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Strategy Committee

Royal Mail

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Business, Energy and Industrial Strategy Committee

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Summary

Royal Mail is a brand with a long and proud heritage. Postal workers are part of the fabric of local communities and were rightly celebrated as key workers during the pandemic.

But the company is going through troubled times. It reported last year that it was losing £1 million per day; it is in the midst of a bitter industrial dispute with its workforce; and we believe that Royal Mail is failing to meet some of its statutory requirements under the Universal Service Obligation (USO).

When we explored these issues with Royal Mail's senior management, our concerns were not allayed: in fact they grew. Some of the statements made by the Chief Executive Officer during oral evidence provoked a huge response from postal workers, who contacted the Committee directly, claiming that the Committee had been misled. We therefore took the very unusual step of recalling Royal Mail in order to clarify or correct the public record. In doing so, we used the procedures available to us to ask witnesses to take the oath, in order to stress the importance of giving answers to the Committee that are wholly truthful.

PDA data

Delivery staff use handheld devices (PDAs) which generate a range of data, known as "Outdoor Actuals" reports, on individual outdoor delivery routes, including start and end times, planned and actual routes, and distance covered and time taken. Royal Mail's Chief Executive Officer (Mr Simon Thompson) told us during oral evidence that it was not his understanding that PDA data was used for performance management. But when we recalled Mr Thompson a month later, we presented him with evidence from postal workers indicating that it was indeed used as a performance management tool by at least some local managers, to track the speed at which postal workers deliver their post and to dissuade staff from stopping during their rounds. Mr Thompson himself accepted that it was sometimes used in disciplinary cases. Whether intentionally or inadvertently, Mr Thompson misled the Committee when he first gave evidence by giving an answer which was not wholly accurate.

Mr Thompson asserted that the evidence we presented to him on PDA data was due to failures to apply company policy. But the practice seems to have been widespread. Either it happened with the direct or indirect approval of management at Royal Mail, or the level of management oversight at Royal Mail has been negligent, in which case we believe it warrants a formal review by the Board.

In addition, we have requested that the Information Commissioner conduct an inquiry into the use of PDA data by Royal Mail and to ascertain whether any privacy or personal data rights have been infringed. We have asked the Commissioner to report on this to the Committee by the end of 2023.

The Universal Service Obligation

We were aware of reports that Royal Mail employees had been told to prioritise parcels over letters, which might affect the capacity of Royal Mail to provide a daily delivery of letters six times per week as is required under its statutory Universal Service Obligation

(USO). Mr Thompson told us in evidence in January that these reports were “absolutely not true”. But postal workers from across the country sent us photographs of other posters and handwritten sheets, and audio and video recordings, all showing local managers giving essentially the same instructions to prioritise parcels.

We believe that Royal Mail has deprioritised delivery of letters as a matter of company policy and that it has systemically failed to deliver against parts of its USO. The evidence suggests that this practice has taken place not just during periods of industrial action but since the start of the pandemic, if not earlier. We therefore call on Ofcom to undertake an enforcement investigation into Royal Mail’s delivery of the USO and to report to this Committee by the end of 2023.

Future for Royal Mail

Royal Mail is undergoing a period of transformation into a more efficient parcels-focused business, and the business model is therefore shifting to one which is better geared to processing parcels in line with customer expectations. Unlike its competitors in the parcels market, Royal Mail’s Universal Service Obligation limits its freedom for manoeuvre and makes it harder to be fully competitive on parcels. We do however recognise the importance of the USO in delivering a vital public service, and we hope that Royal Mail seizes the commercial opportunities available to it in accessing every household across the country on six days of the week.

The landscape has changed a great deal since the USO came into force in 2012. The commercial reality is that the balance between letter and parcel volumes has tilted, perhaps decisively. We call on the Government to formally engage with Royal Mail, following the outcome of Ofcom’s enforcement investigation, to secure the future of the Universal Service Obligation and Royal Mail; and to provide an initial report to this Committee no later than the end of 2024.

The Committee is not empowered to instruct senior leaders at Royal Mail on how to run their business. Royal Mail is now a private company. However, as the provider of the USO, Royal Mail does have a statutory responsibility to deliver this public service and is therefore accountable to Ministers and to this Committee. The issues at Royal Mail have caused the Committee great concern and we call on the board of Royal Mail and the CWU to seek to resolve the outstanding issues in dispute as quickly as possible. We will return to this issue once the Committee has received the various outputs that we have called for in this report.

1 Introduction

1. This report is about Royal Mail. It flows from two oral evidence sessions held with its senior management team, and it sets out our conclusions in two areas: the use of data from Postal Digital Assistants (PDAs) for performance management, and Royal Mail's commitment to delivering the Universal Service Obligation (USO), which includes a requirement for Royal Mail—as the provider of the statutory universal postal service—to deliver letters six days of the week.

2. The first of those two evidence sessions was held on 17 January 2023. Its purpose was to examine Royal Mail's performance against its targets, its financial position, and its request to the Government for an amendment to the USO. As the provider of the USO, Royal Mail is accountable to the postal services regulator, Ofcom, and, as the Minister responsible for postal services, the Parliamentary Under Secretary of State at the Department for Business and Trade. The Committee has oversight of the Department for Business and Trade, and the Committee has undertaken this work on that basis. It is important to note that the Committee does not have the power to instruct Royal Mail how to run its business but instead has the power to ask questions of, and make recommendations to, the Parliamentary Under Secretary of State.

3. In the weeks which followed that evidence session, the Chair and Committee received more than 1,000 emails. The vast majority were from postal workers, casting doubt on some of the statements made by the Chief Executive Officer of Royal Mail (Mr Simon Thompson) during the session. We are grateful to those who contacted us for providing their personal experience, which informed our proceedings. We have published on our website a small sample of the information contained in those emails.¹ We have not, however, published all the submissions due to the time it would take to secure the consent of everyone that contacted us.

4. The information provided by postal workers led us to conclude that Mr Thompson might not have given wholly accurate answers during his evidence to the Committee on 17 January. Due to the volume of information provided to the Committee, which failed to align with the answers provided by Mr Thompson, the Committee Chair recalled Royal Mail to give further oral evidence, alongside the Chair of International Distributions Services (IDS—the parent company of Royal Mail plc). The Chair set out in his letter to Mr Thompson three areas that required clarification or correction: the use of Postal Digital Assistants (PDAs) for performance management, the relative prioritisation of parcels and letters, and Royal Mail's sick pay policy.

5. The recall session was held on 22 February. At that session, we presented to the witnesses some of the images which had been supplied to us, and we invited them to comment. We are grateful to Mr Thompson and his fellow witnesses for appearing at the further evidence session, and for the useful material which they supplied in advance.

6. The Chair's letter to Mr Thompson, asking him to give further evidence, is published on our website,² as are three letters from Mr Thompson supplying further information,³

1 See [Slides presented during the evidence session](https://committees.parliament.uk/publications/34114/documents/187705/default/) and <https://committees.parliament.uk/publications/34114/documents/187705/default/>

2 <https://committees.parliament.uk/publications/33660/documents/183960/default/>

3 Letters from Royal Mail dated [26 January](#), [20 February](#) and [1 March](#)

transcripts of both evidence sessions,⁴ and written evidence from Ofcom⁵ and from Citizens Advice.⁶

4 Evidence on [17 January 2023](#) and on [22 February 2023](#)
5 [Ofcom evidence](#)
6 [Citizens Advice evidence](#)

2 The evidence from Royal Mail

PDA's (Postal Digital Assistants)

7. PDAs were first introduced in 2007 as handheld devices used by frontline postal staff to scan barcodes and capture customer signatures. They are now also capable of tracking post and can let customers know where their items are while in transit, and what the predicted time of delivery is. Since 2021, the technology used by PDAs has enabled them to photograph items delivered and left in a safe place.⁷

8. Since 2017, PDAs have generated a range of data, known as “Outdoor Actuals” reports, on individual outdoor delivery routes, including start and end times, planned and actual routes, and distance covered and the time taken.⁸ An agreement between Royal Mail and the Communication Workers Union in April 2018 (a copy of which was supplied to the Committee)⁹ sets out a joint understanding of the value of Outdoor Actuals in providing “a valuable insight into operational route certainty and the consistency of service provision to customers”. It also notes that from an employee perspective, the data would

help to jointly understand actual workloads and provide a platform to ensure that all outdoor activity and can be planned more efficiently and balanced to provide a fair, manageable, achievable and sustainable workload for all employees.

The data is not reported in real time and is only available to view from the following day.¹⁰

9. The agreement also stated that

This new technology is not being introduced to track individuals or to be used for individual performance management and therefore it is confirmed that the data will not be used for this

and

... it is agreed that this new technology is not being deployed for, or will be used as, a disciplinary tool. As such it will not enhance the ability of managers, or the evidence available, to take disciplinary action.¹¹

10. When it was put to Mr Thompson on 17 January that postal workers were “hailed into the office and asked for explanations” if the data showed a delay in delivering post, Mr Thompson replied “That is not my understanding. That is not something I am aware of, no”,¹² and “Being hailed into the office is not our standard practice. That is for sure”.¹³

11. In the days following that evidence session, we nonetheless received a large number of emails from postal staff saying that PDA data was indeed assessed for the purpose of individual performance management. Some of these emails were shown during the

7 See letter from Simon Thompson dated [20 February](#)

8 See Annex A to letter from Simon Thompson dated [20 February](#)

9 Annex A to letter from Simon Thompson dated [20 February](#)

10 Annex A to letter from Simon Thompson dated [20 February](#)

11 Annex A to letter from Simon Thompson dated [20 February](#)

12 Q52

13 Q54

evidence session on 22 February and published by the Committee.¹⁴ In one delivery office, anonymised PDA actuals data had been displayed with the phrase “Don’t get caught”. In another, printout maps from individual rounds showing stopping times were shown. We received many accounts from postal workers of having been questioned by managers about stopping times, based on PDA data.¹⁵

12. In a letter sent to us shortly before the second evidence session on 22 February, Mr Thompson acknowledged that “in exceptional circumstances”, and by agreement with the Communication Workers Union, PDA data could be used as supporting evidence in conduct cases, although its use had to be signed off by an HR professional. There had been 16 such cases between 1 November 2022 and 31 January 2023.¹⁶ He nonetheless maintained that there was “nothing that I can see that would say that this is being used to performance manage”.¹⁷ He did accept that in examples displayed by the Committee during the second evidence session, there had been breaches of company policy.¹⁸

13. It is clear to us that, despite statements in evidence on 17 January by Simon Thompson, the Chief Executive Officer of Royal Mail, PDA data has been used to track the speed at which postal workers deliver their post and, subsequently, for performance management, both explicitly in disciplinary cases and as a tool by local managers to dissuade staff from stopping during their rounds. Based on the evidence, it seems clear to us that, whether intentionally or inadvertently, Mr Thompson misled the Committee when he first gave evidence by giving an answer which was not wholly accurate.

14. We acknowledge that there may be a case for Royal Mail to use PDA data to achieve consistent and effective performance, as long as it is undertaken within the terms of established policies and following consultation with the workforce.

15. Mr Thompson asserts that the evidence we presented to him was due to failures to apply company policy. However, we do not believe that such widespread errors in applying company policy could happen without the direct or indirect approval of management at Royal Mail.

16. If Mr Thompson’s assertion is correct—namely, that there are errors in applying company policy at Royal Mail—then these would appear to be widespread, and we can only conclude that the level of management oversight at Royal Mail is negligent and warrants a formal review by the Board.

17. *The Committee is concerned by the discrepancies between stated policy and the actual use of PDA data at Royal Mail for individual performance management. We therefore invite the Information Commissioner to review the legal basis for the collection, storage and use of this data and to report their findings to the Committee by the end of 2023.*

14 See [Slides 1, 2 and 3](#)

15 Some of these were cited by the Chair, Q128. See also example 1 from the written evidence selection <https://committees.parliament.uk/publications/34114/documents/187705/default/>

16 [Letter from Simon Thompson dated 20 February](#). See also Q128

17 Q128

18 Q124 and Q125; see also Q135

Universal Service Obligation

18. The second issue covered by this report is whether delivery of parcels is being prioritised over delivery of letters, and whether Royal Mail is in breach of its Universal Service Obligation as a result.

19. Royal Mail is the designated provider of the universal postal service, commonly known as the Universal Service Obligation (USO).¹⁹ Section 31 of the Postal Services Act 2011 sets out minimum requirements which must be met in delivery of a universal postal service. The first of these requirements is for at least one delivery of letters every Monday to Saturday to all homes or premises in the UK (or to alternative delivery points if approved by Ofcom), and at least one delivery of “other postal packets” every Monday to Friday to the same places.²⁰

20. The Act also places duties on the Office of Communications (Ofcom) as the regulator for postal services. Those duties include a requirement for Ofcom to make a statutory order setting out the services that it considers should be provided in the UK as a universal postal service (which must, as a minimum, include the services described in section 31 of the Act), and the standards with which those services are to comply. Ofcom made such an order in March 2012.²¹

21. We were aware of reports in the media and from postal workers that Royal Mail employees had been told to prioritise parcels over letters, on the basis that parcels were more profitable. If such a prioritisation were to affect the capacity of Royal Mail to provide a daily delivery of letters, that might, in our view, constitute a breach of the USO. So we asked Mr Thompson on 17 January whether reports of prioritisation of parcels over letters were accurate. He replied “No, that is absolutely not true” and that “we have been very clear that there is no difference between the two”.²² He noted however that there had been

occasions at a local level where for health and safety reasons there might be a situation where parcels need to be delivered so that the postal workers can actually get to the frames.²³

Ofcom accepted, in the course of an investigation into Royal Mail’s 2021–22 Quality of Services standards, that

in the particular circumstances of that regulatory period where there were exceptionally high volumes of parcels associated with the pandemic, it was reasonable, at times, for Royal Mail to prioritise parcels over letters in order to efficiently move these high volumes of parcels through the delivery network.²⁴

22. We then showed Mr Thompson a copy of a poster from a delivery office setting out the following priorities for handling post: Tracked and Special Delivery items as first priority, large parcels second priority, items from other rounds²⁵ as third priority, and letters and

19 [Universal Service Obligation \(internationaldistributionsservices.com\)](https://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga_20110005_en.pdf)

20 https://www.legislation.gov.uk/ukpga/2011/5/pdfs/ukpga_20110005_en.pdf

21 https://www.legislation.gov.uk/uksi/2012/936/pdfs/uksi_20120936_en.pdf

22 Q78

23 Q78

24 [Written evidence from Ofcom](#)

25 Known as “lapsing”

small non-premium parcels as fourth priority. The poster stated that “You will not be required to deliver all of the letters and small parcels for your entire duty every day”.²⁶ Mr Thompson told us that he was aware of that poster and that it had been local to one office, that it was “absolutely not our policy”, and that it had been “dealt with”.²⁷

23. Mr Thompson’s replies prompted a multitude of emails to us from postal workers, maintaining that they had been instructed by managers to prioritise parcels. We were sent photographs of other posters and handwritten sheets giving essentially the same instructions as those given in the poster shown to Mr Thompson in evidence on 17 January.²⁸ One stated explicitly that “mail is to be delivered at a minimum every other day”. That would appear to be an invitation to disregard the requirement for a daily delivery of letters. In addition, we were sent audio and video recordings of postal workers being instructed by Delivery Office managers to deprioritise letter deliveries even though it was acknowledged that Royal Mail was failing to meet its USO. We have not presented or published this material in order to preserve anonymity for those who submitted it and who feared repercussions.

24. We asked Mr Thompson on 22 February about these posters and reports. He maintained that they were not all “rogue” posters, saying that “what we see here is what happens on days of industrial action, where we have to take a different policy”. He told us that this was “something that is actually being discussed with Ofcom” and which Royal Mail had published on its website; but he accepted that he might have been clearer about this in previous evidence to the Committee.²⁹ We are not convinced, however, that the policy was confined to periods of industrial action. Some of those who wrote to us after the session on 17 January told us that the policy dated back to the pandemic or earlier. The Committee Chair pointed out during the evidence session on 22 February that he had been sent a recording of a manager saying that the USO had been breached over a long period, not simply during strike periods (which had only begun in August 2022).³⁰

25. We conclude that, despite Mr Thompson’s statements to us on 17 January, which he qualified on 22 February, Royal Mail has deprioritised delivery of letters as a matter of company policy. While this might have been a legitimate approach at times during the pandemic, to handle exceptional volumes of parcels in order to ensure safe access through delivery offices, we do not believe it is justifiable over the long term.

26. We cannot establish for certain whether the instructions to prioritise parcels were in place before the start of industrial action, and if so whether they came from the highest levels of the organisation or whether they originated with local managers. But anecdotal evidence to us would suggest that this was a policy which was in place during and after the pandemic, to be implemented by local managers but not to be written down. The evidence we have suggests this is the case at delivery offices across the country and that verbal instructions to deprioritise letter deliveries were delivered systemically across the Royal Mail business.

27. Ofcom told us that any failure of Royal Mail to offer a six days per week letter delivery service or to meet quality of service standards specified by Ofcom may result in a breach

26 See [slide 5](#)

27 Q 84 and 85

28 We have published some of these: see [slides 6 to 11](#). See also question from the Chair Q155

29 Q149 and Q157. See also Mr McAulay Q 172

30 Q150

of its regulatory obligations, and that Ofcom could take enforcement action as a result.³¹ Prioritisation of parcels in itself does not contravene Royal Mail's USO obligations. But if it were to indicate a systemic failure to seek to offer a six days per week letter delivery service, or if Royal Mail policy on prioritisation of parcels over letters were to be a contributory factor in Royal Mail failing to meet its quality of service targets, we believe that would amount to a breach of the Universal Service Obligation. We recognise that that would be a decision for Ofcom.

28. We note evidence from Citizens Advice,³² based on survey data, indicating that a consistently higher percentage of customers experienced a delay to delivery of a letter than to a delivery of a parcel.³³ That would suggest a direct consequence of parcel prioritisation on standards for delivery of letters. Mr Thompson sent us recent Quality of Service data demonstrating that performance for letters had been marginally better than that for parcels across both first and second class mail.³⁴ However, it was brought to our attention by others that the data for parcels supplied by Mr Thompson related only to first and second class parcels and omitted Tracked items, which were consistently treated as highest priority.³⁵ Prioritisation of these items would be more likely to distort performance on delivery of letters.

29. We pressed Mr Thompson during the evidence session on 22 February on whether the company's policy on prioritisation of parcels represented a systemic failure in seeking to meet the requirement for a six-day letter delivery under the USO. Mr Thompson admitted that "our USO performance has definitely not been good enough" and that Royal Mail was "definitely not achieving USO".³⁶ Mr Williams, the Chairman of Royal Mail's parent company, acknowledged that the long term pay and incentive structure for senior managers at Royal Mail failed to include a target of delivering the USO.³⁷

30. *We believe that Royal Mail has systemically failed to deliver against parts of its Universal Service Obligation. We recognise the challenges of both the pandemic and ongoing industrial action, but the evidence we have suggests this systemic failing has been taking place before, between and during these events.*

31. *We therefore call on Ofcom to undertake an enforcement investigation into Royal Mail's delivery of the USO and to report to this Committee by the end of 2023. In doing so, we encourage Ofcom to meet with postal workers from across the country to take evidence on verbal briefings to deprioritise letter deliveries and to do so on a timeframe which spans pre-pandemic to the current day.*

32. *Lastly, we call on the Royal Mail board to reflect on its decision to exclude the delivery of the USO from the long term pay and incentive structure for its senior managers and to reconsider whether this is the right approach. We encourage the Royal Mail board to add delivery of the USO to its pay and incentive structure and to write to this Committee to set out its conclusions.*

31 [Written evidence from Ofcom](#)

32 Citizens Advice is the statutory consumer representative for the postal sector in England and Wales

33 [Citizens Advice memorandum](#), 31 January 2023

34 [Letter from the Chief Executive of Royal Mail](#), 26 January 2023

35 See example 6 from the [written evidence selection](#)

36 Q168 and Q171

37 Q188 to Q196

Sick pay

33. A third issue raised by many of those who contacted us was sick pay. Some said that they had reported sick but had been told by managers that they risked losing pay for those days. Some sent us copies of payslips showing deductions of pay for sick periods. One local manager told us that during one strike, instructions were given to managers to consider sick absences the day before and the day after the strike as ‘unauthorised absence’.³⁸

34. When we raised some of these issues with Mr Thompson, he said that the company’s policy was that any absence had to be genuine and reasonable, and that as long as a “fit note” was supplied, absence would be paid.³⁹ The Committee Chair pointed out that anyone who sought a fit note from their GP would first need to secure an appointment, and that GPs would not normally provide a fit note for anything less than seven days off sick. Mr McAulay, Operations Development Director for Royal Mail, told us that many staff had produced fit notes and that their pay had been reinstated as a result.⁴⁰ Mr Thompson told us later that on the day of the second evidence session (22 February), there were 17 tribunal claims in process and around 350 further cases at the Early Conciliation stage with ACAS, which precedes the tribunal stage.⁴¹

35. We did not ask Royal Mail for a copy of their contractual terms and conditions on payment of sick pay, and we would not seek to assess individual cases. **But we are in little doubt that the blanket approach by Royal Mail in not paying sick pay during periods of strike action will have been unduly harsh on those who were genuinely unfit for work and who may, through no fault of their own, have been unable to provide the fit note required.**

Oral evidence

36. The trigger for this report was the Committee’s dissatisfaction with answers given by the Chief Executive Officer of Royal Mail in oral evidence, and doubts about their accuracy. We took the rare step of recalling him to give further evidence, and of asking him and his fellow witnesses to do so on oath. We are grateful to Mr Thompson for complying with the Committee’s requests. While we were still not wholly content with some of the answers at that second evidence session, giving evidence on oath appeared at times to concentrate witnesses’ minds.

37. It should, however, be unnecessary for a committee to resort to asking a witness to take the oath when giving evidence. We remind witnesses of the importance of giving full and accurate answers, and we observe that the House has viewed misleading a committee as a contempt and has taken action as a result. However, the Committee is not a court and is not equipped to require a full and proper disclosure and testing of the evidence. We reserve the right to take further action to bring this matter before the House if we believe it necessary to do so, once we have seen the outcomes of enforcement investigations which we have called for in this report.

38 See example 7 from the [written evidence selection](#)

39 Q199

40 Q205

41 Letter from Simon Thompson dated [1 March](#)

3 The future for Royal Mail

38. Royal Mail is going through a troubled time, in terms of performance, finances, and relations between its management and the workforce. Its performance against the quality of service targets set by Ofcom has been consistently poor in recent years. Full-year results for each year since 2017–18 show that in each year Royal Mail has failed to meet:

- its 93% target for first class delivery the following working day,
- its 99% target for Special Delivery, and
- its 99.90% target for delivery routes completed daily.⁴²

During the second quarter of 2022–23 (which included periods of industrial action), Royal Mail performance on first class delivery was 20 percentage points below its 93% target; seven percentage points below its second class delivery target; and ten percentage points below its 99.90% target for delivery routes completed daily.⁴³

39. Performance had dipped significantly during the pandemic. But Ofcom, following an investigation into performance against quality of service targets in 2021–22, accepted that it was reasonable, at times, for Royal Mail to prioritise delivery of parcels, given the exceptionally high volumes of parcels associated with the pandemic. It told us however that it was concerned that Royal Mail’s performance in the early part of 2022–23 “fell well short of where it should be”. It said that the company had “had plenty of time to learn lessons from the pandemic”, and that Ofcom was “unlikely to consider the factors that [it] considered during the 2021–22 investigation as exceptional and beyond its control in future”.⁴⁴

40. Royal Mail’s financial position is also in declining health. Mr Thompson told us that

If we go back to the point of privatisation, between our group of Royal Mail and GLS, Royal Mail in the UK represented 83% of the turnover in the business. From a profitability perspective, it was about 73%. Where we are at today is that Royal Mail in the UK, from a turnover perspective, is about 60%, but from a profitability perspective it is zero. As you have quite rightly identified, we are losing £1 million a day.⁴⁵

41. Mr Thompson pointed out in evidence to us that letter volumes in the first nine months of the current year had been 1.8 billion items below volumes in the “first nine months of pre-pandemic”, which represented a fall of around £300 million in revenue.⁴⁶ The decline in letter volumes is structural, down from 11.9 billion items in the 2016–17 financial year to 7.9 billion in 2021–22;⁴⁷ and the rate of decrease per annum has grown from between 4% and 6% as envisaged at the time of privatisation in 2013 to about 8% per annum now.⁴⁸ Mr Williams, Chairman of International Distributions Services, the parent company for Royal Mail plc, was optimistic that the decline in letter volumes would “bottom out”, and

42 [House of Commons Library debate pack](#), 9 January 2023, page 6

43 [Quarterly Quality of Service & Complaints Report \(internationaldistributionservices.com\)](#)

44 [Written evidence from Ofcom](#)

45 Q55

46 Q178

47 Royal Mail plc Annual Report and Financial Statements for [2016–17 \(page 21\)](#) and for [2021–22 \(page 65\)](#)

48 Mr Williams Q208

he argued that the requirement to deliver letters to all addresses offered a structure and a “bedrock” which would be the envy of other parcel carriers.⁴⁹

42. Meanwhile, the volume of parcels handled by Royal Mail over the same period has risen from 1.17 billion to 1.52 billion;⁵⁰ and revenue from parcels now accounts for 56% of total Royal Mail revenue.⁵¹ Mr Thompson was clear to us that he saw parcels as “the future” for the firm.⁵² Writing in the Royal Mail 2021–22 Annual Report and Financial Statements, he opened his Operating Review with the statement that “We are focused on transforming Royal Mail into a more efficient parcels-focused business to reflect the changing needs of our customers”.⁵³

43. The business model is therefore shifting to one which is better geared to processing parcels in line with customer expectations, and Mr Thompson set out for us some of the changes that he believed that would entail, such as more staff working shifts later in the day, and on Sundays.⁵⁴

44. But, unlike its competitors in the parcels market, Royal Mail has a universal service obligation which limits its freedom for manoeuvre and makes it harder to be fully competitive on parcels. Royal Mail has said that the current universal service comes at “significant structural cost” which increases the threat that it becomes unsustainable.⁵⁵

45. The former Secretary of State for Business, Energy and Industrial Strategy (the Rt Hon. Grant Shapps MP), when giving oral evidence to us on 13 December 2022, confirmed that Royal Mail had approached the Government with a proposal to move to a minimum five-day per week delivery service for letters.⁵⁶ Mr Shapps told us however that “there are no plans to switch from six-day delivery” and that “I have answered you straight, and I answered Royal Mail straight when they asked me the question”.⁵⁷ We nonetheless note slightly more nuanced language in responses to written Parliamentary questions, where Ministers speak of “no *current* plans”.⁵⁸ Mr Shapps pointed to modernisation as the way to make a profitable business and he suggested that there were “quite a lot of areas in which the postal service can continue to modernise”.⁵⁹ But he also told us that “Ofcom have to look at this. It is not an issue directly for Ministers at this time and if it were, then it would have to go through Parliament, so it would be an issue for all of us”.⁶⁰

46. Royal Mail is a brand with a long and proud heritage, and postal workers have been rightly celebrated as key workers. We want to see Royal Mail on a firm and sustainable footing for the future. However, it is clear that the landscape has changed a great deal since the passing of the Postal Services Act 2011 and the Universal Postal Services Order made in 2012. The commercial reality is that the balance between letter and parcel volumes has tilted, perhaps decisively.

49 Q209

50 Royal Mail plc Annual Report and Financial Statements for [2016–17 \(page 21\)](#) and for [2021–22 \(page 65\)](#)

51 [royal-mail-ara-2021–2022.pdf \(internationaldistributionsservices.com\)](#), page 6

52 Q178

53 [royal-mail-ara-2021–2022.pdf \(internationaldistributionsservices.com\)](#), page 6

54 Q213

55 [International Distributions Services plc, Results for the half year ended 25 September 2022](#), 17 Nov 2022, page 9

56 See also Mr Thompson Q179

57 Q225, [evidence given on 13 December 2022](#)

58 See for instance Written Answers for 25 November 2022, Question [86890](#), and for 8 March 2023, Question [156156](#)

59 Q227, [evidence given on 13 December 2022](#)

60 Q225, [evidence given on 13 December 2022](#)

47. We recognise the importance of the Universal Service Obligation in delivering a vital public service, and we hope that Royal Mail seizes the commercial opportunities available to it in accessing every household across the country on six days of the week. We call on the Government to formally engage with Royal Mail, following the outcome of Ofcom's enforcement investigation, to secure the future of the Universal Service Obligation and Royal Mail, and to provide an initial report to this Committee no later than the end of 2024.

48. Finally, we put on record that the issues at Royal Mail covered by this Report have caused the Committee great concern. Regarding the current industrial dispute, we call on the board of Royal Mail and the Communication Workers Union to seek to resolve the outstanding issues as quickly as possible.

Conclusions and recommendations

The evidence from Royal Mail

1. It is clear to us that, despite statements in evidence on 17 January by Simon Thompson, the Chief Executive Officer of Royal Mail, PDA data has been used to track the speed at which postal workers deliver their post and, subsequently, for performance management, both explicitly in disciplinary cases and as a tool by local managers to dissuade staff from stopping during their rounds. Based on the evidence, it seems clear to us that, whether intentionally or inadvertently, Mr Thompson misled the Committee when he first gave evidence by giving an answer which was not wholly accurate. (Paragraph 13)
2. We acknowledge that there may be a case for Royal Mail to use PDA data to achieve consistent and effective performance, as long as it is undertaken within the terms of established policies and following consultation with the workforce. (Paragraph 14)
3. Mr Thompson asserts that the evidence we presented to him was due to failures to apply company policy. However, we do not believe that such widespread errors in applying company policy could happen without the direct or indirect approval of management at Royal Mail. (Paragraph 15)
4. If Mr Thompson's assertion is correct—namely, that there are errors in applying company policy at Royal Mail—then these would appear to be widespread, and we can only conclude that the level of management oversight at Royal Mail is negligent and warrants a formal review by the Board. (Paragraph 16)
5. *The Committee is concerned by the discrepancies between stated policy and the actual use of PDA data at Royal Mail for individual performance management. We therefore invite the Information Commissioner to review the legal basis for the collection, storage and use of this data and to report their findings to the Committee by the end of 2023.* (Paragraph 17)
6. We conclude that, despite Mr Thompson's statements to us on 17 January, which he qualified on 22 February, Royal Mail has deprioritised delivery of letters as a matter of company policy. While this might have been a legitimate approach at times during the pandemic, to handle exceptional volumes of parcels in order to ensure safe access through delivery offices, we do not believe it is justifiable over the long term. (Paragraph 25)
7. *We believe that Royal Mail has systemically failed to deliver against parts of its Universal Service Obligation. We recognise the challenges of both the pandemic and ongoing industrial action, but the evidence we have suggests this systemic failing has been taking place before, between and during these events.* (Paragraph 30)
8. *We therefore call on Ofcom to undertake an enforcement investigation into Royal Mail's delivery of the USO and to report to this Committee by the end of 2023. In doing so, we encourage Ofcom to meet with postal workers from across the country to take evidence on verbal briefings to deprioritise letter deliveries and to do so on a timeframe which spans pre-pandemic to the current day.* (Paragraph 31)

9. *Lastly, we call on the Royal Mail board to reflect on its decision to exclude the delivery of the USO from the long term pay and incentive structure for its senior managers and to reconsider whether this is the right approach. We encourage the Royal Mail board to add delivery of the USO to its pay and incentive structure and to write to this Committee to set out its conclusions. (Paragraph 32)*
10. We are in little doubt that the blanket approach by Royal Mail in not paying sick pay during periods of strike action will have been unduly harsh on those who were genuinely unfit for work and who may, through no fault of their own, have been unable to provide the fit note required. (Paragraph 35)

The future for Royal Mail

11. Royal Mail is a brand with a long and proud heritage, and postal workers have been rightly celebrated as key workers. We want to see Royal Mail on a firm and sustainable footing for the future. However, it is clear that the landscape has changed a great deal since the passing of the Postal Services Act 2011 and the Universal Postal Services Order made in 2012. The commercial reality is that the balance between letter and parcel volumes has tilted, perhaps decisively. (Paragraph 46)
12. *We recognise the importance of the Universal Service Obligation in delivering a vital public service, and we hope that Royal Mail seizes the commercial opportunities available to it in accessing every household across the country on six days of the week. We call on the Government to formally engage with Royal Mail, following the outcome of Ofcom's enforcement investigation, to secure the future of the Universal Service Obligation and Royal Mail, and to provide an initial report to this Committee no later than the end of 2024. (Paragraph 47)*
13. *Finally, we put on record that the issues at Royal Mail covered by this Report have caused the Committee great concern. Regarding the current industrial dispute, we call on the board of Royal Mail and the Communication Workers Union to seek to resolve the outstanding issues as quickly as possible. (Paragraph 48)*

Formal minutes

Tuesday 14 March 2023

Members present:

Darren Jones, in the Chair

Bim Afolami

Alan Brown

Ian Lavery

Mark Jenkinson

Mark Pawsey

Draft Report (*Royal Mail*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 48 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Summary agreed to.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 21 March at 9:45am]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 17 January 2023

Dave Ward, General Secretary, Communication Workers Union; **Andy Furey**, Assistant Secretary, Communication Workers Union [Q1–22](#)

Simon Thompson, Chief Executive Officer, Royal Mail [Q23–88](#)

Nick Read, Chief Executive, Post Office Ltd [Q89–119](#)

Wednesday 22 February 2023

Simon Thompson, Chief Executive Officer, Royal Mail; **Keith Williams**, Chairman, International Distributions Services plc; **Ricky McAulay**, Operations Development Director, Royal Mail [Q120–254](#)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Pre-appointment hearing with the Government's preferred candidate for Chair of the Competition and Markets Authority	HC 523
2nd	Draft Legislative Reform (Provision of Information etc. relating to disabilities) Order 2022	HC 522
3rd	Energy pricing and the future of the Energy Market	HC 236
4th	Post-pandemic economic growth: state aid and post-Brexit competition policy	HC 759
5th	The semiconductor industry in the UK	HC 291
6th	The semiconductor industry in the UK: Government response	HC 1115
1st Special	Decarbonising heat in homes: Government Response to the Committee's Seventh Report of 2021–22	HC 208
2nd Special	Energy pricing and the future of the energy market: Responses to the Committee's Third Report of Session 2022–23	HC 761
3rd Special	Post pandemic economic growth: State aid and post-Brexit competition policy: Responses to the Committee's Fourth Report of Session 2022–23	HC 1078

Session 2021–22

Number	Title	Reference
1st	Post-pandemic economic growth: Industrial policy in the UK	HC 385
2nd	Climate Assembly UK: where are we now?	HC 546
3rd	Post-pandemic economic growth: Levelling up	HC 566
4th	Liberty Steel and the future of the UK steel Industry	HC 821
5th	Pre-legislative scrutiny: draft Downstream Oil Resilience Bill	HC 820
6th	Pre-appointment hearing of the Government's preferred candidate for Chair of the Financial Reporting Council	HC 1079
7th	Decarbonising heat in homes	HC 1038
8th	Post Office and Horizon - Compensation: interim report	HC 1129
9th	Revised (Draft) National Policy Statement for Energy	HC 1151
10th	Draft Legislative Reform (Renewal of National Radio Multiplex Licences) Order 2022	HC 1199

Number	Title	Reference
1st Special	Decarbonising heat in homes: Government Response to the Committee's Seventh Report of 2021–22	HC 208
2nd Special	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26—interim report: Government Response to the Committee's Third Report of Session 2019–21	HC 120
3rd Special	Uyghur forced labour in Xinjiang and UK value chains: Government Response to the Committee's Fifth Report of Session 2019–21	HC 241
4th Special	Mineworkers' Pension Scheme: Government Response to the Committee's Sixth Report of Session 2019–21	HC 386
5th Special	Climate Assembly UK: where are we now?: Government Response to the Committee's Second Report	HC 680
6th Special	Post-pandemic economic growth: Industrial policy in the UK: Government Response to the Committee's First Report	HC 71
7th Special	Post-pandemic economic growth: Levelling up: Government Response to the Committee's Third Report	HC 924
8th Special	Liberty Steel and the Future of the UK Steel Industry: Government Response to the Committee's Fourth Report	HC 1123
9th Special	Pre-legislative scrutiny: draft Downstream Oil Resilience Bill. Government Response to the Committee's Fifth Report	HC 1177
10th Special	Post Office and Horizon – Compensation: interim report. Government Response to the Committee's Eighth Report	HC 1267

Session 2019–21

Number	Title	Reference
1st	My BEIS inquiry: proposals from the public	HC 612
2nd	The impact of Coronavirus on businesses and workers: interim pre-Budget report	HC 1264
3rd	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26 – interim report	HC 1265
4th	Pre-appointment hearing with the Government's preferred candidate for the Chair of the Regulatory Policy Committee	HC 1271
5th	Uyghur forced labour in Xinjiang and UK value chains	HC 1272
6th	Mineworkers' Pension Scheme	HC 1346
1st Special	Automation and the future of work: Government Response to the Committee's Twenty-third Report of Session 2017–19	HC 240
2nd Special	Future of the Post Office Network: Government Response to the Committee's First Report of Session 2019	HC 382
3rd Special	Safety of Electrical Goods in the UK: follow-up: Government Response to the Committee's second report of Session 2019	HC 494
4th Special	COP26: Principles and priorities—a POST survey of expert views	HC 1000