

Scottish Affairs Committee

Oral evidence: [Universal Postal Service: impact on remote, rural and island communities](#), HC 938

Wednesday 11 June 2025

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Members present: Patricia Ferguson (Chair); Maureen Burke; Lillian Jones; Mr Angus MacDonald; Douglas McAllister; Susan Murray; Elaine Stewart; Kirsteen Sullivan.

Questions 1 - 83

Witnesses

[I](#): Grace Remmington, Head of Postal Advocacy, Consumer Scotland; and Stacey Dingwall, Head of Policy and External Affairs (Scotland), Federation of Small Businesses.

[II](#): Natalie Black CBE, Group Director for Networks and Communications, Ofcom; and Glenn Preston, Scotland Director, Ofcom.

[III](#): Ricky McAulay, UK Operations Director, Royal Mail; and Ross Hutchison, Scotland's General Manager for Processing, Royal Mail.



Examination of witnesses

Witnesses: Grace Remmington and Stacey Dingwall.

Q1 **Chair:** Good morning and welcome to this meeting of the Scottish Affairs Committee. Today we are going to be considering the universal postal service and the impact on remote, rural and island communities. Can I ask each of the witnesses this morning in this first session to briefly tell us who they are and what they do?

Stacey Dingwall: My name is Stacey Dingwall. I am head of policy and external affairs at the Federation of Small Businesses in Scotland.

Grace Remmington: Good morning. I am Grace Remmington, head of postal advocacy at Consumer Scotland.

Q2 **Mr Angus MacDonald:** Stacey, I am the MP for the highlands and islands, and a small business guy, basically. What do you think the big problems are for the postal service for remote Scotland?

Stacey Dingwall: I guess we are here today in the wider context of looking at changes to the universal service provision and reducing how people receive post. In speaking to our members leading up to this session, that is what people in rural and remote areas already experience. I spoke to quite a few members in the lead-up to this session and they told me, for example, when they send or receive something by first-class post it is the default for them to expect to receive it, or to be received by whoever they sent it to, 24 hours later than was anticipated. There are already access issues for our small businesses in rural and remote areas.

Q3 **Mr Angus MacDonald:** Do you think it costs businesses money? Do you think it is an additional expense to remote and rural businesses?

Stacey Dingwall: Yes, definitely—financially but also reputation-wise. A lot of what small business owners do is send out orders to people, and if a customer has an expectation of receiving something within a certain timeframe and they do not receive it, the anger tends to be directed towards the small business as opposed to the delivery service. That can often result in bad reviews and lack of repeat custom for small businesses.

Q4 **Mr Angus MacDonald:** Grace, on the basis of what Stacey has said, do you think that these challenges conflict with the principle of a universal postal service where everybody is meant to get the same service?

Grace Remmington: When we have spoken to consumers, it is incredibly clear that the postal service is vital for rural and remote consumers across Scotland. The universal service obligation is incredibly valued as well. When we spoke to consumers, they were not all necessarily aware that it was something they were supposed to receive. They all valued it but when we spoke to consumers not everyone felt that they were receiving it. That is also borne out by our research that found



HOUSE OF COMMONS

that around 30% of consumers said that they did not think they were getting the service that they were expecting. It is really important that rural and remote consumers have an equitable quality of service. For some areas, that would be the expectation of the same service.

There are legitimate challenges to getting post to some areas, and that will potentially impact on the speed at which it can arrive, but what Consumer Scotland has highlighted as part of the consultation process with Ofcom is the need for safeguards for those consumers who are in island communities. At the moment, those in the Western Isles, Orkney and Shetland do not have a safeguard for a first-class quality of service, and that means that there is no real protection there. They could have where they are at the moment, which is that around 30% of first-class post arrives when it is supposed to while the rest of the country sits up at a 93% target. There are no safeguards in place at the moment that stipulate a level of service they have to receive, so it is really important, as part of that universal service obligation, that there is an equitable quality of service for communities that are much more challenging to deliver to.

Q5 Mr Angus MacDonald: To take that one step further, in rural areas we have a much older population. Could you elaborate on why this might impact that population?

Grace Remmington: Absolutely. There are a couple of things to pick up. When we have spoken to consumers, it tends to be the older groups that are more reliant on postal services. It was particularly people who had less digital skills or maybe had more reliance on essential services in the area, and potentially people who are more likely to be disabled and to be reliant on healthcare services and things like health letters coming through the post. It is vital that the universal service obligation is delivering for those consumers, because ultimately they may not have other options.

We know that some parts of Scotland also have poor internet connectivity. There may be older populations without digital skills, but there may also be older populations and disabled populations with greater reliance on the postal service who may not have the access to digital connectivity that they would if they were living elsewhere, which means that they have more reliance on the postal service anyway.

Q6 Susan Murray: If we move to specifically parcel services, to what extent do rural Royal Mail customers value the Royal Mail services compared to competitors?

Grace Remmington: When we spoke to consumers, one of the things that came out was that they valued the one-price-goes-anywhere for Royal Mail because, as you will be aware, people in rural and highland areas face a greater chance of surcharge. As an indication, across the whole of Scotland nearly one fifth of adults, or 18%, experience surcharges, but that rises to 72% when you get to the highlands. Outside



HOUSE OF COMMONS

of the Royal Mail universal service obligation, the wider context is these communities are much more likely to face surcharges and are therefore more reliant on Royal Mail because of the one-price-goes-anywhere. That was borne out again by the research that showed that rural consumers in Scotland do rely more on Royal Mail for parcel delivery.

Q7 Susan Murray: What was the effect of Ofcom removing the price cap last year on that? Do you have any information on what effect it had on the rural community's ability to access parcel services in general?

Stacey Dingwall: I don't have anything specifically on the cap. I would add to what Grace has said. In speaking to our members in the lead-up to this session, 75% of those we spoke to only use Royal Mail for their postal delivery services. I think that, not just for rural and remote small businesses but for small businesses overall in terms of the consideration of an alternative provider, that would not be an option for them. Small businesses are very much like the individual consumer in any situations, in that they do not have the means to negotiate contracts or lower prices that larger businesses would. There is a definite overreliance on Royal Mail among small businesses.

Q8 Susan Murray: Are you getting any feedback from rural areas near cities and built-up areas in terms of the logistics of delivering and perhaps collecting parcels? If you are driving up a mile track it is different from if you are just going through the built-up area that is nearby. Would your definition of rural areas include rural areas that are close to built-up areas?

Stacey Dingwall: For this we have mainly spoken to what you would think of as your traditional rural remote areas, so those who are travelling often quite far to get to a post office to drop off mail. I did hear specifically from one member who said that there was a post office van coming to their village for an hour twice a week, which they sometimes use, but their mail tends to be urgent and therefore it is not practical to wait until the next visit. However, it has recently missed quite a number of its scheduled visits due to maintenance issues, so even with that reduced service we are seeing issues with it being reduced even further.

Q9 Lillian Jones: This is for either of you. How well does Ofcom's equality impact assessment sufficiently capture the needs and vulnerabilities of remote communities?

Grace Remington: I guess to start we have been pleased with the engagement we have had with Ofcom as we have moved through the consultation process, but we have raised concerns about the sufficiency of the user needs assessment. This is around letters now specifically. That is because the delivery model proposes quite a dramatic change for consumers due to more variable delivery because of this alternating day model—so Monday, Wednesday, Friday for one area one week and then it will be Tuesday and Thursday the other week, and they will swap between areas—and the slower delivery speeds of mail that is effectively



travelling over the weekend. That is because of both the removal of Saturday as a processing day for second class, so mail effectively would be classed as the same delivery speed but is now skipping a Saturday, and the removal of it as a delivery day. We see this as a quite specific model, and it is quite a big change from what consumers are used to.

One of the things that we have raised with Ofcom as part of this process is that we think the user needs assessment that it has done needs to specifically ask about that model because it is introducing elements of variability and it is introducing multiple components of changes to speed over the weekend. Although on paper in regulatory terms it looks the same, it could be seen as a much slower service for consumers. If they post something on a Wednesday and they are used to getting it on a Saturday, they could now get it on a Monday or a Tuesday, and with rural areas that may compound it. We know that those in some of the more remote and rural areas are already anticipating longer delivery times for post that they are sending, particularly to and from the mainland. That is one of the key things that we have raised as part of the consultation process. What we would like to see is that the user needs assessment has explicitly asked about this specific change and has considered and assessed thoroughly the needs of remote and rural communities as well.

Q10 Lillian Jones: Would you agree with Ofcom that remote and rural communities have the same needs as most typical users of the postal service?

Grace Remington: No, and we have done quite a bit of research with rural and remote communities, so there are various reasons for that. First, as I mentioned, consumers in the most remote islands, so Orkney, Shetland and the Western Isles, already receive a much lower quality of service than the rest of the UK. Within the current proposals there is a lack of clarity as to what the universal service obligation looks like for them, whether the proposals are likely to be the same or whether they are going to look different. To have that safeguard for those communities, there is a need for clarity on what those proposals are going to look like.

Additionally, Scotland has some of the poorest internet connectivity across the UK. That is not just about digital skills; when we spoke to one consumer, she said that she could not do a lot of essential administration online because she could not have two documents open at the same time. That limited her ability to do some of the essential administration that other people might be able to do online in other places with better connectivity.

The biggest concern has been on essential mail—legal, financial or health-related post, benefit letters and those types of things. People may also need access to essential services that are not necessarily on their doorstep. They may be more reliant on the postal service to connect them with essential services and with the wider economy that may not be



accessible locally. I am sure Stacey can talk about that as well, in terms of connecting consumers such as small businesses with their customers.

Stacey Dingwall: We are aware that Royal Mail is carrying out pilots for the proposed changes and I do not believe that encompasses an island pilot, so I guess that would be our biggest concern. We do not fully understand the needs of small businesses in island areas and the challenges, as Grace has outlined, that they already face. It would be a concern to us that they would receive a further reduced service than they currently receive.

- Q11 **Lillian Jones:** On that point, do you have any information that you can share with us in terms of percentages of consultation responses from islanders who are going to be impacted by these changes, and, of course, small businesses, particularly those people who cannot rely on digital services with poor broadband or who just do not have the digital skills or the equipment to do it? As Angus has already alluded to, it is an elderly population mostly in the islands, so it is about letters and connectivity. Do you have any information to give us an idea of the responses? Has everybody been consulted? Has everybody responded? Do we have any information on that?

Stacey Dingwall: I do not have anything on small businesses, unfortunately, no.

Grace Remmington: Just small businesses or across all consumers?

Lillian Jones: Has every person who lives there been consulted?

Grace Remmington: We have done some research particularly looking at the experience of low-income and rural consumers, and it was quite clear that people who saw post as most essential were more likely to be people who were elderly and small businesses that were reliant. It is what we have termed essential administrative post. Although I think social post is incredibly important, and people told us about things like pen pals and connection with family and friends that are in other areas, and that is an important social role of the post along with the importance of the postie for those communities, one of the things that came over when we spoke to them was concern about the postie because they saw them as a connection particularly for elderly people who may not see other people all day.

If we were to make a hierarchy of where the most serious risks to those consumers are, it is that access to things such as legal and financial services, because we heard concerns around the implications of getting post late—things such as missed hospital appointments. For most remote areas, when we have spoken to some stakeholders—we did quite a lot of evidence gathering as part of this piece of work to feed into Ofcom—it was things like rural consumers being able to organise hospital transport. It can take two or three days to get from, say, some of the more remote



peninsulas in western Scotland to Glasgow, and that requires planning, if they have late notification of hospital appointments.

Interestingly, something else that came up was that the digital transition for health services across Scotland is very variable depending on where you live. Some areas are not able to download a hospital letter, and you have to have sufficient broadband to do that anyway, so again there is more reliance there on the postal service for notification of appointments.

Q12 Mr Angus MacDonald: Grace, one of the big issues that we are facing, for which it is not clear to me who is responsible, is that we are seeing a vast number of rural post offices closing and reducing hours. Even in major towns they are open from 10 am until 2 pm or whatever it is. If you are a microbusiness on the west coast basically surviving, and I am going to use the example of a company that does fragrances near to us in Ardnamurchan, their post office has closed. For them it would be an hour or an hour and a half to get to the nearest post office. It is an enormous additional cost for business. Who is representing these issues in negotiation with Ofcom or Royal Mail?

Grace Remington: I will go to Stacey for small businesses. I will loop back to some work we are doing because I think it is quite important, but I will let Stacey go first.

Stacey Dingwall: Certainly, that is a big role of FSB in representing those issues for our members. As part of this piece of work, when we asked our members to rate the service that they receive from Royal Mail it was quite high, despite the challenges that I have outlined that they are facing. I think that is very much influenced by the relationships that Grace mentioned with the postie, with the post office. People described it as the heart of the rural community. To lose that would certainly impact on small businesses' perception of the service that they are receiving in the future.

Q13 Mr Angus MacDonald: I do not think there is any doubt about the relationship and the quality of the posties. I think it is the other way around. It is getting the product to the customer base one way or another, and the fact that the post offices are now privately run and find it difficult to be viable and therefore are closing. In my opinion, that is where the real damage is being done to the microbusiness economy.

Stacey Dingwall: Certainly, and we have seen that with bank branch closures as well. It is a real concern for our members in these communities.

Grace Remington: If I can just come in, we have identified it as an issue and we are keen to make sure that the more rural perspective across the intersection of post—so beyond the universal service obligation for post offices—and parcels is represented as well. We are doing some research this year with island communities looking at the intersection of



post office, the letters market and broader parcel services so that we can look at and identify the intersectional issues that consumers face.

Q14 Maureen Burke: My question is to Grace. What are the most significant risks of reducing the second class and bulk mail delivery frequency for rural constituents? How do you expect the newly proposed quality of service targets will or will not address these risks?

Grace Remington: In terms of the direct impact on consumers—again, it will vary depending on the consumer group because we know that certain groups of consumers are more likely to be reliant on post than other consumers—we see a spectrum of potential harm. That can range from mild inconvenience, so it could be that somebody has a late notification of a hospital appointment and that is frustrating, or it could be that somebody popped a birthday card in the post and it has arrived late and that has caused an issue with a family member, but it could go all the way up to things like missed hospital appointments or test results coming through the post. What we want to see is that the safeguards in place are sufficient, given that this is a new model, to ensure that consumers are protected and that there is no risk of the most severe areas of harm within the ongoing changes to the postal service. That is things such as, as you mentioned, quality of service.

On the quality of service within Scotland, we have done some analysis of the rural-urban split and there isn't a clear pattern between general rural and urban areas. The issue is the more remote an area is, the more likely people are to have poor quality of service. Again, when we have spoken to consumers through a survey, what was very interesting is that the poorer the quality of service they perceived and they were experiencing, the less likely they were to say that the changes would meet their needs. I think there is a concern for those consumers who are already experiencing a poor quality of service. What is going to happen with the changes and what is the likely impact on those consumers? It is about having sufficient safeguards, so quality of service targets are very important.

What we have recommended as part of this ongoing consultation process is that we have postcode monitoring for first class but, given that the changes are to second-class post, it would be appropriate to have postcode monitoring for second-class post as well. One of the risks to rural and remote communities is we know they are more difficult to deliver to. We need a level of scrutiny to make sure that it is not these communities that are the percentage that are missing out and effectively the quality of service standards across Scotland and the United Kingdom are being met at the expense of certain communities. A greater transparency of data in terms of understanding the postcode level impacts on quality of service is important and, as I mentioned, having an equitable standard for island communities. What we want to see from this is that everybody experiences an improvement in quality of service because that is the objective that we are looking at. We are looking to



make this service better so we want consumers to see an improvement in quality of service. I think that is probably the metric by which we need to measure whether it is successful.

Mr Angus MacDonald: Good luck with that.

Maureen Burke: It is a lifeline for the people living in those areas, so it is crucial that we get that support for them. Thank you very much for that response.

Chair: Stacey, did you want to add something briefly?

Stacey Dingwall: I was going to say that of the FSB members I spoke to leading up to this session, two thirds of them send their deliveries by second-class post. Some of them said to me that they have concerns that the changes being proposed are a prelude to second class being removed altogether. Whether this is because second class is no longer an option for them or due to their business model, they have to switch to first-class post to remain competitive with other large online platforms, whether it is within their own delivery targets that are set or—quite a lot of small businesses will sell through platforms such as Etsy, which has requirements around delivery targets that they must adhere to. That would mean that they are forced to send things via first-class post, which obviously increases the costs to a business of being a viable business.

We survey our members quarterly on their confidence and we survey them on costs. In the last quarter, 90% of those who responded to the survey told us that they had seen an increase in costs across the board, such as in utilities, and putting a further cost is the last thing that small businesses need at the moment. Further increasing costs could impact on their ability to remain competitive or even the viability of their businesses, if I am being honest, if the costs spiral that much.

Maureen Burke: Thanks, Stacey. That is great. It is a financial impact then, as well as the concern that they cannot contact or get their hospital appointments in time.

Q15 **Chair:** This question is to you, Stacey. Angus MacDonald touched on the problem for micro and small businesses of post office availability. Do you think the changes to the universal service obligation will also affect those businesses in rural and remote areas?

Stacey Dingwall: Yes, absolutely. As I said, receiving that post, whether it is sent or received, 24 hours behind everyone else is quite common for the people I spoke to. On the proposed changes, we oppose the reduction in targets as the changes to second class go ahead, because that just signals that it is a reduced service. If you are reducing the service, surely the quality and the reliability of it should improve if it is being reduced. It came out across our members that reliability of service is more important than speed of service, so if the changes were to go ahead we would like to see an increase in the targets so they can be assured of reliability. I



HOUSE OF COMMONS

guess that at the moment there is uncertainty of when it is going to arrive, or if it is going to arrive. If there is increased reliability, then I think that is easier for small and microbusinesses to accommodate.

Q16 Chair: Has the work you have done led you to believe there are any particular sectors that might be affected?

Stacey Dingwall: Yes—those ones that are selling jewellery and things on Etsy, and those that are making not mass-produced stuff but the lovely artisan stuff that small and microbusinesses tend to make, particularly in rural and remote areas. I am sure Angus MacDonald knows quite a few in his constituency. It is a concern that we would lose that. It is so much part of Scotland's offer, and that those businesses would be at risk is a real concern.

Q17 Chair: Did your organisation consider how those problems might be mitigated?

Stacey Dingwall: In terms of how they are able to compete, I guess the members we spoke to about the changes were on board with it if there was maybe a reduction in cost, or if there is even a reduced service they thought that should equal a reduced cost to them in being able to send out their items. We do see that entrepreneurial spirit with small businesses that you often see. Those that are sending out jewellery—quite small packages that you would expect to be sent as a parcel—are using the letter service to get those items to customers at a lower cost. When we look at the statistics, I think letter delivery is down while parcels are up. That masks the fact that so many small businesses are trying to keep their costs down by sending things as letters as opposed to parcels.

Q18 Mr Angus MacDonald: Royal Mail was fined £16 million for not delivering on its targets. We now have new targets that are much less good. Do we have any confidence that Royal Mail is going to be able to deliver the proper service on those new, lower, easier to achieve targets?

Stacey Dingwall: That is what I was talking about. There is a concern that it will not even be able to meet those reduced targets. Where do you go if it is not currently meeting its targets and it is not able to meet further reduced targets? Where do you go from there? That is a massive concern.

Grace Remington: Yes, if I can come in on that one, we heard that as part of the change Royal Mail needs to make this work, but what we are concerned about is what the safeguards are. Ultimately, it is going to be consumers that pay the price if Royal Mail cannot make this work. We know that the postal service still plays a vital role in connecting consumers for essential services and the broader economy. Something that we have recommended to Ofcom has been for an assessment as to whether there are any additional tools that could be used to ensure that Royal Mail complies and is able to deliver the improvements to the mail service that it says it will deliver. If we look at the quality of service



HOUSE OF COMMONS

standard, this year it is around 76%, although they might correct me on that, but it has sat around 74%, 75%, 76%. As you said, it has opened another investigation this year into failures to meet quality of service targets.

What we want to see is that there are sufficient compliance incentives for Royal Mail so that consumers have confidence in the postal service and they feel that it will continue to meet their needs. The ultimate goal and something we all want to see is that the quality of service standards start to hit those 90% targets rather than sitting down in the 75% target. A big part of that is the regulatory tools that Ofcom has to make sure that Royal Mail makes it work.

Q19 Mr Angus MacDonald: What sprung to my mind when I was reading this was all the water authorities were not allowed to give bonuses because they missed all their targets. Do you think that would be a step too far, or would you be in favour of the Royal Mail not giving bonuses if it misses its targets?

Grace Remington: Our recommendation to Ofcom has been that it is its role, because as the regulator it has much greater awareness of the tools within the regulatory system to get Royal Mail to comply. We have made a recommendation more on a need for an assessment, so that it can assess the tools that it has, and then it is a matter for it to discuss with the UK Government.

Q20 Maureen Burke: What do consumers value most: reliability of the service or cost of service?

Grace Remington: That is a good question. Both. I know that across our research and other consumer bodies' research—we also have the Consumer Council for Northern Ireland and Citizens Advice across the UK—they have all found that consumers value reliability, but something that is important to note is that that is not mutually exclusive with cost. One of our concerns is that there is no clarity for consumers on how much they are going to pay for what is essentially a reduced scope of service with poorer quality of service targets. We feel that although reliability comes up, this is about the trade-off that people are making for value for money. The cost of a first-class stamp has gone up 124% since 2020, so do consumers see this as value for money? In some cases, stamps are now costing the same amount as the greeting card that they are sending. Is that still delivering value for money? That is the trade-off between the reliability that they value and the service, and the cost from them to access that service.

It is about affordability as well. We know that some consumers just cannot afford to buy a stamp. If you look at the hierarchy of needs that they have in terms of rent, water and shelter, what is left over at the end in some cases is a negative budget, and in some cases is very little, so they are making very conscious choices about what they spend their remaining discretionary income on.



HOUSE OF COMMONS

Q21 Elaine Stewart: Grace, would you say that Ofcom and Royal Mail have worked effectively to address the issues of affordability with the postal service?

Grace Remington: That is a good question. As I said, the cost of a first-class stamp has gone up significantly. Although we see and we welcome the ongoing commitment to a safeguard for second class until 2027, it has still gone up. I do not have the exact figure right in front of me, but it has still gone up significantly in that five-year period. One of our key concerns, as I mentioned, is that we do not think that changes to the service can be considered separately from the cost that consumers must pay for that because ultimately there is no clarity, as Stacey mentioned. If people are expecting a lower quality, if people are going to receive a lower quality of service, they may expect to pay less for that, but in reality we have no assurance that they are going to pay the same amount that they pay now or if they are going to pay more. We see that there is a need for considerations and safeguards for affordability.

Within the context of the postal market and the universal service obligation more broadly and rural and remote consumers, there are no affordability protections for first-class post but we know that consumers may still rely on first-class post. That may be people sending stuff from islands or more remote areas if they do not feel that second-class post is going to meet that timeliness where it is already slightly slower. We know from Royal Mail's consultation response, from Ofcom's consultation, that first class is going to be done by van delivery and therefore is going to be more expensive to deliver. At the moment, there is a lack of clarity around whether those costs are going to be passed on to consumers because first class is effectively a more expensive service for them to deliver as well.

Q22 Elaine Stewart: That follows on to my next question. Do you have any concerns about the impact the potential increase in the stamps will have on remote and rural communities?

Stacey Dingwall: In terms of the overall increase in costs that businesses are facing—90% in the last quarter saw increasing costs—the last thing they need is further costs. It could pose a real threat to their business model and viability.

Q23 Elaine Stewart: Is that what they are saying? Is that information that you are gathering, that that would be the case?

Stacey Dingwall: FSB in Scotland does a survey across our membership every two years and we are just about to publish the 2025 edition. One of the questions we ask businesses is if they plan to grow their business, if they plan to stay the same or if they are planning to reduce or shut their business. Unfortunately, more businesses this year than in 2023 have told us that it is looking more likely that they may have to close their business in the next 12 months, obviously not specifically due to this issue but it is an overall concern for small businesses.



HOUSE OF COMMONS

Grace Remmington: If I can come in, we know that all rural consumers are likely to face increased rural penalties across other things, energy for example, so the affordability is not just about the behavioural choice of a first-class or a second-class stamp depending on their needs but also the broader service provision being more expensive.

I was going to bring in a quote from a consumer because I think it encapsulates that nicely. I will say this is somebody in a more remote area, somebody in the Northern Isles, so an area that currently does not have a quality of service standard for first-class post and where we know that there are challenges. That is the caveat. We asked them about value for money and they said, "I would say depending on where you live it can be good value for money. However, at least for someone living very rurally, due to the inconsistency of Royal Mail at the moment of their delivery times it does not feel worth it. I would only really use special delivery if it had to arrive at a set time." So they are consciously choosing neither first nor second class, but if they needed speed they were choosing special delivery, which is a lot more expensive as well.

Stacey Dingwall: I had pretty much exactly the same comment from one of our members who said, "I use special delivery for all my jewellery parcels. This is the only way jewellery is insured via Royal Mail and it is also supposed to be guaranteed next-day delivery. However, recent experiences have caused disappointment in this service, which I have been using for more than 10 years."

Q24 **Maureen Burke:** I am not sure how relevant this is, but this came into my thoughts when you said the price of a first-class stamp is £1.70. That is quite costly, but I was wondering about the cost impact of the stamp, the cost of Christmas cards and people not now sending Christmas cards because of the cost. Do you have any data on how it has affected you as the provider, and was there an analysis done on that to see what the impact of the stamps going up had on people sending cards such as Christmas cards?

Grace Remmington: We have not done it specifically on that, although it would be very interesting to see the relationship. I know when we have spoken to the greeting card industry they are concerned about the impact, and that includes small businesses that are producing greeting cards. It is not just the cost of sending the cards but also the cost of buying the card. That plays a very important part of the economy because that is an industry in itself, but it also plays a very important social value for connecting consumers with their loved ones. I guess a poor outcome for consumers would be that they must choose between a postal service that is too slow for their needs or too expensive for their needs.

Stacey Dingwall: I heard from a small business that sells greeting cards and it said it is dissatisfied with the constant increase in price for postage and the reduced service for second-class mail. The above factors are impacting on its ability to afford the service that Royal Mail provides, but



HOUSE OF COMMONS

also on its customers; therefore, the greeting card businesses are noticing a reduction in sales and performance.

Q25 Chair: We have talked a lot about what the universal service obligation's impact might be. Are there any particular measures that either of you want to see taken to ensure that rural and remote communities are not disproportionately affected by those changes?

Grace Remington: I can go first on that one. We have been, as I said, extensively engaged with both Royal Mail and Ofcom as part of this process, and we do value the fact that they have both been open with communication. As part of this, we have made 17 recommendations to Ofcom. I will not run through them all. The key ones for rural and remote communities are that we see that there is a need for a review of the needs assessment to ensure that there is sufficient evidence on the alternate day model that is being proposed and consideration of whether that is the most appropriate model and will meet consumer needs. There needs to be an assessment of the impact on remote and rural consumers, particularly given Scotland's unique remote island population. It needs to be fully robust, given the needs of remote and rural consumers.

This has been one of the biggest reviews of the postal service in decades, where we have a window of opportunity to introduce some form of equitable quality of service standard for areas that are currently exempt, so Orkney, Shetland and the Western Isles. We recognise that 93% is not likely to be a realistic target, but the fact that there are no safeguards represents an inequality and an unfairness in the system and is not representing these consumers. It is about 60,000 consumers. It is not a small number of a few hundred, which is maybe what people can have in their heads when we talk about it.

Additionally, across the whole of the universal service obligation it is crucial that Royal Mail does make it work, so we do think that there is a need for Ofcom and we have recommended a need to consider whether there are additional tools that ensure Royal Mail does comply with whatever the final model looks like. We think that there is a need for greater monitoring, particularly given that these are changes to second-class post and there is currently no postcode-level monitoring of second-class post. The overall quality of service standard is not being met in pockets of the rural community where it is more difficult to deliver to. We think it is important to introduce postcode area-level monitoring of second-class post as well to ensure that those areas are not disproportionately affected.

We are aware—and Royal Mail will speak much more to this, I'm sure—that it has said that it is expecting less of a change to rural areas in the current delivery model than it is in urban areas. However, this reform affects all consumers and therefore we want to see that there is some form of pilot in these areas to make sure that the improvements to the service that we are all anticipating happen.



Stacey Dingwall: We are aware that the UK Government have issued the instruction to regulators to support the goal of economic growth. The proposed changes do not seem to see Royal Mail rising up to that challenge, the challenge being allowing it to compete with large online marketplaces and other large delivery providers, to compete with them and increase its share of the market, which in turn would allow economic growth through small businesses, particularly in Scotland where 98% or 99% of businesses are small. That economic growth is going to come from them, so we do not see that these changes are going to support small businesses to achieve that economic growth that both Governments in the UK and Scotland are promoting at the moment.

Q26 **Chair:** Has there been anything similar happening abroad where you would say that the way in which the change was made would be helpful if it were to be implemented here?

Stacey Dingwall: Yes, we did look at some other countries. Norway, Denmark and France were the services that we looked at. I know they have implemented digital post. France I believe introduced delivery with e-letters, which allowed them to keep their USO at six days. We are not arguing for a similar approach and it has been implied by the Royal Mail that a similar digital approach would not be feasible in the UK. For all the other jurisdictions that we looked at, it is clear that they first put mitigations in place before the reduction in the USO, so without knowing what mitigations would be here it would be difficult to adopt other models from other countries.

Grace Remington: If I can add to that, we are aware that there is an evidence gap. Often what is cited are the changes that have been made to the universal service obligation, but there is an evidence gap in that we do not know how consumers are experiencing those changes. We do not know if consumers consider them a success, if they consider them an improvement in the service standard and if they still meet their needs at the moment.

Chair: That concludes our questions to you, you will be glad to know. Thank you both very much for coming along this morning and contributing to our inquiry.

Examination of witnesses

Witnesses: Natalie Black CBE and Glenn Preston.

Q27 **Chair:** Welcome to our second panel of witnesses. We are very grateful to you for coming along today. Could I ask you to briefly introduce yourselves and tell us what you do?

Natalie Black: Good morning, everyone. My name is Natalie Black and I am group director for networks and communications at Ofcom.



Glenn Preston: Good morning. I am Glenn Preston. I am Ofcom's Scotland director, so I lead the Scotland team in Ofcom that represents Ofcom right across all our regulated sectors, not just on postal issues. I am the senior leader in Scotland of about 110 colleagues now based in our Edinburgh office who again work right across Ofcom's regulated sectors.

Q28 **Chair:** Thank you very much. Our first question is to Natalie. Can you outline for us the steps Ofcom took to ensure that the needs of rural and remote communities were considered as part of the impact assessment?

Natalie Black: Yes, of course. If you do not mind, Chair, maybe it helps as well if I set out where we are in the process in terms of reviewing the USO, for the benefit of the Committee. The consultation closed in April. We had responses from around 58 organisations and nearly 90 individuals across the UK. Today we would be very happy to talk about the feedback specifically we have had from Scotland. We are now at the stage of reviewing all that input, and we have been very grateful for the level of consultation that we have had. We are looking forward to publishing the outcome in the summer. What we are saying today is that we are at that stage of the process, in terms of no final decision having been made yet.

First, on the engagement of rural communities, I should emphasise, and Glenn will want to come in here as well, that this is a key part of all the work that we do in Ofcom, not just from the point of view of the USO, for the last couple of years particularly because the Royal Mail is in such a challenging situation. I cannot emphasise enough how difficult the economics are around post in the UK but also around the world.

As you will know, 20 years ago we used to send 20 billion letters. Now it is more like 6.6 billion and the issue is that at the same time the number of properties that expect posties to deliver has increased. The unit cost has increased dramatically. Of course, in rural communities the operational challenges are even more complex, but what we hear when we are talking to consumers all the time is how important it is to be connected and how much they rely on the postal service. That is what makes them feel part of the community and they want to continue to use it. Our aim at Ofcom is to support the long-term sustainability of the USO, particularly in the context of rural communities, because they are the ones that value it the most.

We have been doing a range of outreach and you have heard from Consumer Scotland previously and the FSB how closely we have been working with them. Glenn might want to say a bit more, as I know he has been out and about a lot.

Glenn Preston: I guess one of the privileges of this job is it has taken me all over Scotland over the last few years to our all-island local authorities, to the Western Isles, Orkney and Shetland and pretty much most of mainland Scotland as well. I was reflecting on that preparing for



today and looking back at the things we have been doing over the last few years.

It has been interesting that the focus has been primarily on the digital connectivity piece with very little representation to us or events that we have done with local authorities or enterprise bodies, for example, that have been specifically on the postal USO. That has been at front of our mind over the last 18 months or so and we have made a concerted effort through quite an extended process. We have done a call for input that was published in January 2024. We held an event in our Scotland office in April 2024, which we pushed very widely. You could attend in person or you could attend remotely. It went to all Scotland's local authorities, to COSLA, the umbrella body, the enterprise agencies. We have spoken to and pushed the consultation out to the likes of Scottish Rural Action, the Scottish Islands Federation—a broad range of organisations that we think are going to be affected by this. That includes Scotland's 14 health boards and Social Security Scotland, so we have really tried to push the envelope with this, recognising that over the last few years it has not been something that people have drawn to our attention. It has gone far and wide to these communities.

Frankly, we have not had a significant number of responses to the final consultation from particular island local authorities, for example, or rural groups or civic groups in those areas. The research that we have done has focused on and weighted the interests of rural communities as well to make sure that we are getting those voices as part of the consultation process.

Q29 **Chair:** Where is your office?

Glenn Preston: We have an office in Edinburgh now. We were in Glasgow for several years. We moved to Edinburgh in 2016. We are in the Quartermile area just up by the university. I must mention we have about 110 staff now. I think there are about 13 or 14 in Natalie's group, including people who focus on these issues, and these are colleagues who are out and about engaging with stakeholders in Scotland.

Q30 **Chair:** I was asking just because you said you had had a meeting in your offices and folk could dial in remotely, but I would not have thought very many people from even Inverness might go to Edinburgh for a meeting.

Glenn Preston: They do but you are right. What we try to do is make ourselves available in person by going to these places, and that is definitely something that I and my team do regularly, and other colleagues right across Ofcom, not just the Scotland-based colleagues but colleagues from other parts of the UK too. We almost always try to make it available remotely as well. That is a pandemic learning point, I guess for us all. Since we have run events there, it is very important to us that people who are in our rural and remote places get the opportunity to have a voice at these sessions.



Q31 **Chair:** How would you respond to stakeholders' concerns that the proposed model has not been sufficiently tested with consumers?

Natalie Black: I think that is an area we might disagree on in terms of what you have heard from Consumer Scotland so far. First, I should say that we are continually monitoring the postal market. That is one of the requirements on us. We collect a huge amount of consumer data. As Glenn said, particularly in the review of the USO, because we know it is so sensitive and so difficult, we have taken additional steps. First, with the call for input that Glenn mentioned, which we did in April 2023, the ambition was to set up a national conversation recognising the terrible economics of the market but the deep need to make sure that communities across the UK, particularly in rural areas, had a voice. As we have gone through to consult on a specific recommendation in terms of a revised operating model for delivery, we have been very careful to set up the methodology to ensure that it reflects communities across the UK. Of course, the challenge is always the sample size in terms of the numbers that we are looking at here, but we have been very careful to make sure it is as robust as possible.

The difference of opinion between us and Consumer Scotland focuses on the fact that when we talked to the independent advisers who advise us on methodology and as we have set up the methodology we have focused on the outcome. We have asked consumers how this outcome is going to impact them to try to make that question as clear as possible, so they know how it is going to impact their business and their everyday lives. Consumer Scotland has asked a few more questions around the operational processes of the change, so they have gone into a bit more detail. What is interesting is that overall we end up in a very similar place in terms of the outcomes of our research and importantly, of course, we are listening to them as part of this process. Glenn meets with them very often up in Scotland and it is great to see them here today. As I say, when we publish in the summer we will want to set out how we have listened to what they have heard from consumers and what we have heard from the FSB.

Q32 **Chair:** How will you take into consideration the concerns that rural communities have and that they have raised when making final decisions?

Natalie Black: One of the points I wanted to pick up from the last session is that we have said that there are very similar concerns between the population at large and rural communities in areas of reliability and affordability. Pretty much anywhere you are in the country you just want to know that when you pay your £1.70, which is a lot, the letter is going to arrive when it is supposed to. That is the challenge we have at the moment. The system is not working. What we are trying to do through these reforms is focus on that outcome. How do we make sure we get to a system that people can trust? Particularly for rural communities and SMEs, as we have heard in the previous session, we know how reliant they are. That is where we are trying to get to.



Q33 Douglas McAllister: Natalie, you issued a letter to the Royal Mail last week. Some in the media described it as “a slap on the wrist” to the Royal Mail for jumping the gun on potential changes to the universal service obligation. The Royal Mail apparently had issued a communiqué announcing that as of 7 July second-class economy letters and large letters would be delivered only five days per week on alternate weekdays. You have indicated this morning that you are still reviewing the consultation and are still to publish your decision. Is that completely inaccurate, or has it simply gone too early and jumped the gun?

Natalie Black: As I said in the letter, it has pre-empted Ofcom’s decision and we are taking this process very seriously. We are listening to a wide range of voices. We are getting lots of feedback in terms of how it is impacting different consumers and we will make the decision in the summer.

One issue it highlights, and I hope in due course this might be an area that the Committee wants to focus on, is that we will make our decision in the summer but that is only half the challenge; the real challenge is then implementing it. We must make sure that the revised model works for communities across the country. That is something that we are looking at from Ofcom’s point of view, but we will encourage others. We want to make sure that the Royal Mail is working with consumer groups during the process so it is getting live updates about what is and is not working. We do not underestimate the challenge here, but I want to emphasise that the reform of the USO is not a silver bullet. First, it does not fix all the challenges around the economics of the Royal Mail and, secondly, it is only as good as it is implemented. We have to make sure that we have laser focus on monitoring the impact on consumers and that we deliver the outcome that I think we are all working to, that the Royal Mail we can trust will deliver on quality.

Q34 Kirsteen Sullivan: You both touched on ways that you have reached out to get greater uptake in consultation responses from various bodies. We know that in rural communities community organisations and groups such as community development trusts and community councils can often play a very active role in the daily life of local residents. Can you tell me how you have had more targeted contact with rural communities, perhaps by contacting such groups?

Natalie Black: I might ask Glenn to cover that. It is an opportunity as well for us to talk about not just our work on the postal service but connectivity more broadly. Again, that is a key point from Ofcom’s point of view. It is around how we connect communities through all the different mechanisms that we have, whether that is the roll-out of full fibre, whether that is postal reform or whether that is access to new technologies like satellite.

Glenn Preston: I mentioned that this specific issue was front of mind for us when we started the process with the call for input at the beginning of last year, exactly because we had not had that regular contact with the



groups that you were describing in our engagement in previous years, where the focus had been on the digital connectivity piece that Natalie mentioned. We made quite deliberate steps when we were designing the stakeholder engagement—in the call for input and we have been pushing it out through the consultation process that will result in the statement in the summer that Natalie mentioned—to think outside that box, the civic organisations that are representing vulnerable consumers and in communities. We are looking at things like the third-sector interface network, where we did focus specifically on the highlands. We have talked and pushed the consultation to Orkney and Shetland. There are a couple of Scotland-wide disability groups, for example, that we have been keen to get responses from and we pushed the consultation and call for input out to those as well.

This is where it is important to be completely transparent. We have not had formal responses to the consultation from these organisations, but we have looked to organisations like Social Security Scotland to give us input. We have pushed the call for input and the consultation to all Scotland's 32 local authorities. I mentioned that we have also gone to the 14 health boards, as well as people who are not representative necessarily of those consumers but people who are engaging with those people in remote and rural areas day to day. I think that we have reached far and wide. I hope that we have not missed particular organisations that you have mentioned. We are very much open, particularly when we get to that implementation phase, to going back to these people, even if we have not heard from them during the consultation, to tell us what the practical experience is as well.

Q35 Kirsteen Sullivan: Do you feel that there is a gap that still exists there with feedback from more rural communities? You mentioned local authorities, but as we saw on our recent trip to Stornoway, some people can live two or three hours' travel from the centre of those local authorities, so it is important to get to communities at a very micro level.

Glenn Preston: I would not go as far as saying that I think there is a gap. That is one of the things that we were highly conscious of when we were designing the research that we did. Natalie said that we are lucky to have in-house experts on this, but we have also used an external agency to help us design the research to get to those places across the whole of the UK, not just in Scotland. They have weighted the responses that we have had from rural and remote places as part of that.

I think that the evidence base is sound and solid. When we started this process, I was of the view that we might hear different arguments from consumers in rural areas; Natalie mentioned that that has not been the case. The universal price point has come up but the two things that have been said to us by everybody, regardless of who we have been asking, is this point about affordability and reliability. The affordability and reliability piece is what people across the whole of the UK, including our rural areas and remote areas in Scotland, are focused on.



HOUSE OF COMMONS

Q36 **Elaine Stewart:** Natalie, you talked about implementing the process. How would that look across the country? Would it be trialled or would it be just universal right across the country?

Natalie Black: Ultimately, this is a decision for Royal Mail, because you never want Ofcom running a company. It is up to it to work out how to do this most effectively, but the thing that we will be watching like a hawk is particularly the quality of service point. One thing that has not come up yet that I want to mention is the new “tail of mail” targets that we are introducing, which we think are very important because a lot of the feedback we have had from consumers is that of course they want us to meet the primary target but it is even more frustrating that when the letter does not turn up on the day that you expected, you do not know when it is going to turn up. It could be a week, two weeks, or months later. I am sure that you have all seen various reports of where letters might end up.

This new “tail of mail” target will say that for first-class mail, 99.5% of the time that letter now has to turn up. If it does not meet the first target, it has to turn up within three days, and the equivalent for second class within five days. We are saying, “We’re not letting you off the hook, Royal Mail. Of course, we absolutely want you to meet the first target”. This is what the USO reform is about. It is about sustainability of the USO service, delivering quality that we can all rely on. We are adding this next layer to make sure that that is what they deliver. As part of the implementation, we will be watching that very closely.

Q37 **Douglas McAllister:** Do you not feel that what you are perhaps setting up is that delay—that they will then work to this second target rather than the first? What safeguards do you have there?

Natalie Black: By the emphasis and pressure that we put on the primary target. The primary target remains, and is very high by international standards. When you look at other countries in Europe of similar size, they have set targets more around 80%. We are not proposing that; we are proposing to keep a target above 90%. We are saying that we care so much about the quality of service that we are putting in an extra safeguard by having this secondary target as well, but the primary target remains.

Q38 **Mr Angus MacDonald:** Can I suggest that you might be asking the wrong question of your customers in rural, remote Scotland? I know when the letter that I take from my postman arrived; I just do not know when it was sent, so I pick it up and say, “Oh, good, my mum has written me”. If you asked small businesses, microbusinesses and other people how easy it is to post their post, I think you would come up with a pretty horrifying answer, because it is very difficult. There are not many left, you might have to queue for a long time, it is expensive to do, and so on. Therefore, the delivery bit is probably acceptable to most people, but actually getting it to the customer is more important.



HOUSE OF COMMONS

Natalie Black: I understand. That might be a point that you want to pick up with Royal Mail, but I would say that with the savings that will come from USO reform we are expecting it to invest heavily in quality of service and to be able to compete in a very competitive market. Therefore, I would not be surprised if you saw a new array of services. You mentioned the Post Office previously, which we have worked very closely with on the consultation. That would be one of the things that it would say. It wants to see a range of services that it can offer customers. I completely agree with you that it is about the whole process, but it comes back to the point that this is a very competitive and very difficult market, so we need to give the Royal Mail a fighting chance.

Q39 Mr Angus MacDonald: In the Scottish Affairs Committee in January last year, they talked about the cost of living in remote areas being up to 30% higher than in urban areas, and I am acutely aware of this. In your baseline targets for areas exempt from quality of service, there basically are no targets for those areas. Consumer Scotland has called for those targets. Do you think that it is acceptable for them not to have targets?

Natalie Black: Let me clarify a bit, because I think that there is a little bit of confusion. These areas are not exempt from targets. The national quality of service targets for first-class mail and second-class mail still apply. When we look at performance across the year, we look at performance in these communities. Indeed, we have made it a requirement on the Royal Mail to publish the data on performance in these communities. The challenge is that the sample size can be quite small, so the impact on the overall picture might not necessarily be felt, but they are absolutely taken into account—quality of service figures and enforcement action that you mentioned earlier, the fines that we have made against Ofcom.

Consumer Scotland is saying that for the postcode-level targets it would like to see these areas included. That is something that we are reflecting on at the moment and we certainly hear its feedback. However, you all well know the challenges of delivering to these areas. We have to be realistic about that. From an Ofcom point of view, in terms of how we look at the data and the quality of service, we do take these areas into account.

Q40 Mr Angus MacDonald: The second part of my question is about failing to deliver in the quality of service targets in the past. Why would they now reach them on easier targets? The fine last time was £16 million. Royal Mail's turnover is £8.5 billion. Perhaps it is just for them the cost of doing business.

Natalie Black: I certainly hear your question. To clarify, we fined them £10.5 million last year and the previous year we fined them £5.6 million. Combined, that is where the £16 million figure comes from, and we have an open investigation at the moment. This is not a good place for consumers. Ultimately, Ofcom's vision is always what is in the best interest of consumers. We want a Royal Mail that performs and delivers a



HOUSE OF COMMONS

quality service. When it does not do that, we will hold it to account, and that is what we have done through this process.

In terms of the long-term sustainability of the USO, we have to be honest with ourselves that it is not working. That is why we are looking at these quite difficult reforms. In the previous session, Denmark was mentioned as a comparison. Denmark no longer has a USO; it has given it up. That is not our long-term vision. We want to ensure the sustainability of the USO, and that is why we have to make quite difficult decisions. The trick of success is implementation and laser focus on making sure that implementation works and that we leave no one behind, which is an easy thing to say but a very, very difficult thing to deliver. That is something that we are very much focused on.

Q41 Elaine Stewart: The Royal Mail has suggested that the proposed changes to the USO could lead to price rises. To what extent was this considered when you drafted the proposed changes?

Natalie Black: When we have talked to consumers across the UK—and the same rings out in Scotland—affordability, of course, is right up there, in the same way that reliability is. We have committed, as part of the consultation that we have put out at the moment, to maintaining the cap on the second-class stamp. That is one of the proposals that we are considering at the moment. When we last looked at the costs of stamps just over a year ago, we decided not to cap first class because of the revenue requirements on the Royal Mail, but we do watch the price very closely. We all know that £1.70 feels a lot, but when you look at European comparators—Denmark, £3.96 for a 100-gram letter; Italy £2.45; the Netherlands £3.12—I know that that does not help when you still have to find the £1.70, but it just puts it in the context of where we are.

We recognise that it is challenging. The way that we are looking at it is that if we do not do something, and if we do not make these difficult decisions, that number could go up even more than at the moment. Therefore, as challenging as this all is, we are trying to be honest about the economics of the situation.

Glenn Preston: Can I add one complementary point to that? One of the other things that we have committed to doing this reporting year, so before the end of March, is another exercise looking at affordability specifically and the issue of the safeguard caps. We need to reach the decision about implementing changes for the USO. As we get to that stage and we focus on that, we also then stand up a project to look specifically at the issue of affordability, and we go back out and start talking to consumers about what their views are.

Natalie Black: That is set out in our three-year business plan, if you would like to see any more details.

Q42 Elaine Stewart: How would you respond to Citizens Advice criticism that



HOUSE OF COMMONS

these proposals allow Royal Mail to pass on the inefficiencies to the consumer?

Natalie Black: We would disagree politely. We are trying to set up a system here that reflects the challenging economics but then holds Royal Mail's feet to the fire in terms of quality of service, but also capping the price of second-class stamps. Exactly as Glenn has said, we have some longer-term work to do on pricing. We have worked hand in glove with the Citizens Advice Bureau. We have met it many times and it has contributed to the consultation. We are looking at the feedback that it has given us at the moment. However, as I say, it is a bit of a challenging trade-off—affordability and sustainability.

Glenn Preston: Citizens Advice Scotland and Consumer Scotland are two of our most important stakeholders on these questions. When we reach a conclusion on this process, they are two of the organisations that I want my team to go and talk to about what the experience of people is. The CAB network in particular is incredibly helpful at giving us local intelligence. You heard a couple of specific quotes in the first session, and that is what brings to life people's lived experiences of this stuff. It will be key for us in giving us that local intelligence as we look at the implementation piece and further the look at affordability.

Q43 **Lillian Jones:** Natalie, you said that you would be publishing your findings in the summertime and that would be your proposals to Royal Mail. How confident is Ofcom that Royal Mail will overcome the economic challenges that you keep referring to and start delivering a reliable, value for money service for consumers, and how long would you anticipate that Royal Mail would have to be able to start delivering that service?

Natalie Black: It is a great question and ultimately that is the big question, right?

Lillian Jones: What is reasonable?

Natalie Black: I made the point earlier, but just to emphasise, we do not see reform of the USO as the silver bullet for Royal Mail's challenges. What we are trying to do at Ofcom is play our part. We have certain regulatory powers and we are trying to make the most of them to play our part in this very challenging situation.

On the implementation period, as it were, that is something that we are considering at the moment. We have heard different views. What is important to us, rather than thinking about the timeframe at the moment, is understanding how these changes will be communicated to consumers—what will be the feedback loop in terms of learning as we go. As Glenn said, there will be a big role for the Ofcom team in Scotland in that. I was in Edinburgh and Glasgow a month and a half ago and, for me, nothing beats talking to people about how it is actually going. What I took away from that visit was a bit of excitement. People do want to see some change across the board, whether you are working in the Royal Mail



or whether you are a user of its service. We have to make the most of this opportunity.

I am avoiding your question slightly in terms of specific timeframe because that is not something that we have decided yet. There are lots of factors that we need to take into account in that. We will welcome this Committee's interest. The spotlight that you are putting on this issue is helpful and we would be very happy to engage as much as you would find useful.

Q44 Lillian Jones: I have a follow-up to that. Rather than a timeframe, if Royal Mail continues to fail to hit its targets in the next year, is it then liable for a fine from Ofcom?

Natalie Black: At this point, because we have not published our decision and the thinking around that in the next steps, I cannot give you a definitive answer. What I take from your question and what we need to hear is that patience will be quite short. Consumers are frustrated. Back to the theme, they are paying £1.70 and they are not sure where the letter will turn up. We certainly hear that from consumers, and that will be very live to minds.

The challenge, and this is the balancing act that Ofcom is always having to play, is that the operational changes are quite complex and they will not happen on day one. It is more appropriate for Royal Mail to answer this aspect of the question, but it is something that we are alive to. Previously, Consumer Scotland emphasised that it is a long time since there has been this transformational change to the Royal Mail, and we all need to be mindful of that. We will all have to balance the fact that we are all quite frustrated with the fact that this is big, transformational change.

Q45 Chair: Some concerns have been expressed over time about whether this change might trigger a reduction in the number of letters and the like that are posted, which obviously would bring a decline in revenue as well. Is that something that you are concerned about?

Natalie Black: That is certainly something that we hear quite a bit of, and Glenn might want to share what he has been hearing as well. From the Post Office, that would be one of its concerns. I go back to the overarching theme that performance is so poor at the moment that if we do not do anything, it will just get worse. The only way that we believe that we can put the Royal Mail on a better footing, and the long-term sustainability of the USO, is by grasping this nettle. Ultimately, if it improves performance and consumers and businesses have more confidence in delivery, that is what will stabilise the number of letters.

However, we are doing this in the context of the digitisation of society, so we will not reverse the long-term trend and we should not pretend that we will. At Ofcom, we always hold on to the two factors that we keep hearing from consumers—that people feel connected to society when



they can use the postal service, and they want to continue to have the opportunity to use it, but it needs to modernise and reflect the way that we all as consumers are using it today, in a very different way, so that it is not only here for today but in the future.

Q46 **Chair:** Do you have any concerns that these changes might lead to a further erosion later on of the obligation?

Natalie Black: I think that I can say this on behalf of Glenn, me and the whole team. This is a lot of work. I do not think that we want to do this again anytime soon. We need to get this right. We are doing this on the basis of making difficult decisions and consulting extensively to make sure that we get it right. We do not want to be back here again anytime soon. Again, I would emphasise the point that this is not a silver bullet. We are one part in this jigsaw, and USO reform is only as good as implementation. We are very realistic about the global market around post, the UK market around post and what is happening in local communities, but we are undertaking this reform on the basis of trying to be brave about quite difficult decisions, and realistic so that ultimately we are putting the USO on a more sustainable footing. Arguably, the USO is more valuable to rural communities than anywhere else in the country.

Q47 **Chair:** That is interesting, because I noted earlier that you mentioned that the concerns of consumers in rural and other locations were exactly the same. They were about cost and reliability.

Natalie Black: I would not say exactly. They are similar.

Q48 **Chair:** They are similar, but your own comment there would suggest that you understand now, or are expected to understand, that the service is more of a lifeline to people in rural areas. While their concerns may well be the same in terms of cost and reliability, we have to see that in the context of living in a rural or remote area, which changes the dynamic slightly.

Natalie Black: Glenn might want to come in here again in a minute. I want to reassure this Committee that we understand how important rural communities are to this consultation. That is why we have ensured that the methodology is weighted appropriately. We have a far-ranging outreach programme. Sometimes we forget how amazing the USO is. It means that you can post a letter in Plymouth for £1.70 and it should be getting to Orkney, arguably, the next day. We know that that is not quite working, but that is what we are trying to protect. That is an amazing thing.

In terms of what the data is showing us, we are doing the right thing in focusing on reliability and affordability across the country, because that is what matters to everyone. In specific communities we certainly recognise how much it is valued, because in areas where all businesses are SMEs—exactly as we were hearing previously—in effect, you are reliant on first-class post. Do you want to come in, Glenn?



Glenn Preston: Only to say that the USO is not an issue that we would view in isolation. The digital connectivity piece in particular has to be complementary. We know that in rural and remote Scotland, whether it is through fixed broadband or mobile, by most metrics Scotland is still further behind other bits of the UK. For us it is about how you view all this together. How do we continue to drive that commercial investment in fixed broadband to complement the big public subsidy schemes that the Scottish Government and the UK Government and some local authorities are doing? How do we continue to drive investment in things like mobile, because people are increasingly using those devices to do the things that traditionally they may have done through the postal service? For us it is about seeing that whole picture, not just trying to create a sustainable universal service.

Q49 **Chair:** Thank you very much. You also mentioned that your decision will be made in summer. Are we able to push you a little bit on that to find out roughly when?

Natalie Black: Chair, I would be disappointed if you did not try. Unfortunately, we cannot say much more at this stage, but before recess would be very sensible.

Chair: That concludes our questions to you today. Thank you both very much for coming along.

Examination of witnesses

Witnesses: Ricky McAulay and Ross Hutchison.

Q50 **Chair:** We will now hear from our third panel. Thank you both very much, Mr McAulay and Mr Hutchison, for coming along this morning. Can I invite you to briefly say what your roles are?

Ricky McAulay: Good morning. I am Ricky McAulay, the operations director at Royal Mail.

Ross Hutchison: Good morning. I am Ross Hutchison, the general manager for Scotland and the north of the UK, previously the operations director for Scotland.

Q51 **Douglas McAllister:** I want to ask you about NHS letters. Late delivery of NHS letters puts vulnerable people at risk of missing important appointments or test results. It is costly for the NHS and disruptive for patients. Delays can widen existing health inequalities. I am sure that we all agree that NHS patient letters must be given priority. To that end, as I understand it, in April of this year, the Royal Mail announced a new Royal Mail NHS-specific barcode. As I understand it, Royal Mail sorting machines will be able to identify, extract and prioritise NHS mail. Is this



HOUSE OF COMMONS

for NHS England only or will NHS Scotland adopt the new NHS letter barcode system?

Ricky McAulay: I can assure the Committee that Royal Mail understands that all NHS appointment mailings, in particular in rural areas and perhaps people who are digitally excluded, are the essential form of communication. It works very well with NHS Scotland, the 14 health boards in Scotland, to make sure that it can get the best out of the postal service. It uses a procurement framework that the Scottish Government provide to buy the right service and there are different speeds of service within that.

To answer your question specifically, that barcode is available for the whole of the United Kingdom. We do need trusts and the boards in Scotland to adopt the barcode, but NHS letters go through a highly automated stream. It allows us to extract those letters, so where we are experiencing service disruption it enables us to take them out of the normal flow of mail and to give them priority. We know that the NHS is working via complementary channels—emails, text messages, the NHS app—but that does not work for everyone. We are very conscious that in rural areas and for those who may be digitally excluded, the letter is an important form of communication. It is available to all.

Q52 **Douglas McAllister:** When does the barcode system start down in England?

Ricky McAulay: We will look to have it in place for the summer, as and when Ofcom decides to change the regulation.

Q53 **Douglas McAllister:** When does it begin operating in Scotland?

Ricky McAulay: At the same time.

Q54 **Douglas McAllister:** Will postcodes across Scotland in remote areas receive the same level of service from that barcode system?

Ricky McAulay: Yes.

Q55 **Douglas McAllister:** If we have introduced that for the NHS, an NHS barcode system, do you anticipate rolling that out across other Government agencies such as DWP, DVLA and Inland Revenue? If we can introduce a barcode system for the NHS, what about other Government Departments?

Ricky McAulay: This is about having a contingency for an important forum of communication that connects a patient with some important treatment with the NHS. It is a contingency. We do not want to depend on that. We want to get Royal Mail back to being at its best, hitting its quality of service targets and those new reliability targets that we have responded to so that all mail that travels through the network gets a service that people expect.

Q56 **Douglas McAllister:** Sorry, but there must be a point to introducing the



HOUSE OF COMMONS

barcode. I understand that it is to identify, extract and prioritise. By doing that, that acknowledges that there is a reason to pull out NHS letters.

Ricky McAulay: From time to time, whether it is short-term absenteeism or something that happens outside our control, for that particular mail piece—I do not want to expand it into all letters because when you start expanding it, it is not easy to replicate it. This is about people who do not benefit from an email, a text or the NHS app. They cannot access that to get informed about their appointment, so we are getting a letter to them that gives them as much notice as we can about an appointment that is available for them. It is specifically for the NHS, and we have done it working with the NHS across the UK and boards in Scotland as well.

Q57 **Douglas McAllister:** Is it, therefore, down to the individual health boards across the Scottish regions? Will, for instance, Greater Glasgow and Clyde health board be implementing this barcode system in the summer?

Ricky McAulay: They will need to adopt the barcode system if they want to benefit from our ability to extract, and use it as a bypass mechanism where we have disruptions.

Q58 **Douglas McAllister:** You are saying they will need to, but will they? Are they about to adopt it in the summer?

Ricky McAulay: We cannot compel them to do it. We will give them every opportunity to make use of it, but ultimately we are not mandating that they need to use it. It is up to the boards and the trusts.

Q59 **Douglas McAllister:** How far are we down the line? We are into the summer of 2025, so when will the NHS in my area of Glasgow introduce the barcode system?

Ricky McAulay: I cannot respond to that. I cannot speak for the trusts.

Q60 **Douglas McAllister:** It does not sound as if it is going to be introduced in the summer then, does it?

Ricky McAulay: I am just reluctant to speak on behalf of the boards and the trusts and a complex NHS organisation that need to adopt the barcode.

Q61 **Douglas McAllister:** What should the public take from that, then?

Ricky McAulay: That the facility is there, and that we have worked carefully and listened to the requirements of the NHS, particularly for those people who are digitally excluded. We have come up with an innovative way of using a mail mark and our technology to prioritise the letters, and we need the trusts and the boards to adopt it.

Q62 **Douglas McAllister:** You are correct. It sounds great and it sounds like the work that you have done is fantastic on this. Where are we with the trusts adopting it?



HOUSE OF COMMONS

Ricky McAulay: I cannot give you a response to that. They have a reasonable lead time. We are not pre-empting that. Ofcom will make this decision. There are many good reasons why they should but, ultimately, Ofcom will decide the date from which the new regulation comes into force, and we are able to enact the process very quickly.

Ross Hutchison: To support Ricky's point, what I see on the ground across Scotland is that the 11,000 people who work for us in Scotland are hugely proud of the part they play in the community, and that includes the delivery of NHS letters. The process, such as the barcode process, is a well-trodden path. It is something that we worked very closely and very quickly with NHS boards to deploy through covid when there were vaccination letters. You will remember the blue letters. At that point we experienced some of the highest levels of absenteeism that we have ever seen, similar to what Ricky said.

Now, we do see small pockets of challenges, and this is a contingency arrangement. Our objective is to improve our quality of service right across the network in Scotland and the rest of the UK, but it is a process similar to processes we have had previously that our people are used to and proud of the part they play.

Q63 **Elaine Stewart:** You said the 14 trusts across Scotland need to buy in. What does that actually mean? Do they need to actually buy in, and is that now happening?

Ricky McAulay: They need to adopt the specific barcode, and it is helpful if they adopt the barcode for appointment letters. All NHS mail is important, but it is not all urgent and there are a lot of cost pressures on those boards as well. If an appointment is in a month's time, they might choose to send an appointment letter using a slower speed service that is cheaper in price, but if there is a close proximity—and that is where we work with the boards, when it gets close in proximity, like five days or six days—then actually use a high-speed service for appointment letters, not for all NHS mailings.

We have been and will continue to work with the NHS boards to maximise adoption. However, I would like to go back to say that this is about a contingency. We want to get next day quality of service and reliability back to what Royal Mail has historically always delivered and what customers come to expect. At the heart of that is the regulation change and the reform that has been consulted on by Ofcom.

Q64 **Elaine Stewart:** Just off the back of that, how many of the 14 boards have actually worked along with you to try to implement this?

Ricky McAulay: I could not say specifically. I know that 13 of the boards use the procurement framework, which is the Scottish Government procurement framework, to purchase their services. They do not all use it, but I would not want to mislead in any way and say it is seven or



HOUSE OF COMMONS

eight. If you would like us to follow up, we can happily do that afterwards.

Elaine Stewart: That would be great and helpful, thank you.

Q65 **Lillian Jones:** Do all NHS Scotland boards know about the barcode system?

Ricky McAulay: I believe so. We have an account team that works with the boards across Scotland. It is our job to make sure that they do and there is plenty of notice between the regulation changing, which is in the hands of Ofcom who you heard from earlier, and having sufficient lead time in the supply chain to make those changes and get the barcodes adopted.

We will make sure they do. I do not want to say for sure now that every individual who needs to know knows right at this minute in time.

Q66 **Lillian Jones:** I would be interested to know that the health boards that cover the rural highlands and islands areas are aware of this barcode system and that it is in use, given that you say it is a contingency.

Ricky McAulay: I am happy to take that away and provide the assurance, but we want all trusts and health boards to be aware. Quite often they use a wider supply chain of printers and people who do the work for them. They equally need to be aware and be very clear what barcodes they are applying to what letters. As I said, all NHS mail is important, but there is some mail within the mix that is urgent that we really need to expedite, and that is what this barcode is all about.

Lillian Jones: That is why I am referring to the highlands and islands, because it can take two or three days to get to an appointment. It is important.

Ricky McAulay: Yes, understood. The travel from the island, as you say, is two to three days, so the lead time that they require to get to an appointment is very different from somebody who may live in very close proximity to a hospital.

Chair: Just to summarise, we need the decision from Ofcom and then we need NHS procurement to organise the printing of the barcodes on to the letters, or on to the envelopes, so that that can then go through your process, which you are set up to take forward. That is helpful.

Q67 **Maureen Burke:** I will direct my question to yourself, Ross. How do your operational processes differ when delivering letters to remote and rural areas of Scotland compared with urban areas?

Ross Hutchison: It is a complex logistical network that we operate in Scotland, so it is different from other parts of the UK just because of the modes of transport that we use. In terms of how mail moves about the country, if mail is from the south of the UK, for example, that will transport by air from the middle of England, from East Midlands airport,



HOUSE OF COMMONS

into Edinburgh airport. If it is from the more northerly part of the UK, it will transport into one of four mail centres direct in Scotland; that is Inverness, Aberdeen, Glasgow and Edinburgh. They are the four points where any piece of mail that is being delivered in Scotland goes through. That is pretty consistent at that point.

Where I suppose it becomes slightly different for island communities, for example, is that mail, once it is received in Glasgow, has to be re-screened for air security reasons. It then has to be transported to Glasgow airport in secured vehicles, then it gets loaded on to aircraft to go to the island, which is what allows us to achieve a network, where it is possible, to get an item of mail from Plymouth to Orkney or Shetland the next day. It has had to go on two planes, potentially, it has to have been screened twice, and clearly it is dependent on the weather allowing all those modes of transport to connect.

We do lots of work with our third-party partners on that, so clearly we have relationships with air providers and ferry companies as well, which allows us to connect to some of those communities. So, a complex network, but a network that my team in Scotland and the team right across the UK are focused on making sure that we can be as effective as we can be daily.

Q68 Maureen Burke: That has answered part of my next question. I was just going to ask what steps Royal Mail has taken to ensure the quality of the service and targets will be consistently achieved.

Ross Hutchison: We do recognise—I think Ofcom reflected on this through its session, and everybody would understand—that it is challenging because of the logistics involved and more challenging to deliver the service to particularly the three island postcodes, HS, KW and ZE. That being said, if we consider reliability, what our data tells us is that at D plus four, so if next day is D plus one, we have delivered 96% of items next day to even those challenging parts of Scotland. At D plus three, it is nine in 10 items that have been delivered successfully, roughly, in that range. It is pretty consistent across the three island clusters.

We work extremely hard internally to make sure that our network is as effective as it can be. We have daily communication across the UK operation around when vehicles have dispatched, if the aircraft have dispatched to time, when we can expect that to connect. We do a significant amount of work with, as I say, the ferry companies and the air companies. We were meeting the chief operating officer of Loganair over the last few months just to look at how we can work in partnership to make sure that we improve reliability. We have tried to work with these providers as best we can.

Maureen Burke: That is good. It was just more the timeline. I was wanting to find out what that timeline was, but I think you have given me a good enough idea.



HOUSE OF COMMONS

Ross Hutchison: If we consider the challenges on the islands, they probably fall into two parts. We have a middle mile challenge, as we call it, which is how we move mail about the UK. How do you get it there? We also have a final mile challenge, which is not unusual for businesses that try to operate in the islands, which is low unemployment. How do we then manage recruitment in these locations? One of the things that we are proud to do is to offer permanent roles. We are advertising, and we are consistently advertising, for postal workers on the islands at the moment.

We have about 300 posties who work on the islands and serve those locations. There are 100 inhabited islands, so clearly it is not just getting to the first island, it is how you then connect to the other islands. That includes methods of transport such as drones, which I think everybody will be aware of.

Maureen Burke: Yes, you have your challenges. Thank you very much.

Q69 **Mr Angus MacDonald:** On the subject of affordability, there are predicted savings for Royal Mail from Ofcom's proposals, but they will only be realised if correctly implemented. What challenges do you see in the implementation?

Ricky McAulay: We are working through the implementation challenge in some pilot sites. Reform is essential, so there is no standing still and not changing. Nothing will get better, but we understand that how you execute change is critically important. What are we trying to learn from the pilot sites that we are doing just now? Ultimately, this will change the work, and life to an extent, of over 100,000 postmen and postwomen—11,000 postmen and postwomen in Scotland, a larger number across the UK.

The rotas change. We are working closely with our trade union partners and their employees to try to find a way of giving a bit more rest because deliveries have just got longer and harder. Colleagues on the panel have visited their delivery units at Christmas and see just how hard postwomen and postmen work up and down the country. With Saturday not being a delivery day for second class, we are trying to get structures in that give people rest and more time away from work. It is about our people.

However, how do we then deliver the cost efficiency, the quality uplift and over what timeframe? As I said, with reform, Royal Mail can get back to being its best. The last two to three years have been really difficult. I have worked for Royal Mail for 39 years. I have been proud to have been part of a team that has consistently delivered north of 93% quality of service. The current position we find ourselves in is not great. It is not good for postmen and postwomen when they are reading the media. It is about getting the change in place, with pilots informing a good-quality deployment mechanism, which is why we are piloting. But ultimately we



need Ofcom to make the decisions so that we can go on and deploy the change through the summer period.

Ross Hutchison: All I would add to Ricky's point is that this is a UK-wide change, so this involves the impact on the 1,200 delivery offices potentially, should the reform changes go through. In the 37 pilots, it impacts on the mail centres across the country as well because we are relying on what we do upstream. We do understand that this is an operationally wide piece of work that we need to work through. The pilots have given us the opportunity to test that out in the local delivery offices and in the mail centres, and we have tried to pick offices in conjunction with the trade union, which allows us to test that in a variety of different demographics, urban demographic locations and indeed rural demographic locations.

Q70 **Mr Angus MacDonald:** Before Christmas, we—and I am sure many others—went round sorting offices and saw that. I think you have every reason to be very proud of it because they are incredibly well respected and liked parts of the community.

Let's come back to the second part of it, which I mentioned in a previous panel, about the service being all right at the door; it is getting the service to the post office and getting it out to the customer. I would say that was the real vulnerability of our postal system in remote and rural areas: actually getting the post and small parcels to the customer.

Ricky McAulay: Accessing into the network?

Mr Angus MacDonald: Yes, because there are so few post offices now, and the ones that are there are operating on reduced hours and are incredibly difficult for people to utilise.

Ricky McAulay: I think with the relationship that many of our postmen and postwomen have in rural areas, when they deliver they are often more than happy to pick up if the postage is paid. If the postage is not paid, then, of course—

Q71 **Mr Angus MacDonald:** I completely agree, if it is a standard stamp. If you are running a business doing fragrance delivery from Ardnamurchan, you have to go to a post office, get everything weighed, get your—

Ross Hutchison: Sorry, Ricky, just covering that off, we do look at that daily and we are trying to work through the pilots, when we look at the potential USO reform, how we integrate that. One of the services that we offer is consumer collections. Basically, if you use your Royal Mail app, you can buy postage online and you can arrange for the postie as they deliver to collect that item. How we then make sure that there is a synergy there with any proposed changes—that we still have that coverage—is something that we are aware of and we are working through. The services are there to access our network from your doorstep. We are also investing in areas such as out of home and lockers that you might have seen pop up outside local shops.



Q72 Kirsteen Sullivan: Ricky, you touched on the pilots. How will the pilot sites evaluate the impact of Ofcom's proposals in remote and rural communities?

Ricky McAulay: When we are doing the pilot deployment, and we are in the process at the moment of agreeing with Ofcom what the report mechanism will be—so what KPIs, what data we are looking at, all the way through the pilots—we will continue to publish our quarterly quality of service results. We will not have a public running commentary on the performance of the pilot sites—that really is not the intention—but we do want to be able to give Ofcom, our regulator, confidence from the pilots in what reform and regulation change is setting out to achieve. We are building confidence and can see that coming through our pilot sites. That is about improved quality of service, ultimately, and the reliability part—Ofcom referred to “tail of mail” targets earlier. We will have a regular update into Ofcom on what we are seeing on the performance of the pilots.

Q73 Kirsteen Sullivan: Can you give us an idea of the metrics that you are using to measure the pilots' successes or otherwise?

Ricky McAulay: As you would expect, the reform proposal seeks to do two key things. Fundamentally, it seeks to reset the cost structure of providing the universal service to the whole of the United Kingdom, including every part of Scotland. We are really proud to provide the universal service. It makes Royal Mail unique. We do not surcharge in deep rural areas. We are proud to provide that. One price goes everywhere, but it needs to be reset from a cost structure point of view so the universal service provider can actually make a profit and invest back into the business to keep it sustainable for the long term. The primary measure is actually whether we are resetting the cost structure in those pilot sites in line with what we anticipate.

Secondly, and equally importantly, are we seeing quality of service improve? What we measure there is, if we are due to go to 100% on that alternate day—if we are due to cover the ground—are we covering every address that we should be covering every day more reliably than we are today and, to an extent, can we get to that 90% first class quality of service? It is 95% for second class. It is a balance of cost efficiency and the quality output. Then, obviously, can our people cope with it? Can our employees buy into and cope with it? Because this only works if 100,000 of our colleagues, who we know are doing an incredible job, come on the journey with us. It is a labour-intensive last mile operation, so they are another important stakeholder in this change.

Q74 Kirsteen Sullivan: Largely, you are looking at the operational costs in the context of the cost restructure and the quality of service improving. On that latter point, are you taking into account the consumer experience? I know concerns have been expressed by the communications consumer panel that the pilots have been mostly looking at the operational impact rather than what the changes are going to look



and feel like to the everyday experience of the consumer.

Ross Hutchison: We are monitoring some other KPIs, such as customer complaints. We are monitoring things like net promoter scores. That is an example where somebody can give feedback on quality of service. They are not huge sample sizes, so we are continually monitoring that to see if anything becomes apparent. Some of the anecdotal feedback is that people have not really noticed a difference on the basis that, if you consider the operation today, we maybe visit three in 10 or four in 10 houses in terms of a call rate every day. Actually, what happens under the potential USO reform, and we are seeing this in the pilot, is that you start to visit maybe seven or eight in 10 houses. So, in a strange way, customers actually see their postie more frequently because he spends more time in their street visiting more addresses, if that makes sense.

As part of Ricky's senior operational management team, the focus that we have to put on the pilots is very clear to us, making sure that we understand all the moving parts and impacts. I met with Ofcom on one of the pilot sites a few weeks ago. We allowed and invited them to go on delivery with our posties so that they could speak to customers, should they be available, and so they could speak to our posties, and we invited the trade union as well to that conversation to make sure that they were involved in that, so that we were covering the bases. We are trying to capture employee experience and customer experience as best we can within the data that we have.

Q75 **Kirsteen Sullivan:** I do appreciate, Ricky, you said that you did not want to provide a running commentary, but I am going to ask you if you are able to share any key learnings from the pilots to date.

Ricky McAulay: I am not going to share key learnings today. I will say I am encouraged by what I have seen. I have visited a number of the pilot sites and spoken to the people who are working in them. We are seeing improvement in quality of service. There is definitely a bedding-in period for our people to adjust. Our employees are enjoying some more long weekends that are enabled from it.

We are trying to strike the balance for the customer, and for the cost restructuring that we desperately need as a USO provider, and there is something in it also for our people. I would say that I am encouraged by what I have seen so far—some great working with both trade unions, Unite CMA and CWU, and all our people who are buying in and helping us with that learning.

Q76 **Kirsteen Sullivan:** If you are unable to share any of them with us today, I have to ask you when the conclusions of the pilots are likely to be published.

Ricky McAulay: We will share them with Ofcom. If it is of particular interest to the Committee, I am happy to share some headlines coming out of the pilots with the Committee in due course as we go through this month. As I say, I am not going to pre-empt when Ofcom makes its



HOUSE OF COMMONS

decision. We have been piloting since mid-February and then ramping up the number of sites to just shy of 37 sites in all different geographies to make sure we get the maximum learning.

Q77 **Kirsteen Sullivan:** Would summer be a fair—

Ricky McAulay: Yes, pre-summer. Just as we head into summer.

Kirsteen Sullivan: That narrows it down slightly. Thank you very much.

Q78 **Lillian Jones:** I have a supplementary on a previous question. Ricky, just so that I can understand the enormity of the challenge that Royal Mail faces, and given the predicted savings for Royal Mail from Ofcom's proposals, what level of savings are we talking here? What areas of the business are being focused on to deliver those savings?

Ricky McAulay: The reform to the universal service largely impacts what we call our last mile operation, the delivery operation, and items that are not first class. We are still going to go six days a week with first-class items to wherever they are destined to go to. However, moving to an alternate day delivery Monday to Friday for essentially the vast majority of our products, second-class items, is a much more efficient way for us to deliver. I think the numbers are in the public domain, net around £300 million of cost restructuring. Bearing in mind Royal Mail has sustained significant losses in 2022-23 and 2023-24—we have not published results for last year—we desperately need that cost restructuring.

We have a lot of investment demand as a business. We are proud to have an electric vehicle fleet, up to 7,000 electric vehicles, and we want to get the rest of them converted as quickly as we can so we are equally playing a part in an environmentally friendly service, lowering CO₂. It is in the region of £300 million. It is largely around the restructuring of that last mile operation, and we have been very clear that this is about voluntary redundancy. We do have a lot of long-serving posties who are often at my door saying, "Is there a package coming up?" We will do it through voluntary means overall to make sure that we can reset the cost base and, as I say, get Royal Mail back to being at its best.

Q79 **Lillian Jones:** What numbers of jobs?

Ricky McAulay: We said that the voluntary redundancies will be somewhere in the region of 1,500 to 3,000 jobs. That is across the whole of the UK. We employ in the operational area just short of 110,000 people. Some of the other reduction comes from natural attrition, just not backfilling jobs as and when somebody leaves.

Q80 **Lillian Jones:** With the voluntary redundancies there will be no compulsory?

Ricky McAulay: That is correct and that is a commitment, if you want, that our new owner has recently just renewed to the whole of the workforce at Royal Mail.



HOUSE OF COMMONS

Lillian Jones: That is a commitment that they take seriously as well.

Ross Hutchison: Just to add a supplementary point to that, we are trying to model that within the operation at the moment to say what we are seeing in terms of attrition. I am sure you can appreciate in some small locations two people out of maybe 15 could retire out of the blue or resign or find another job and then that can throw the figures out. At a high level, and we are taking it down to unit level, we are trying to model as best as we can the attrition that we are seeing, to the point whereby there are lots of locations within Scotland, and particularly in rural locations, where we have continued to recruit and are actively recruiting permanent employees because we do not believe that the impact of USO reform will require a headcount reduction in these locations, based on the modelling that we have at the moment.

Q81 **Chair:** We are fast running out of time, I am afraid, so there is one final set of questions from me. I understand Royal Mail is committed to the universal service obligation for five years. What do you see the long-term future looking like?

Ricky McAulay: The immediate goal, the immediate focus, is very much about landing this change and landing it well as and when Ofcom decides to make a change to the regulation. We hope to do that in the summer, ideally early summer, just as soon as we can.

A lot of factors go into what this looks like five years from now. It will really depend on what happens to the development and the volume of letters, how much further digitisation we see—and in fact Government potentially doing that has an impact on letter volumes—but also all the other people who use the letter services that we provide. However, this change just now is very much what we are focused on. I do not have a view that is well enough informed to share with this Committee today that starts taking a view of five to 10 years out, so I would not be able to answer that.

Q82 **Chair:** The idea that parcel delivery is going to be increasingly important for you, is that likely to be at the detriment of the letter service?

Ricky McAulay: No, I think the opposite is true to an extent. When we take a letter up the garden path, if we can take a parcel with it, then it is the one thing that Royal Mail has that is unique and it is why we are proud to provide good-quality jobs. Unlike the rest of the sector that are potentially pure parcel players, who are delivering parcels in private cars, we provide good-quality jobs. We are proud to do that—pensions, sick pay—and most people who come and join Royal Mail stay for 16 to 17 years. We have many long-serving people beyond that. Letters and parcels together allow us to sustain that. We love letters; we hope they will be around for a long time to come.

Q83 **Chair:** In all your considerations, rural and remote areas will continue to be, I presume, a factor?



HOUSE OF COMMONS

Ricky McAulay: Yes. I think the sustainability of the universal service is almost most important to rural areas. You can see the surcharging that happens with some of the other courier companies, and the extortionate rates to transport parcels from one end of the country to the other. The universal service, getting the reform we need and the regulation change, is most in the interests of rural communities.

We have been calling for that reform for some time now. We are hopeful that Ofcom will make a decision in the summer and we can go on with implementing the change well. We understand that is a big responsibility that Royal Mail then needs to take on and make the most of.

Chair: That concludes our evidence session. We are very grateful to you for contributing to our inquiry, and thank you again for being with us.