/118 PCAs	91.5% items delivered day after collection	0/118 X	0/118 X	■
Special Delivery	99.0%	Items delivered by 1pm day after collection	87.7% X	93.9% X	▲
European International Delivery	85%	Items delivered in 3 days	71% X	82% X	▲
Collection points: 6 days per week	99.90%	Collection points served	99.73% X	99.74% X	▲

⁸⁵ Royal Mail, February 2022. [Quality of Service and Complaints Report Quarter 3 2021/22](#) [accessed 24 Oct 2022].

⁸⁶ Ofcom, 2022. [2022 Review of Postal Regulation Statement](#), paragraphs 5.131-5.134.

⁸⁷ Ofcom, published annually. [Post Monitoring Interactive Data](#).

⁸⁸ The postcode area is the largest geographical postcode unit and forms the initial characters of the alphanumeric UK postcode. There are 121 PCAs in the UK, however this target excludes three PCAs in Scotland (HS Hebrides, KW Kirkwall, ZE Lerwick). It is not practical to achieve a next day service for 91.5% of First Class mail sent from across the UK to these remote destinations. In addition, these offshore areas are more frequently subject to weather-related disruption of ferry and air services.

Delivery routes: 6 days per week	99.90%	Delivery routes completed	91.57% X	94.09% X	▲
Correct delivery: 6 days per week	99.50%	Items correctly delivered	99.70% ✓	99.71% ✓	▲

Source: Royal Mail Quality of Service Reports, Year End Adjusted 2020-21 and 2021-22.⁸⁹

Compliance

- 5.15 We take compliance with QoS requirements seriously because of the consumer harm that can result when service levels fall below the standards that are expected of Royal Mail. However, in considering whether Royal Mail has complied with its regulatory obligations, we will take into account factors that are beyond its control and where it has taken sufficient action to mitigate as far as possible the impact of such factors on its performance. This is consistent with the enforcement approach we have taken over recent years.
- 5.16 We last fined Royal Mail for failing to meet certain QoS targets during the year 2018-19.⁹⁰ In 2020-21, we considered that the challenging circumstances of the pandemic, including high absence rates, mandated isolation and social distancing measures, were beyond Royal Mail's control and had a substantial impact on quality of service. Therefore, we decided it was not appropriate to open an investigation into Royal Mail's service levels.⁹¹
- 5.17 As noted above, in 2021-22 we opened an investigation into Royal Mail's compliance with its QoS targets.⁹² In that investigation, we recognised that Covid-19 continued to have far-reaching effects on Royal Mail's operations over the 2021-22 reporting period through multiple significant, pervasive and unprecedented impacts, as set out below.
- **Unexpected change in traffic mix:** The significant and rapid change in traffic mix, which occurred at the start of the Covid-19 pandemic, continued to have a material impact on Royal Mail's QoS throughout 2021-22. We carefully considered whether this should be taken into account as part of an exceptional event in the 2021-22 period, given that Royal Mail has had some time to adjust. We concluded that for this period, where the impact was unpredictable and there were other Covid-19 impacts making changes difficult to implement, it would not be reasonable to expect substantial adaptation to have occurred.
 - **Covid-19 related absence levels:** While absences did not reach the same peak as in the 2020-21 period, they did remain significant and unpredictable, with three pronounced spikes in Covid-19 related absence over the period. Given that staff absence is a factor that Royal Mail must manage in any given year, the particular circumstances in this case needed to be considered. We concluded that the absence levels Royal Mail experienced were a result of Covid-19, which was still creating unpredictable spikes in absence levels, making meaningful planning difficult. Our assessment also accounted for the steps Royal Mail took to address absence levels during the period.

⁸⁹ Royal Mail, 2021. [Annual Adjusted Quality of Service Report 2020/21](#); Royal Mail, 2022. [Annual Adjusted Quality of Service Report 2021/22](#). [Both accessed 24 Oct 2022.]

⁹⁰ Ofcom, 2020. [Investigation into Royal Mail's quality of service performance in 2018/19](#).

⁹¹ Ofcom, 2021. [Royal Mail's quality of service performance in 2021/21](#).

⁹² This investigation focused on the four measures (First Class, Second Class, PCA and delivery routes targets) with the widest margin of failure and that are likely to have had the greatest impact on consumers.

- **Measures to limit the spread of Covid-19:** Social distancing measures were in place for much of 2021-22 which had a number of implications for Royal Mail's operations. We acknowledged Royal Mail's need to both protect the health of its employees and comply with the law and it is clear that social distancing measures were necessary due to the impact of Covid-19. We also acknowledged that Royal Mail tried to reduce the impact of these measures. As with unexpected traffic mix and absence levels, we are satisfied that the impacts of social distancing that Royal Mail experienced were a result of Covid-19.
- 5.18 In light of the above, we concluded that, in the particular circumstances prevailing in that period, it would not be appropriate to find Royal Mail in breach of its QoS targets for 2021-22. Further detail on our conclusions in relation to these impacts and the implications for Royal Mail's QoS performance can be found in our investigation decision.⁹³
- 5.19 We discuss recent developments in QoS performance and a forward look on QoS and enforcement in the Overview (Section 1).

Exceptional circumstances affecting specific locations

- 5.20 In certain exceptional circumstances, Ofcom recognises that Royal Mail can depart from the universal service requirements.⁹⁴ These include delivery and access point exceptions where there is an immediate risk to the health and safety of postal staff, the location is not sufficiently secure, and/or there are access difficulties. Where Royal Mail decides that such exceptional circumstances exist in relation to a given delivery or access point for a sustained period, it must carry out a review every 12 months. Consumers are able to challenge any such 'exceptional circumstance' determination by Royal Mail.⁹⁵
- 5.21 **Delivery:** To provide transparency, we require Royal Mail to submit to Ofcom an annual report of the addresses of the delivery points in which exceptional circumstances have persisted for 12 months or more, and the relevant circumstances which Royal Mail considers justify that exception. Reported delivery exceptions may include delivery points that receive deliveries but on fewer days a week than required under the universal service obligations. This might be the case where, for example, an excepted delivery point is on an island where there is a ferry service only on certain days of the week. Reported delivery exceptions would also include delivery points where daily deliveries are made but to an alternative delivery point (i.e., to a secure box on the perimeter of an address rather than to a building where there may be access difficulties). Royal Mail has recently published a non-confidential, summary version of this information on its website.⁹⁶
- 5.22 A total of 4,126 delivery points were reported by Royal Mail to be subject to exceptional circumstances in its 2021-22 report, meaning that they are not able to receive deliveries at the frequency required under the universal service obligation. However, there are around 31

⁹³ See Ofcom [Investigation Report](#) for our full rationale.

⁹⁴ This is recognised in DUSP 1.3.2(b).

⁹⁵ See also Royal Mail's [USO Delivery Exceptions 2021-22 Report](#) [accessed on 17 Nov 2022]. Ofcom, December 2013. [Direction relating to exceptions to the postal deliveries Universal Service Obligation and approval of alternative delivery points](#); Ofcom, December 2013. [Direction relating to exceptions to the postal collections Universal Service Obligation and minor amendment to Designated Universal Service Provider Condition 1](#).

⁹⁶ See Royal Mail's [USO Delivery Exceptions 2021-22 Report](#) [accessed on 17 Nov 2022].

million delivery points in the UK, so excepted delivery points represent a very small proportion of the total footprint.

- 5.23 **Access points:** Royal Mail is also required to submit to Ofcom an annual report of the access points (typically postboxes or Post Offices) in which exceptional circumstances have persisted for 12 months or more. This specifies the exception category (for example, third party blockages) and the anticipated date when collections will resume. In its 2021-22 report, Royal Mail detailed 530 collection points where such exceptions were present for 12 months or more.⁹⁷ There are around 115,000 postboxes and approximately 11,500 Post Offices across the UK, so the number subject to exceptions represents a very small proportion of the total number of access points.
- 5.24 **Monitoring:** We will continue to monitor levels of both exceptions to delivery and collections as part of our wider monitoring programme.

Complaints and compensation

- 5.25 Ofcom requires Royal Mail, as the universal service provider, to publish an annual report setting out the number of complaints received in each financial year in relation to universal postal services and the amount of compensation paid in relation to those complaints. It is also required to report the top ten categories of complaint.⁹⁸
- 5.26 Overall complaint volumes fell slightly to 1,581,088 in 2021-22, representing a decrease of 1% from 2020-21. There was a mix of increased and decreased complaints across the various complaint categories, with 'P739 ("Sorry we missed you") failure' showing the largest increase of 24%, 'mis-delivery' complaints increasing 23%, and 'delivery procedure errors' complaints increasing 20%. Other increases are at a lower magnitude – 'denial of receipt' (up 11%) and 'redirection' (up 6%). We note small drops in complaints regarding 'damages' (down 8%), 'unconfirmed loss/delay' (down 7%), 'loss' (down 5%) and 'delay' (down 3%).
- 5.27 While complaint volumes are down compared with 2020-21, as noted in our previous Annual Monitoring Update, that year saw a significant rise in complaints compared to 2019-20 due to the impact of Covid-19, the corresponding decline in QoS performance over the year, and the increased reliance on parcel deliveries.⁹⁹ We note the enduring impact of Covid-19 over 2021-22, with periods of high case numbers¹⁰⁰, continued legal restrictions around the need to test and self-isolate following a positive Covid-19 test¹⁰¹, and the prevalence of hybrid working¹⁰², which may account for the sustained high volume of complaints.
- 5.28 We note that those complaint categories with the greatest percentage increase in 2021-22 ('P739', 'mis-delivery' and 'delivery procedure errors') were those that showed the greatest percentage decrease in volume in 2020-21.¹⁰³ This appears to follow the trend of a loosening of

⁹⁷ See Royal Mail's [USO Collections Exemptions 2021-22 Report](#) [accessed 17 Nov 2022].

⁹⁸ Ofcom's Post Monitoring Interactive Data contains the top ten categories of complaint to Royal Mail in 2021-22 and in previous years. More information is available in [Royal Mail Annual Report – Complaints and Compensation CP3.3.14, CP3.3.15 and CP4.3.1](#) [accessed 24 Oct 2022].

⁹⁹ Ofcom, December 2021. [Annual Monitoring Update for Postal Services Financial Year 2021-21](#), Paragraph 5.26.

¹⁰⁰ See <https://coronavirus.data.gov.uk/details/cases> [accessed 17 Nov 2022].

¹⁰¹ The UK government ended all legal Covid-19 restrictions on 24 February 2022.

¹⁰² Office of National Statistics, May 2022. [Is Hybrid Working Here to Stay?](#) [accessed 24 Oct 2022].

¹⁰³ Ofcom, December 2021. [Annual Monitoring Update for Postal Services Financial Year 2021-21](#), Paragraph 5.25.

Covid-19 restrictions and greater freedoms for consumers, meaning they were less likely to be at home and therefore more likely to miss deliveries during 2021-22.

- 5.29 Royal Mail is required to provide compensation on a fair and reasonable basis where a customer experiences loss, delay or damage in relation to certain universal postal services. Royal Mail's Complaints and Compensation report¹⁰⁴ shows total compensation paid by Royal Mail increased by 7% from last year, up from £16.7 million to £17.8 million. The total number of complaints where compensation was paid decreased by 15,989 to 710,364. When compensation was given, the average compensation paid per complaint increased by £2.20 to £25.17.
- 5.30 Royal Mail is required to be part of an Alternative Dispute Resolution (ADR) scheme and it is part of the Postal Redress Service (POSTRS), which is managed by the Centre for Effective Dispute Resolution (CEDR).¹⁰⁵ The data published by POSTRS indicates that a very small number of the complaints Royal Mail receives are escalated to ADR. POSTRS's most recent ADR report, which covers the period 1 July 2021 to 30 June 2022, shows that POSTRS received 680 disputes of which 349 were within the scope of what POSTRS can deal with.¹⁰⁶
- 5.31 We will continue to examine complaints and compensation data on an ongoing basis as part of our monitoring programme.

¹⁰⁴ Royal Mail, June 2022. [Royal Mail Annual Report – Complaints and Compensation CP3.3.14, CP3.3.15 and CP4.3.1](#) [accessed 24 Oct 2022].

¹⁰⁵ See <https://www.cedr.com/consumer/postrs/> [accessed 17 Nov 2022].

¹⁰⁶ Centre for Effective Dispute Resolution, July 2022. [ADR Entity Reporting – Annual Report Postal Redress Service \(POSTRS\)](#) [accessed 24 Oct 2022].

6. Royal Mail financial performance

- 6.1 We monitor the financial performance of Royal Mail's Reported Business¹⁰⁷ and certain financial metrics relating to the wider Group¹⁰⁸, as we have a duty to have regard to the need for the provision of a universal service to be financially sustainable.
- 6.2 This section summarises the results of our financial monitoring for 2021-22, including a comparison with 2020-21.¹⁰⁹ In particular, we discuss:
- changes in volumes and revenues for the Reported Business, highlighting particular product groups and formats to explain what is driving overall revenue and volume changes;¹¹⁰
 - changes in the costs of the Reported Business (this information is also an important input when considering the efficiency of the universal postal service, which is discussed further in Section 7);
 - the profit margin (or 'EBIT margin') of the Reported Business; and
 - The Group-level financial health metrics, including cash flow¹¹¹.
- 6.3 Our review of financial performance has found that volumes, revenues and costs declined but there was an increase in EBIT. However, the EBIT margin remains below the indicative range of between a 5 and 10% commercial rate of return.
- 6.4 The rise in the EBIT margin in this financial year to 3.6% was largely driven by savings from a management restructure. Revenues declined, due to the reduction in parcel volumes, offset in part by increases in letter volumes as well as some price rises. Costs and revenues were impacted in the year by residual effects from the COVID-19 pandemic – costs remained inflated with high absence levels and additional revenue was earned from the contract with the government to deliver home test kits.
- 6.5 In carrying out our review, we also consider group-level financial metrics, such as cashflow and cash headroom. The Group had £2.1bn cash headroom at the end of 2021-22, as well as a cash inflow of £420m. Additionally, the Group passed its loan covenants for the year.

¹⁰⁷ The Reported Business is a part of Royal Mail's UK business but excludes the activities and products of Parcelforce International and Royal Mail Estates Ltd. The services within the Reported Business include all universal service products (based on the universal service obligation, USO) and other 'non-USO' products which use the universal service network (for example, retail bulk mail and access).

¹⁰⁸ The Group refers to International Distributions Services plc and all its subsidiary undertakings. It is the entity which manages the cash for all the Group companies, is listed on the stock market, and is the entity which borrows funds from banks and the financial markets. It is the ultimate parent company of Royal Mail Group Limited.

¹⁰⁹ Data within this section is supplemented by an interactive data file which includes five year views on revenues, costs and volumes across different product splits, such as USO/Non-USO and Single Piece vs Bulk items and can be access using the following link: https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring_reports.

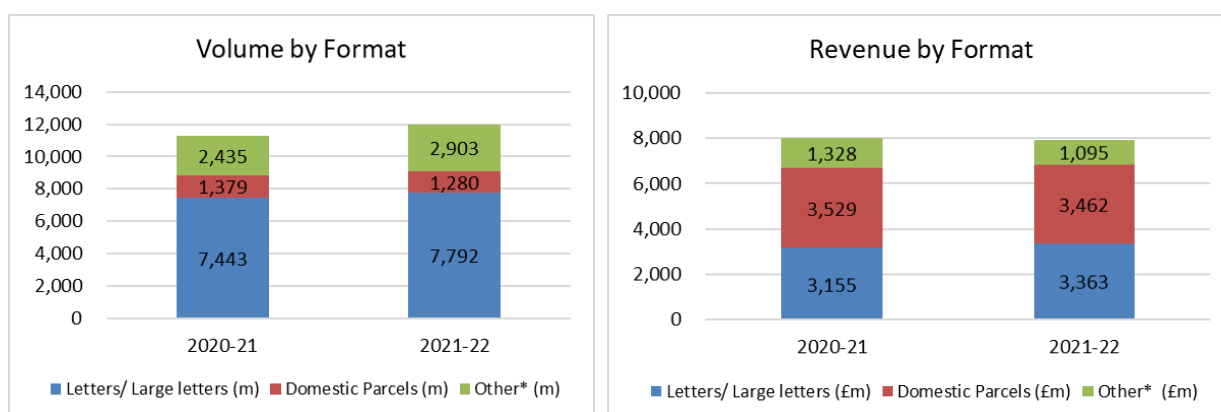
¹¹⁰ Format e.g. letters, large letters, parcels.

¹¹¹ In the Review of the Regulation of Royal Mail 2017 statement, we committed to monitoring the following short to medium term financial health metrics: funds from operations/net debt, net debt/EBITDA and EBITDA/interest. While we cannot publish forward looking metrics as these rely on Royal Mail's confidential Business Plan, we can provide historic metrics as an indicator of financial health over the period considered.

Reported Business Volumes and Revenues

- 6.6 Total Reported Business parcel volumes declined by 12.5%, contrary to Royal Mail's expectations of parcel growth. The decline was seen in all categories, but was particularly marked in International. Only tracked products and Government funded COVID-19 test kits saw an increase in volumes. Royal Mail explained that part of the decrease was caused by fewer lockdowns than in 2020-21 and therefore less online sales activity.¹¹² Comparing against a pre-COVID-19 base (i.e. 2019-20), total parcel volumes were up c.17%.
- 6.7 Domestic parcel volumes declined by 7.2%, driven by single piece and bulk products, excluding tracked. The contract with the Government for the delivery of COVID-19 test kits ended in March 2022. These volumes accounted for an additional c.7% of total parcel volumes in 2021-22.¹¹³
- 6.8 International parcel volumes declined significantly, impacted by increased customs processing requirements into the EU, reduced air freight capacity and persistently higher conveyance costs.¹¹⁴
- 6.9 Addressed letter volumes grew by 3.2% relative to the previous year. However, compared to pre-COVID-19 levels (i.e. 2019-20), volumes were down substantially, c.18%. This represented an average annual decline of 9%, which is greater than the level of decline expected pre-pandemic; a 4-6% decline per year, which was set out within Royal Mail's 2019 transformation plan.¹¹⁵

Figure 6.1: Reported Business volumes (m) and revenues (£m) split by format (2021-22 vs 2020-21)



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

* Other products mainly consist of international letters and parcels and unaddressed mail

- 6.10 Overall, Reported Business revenue declined by 1.1% YoY, mainly due to the decline in total Reported Business volumes of 6.4%, underpinned by the significant decline in international volumes. The mix effect of the growth in tracked products, which command a higher average unit price, was not enough to fully offset the volume decline. Domestic parcel revenue declined

¹¹² International Distributions Services PLC, 2022, Annual Report and Financial Statements for the full year ended 27 March 2022, page 6.

¹¹³ International Distributions Services PLC, 2022, [Full Year Results 2021-22](#), slide 12. [Accessed 17 Nov 2022.]

¹¹⁴ International Distributions Services PLC, 2022, Annual Report and Financial Statements for the full year ended 27 March 2022, page 8

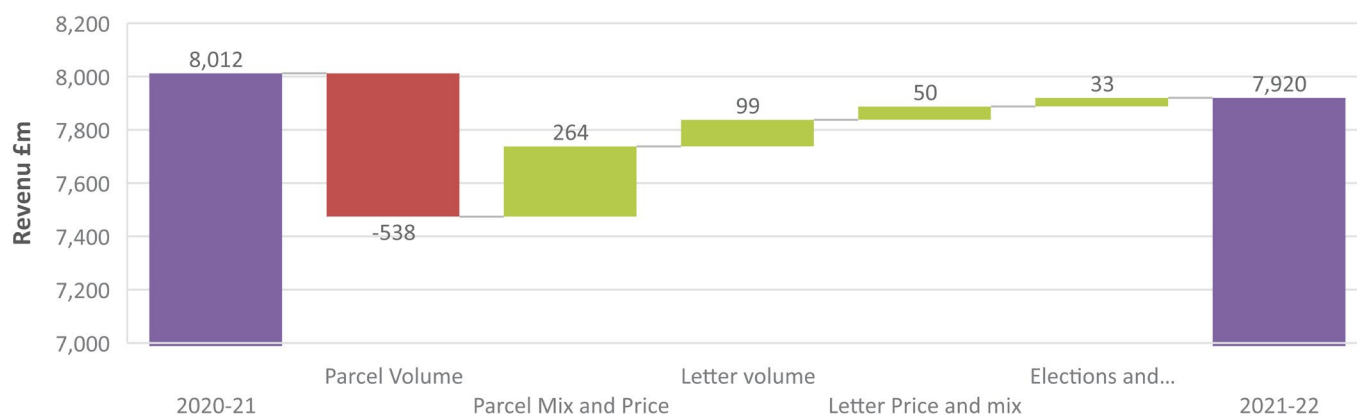
¹¹⁵ International Distributions Services PLC, 2019, Royal Mail Journey 2024 presentation, 22 May 2019, Page 6.

by 1.9%, but this included the revenue from the government contract, which relates to an additional c.7% of parcel volumes for 2021-22.

Impact of change in mix of format on Reported Business revenues

- 6.11 We have undertaken some high-level analysis to ascertain how much of the overall change in total Reported Business revenue in 2021-22 was due to a change in mix of format, price and volumes. This is set out in Figure 6.2 below.
- 6.12 The decrease in parcel volumes had the largest impact on the decrease in total revenues. The decrease in parcel volumes shown below includes revenues from Covid-19 test kits, hence the underlying revenue reduction from parcel volumes decline was higher than that presented. This was offset in part by the change in the mix of parcel products towards tracked services, as well as the increase in letters, including election mail.

Figure 6.2: Contributions to total revenue change of mix, price and volumes

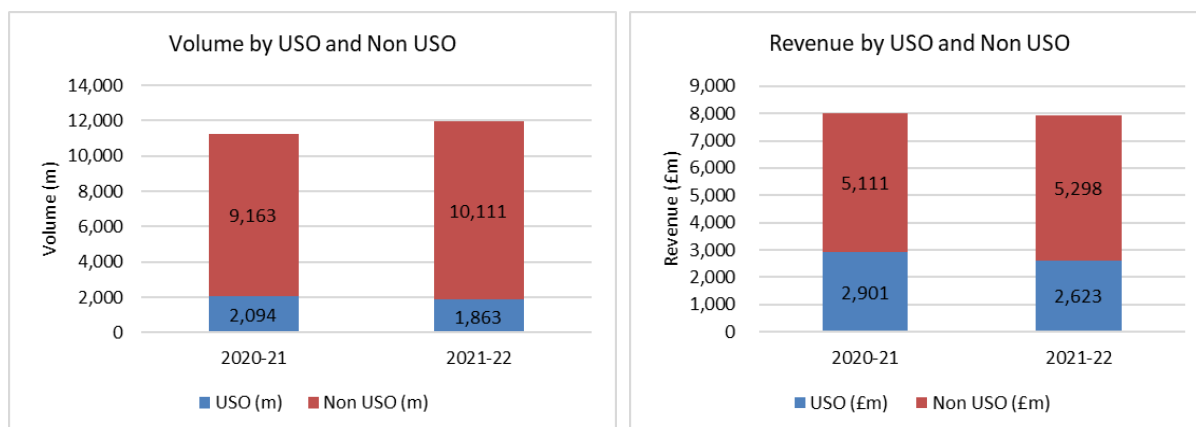


Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail, and Ofcom analysis.

* Elections and Other includes revenues relating to unaddressed advertising mail philatelic, other non-volume related items revenues, and inter-company charges

Changes in volume and revenue by universal and non-universal services

- 6.13 The services within the Reported Business include all universal service products, both letters and parcels, as well as non-universal service products (for example, retail bulk products and access products) which use the same delivery network.

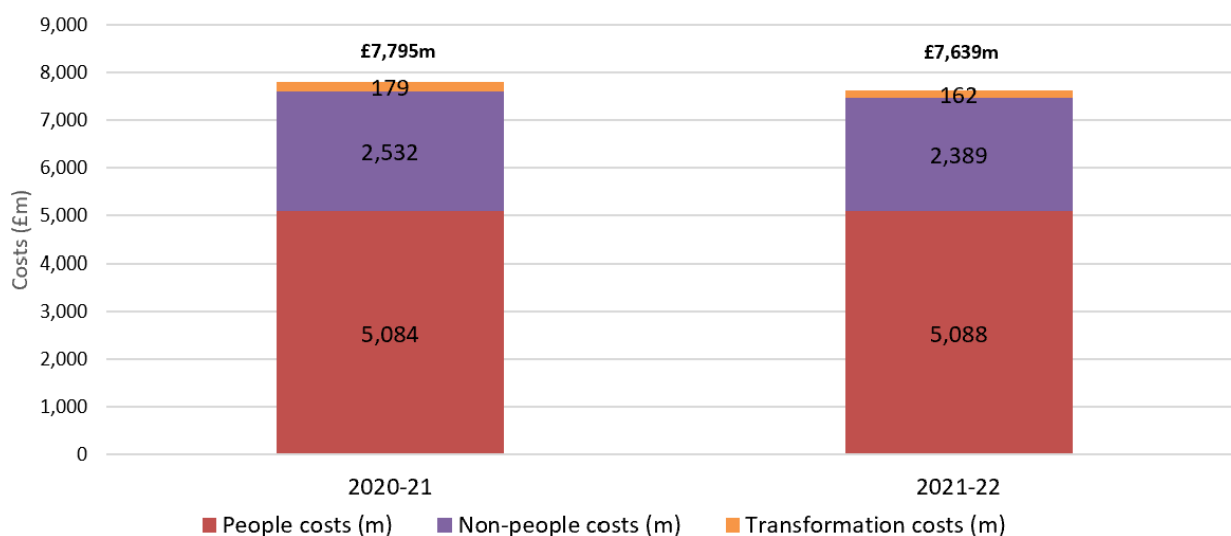
Figure 6.3: Reported Business volumes and revenues split by universal and non-universal service products

Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

- 6.14 In 2021-22, universal service products accounted for 33.1% of the Reported Business revenues, but only 15.6% of volumes. USO volumes declined by 11.0%, mainly due to a reduction in USO letters, a continuation of the historic trend. Revenues decreased by 9.6% (see Figure 6.3) back to the same level as at 2019-20, primarily due to the reduction in USO parcel volumes.
- 6.15 In contrast, non-universal service products (including unaddressed) accounted for 66.9% of the Reported Business revenues and 84.4% of volumes. Non-USO volumes (including unaddressed) increased by 10.3%, most of this change was a result of increases in unaddressed and access letter volumes. Revenues from non-universal service products increased by 4.4%, driven by increased revenues from tracked parcels and access letters.

Reported Business Costs

- 6.16 Total Reported Business costs, including transformation costs, decreased by 2.0% in 2021-22 to £7.5bn, see Figure 6.4 below, however this follows a year where costs increased significantly. Excluding transformation costs, the YoY decrease is 1.8%.
- 6.17 The reduction was driven entirely by a decrease in non-people costs, while people costs stayed broadly flat, in nominal terms. We briefly summarise the nominal cost movements in this section, but a more detailed discussion of Royal Mail's efficiency and real cost movements is included in Section 7.

Figure 6.4: Reported Business costs (nominal)

Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

People costs¹¹⁶

- 6.18 In nominal terms, people costs remained in line with the prior year at £5.1bn. There was a decrease in management costs from the restructuring programme and £59m savings from the Pathway to Change Agreement.¹¹⁷ However, these were completely offset by an increase in costs from the 1% frontline pay award and the cost of a one-hour reduction associated with the shorter working week.¹¹⁸
- 6.19 Absence rates remained higher than pre-pandemic levels which kept people costs higher than expected, as additional costs were incurred to replace those employees who were absent.

Non-people costs

- 6.20 Non-people costs decreased by 5.7% to £2.4bn. This was largely driven by the reduction in volumes in both international and domestic which resulted in a reduction in terminal dues and payments made to Post Office Limited (POL).
- 6.21 There was a reduction in non-people costs associated with Covid-19 but some Covid-19 related costs remained. According to Royal Mail, the remaining costs include the cost of vehicle hires and fuel required to maintain social distancing measures. In July 2021, most legal limits on social contact were removed in England and Wales but, following the onset of the Omicron variant in December 2021, the government reintroduced some restrictions, such as mandatory face masks, work from home if possible, and the need for a Covid-19 vaccine certification for

¹¹⁶ Adjusted to reflect the cash cost of the defined benefit pension scheme rather than the accounting charge.

¹¹⁷ This agreement was made between Royal Mail and the Communications Workers Union on the 18 December 2020, setting out a clear pathway to change that will bring major benefits to customers, employees and the company. The agreement included but was not limited to Pay, Transformation Technology and Job Security.

¹¹⁸ The SWW was introduced as part of the Pension, Pay and Pipeline Agreement. The agreement included a 5% pay increase and a reduction in the weekly contract. The 2021-22 impact of the SWW was a 1.3% reduction in full time ordinary hours at the same pay, hence it resulted in an increase in the hourly rate paid. The implementation of the SWW, as part of the Pay, Pension and Pipeline agreement, was expected to accelerate efficiency savings to partly offset the additional cost.

some settings. These restrictions, and those remaining in place in Scotland, had a bearing on Royal Mail's operations. We note that the non-people cost base remained inflated from costs relating to Covid-19 restrictions when compared to 2019-20, see Section 7.

Transformation costs¹¹⁹

6.22 Transformation costs decreased by 9.7%, to £162m, in 2021-22. This was largely due to the decline in management voluntary redundancy costs: £93m charge in 2020-21 for the management restructure announced in June 2020 compared with £70m in 2021-22 for the operational management restructure announced in January 2022. This reduction in people transformation costs was partly offset by a small increase in non-people transformation costs.

¹²⁰

Reported Business EBIT margin

6.23 The Reported Business's profit margin, and its trend over time, is one of the indicators we monitor in considering the long-term financial sustainability of the universal postal service. Specifically, we consider earnings before interest and tax (EBIT), calculated to include transformation costs and with pension costs restated on a cash basis.¹²¹ We refer to this metric as the "financeability EBIT margin".¹²²

6.24 In our 2022 Review of Postal Regulation, we stated that we considered our approach to the assessment of sustainability from the 2017 Statement remained appropriate and Royal Mail agreed.¹²³ We therefore proposed to retain the use of the EBIT margin to assess the commercial rate of return earned by the universal service, concluding that an indicative EBIT margin range between 5 and 10% was consistent with a commercial rate of return.

6.25 In 2021-22, the EBIT margin rose to 3.6%, from 2.7% 2020-21, and 0.4% in 2019-20. As outlined above, this was driven by a reduction in costs compared to 2020-21 from both the management restructure and a reduction in non-people costs. Although revenues declined, the reduction due to parcel volumes was partly mitigated by price rises and by increased letters volumes.

6.26 Figure 6.5 shows that EBIT has remained below the lower bound of the 5-10% EBIT margin range which Ofcom considers indicates a commercial rate of return for the last five years.

¹¹⁹ Transformation costs are restructuring or redundancy costs which are likely to recur year-on-year and are not considered to be exceptional costs. Exceptional costs are considered to be large and uncommon (non-recurring) costs. See Ofcom, 2012, [Securing the Universal Postal Service](#), paragraph 5.41 and footnote 69.

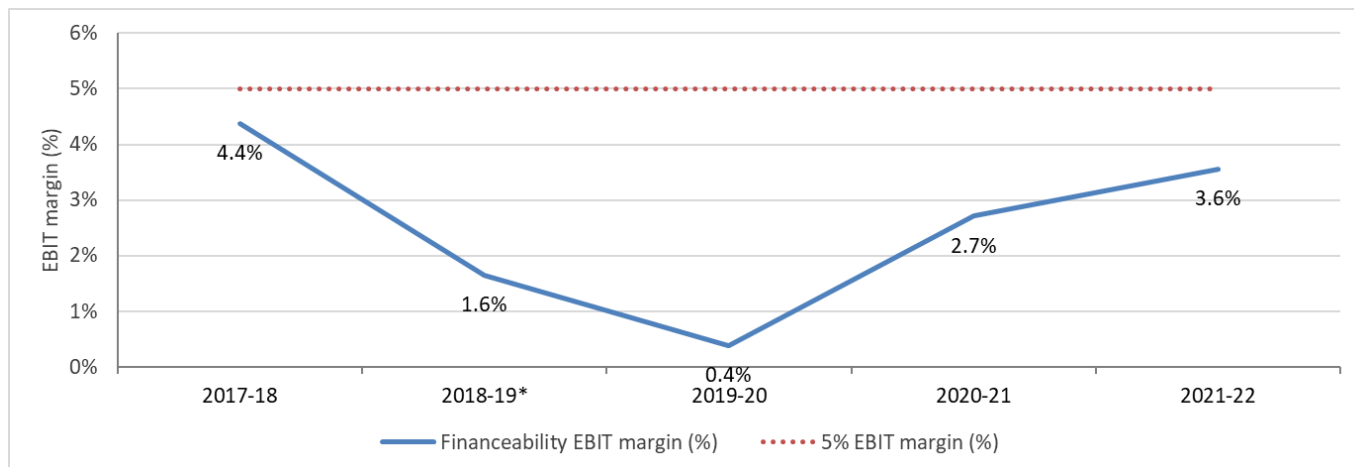
¹²⁰ International Distributions Services PLC, 2022, Annual Report and Financial Statements for the full year ended 27 March 2022, page 67.

¹²¹ The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 24.6% (2020-21: 19.5%) for the Defined Benefit Cash Balance Scheme (DBCBS) from 29 March 2021 and the actual cash payments agreed with the Trustee of 15.6% (2020-21: 15.6%). The increase in the IAS 19 pension charge rate is due to the decrease in the net discount rate (versus CPI) between March 2020 and March 2021.

¹²² In the 2014 Review of End-to-End Competition Statement, we said it was appropriate to adjust Royal Mail's Reported Business EBIT margin to restate pension costs on a cash basis (i.e. the rate the contributions are actually paid at), rather than the rate calculated using the accounting standards. We considered that this methodology takes account of the true cost of pensions and we refer to this EBIT margin measure as the 'financeability EBIT margin'. See Ofcom, 2014, [Review of end-to-end competition in the postal sector](#), page 15.

¹²³ Ofcom, 2022, [Review of Postal Regulation](#), paragraph 3.14.

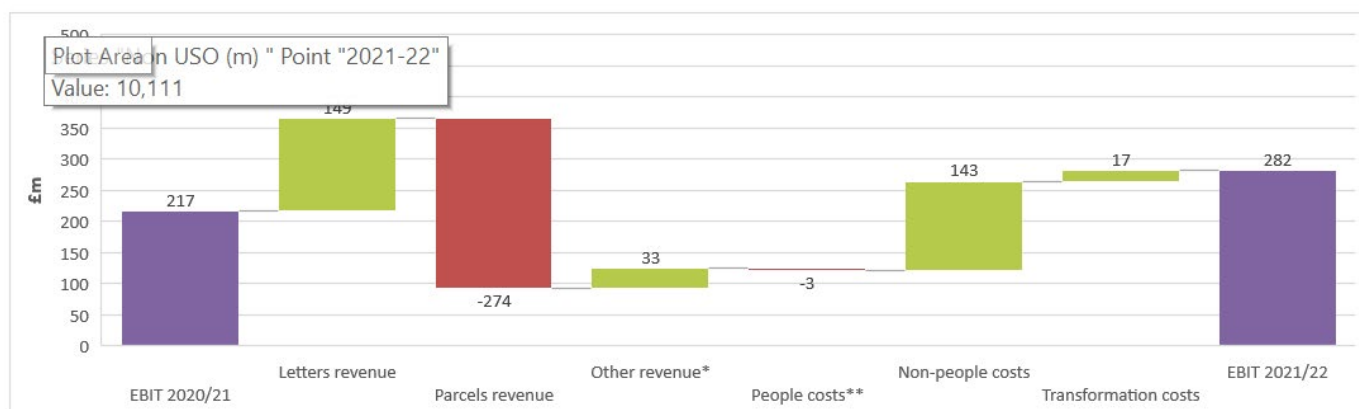
Figure 6.5: Reported Business EBIT margin



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.
*Adjusted to 52 weeks

6.27 Figure 6.6 below breaks down the change in EBIT margin from 2020-21 to 2021-22. It shows that the growth was the result of increased letter revenues, other revenue and reduction in non-people costs, which more than offset the impact of the decline in parcels, including international.

Figure 6.6: Reported Business EBIT margin breakdown



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

*Other revenue includes revenues relating to unaddressed advertising mail, philatelic, other non-volume related items and inter-company charges

** People costs include the costs associated with the delivery of election mail

Royal Mail Group financial health metrics

6.28 In addition to reviewing the Reported Business' EBIT margin, we also consider other financial health indicators. The relevant measures below are in relation to the wider Group,¹²⁴ rather than the Reported Business, as this is the entity which manages the cash for all the Group

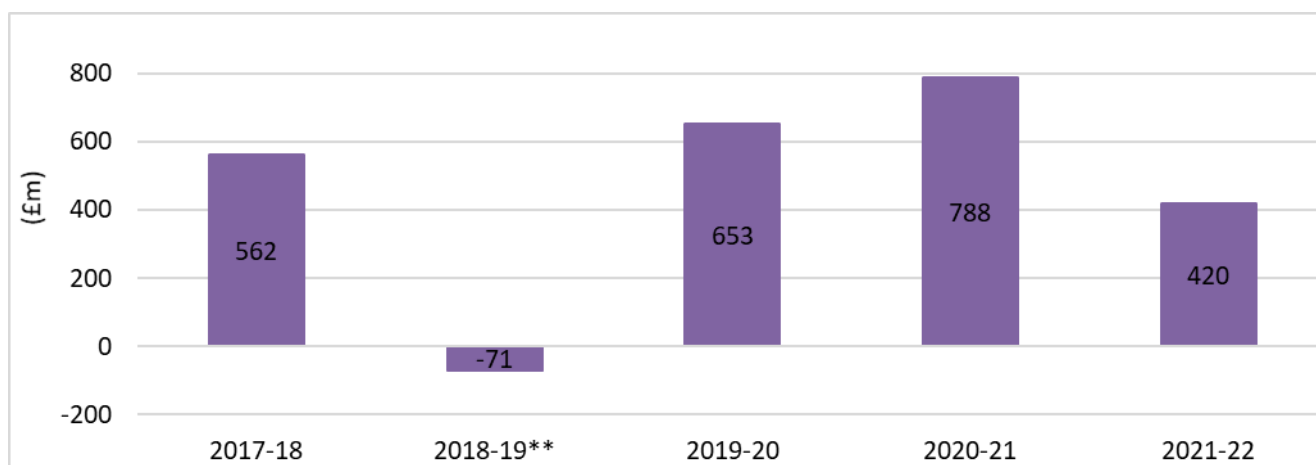
¹²⁴ International Distributions Services PLC (formerly Royal Mail plc) is made up of Royal Mail Group Ltd, which contains the Reported Business and ParcelForce Worldwide (PFW), as well as a number of other entities including GLS. The Reported Business and PFW are reported in International Distributions Services PLC annual report as part of RM UK.

companies, is listed on the stock market, and importantly, that investors invest in or lend funds to. These indicators provide us with a view of the financial position of the Group and its ability to service its debt and meet its cash requirements at the end of each financial year. It matches the level at which investors and analysts consider the Group’s financial performance and health.¹²⁵

6.29 In our 2022 Review of Postal Regulation, we confirmed that our approach from the 2017 Statement remained appropriate and we will continue to monitor a wider range of financial health metrics.¹²⁶ This includes indicators such as Cash flow and Cash headroom, Standard & Poor’s (S&P) credit rating, Funds from Operations (FFO)/Adjusted Net Debt, and metrics underpinning covenants on borrowing assessed at a Group level. We discuss each metric below.

Cash flow and cash headroom

Figure 6.7: The Group’s free cash flow*



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

* Free cash flow: net cash flow before financing activities (except finance costs paid), less the net cash purchase/sale of financial asset investments, including profit on disposal of properties

** 53-week year (unadjusted)

6.30 Cash flow is an important component in ensuring the financial sustainability of the universal service. In 2021-22, free cash flow of the Group decreased to an inflow of £420m (see Figure 6.7 above) compared to £788m in 2020-21.

6.31 The Group had significant cash headroom¹²⁷ of c.£2.1bn at the end of 2021-22, compared to £2.5bn at the end of 2020-21.¹²⁸ The cash headroom can be drawn upon depending on business needs, or distributed to shareholders as appropriate. The headroom includes access to a syndicated bank loan facility of £925m, which was “extended by one year to September 2026,

¹²⁵ Ofcom 2016, [Review of the Regulation of Royal Mail Annexes 5 to 11](#), Annex 6, paras A6.43 to A6.59.

¹²⁶ Ofcom, 2022, [Review of Postal Regulation](#), paragraph 3.15, page 30.

¹²⁷ The cash headroom is the difference between the available cash resources and required cash resource i.e. total undrawn committed borrowing facility less the amount utilised plus the available cash less the loan-to-value (LTV) constraint.

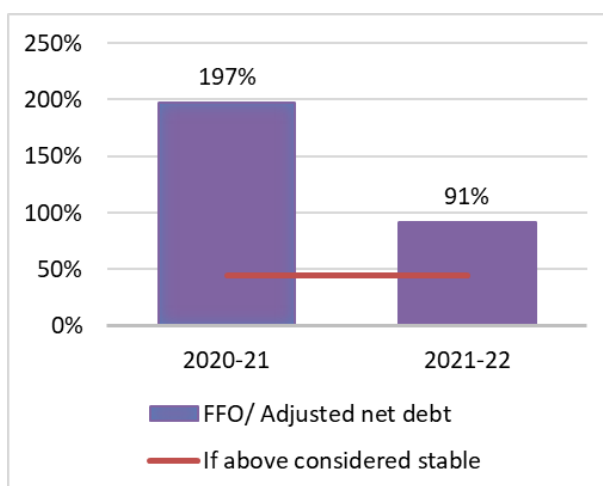
¹²⁸ International Distributions Services PLC, 2022, Annual Report and Financial Statements for the full year ended 27 March 2022, page 164 “cash at bank and in hand of £276 million, cash equivalent investments of £825 million, current asset investments of £70 million and the undrawn bank syndicate loan facility of £925 million, at 27 March 2022”.

there are now no further extension options to that agreement”.¹²⁹ This means that the Group will have to renegotiate terms of the facility before September 2026.

FFO/Adjusted Net Debt

- 6.32 FFO/Adjusted Net Debt looks at the ability of an entity to pay off its debt relying on its operating income alone and is one of the key metrics that Standard and Poor (S&P) uses to assess the credit worthiness of the Group. As part of its assessment, S&P reviews the Group’s historical and forecast performance against this and other metrics. Royal Mail has also informed us that this is a key metric that it monitors.
- 6.33 The Group’s FFO/S&P adjusted net debt¹³⁰ of 91%¹³¹ in 2021-22 exceeds the 45% threshold for a ‘BBB’ credit rating. This is considerably lower than the 197% achieved in 2020-21 (see Figure 6.8 below), but still well above the 45% threshold.

Figure 6.8: FFO/Net Debt*



**S&P make certain adjustments to the Group’s reported net debt. S&P ratings methodology can be found on its website.*

- 6.34 S&P’s latest credit research, published in September 2022, affirmed the Group’s credit rating at BBB, but revised the outlook to negative, from positive, as it considers the Group faces operational headwinds including lower parcels volumes, significant cost inflation, and industrial action.

Loan covenants

- 6.35 The Net Debt/EBITDA (leverage ratio) and EBITDA/Interest (interest cover) metrics are used to assess compliance with covenants relating to the Group’s revolving credit facility. These are only enforced if the Group has drawn down any of the available funds and it did not borrow against this facility in 2021-22.

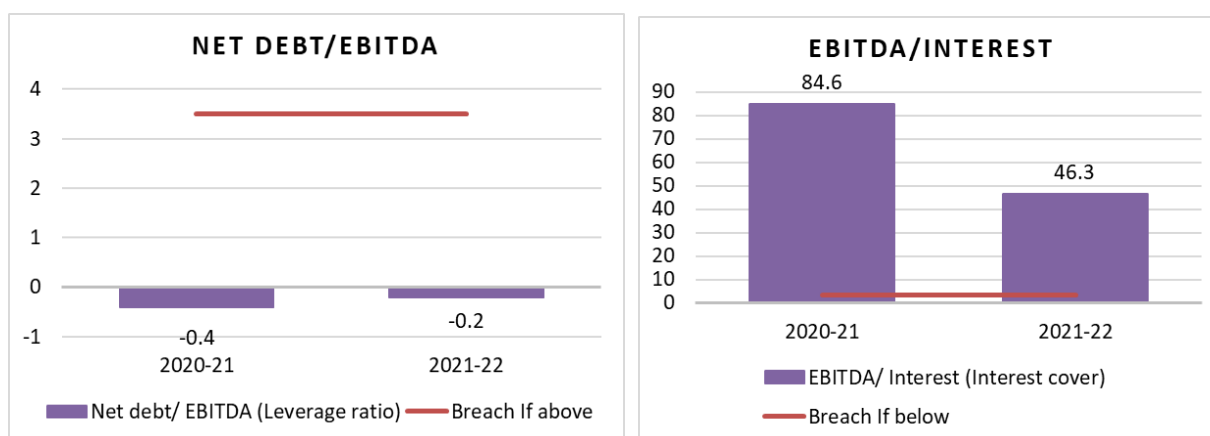
¹²⁹ International Distributions Services PLC, 2022, Annual Report and Financial Statements for the full year ended 27 March 2022, page 70.

¹³⁰ S&P have a specific method which is used to calculate net debt for the purpose of this ratio, these calculations are available for subscribers to the S&P Ratings Direct service.

¹³¹ S&P Ratings Direct, 2022. [Royal Mail plc \(LSE:RMG\), CreditStats Direct® Select stats and Ratios, FFO/Debt \(%\) for 12 month ended 27 March 2022](#) [accessed 25 Nov 2022].

- 6.36 The leverage ratio metric helps assess the Group’s ability to repay its debts using its operating profits (measured before non-cash elements of depreciation and amortisation). It broadly represents the number of years of annual profit required to repay all of the company’s net debt.
- 6.37 The interest cover metric is used to assess how easily the Group can pay interest on its outstanding debt. The Group’s loan covenants require its leverage ratio to remain below 3.5 and its interest cover to remain above 3.5.
- 6.38 The Group performance against the loan covenants in 2021-22 (as shown in Figure 6.9 below)¹³² indicates that the Group met the loan covenants and other obligations for its bank syndicate loan facility and will not lose access to those funds. In 2021-22, as with 2020-21, the pre IFRS 16 net cash position¹³³ was positive, more cash than debt, which results in the negative ratio.

Figure 6.9: Loan covenants



Source: FFO/Net Debt - S&P Ratings Direct and EBITA ratios - Royal Mail Annual Report and Accounts (page 199)

- 6.39 The minimum liquidity covenant, which fell away in March 2022, required the Group to maintain at least £250m liquidity, defined as cash, cash equivalents, current asset investments and undrawn, committed facilities. The Group’s liquidity at the end of 2021-22 was £2.1bn.

Viability Statement¹³⁴

- 6.40 In addition to the above financial health metrics, we usually have regard to the Group’s Viability Statement, as published in its Annual Report and Financial Statements. However, as discussed in Section 1, there have been a number of significant developments, which are likely to render some of the views and assumptions expressed in the statement out of date. Therefore, we do not consider it appropriate to consider the content of the Viability Statement for this Annual Monitoring Update.

¹³² International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 207.

¹³³ This measure is considered as the Group’s banking covenants are calculated on a pre-IFRS 16 basis.

¹³⁴ Under the 2014 Corporate Governance Code, directors are required to make a statement that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

Summary

6.41 In summary, the key trends for the 2021-22 financial year were:

- Total Reported Business parcel volumes and revenues declined by 12.5% and 6.4% respectively year-on-year, largely driven by a decline in international parcels.
- Reported Business addressed letter volumes and revenues grew by 3.2% and 4.6% respectively.
- Overall, Reported Business revenues decreased by 1.1%.
- Reported Business costs decreased by 2.0% year-on-year due to a decrease in non-people costs of 5.7% and a decrease in transformation costs of 9.7%.
- As a result of the trends noted above, the financeability EBIT margin increased to 3.6% in 2021-22, from 2.7% in 2020-21.
- Free cash flow was an inflow of £420m, down on the inflow of £788m in 2020-21. As of 27 March 2022, the Group had access to £2.1bn of funds, including undrawn banking facilities.
- The Group's FFO/S&P adjusted net debt ratio of 91%¹³⁵ in 2021-22 was well over the 45% threshold which is considered to be stable by S&P, although the ratio declined from 197% in 2020-21. It also passed its loan covenants in 2021-22.

6.42 We discuss recent market developments potentially impacting on sustainability, together with a forward look, in the Overview (Section 1).

¹³⁵ S&P Rating Direct, 2021. Royal Mail plc (LSE:RMG), CreditStats Direct ® Select stats and Ratios, FFO/Debt (%) for 12 month ended 31 March 2021.

7. Royal Mail efficiency performance

- 7.1 This section summarises the efficiency performance of Royal Mail’s Reported Business in the financial year 2021-22, including comparisons to earlier years.¹³⁶ In this, we outline the information which informs our view of the efficiency of Royal Mail’s provision of the universal postal service.
- 7.2 In particular, we discuss:
- why efficiency is an important aspect of our monitoring regime;
 - Royal Mail’s efficiency performance in 2021-22 as calculated by our efficiency metrics;
 - Royal Mail’s views on its efficiency; and
 - Royal Mail’s progress against its strategic transformation plan.
- 7.3 In 2020-21 the Covid-19 pandemic had a significant impact on the way Royal Mail could deliver its services, due both to restrictions on working practices and changes in volumes. For instance, Royal Mail needed to incur additional costs in response to the pandemic.
- 7.4 Not all such costs could be removed during 2021-22 as some of the restrictions remained in place during parts of 2021-22 and Royal Mail continued to incur some additional costs. Additionally, the result of any structural shift, such as a permanent step up in the level of parcel volumes, had yet to be fully established by the end of 2021-22, so there may be further costs relating to those volumes.
- 7.5 Therefore, as with 2020-21, in some cases in 2021-22, it has been necessary for us to make assumptions about the cause of cost movements and whether they were the one-off impact of the pandemic or changes in the underlying efficiency. As a result, we consider that the insight provided by the metrics in 2021-22 continues to be limited and care should be taken when comparing the results.
- 7.6 Our assessment of the efficiency metrics, together with the Group’s public statements in 2021-22, indicated that Royal Mail made little progress in improving efficiency in 2021-22. It achieved a small efficiency gain according to the PVEO analysis, but Productivity (WIPGH)¹³⁷ performance declined.
- 7.7 Although there was some reduction in costs, in part these were down to changes in variable costs linked to volume changes such as, for example, international terminal dues and payments made to POL. Some additional costs incurred in response to the Covid-19 pandemic remained in 2021-22, as Royal Mail did not manage to remove as much of these costs as it had planned.

Efficiency is an important aspect of our monitoring regime

- 7.8 In discharging our duties in relation to post, we monitor the efficiency of the Reported Business. The Postal Services Act 2011 requires us to have regard to the need for the provision of a universal postal service to be financially sustainable, and for it to become efficient within a reasonable period, and then remain efficient at all subsequent times.

¹³⁶ Reported Business is defined in Section 2 – Introduction.

¹³⁷ Weighted Item per Gross Hour (WIPGH) is a measure of efficiency capturing the ratio of outputs to inputs. Outputs are measured using Royal Mail’s workload metric (weighted parcels and letter volumes). Input costs are measured in non-financial terms using frontline Gross Hours.

7.9 In our July statement on the 2022 Review of Postal regulation we expressed concerns with Royal Mail’s efficiency performance during the last review period, and outlined that efficiency is a key aspect of ensuring financial sustainability. We also stated that we continued to believe that the market provides Royal Mail with incentives to make efficiency improvements. However, in the 2022 Statement - Review of Postal Regulation, we considered regulatory changes are needed, given the critical role the achievement of efficiencies has in the financial sustainability of the USO and we will be improving the monitoring of efficiency in line with our July 2022 decisions.

Indicators of Royal Mail’s efficiency performance

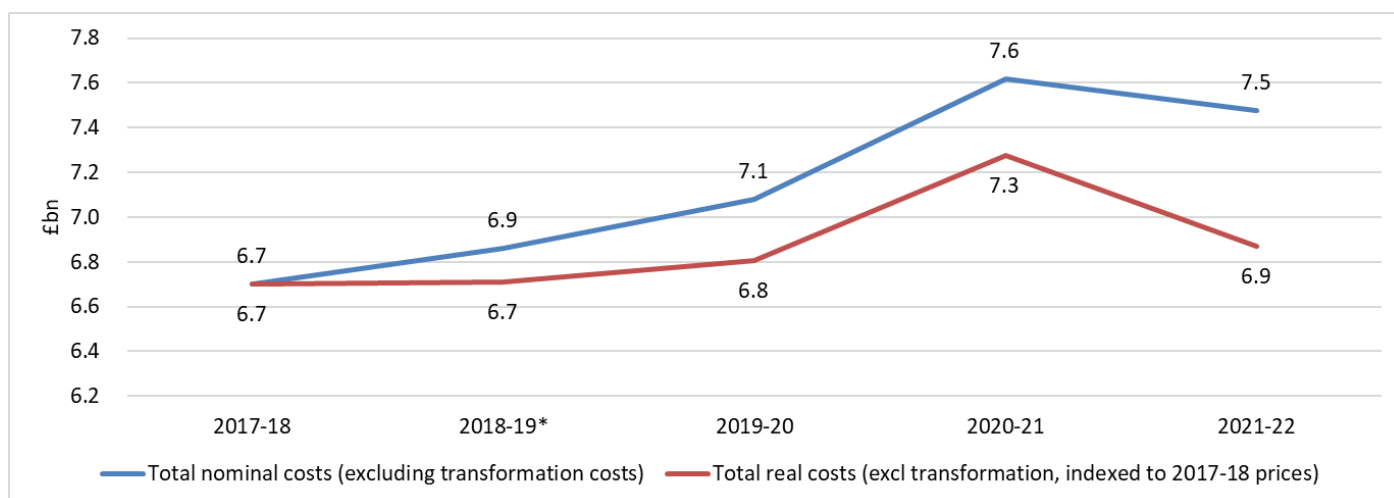
7.10 Here we report on the following high-level indicators of efficiency for the 2021-22 financial year:

- Overall change in real costs, which provides a high-level simplified view of efficiency;
- Price, Volume, Efficiency and Other (PVEO) analysis, which provides a measure of efficiency by disaggregating year on year cost movements into those due to input price changes (i.e. cost inflation), volume, efficiencies, and other one-off costs;
- Frontline Gross Hours in Delivery and Processing, which captures year-on-year changes in paid hours. Paid hours are impacted both by changes in volumes and by changes in efficiency; and
- Royal Mail’s Productivity (WIPGH) metric, a measure of efficiency capturing the ratio of outputs to inputs. Outputs are measured using Royal Mail’s workload metric (weighted parcels and letter volumes). Input costs are measured in non-financial terms using frontline Gross Hours.

Overall change in real costs

7.11 Real costs (excluding transformation costs) decreased by 5.6% in 2021-22 to £6.9bn (Figure 7.1 below), only slightly above pre-pandemic levels. As explained in Section 6, the reduction is mainly due to savings from the management restructure and reduction in non-people costs.

Figure 7.1: Total real and nominal costs (excluding transformation costs) from 2017-18 to 2021-22



Source: Royal Mail Regulatory Financial Statements and Ofcom analysis

* Adjusted to 52 weeks

7.12 In 2021-22, Royal Mail set out to achieve cost savings of c.£400m from reductions in costs as the impact of Covid-19 reduced as well as management restructuring, Pathway to Change initiatives and a non-people cost programme.¹³⁸ It was expected that these savings would offset cost pressures (e.g. pay and inflation).

7.13 Royal Mail reported in May 2022 that this had largely been delivered, with c.£340m cost savings achieved made up of:

- Management restructure savings of £115m;
- Non-people cost savings of £112m, in line with its expectations;
- £59m in savings from the Pathway to Change agreement,¹³⁹ below the expected savings of above £100m;¹⁴⁰ and
- £53m of the Covid-19 related costs in 2021-22, below its target of c.£100m.¹⁴¹

Covid-19 costs

7.14 In terms of Covid-related costs, Royal Mail missed the target as additional resources were needed to cover absence levels which were at c.8%, above pre-pandemic levels of 5-6%.¹⁴² This means that there are still some costs which relate to Covid-19 being incurred in 2021-22. We attempt to disaggregate the costs below:

- In its 2020-21 annual report Royal Mail explained that, in addition to the impact of increased volumes, Covid-19 had led to an increase in its cost base by £221m.¹⁴³
- In 2021-22, it reported that, as part of its overall cost savings (see above), it had eliminated £53m of these £221m of costs, so according to Ofcom's calculations this would leave £168m still to be eliminated.
- However, Royal Mail is reporting a residual Covid-19 base of only £92m¹⁴⁴ at the end of 2021-22 rather than £168m. This suggests there is still an additional £76m of costs remaining within the underlying cost base (i.e., £168m less £92m).

Price, Volume, Efficiency and Other (PVEO) Analysis

7.15 The PVEO analysis indicates that Royal Mail achieved a change in efficiency of £15m (0.2%) in 2021-22 (Figure 7.2 below), lower than the change in efficiency of £80m (1.1%) in 2020-21. According to the analysis, costs reduced due to a decrease in volumes (a saving of £274m due to demand drivers) but this was almost completely offset by cost increases from inflation

¹³⁸ International Distributions Services PLC, 2021, [Full Year Results 2020-21](#), slide 22 [accessed 4 Nov 2022].

¹³⁹ Pathway to Change. Royal Mail and the CWU came to a new key deal on pay and working practices in December 2020. We provide an overview of this agreement later in this section.

¹⁴⁰ International Distributions Services PLC, 2022, [Results for the full year ended 27 March 2022](#), page 1 [accessed 4 Nov 2022].

¹⁴¹ International Distributions Services PLC, 2022, [Full Year Results 2021-22](#), slide 16 [accessed 4 Nov 2022].

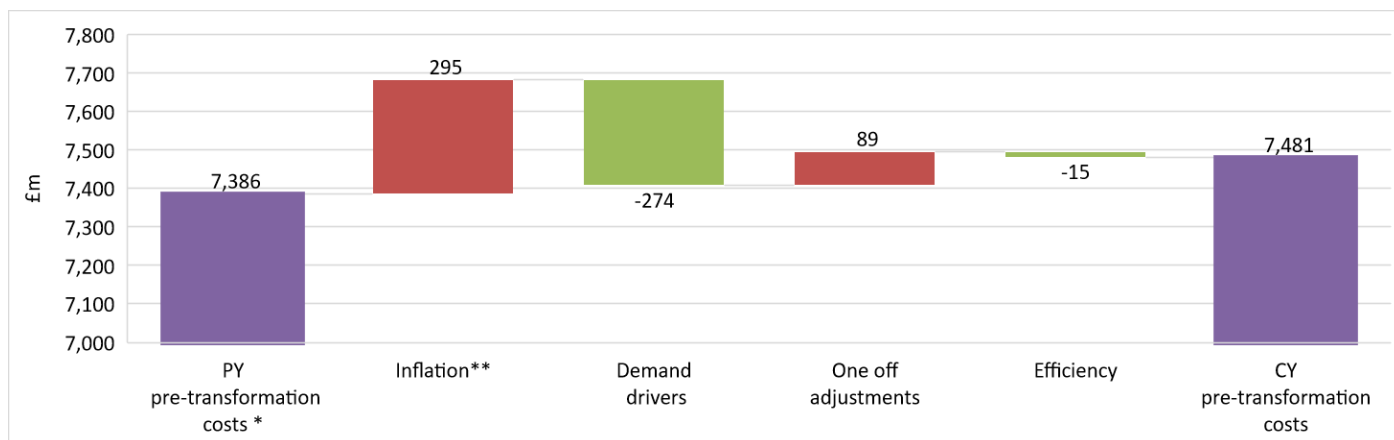
¹⁴² International Distributions Services PLC, 2022, [Annual Report and Financial Statements 2021-22](#), page 7 [accessed 4 Nov 2022].

¹⁴³ International Distributions Services PLC, 2021, [Annual Report and Financial Statements 2020-21](#), page 7: An increase in costs (vs. prior year) totalling £221m were made up of: £152 million relating to elevated absence levels, social distancing and protective equipment; and £69m from International conveyance costs which were higher due to a reduction in airline cargo capacity. [Accessed 4 Nov 2022.]

¹⁴⁴ International Distributions Services PLC, 2022, [Results for the full year ended 27 March 2022](#), page 67.

(changes to input prices) of £295m. Increases in one-off costs of £89m accounted for most of the remaining cost movements.

Figure 7.2: PVEO bridge 2020-21 to 2021-22



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

* PY pre-transformation costs are adjusted to reverse the one-off adjustments from the prior year. One-off costs relate to one year only and do not form part of the ongoing costs of operations.

**ONS 12-month trailing average CPI figures (April 2021 to March 2022)

7.16 Of the £15m increase in efficiency, the analysis indicates an increase in efficiency of approximately 0.9% (£45m) on people costs, partly offset by a decrease in efficiency of approximately 1.3% (£31m) in relation to non-people costs.

7.17 One-off adjustments include the remaining costs associated with Covid-19 such as PPE and social distancing requirements.

Frontline Gross Hours (Delivery and Processing)

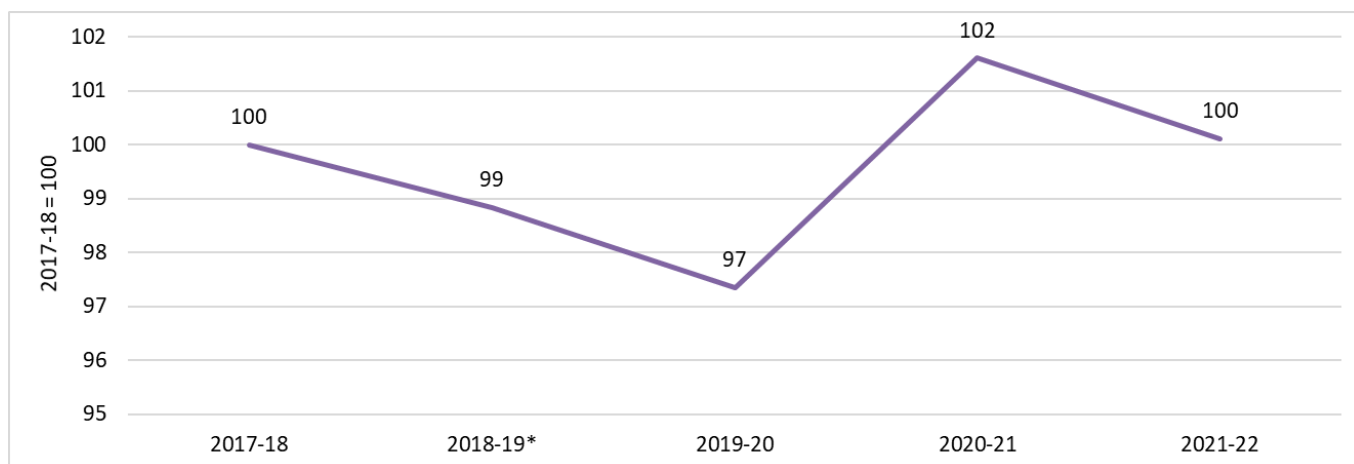
7.18 In 2021-22, total Gross Hours across Delivery and Processing decreased by 1.9%¹⁴⁵, compared to an increase of 4.4% in 2020-21 (Figure 7.3 below).¹⁴⁶ Gross Hours continues to be impacted by high absence levels, as explained above under 'Covid-19 costs'.

7.19 When compared to pre-covid levels (2019-20), Gross Hours are up c.3%.

¹⁴⁵ This figure excludes gross hours from RDCs and Other, such as central administration staff.

¹⁴⁶ Gross Hours - Total paid hours of frontline staff including absences.

Figure 7.3: Changes in Gross hours, indexed from 2017-18 to 2021-22



Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

* Adjusted to 52 weeks

7.20 Royal Mail stated in the Group’s annual report that it delivered benefits from Pathway to Change in Processing, but performance in Delivery was disappointing.¹⁴⁷ In Processing, Gross Hours decreased whereas, Delivery hours increased despite the reduction in volumes.

Royal Mail’s Productivity Metric

7.21 Productivity is a measure of efficiency which captures the rate of work throughput. The metric reported here is Weighted Items per Gross Hour (WIPGH) and is calculated as the ratio of Workload (weighted volumes) to Gross Hours (Gross Hours include worked hours and non-working paid absences for sickness, annual leave etc).

7.22 However, the Pathway to Change agreement introduced Weighted Items per Work Hour (WIPWH) for internal measurement of Productivity down to individual unit level in Processing and Delivery (Processing unit or Delivery office level). In our September 2022 consultation on Royal Mail’s regulatory reporting requirements, we explained the difference between WIPGH and WIPWH and our intention to continue to report against WIPGH under the new framework.¹⁴⁸

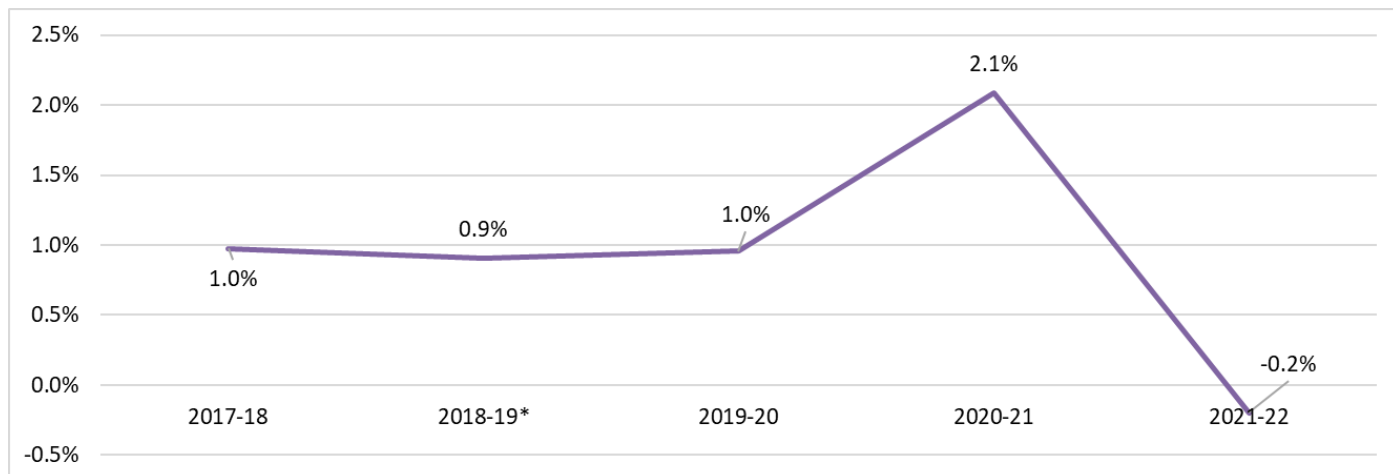
7.23 Royal Mail’s stated Productivity (WIPGH) fell 0.2% for 2021-22¹⁴⁹, see Figure 7.4 below, below its targeted improvement of above 3%.¹⁵⁰

¹⁴⁷ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 6.

¹⁴⁸ Ofcom, 2022, [Changes to Royal Mail’s regulatory reporting requirements](#).

¹⁴⁹ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 69.

¹⁵⁰ International Distributions Services PLC, 2021, Annual Report and Financial Statements 2020-21, page 9.

Figure 7.4: Productivity changes 2017-18 to 2021-22

Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis.

* Adjusted to 52 weeks

7.24 The decline was due to performance in Delivery where Productivity (WIPGH) declined, this was partly offset by the Productivity (WIPGH) improvement in Processing, reflective of the direction of changes in Gross Hours above.

Royal Mail's own statements on efficiency

7.25 Royal Mail makes public statements on efficiency performance as well as Productivity (both of which were discussed earlier in this section).

7.26 In the 2021-22 annual report published on 16 June 2022, in his statement, Chair Keith Williams said that Royal Mail had "made significant operational change already, but this needs to translate into real efficiency savings which deliver a financial benefit next year and beyond".¹⁵¹

7.27 Royal Mail stated that it had delivered £112m of non-people cost savings, in line with the target of c. £110m in 2021-22 and £200m over two years.¹⁵² Additionally, Royal Mail acknowledged that it had failed to deliver the targeted operational benefits from Pathway to Change, reflected by the decline in Productivity as well as falling short of the £100m cost savings target.

7.28 It recognised that the business was slower to take out costs following the reopening of the UK High Street, which occurred more rapidly than Royal Mail had anticipated, and which had had a more immediate impact on parcel volumes than expected.

7.29 In its statement on principal risks and uncertainties within the 2021-22 annual report, the Group acknowledged the need for Royal Mail to become more efficient and agile to compete effectively in the parcel and letter markets. It said that "the success of our strategy relies on the reduction of our cost base whilst managing wider economic pressures and the Industrial Relations environment to deliver productivity benefits across all areas of the business. Failure to reduce costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue".¹⁵³

¹⁵¹ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 5.

¹⁵² International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 16.

¹⁵³ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 56.

- 7.30 We outline below the initiatives Royal Mail has had in place to improve Productivity and reduce costs, alongside the progress made towards these targets.

Royal Mail's Transformation programme

- 7.31 In May 2019, Royal Mail announced a strategy to transform its business, "Journey 2024". The plan was to drive forward UK revenue growth from parcels, while containing costs. The strategy outlined a focus on efficiency in its UK operations enabled by both a network and digital transformation.
- 7.32 Below we set out a brief overview of the progress achieved in 2021-22, which centred around two main areas – Pathway to Change and transforming the business to a parcels-focused operation.

Pathway to Change

- 7.33 Royal Mail and the Communication Workers Union (CWU) came to a new key deal on pay and working practices in December 2020¹⁵⁴, the 'Pathway to Change'. This outlined "a clear pathway to change that will bring major benefits to customers, employees and Royal Mail." It awarded a pay rise of 1% in April 2021 and shortened the working week of frontline full-time staff from 38 to 37 hours, for the same pay, with part-time staff getting an equivalent pay rise. The reduction in working week or equivalent pay rise was contingent on successful completion of delivery revisions (see paragraph 7.38) activity by October 2021.
- 7.34 2021-22 was the first full year under this agreement. As outlined earlier, Royal Mail expected to make £100m savings in 2021-22 but only achieved £59m.¹⁵⁵
- 7.35 One of the main initiatives planned was "Revisions". This was the process whereby resources across Royal Mail's operation, including Delivery and Processing, would be redesigned to better match Workload. The plan was to implement c.1,800 revisions in 2021-22, including c.1,300 in Delivery.¹⁵⁶
- 7.36 Within delivery, 400 structural revisions were planned in 2021-22 with the remaining consisting of 'lighter touch' table-top revisions.¹⁵⁷ Royal Mail's presentation to analysts¹⁵⁸ stated that 369 of these structural revisions had been implemented, although many were delayed beyond the October 2021 target, and had gone through the maturity period enabling Royal Mail to judge performance.
- 7.37 Of the 369 deployed, 203 structural revisions performed behind the productivity benefit originally targeted and had a negative productivity impact of 7.2%.¹⁵⁹

¹⁵⁴ International Distributions Services PLC, 2020. [Framework agreement reached with CWU and Trading Update](#). [Accessed 18 Nov 2022.]

¹⁵⁵ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 19.

¹⁵⁶ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 7.

¹⁵⁷ A table-top revision is a change led and delivered by the Delivery Offices. The DOM (Delivery Office Manager) and local CWU reps work out what changes are needed to achieve the relevant goals (e.g. productivity target). A full structural revision is a 32-step process, which rewrites the routes from scratch providing a new process to drive efficiency into each DO.

¹⁵⁸ International Distributions Services PLC, 2021, Full Year Results 2020-21, slide 47, 166 (Structural good) + 203 (Structural behind plan) = 369 total

¹⁵⁹ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 19

- 7.38 Despite the delays to Delivery revisions, and some not being completed, Royal Mail implemented the additional hour of the shorter work week from October 2021 onwards. Hence, while costs were incurred, expected efficiencies were not fully achieved as a result of this initiative.
- 7.39 Royal Mail acknowledged the issues relating to the deployment of Delivery revisions, saying: “the learnings – which include ensuring operational stability before implementing change, that we have the right leadership which involves our postmen and women, and that everyone is committed to making it work – will enable us to improve implementation in the future”.¹⁶⁰
- 7.40 The Pathway to Change agreement also included the increased use of technology and Royal Mail successfully introduced a new electronic timesheet system at 43 sites, including all Mail Centres and Regional Distribution Centres. However, the roll out of Resource Scheduler, a software solution that draws together data from across Royal Mail’s operation to optimise alignment of duty sets and rosters to demand, in the Delivery function was “unsuccessful due to difficulties in its design”. Royal Mail has plans to recommence trials of an enhanced duty and roster planning tool in the second half of 2022-23.¹⁶¹

Parcel Hubs and Automation

- 7.41 Royal Mail’s ambitions under the Journey 2024 plan included that, by the end of 2023-24, it would have completed the roll out of an additional 30 small parcel sorting machines, achieved parcel automation of >80%, and have all three parcel hubs in place.¹⁶² The deployment was set to take place over three horizons, with the first phase seeing the complete roll out of small parcel sorting machines and the first parcel hub in place.¹⁶³
- 7.42 In the 2021-22 annual report, Royal Mail explained that it had made progress in its transformation programme, achieving 50% of parcels sorted automatically at least once at the end of March 2022, up from 33% at the end of 2020-21.¹⁶⁴ It now has ambitions to reach 70% automation in parcels sortation by 2022-23 and 90% by 2023-24.¹⁶⁵
- 7.43 Royal Mail also explained its first parcel hub, in Warrington, was launching in June 2022¹⁶⁶ and that its second parcel hub, in the Midlands, was on track to open in Summer 2023.¹⁶⁷
- 7.44 Royal Mail had 25 automatic parcel sortation machines as at 31 March 2022.¹⁶⁸

Summary

- 7.45 In summary, the key indicators of efficiency performance for the 2021-22 financial year were:

¹⁶⁰ Ibid.

¹⁶¹ Ibid.

¹⁶² International Distributions Services PLC, 2019, Full year 2018-19 results and strategy presentation “Journey 2024”, 22 May 2019, slide 12.

¹⁶³ International Distributions Services PLC, 2019, Full year 2018-19 results and strategy presentation “Journey 2024”, slide 98. End of 2020 refers to calendar year.

¹⁶⁴ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 16

¹⁶⁵ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 20

¹⁶⁶ International Distributions Services PLC, 2022, [Trading update for the first quarter April to June 2022](#), page 4: “We opened our first Super Hub in Warrington in June”. [Accessed 18 Nov 2022.]

¹⁶⁷ International Distributions Services PLC, 2022, Annual Report and Financial Statements 2021-22, page 20.

¹⁶⁸ International Distributions Services PLC, 2022, Results for the full year ended 27 March 2022, page 13

Annual Monitoring Update for Postal Services 2021-22

- Total real costs for the Reported Business decreased by 5.6%, against an increase of 6.9% in the prior year.
- The PVEO analysis indicates an underlying increase in efficiency (excluding transformation costs) of 0.2%, against an underlying increase in efficiency of 1.1% in the prior year.
- Royal Mail decreased frontline Gross Hours across Delivery and Processing by 1.9%, in part mitigating the increase of 4.4% in the prior year.
- Royal Mail's estimate of Productivity (WIPGH) change was a decline of 0.2%, significantly out of line with its target of an improvement of above 3%.¹⁶⁹

The overview section in this document is a simplified high-level summary only. The reported information and our considerations are set out in the full document.

¹⁶⁹ International Distributions Services PLC, 2021, Annual Report and Financial Statements 2020-21, page 9.