Post monitoring report

Postal services in the financial year 2023-24

Report

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Contents

Overview

This report sets out significant data and trends in the postal sector for the 2023-24 financial year. It also considers users' experience of UK postal services and Royal Mail's financial and efficiency performance.

Ofcom's regulatory framework for post is underpinned by our duty to secure a universal postal service which meets the needs of users and is affordable, while also considering its financial sustainability and efficiency. We also consider the wider consumer protection measures in place which apply to all parcel operators. Our regulatory framework is supported by a monitoring programme, of which this annual report is an important part. Alongside this report we have published an interactive data set.

In the last financial year, we enhanced our monitoring to better understand Royal Mail's performance and its impact on the UK postal sector. This has included obtaining more detailed and timely information on the financial position and performance of Royal Mail. In January 2024, we called for a national debate on the future of the UK's postal services, highlighting that letter volumes had halved since 2011 and user needs had changed.[1] The findings of this report feed into our ongoing programme of work on post.

What we have found in financial year (April to March) 2023-24[2]

Parcel volumes rose after two years of decline as the sector adjusted post-pandemic: Measured parcels across the UK increased by 8.3% to 3.9 billion items in 2023-24, close to the 4.0 billion pandemic peak in 2020-21. International inbound parcel volumes saw the largest increases year-on-year (49.7%), while domestic volumes grew by 5.3%; only international outbound volumes declined, down by 5.8%. Parcel revenues fell by 3.7% to £13.0bn in real terms (i.e. adjusted for inflation) but remained higher than before the pandemic.

Total addressed letters continued to decline in line with long-term trends: UK addressed letter volumes fell by 9.0% to 6.6 billion items in 2023-24. Royal Mail access mail continued to make up most letters sent (70.7%) at 4.7 billion items. Letter revenues stood at £3.7bn, down 1.4% year-on-year in real terms (a 4.2% nominal rise).

Consumers report a drop in value for money for postal services as prices rise: The perceived value for money of First Class stamps continues to decline, most notably after the price rises announced in April 2024.[3] Consumers increasingly report switching away from First to Second Class products, a trend continuing over the last six years, with cost being the main driver for choosing Second Class stamps all or most of the time.

Consumers report modest improvement in satisfaction with complaint handling, yet over 25% still dissatisfied with the process when contacting a delivery company about an issue: Two-thirds of parcel recipients continue to experience problems or issues with their deliveries. This year, our survey found that satisfaction levels had increased with contact/complaint handling for some parcel companies, contributing to a statistically significant increase in the average satisfaction rating for contacting the delivery company to discuss an issue (up from 41% to 44%). Consumers

[1] Ofcom, January 2024. The future of the universal postal service – call for inputs.

[2] Consumer research data in Section 2 covers the period July (Q3 onwards) 2023 to June (to end of Q2) 2024.

[3] We will continue to monitor consumer reactions following the tariff changes from 7 October as the tracker surveys continue to gather relevant data.

with a disability or a limiting condition remain more likely to experience issues with their deliveries. We expect parcel operators to build on existing improvements and to keep their policies and processes under review. We will continue to monitor market performance closely.

Royal Mail continued to fall below quality of service (QoS) expectations in 2023-24: First Class was 74.5% against the target of 93%, up from 73.7% in 2022/23. Results for Second Class were also below target, at 92.4% against the target of 98.5%, a slight improvement from the reported result of 90.7% in the prior year. In May 2024, we opened an investigation into Royal Mail's compliance with its First and Second Class delivery targets for 2023/24.[4] Postal users continue to report delayed mail as the most experienced issue (25% of residential users in our research).

Royal Mail reported a loss, made worse by increasing costs and competition in parcels: The profit (EBIT) margin for the Reported Business was -6.3% (equal to 2022-23), which is significantly below the indicative 5% to 10% range for a commercial rate of return. There was a small increase in revenues across both parcels and letters, but this was offset by an increase in costs mainly due to the pay award as the business implements its Business Recovery, Transformation and Growth Agreement. Although Royal Mail has started to win back parcel volumes lost during the industrial action, it is not achieving the market share it had pre-strikes.

Looking forwards

While this report primarily focuses on the financial year 2023-24, we have been continuing to monitor developments closely throughout this year and note in particular that:

- **Royal Mail has published an update on its plans to improve its QoS performance[5]:** We welcome this and the recent improvements to its performance, but there is still more it needs to do. We will be monitoring its progress against these plans closely and holding them to account.
- **Royal Mail continues to make losses:** Reported revenue growth in Quarter 1 (April to June 2024)[6] has not yet achieved sustained growth for the business, with ongoing risks in relation to transformation plans and network efficiencies. Given these risks and uncertainties, we continue to have concerns about the longer-term sustainability of the universal service, and we are continuing to monitor the situation closely.

In September 2024, we published a document setting out our ongoing plan of work on post, including next steps. We expect to publish a detailed consultation on proposals to reform the Universal Service Obligation (USO) in early 2025, with a view to publishing a decision statement in summer 2025. However, our monitoring work shows that reform of the universal service alone will not provide the answer to Royal Mail's operational and financial challenges. Under any scenario, action is needed by Royal Mail to transform its network and operations, as well as improving growth through its parcels offering.

[4] Ofcom, 2024. Ofcom investigates Royal Mail's delivery performance.
[5] Royal Mail, Annual Adjusted Quality of Service Report, 2023/24
[6] IDS plc, July 2024. IDS Trading Update for three months to end of June 2024.

Section 1 –Market data

This section covers developments in the postal services market in 2023-24 and presents market-wide volumes and revenues data across both parcels and letters.

Factors impacting the postal market in 2023-24

The downward trend in letters volumes and revenues has been consistent over time and is driven by online substitution. We expect the availability and take-up of increasingly faster, and more reliable, broadband and mobile services to continue to grow and therefore digital strategies will increasingly shape workplaces, public services and education, affecting workforces and consumer behaviour significantly.

As indicated in our January Call For Inputs[7], post will remain a vitally important communications tool, but it is now competing with a range of digital alternatives and is sometimes viewed as a complementary tool to digital platforms and systems. As postal usage changes over time, we expect that the labour costs which arise from the delivery of letters will be harder to manage in line with falling volumes.

In contrast, as consumers and businesses have reduced their use of letters, the parcels market has grown significantly. This growth has largely been driven by business to consumer volumes associated with online shopping becoming more popular over time.

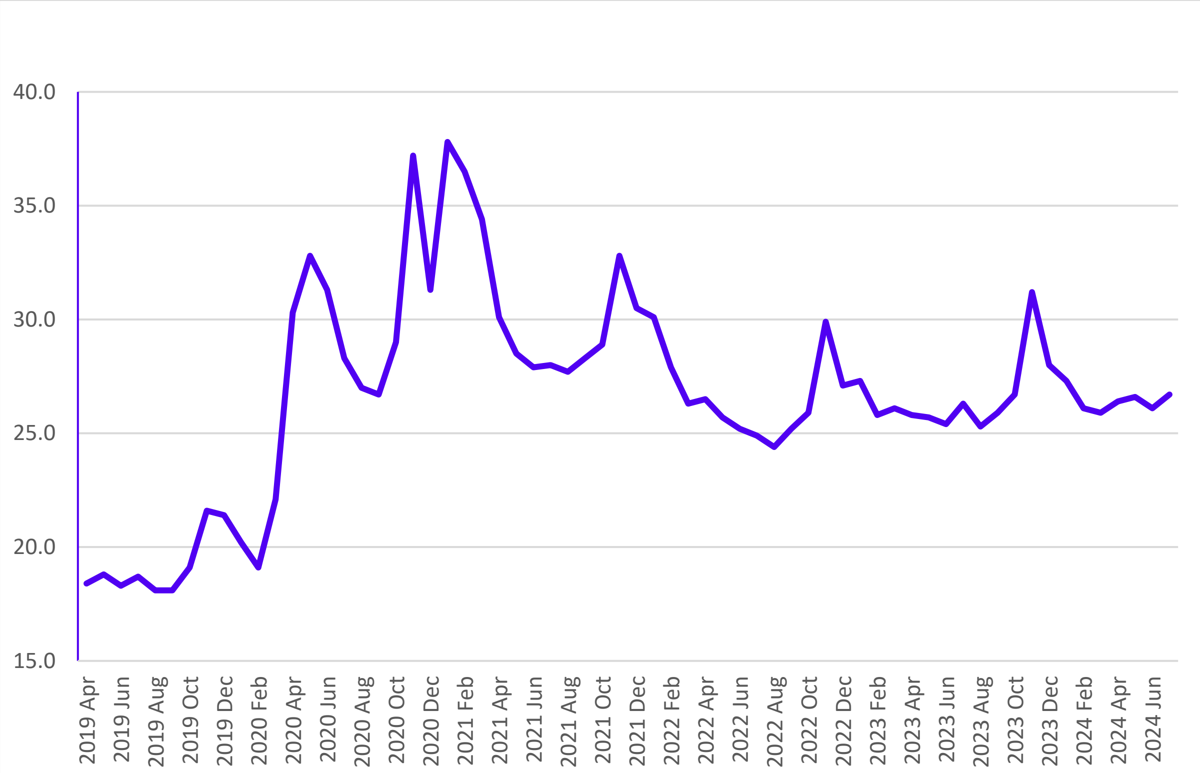
We note that Office of National Statistics data shows online shopping as a percentage of total retail sales has fluctuated over recent years[8] while internet sales revenues remained relatively flat across 2023-24 compared to the prior year.[9]

[7] Ofcom, January 2024. Securing the future of the postal USO.

[8] ONS report on internet retail sales

[9] See ONS data on average weekly value for internet retail sales (£ million), JE2J dataset, showing year on year growth at under 0.1% comparing April 2023 with April 2024 performance.

Figure 1.1: Internet retail sales as a percentage of total retail sales



Source: Office of National Statistics – J4MC dataset – covering time period April 2019 to July 2024 (monthly)

As discussed in our Statement on the review of Second Class safeguard caps[10], the cost of living crisis appears to have impacted consumer spending, and therefore we observe the relationship between retailers, delivery partners and consumers (recipients of parcels) is shifting over time. While competition remains strong in the parcels market, and we have observed further investment in the postal sector as a result, cost management is still shaping parcel delivery networks and the services offered to both businesses and consumers.

Parcels market

While Royal Mail is the main provider of single piece parcel services serving the consumer to business/consumer ('C2X') segment of the market (especially in relation to services weighing up to 2kg), there is consistent and maturing competition in this market with other operators (such as Evri, DHL, Yodel and DPD) offering a range of C2X services across weight steps. The C2X segment accounts for approximately 10% of total parcel volumes across operators.

The main focus of competition has continued to be in the larger business to consumer ('B2C') segment of the market, with these other operators and Royal Mail competing to meet online retailer and other e-commerce fulfilment demands.

Parcel prices

The increased competition in the C2X segment has continued to apply downward pressure on parcel prices. In particular, as set out in our Review of Second Class safeguard caps statement, other parcel

[10] Ofcom, January 2024. Statement on Review of Second Class safeguard caps 2024.

operators are increasingly offering comparable, competitively priced alternatives to Royal Mail at weight steps up to 2kg.[11]

The price of Royal Mail's standard parcel products across both First and Second Class rose by an average of 6.36% between April 2023 and April 2024 in nominal terms. For First Class products tariffs went up more steeply for smaller and lighter items, 8-10%, compared to online prices for medium sized heavier parcels, where increases were 2-4%.

Royal Mail increased the prices of its Second Class products by an average of 5.31%. For example, a small 1-2kg Second Class product increased from £3.49 to £3.69 (a 5.73% increase in nominal terms). Price differentials between over the counter services and online options are less significant for Second Class products compared to First Class products; however online prices for Second Class products still rose less than over the counter equivalent services (c.4% vs c.7% in nominal terms).

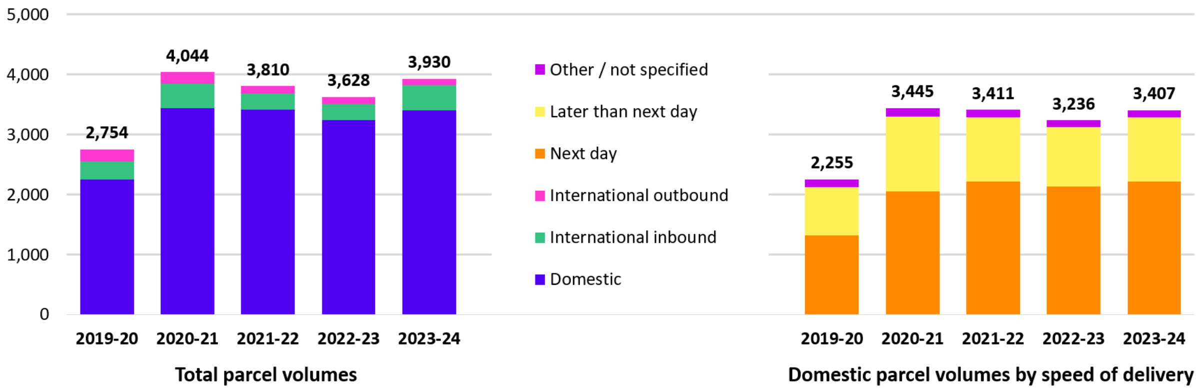
Parcel volumes

Total parcel volumes[12] increased by 8.3% to 3.9 billion items in 2023-24, compared with a 4.8% fall in 2022-23. This marked a recovery for the sector, following two years of falling volumes year-on-year after the extraordinary peak of 2020-21 as parcel deliveries surged during the pandemic.

Measured domestic parcels volumes increased by 5.3% year-on-year to 3.4 billion, following a 5.1% decline the previous year. International inbound volumes increased by 49.7% likely driven by imports from China (compared with a 1.8% rise in 2022-23), while international outbound continued to decline, down by 5.8% (compared with a fall of 8.7% in 2022-23).

In the domestic parcels market, next day delivery remained the most popular service type, although its share of all domestic parcels fell by one percentage point to 65.0% during the year, as later than next day services' share rose to 31.4% (up from 30.5%).

Figure 1.2: Total measured parcel volumes and domestic volumes by speed of delivery (millions)



Source: Ofcom / operator data. Note: Access mail volumes are included in domestic. Data for 2019-20 and 2022-23 has been restated due to operator resubmissions. Data for 2021-22 onwards includes additional postal operators and so is not directly comparable to data for previous years.

[11] Ofcom, January 2024. Statement on Review of Second Class safeguard caps 2024.
[12] Our estimate of market-wide parcel volumes is based on a definition that differs from Royal Mail's definition of parcels (which includes Royal Mail 24/48 large letters, some fulfilment letters and large letters), and is therefore not directly comparable to Royal Mail's parcel volumes reported in Section 3 on financial performance.

Parcel revenues

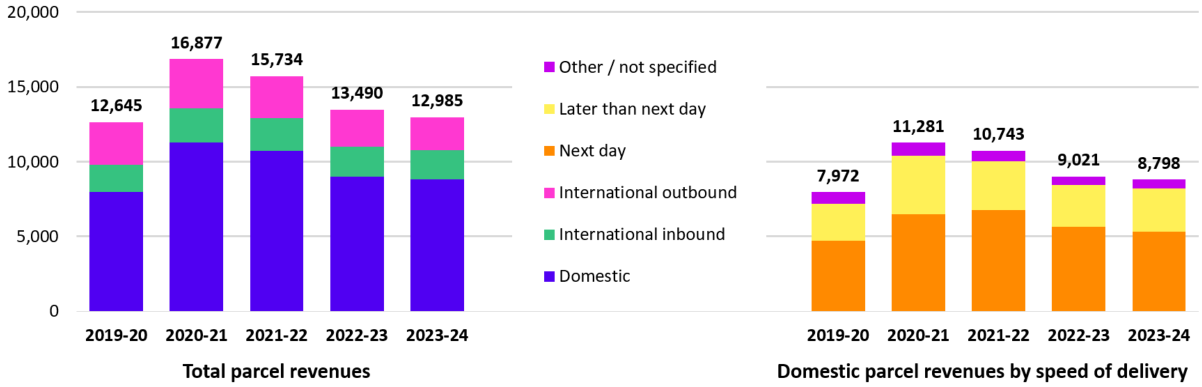
Measured parcel revenues decreased by 3.7% in real terms in 2023-24, to £13.0bn (see Figure 1.3 below). This fall was lower than the 14.3% decline recorded in 2022-23, and revenues remained higher than £12.6bn recorded in 2019-20, which reflects pre-pandemic levels. Both real and nominal figures can be found in the [interactive data]() that accompanies this report.

Real-term average unit revenue per parcel dropped by 11.1% year-on-year, from £3.72 to £3.30, and by 6.1% on a nominal basis. Average unit revenues will be impacted by any change in product mix but, overall, this data suggests parcel prices have gone down.

Domestic parcel revenues stood at £8.8bn in 2023-24, down 2.5% in real terms, and accounted for 67.8% of total parcel revenues (up from 66.9% in 2022-23). Next day delivery items continue to make up most domestic parcel revenues at 60.7%.

International inbound parcel revenues declined by 0.3% to £2.0bn, despite volumes increasing by nearly half, and accounted for 15.4% of total parcel revenues. International outbound parcel revenues declined by 11.2% to £2.2bn in 2023-24, representing 16.9% of total revenues.

Figure 1.3: Total measured parcel revenues and domestic revenues by speed of delivery (£m, 2023-24 prices)



Source: Ofcom / operator data. Note: Access mail volumes are included in domestic. Data for 2019-20 and 2022-23 has been restated due to operator resubmissions. Data for 2021-22 onwards includes additional postal operators and so is not directly comparable to data for previous years.

Letters market

Royal Mail's end-to-end[13] letter (and large letter)[14] services are made up of the single piece letter services that Royal Mail is required to offer under the USO as well as retail and access bulk mail.

'Retail bulk mail' refers to services Royal Mail sells directly to larger customers such as banks, utilities and public sector organisations. The 'access bulk mail' market involves a postal operator other than Royal Mail (for example UK Mail and Whistl) collecting mail from larger businesses and organisations and then inserting it into Royal Mail's network for delivery to the end-customer. This type of access competition enables other operators to offer postal services to their customers without setting up a

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

[14] Letters can be up to 24cm long, 16.5cm wide and up to and including 0.5cm thick, with a maximum weight of 100g. Large letters can be up to 35.3cm long, 25cm wide and up to and including 2.5cm thick, with a maximum weight of 750g.

'last mile' delivery network, and to compete with Royal Mail in the offer of initial stages of processing post.[15]

Royal Mail offers two types of access bulk mail services: D+2 services (with mail delivered two working days after receipt by Royal Mail), and an economy D+5 service. The D+5 service allows Royal Mail to defer delivery of an item until there is another item already being delivered to the recipient's address, subject to a maximum of four working days after it enters its network.

Letter prices

Tariff rises have occurred more frequently in recent years with retail service prices changing in April and October 2023 before further rises in April 2024. Royal Mail has recently implemented a further tariff increase for some First Class stamped and meter services from 7 October 2024. First Class stamps have increased from £1.10 in April 2023 to now being £1.65 in October 2024, while Second Class stamps moved in line with the safeguard cap[16], indexed from 1 April each year – priced £0.75 in April 2023 and £0.85 currently.

As well as changing prices, the product mix has developed over time. Price differentials across different weight steps on First Class products have been removed, leaving only two tariffs - the lowest weight step up to 100g and a product covering 101-750g. This simplification has not occurred for Second Class products where tiered pricing occurs up to 100g, up to 250g, up to 500g, and then up to 750g.

Second Class services experienced price rises in April 2023 and April 2024, with Royal Mail taking the decision to set prices at the level of the regulatory safeguard caps. These caps were introduced by Ofcom to protect affordability. This means the price differential between First and Second Class services has grown significantly over recent years – from 7 October this year the price of a First Class stamp is 94% higher than the price of a Second Class stamp.[17]

Royal Mail has used price differentials between products across Retail and Business services to incentivise customers to select appropriate services to meet their needs, including the shift of volumes from non-barcoded to barcoded services[18] and moving volumes from next day delivery to slower services that are less resource dependent.[19] Royal Mail has also taken steps to promote environmental benefits from using slower speed services, such as Second Class letters products and promoting the D+5 Economy service for Access mail.

Letter volumes and revenues

As set out in Figure 1.4 below, the overall decline in letter volumes has continued, with addressed letters totalling 6.6 billion items in 2023-24, down by 9.0% year-on-year.

[15] Royal Mail also offers a similar access service for parcels on a commercial basis.
[16] Safeguard price caps on Second Class letters are an important part of the framework for regulating Royal Mail and help to ensure that basic postal services are affordable for postal users. We currently apply two price caps on Royal Mail's Second Class services to achieve this aim, which are the basis of our safeguard cap regime: (1) a price cap on Second Class letter stamps; and (2) a basket cap on Second Class large letters. Ofcom, January 2024. Statement on Review of Second Class safeguard caps 2024.
[17] In April 2023, when the cost of a First Class stamp was £1.10, this was only 47% higher than the price of a Second Class stamp.
[18] This provides operational advantages to Royal Mail as well as improved revenue protection.
[19] There are different economic rationales for adopting price differentials in the competitive parcels market, where we observe increased price differentials between over the counter and online services.

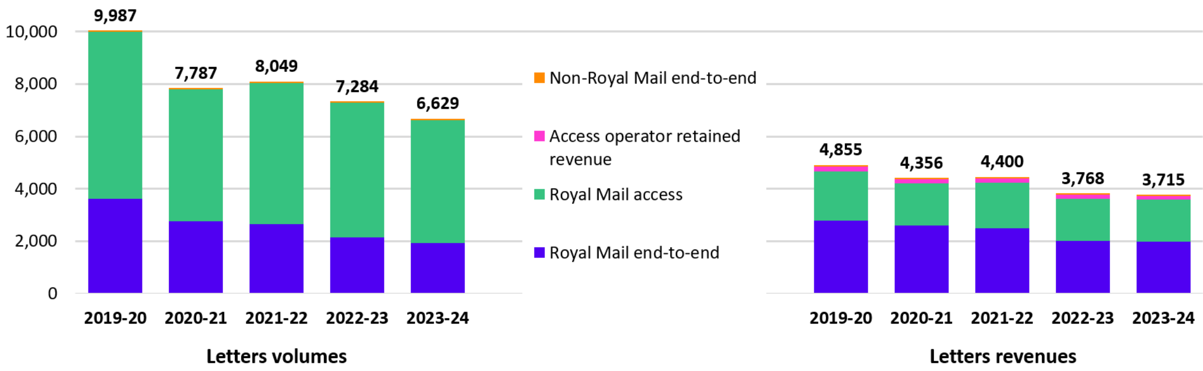
Access bulk mail continued to represent the majority (70.7%) of letters sent in 2023-24 (4.7 billion items), with its share of volumes increasing by 0.3 percentage points in 2023-24. Overall, access bulk mail volumes declined by 8.6% year-on-year, while Royal Mail end-to-end addressed letter volumes stood at 1.9 billion.

Total addressed letter revenues for 2023-24 stood at £3.7bn, down 1.4% in real terms year-on-year (following a 14.4% decrease in 2022-23). In nominal terms this represented an increase of 4.2%. Both real and nominal figures are included in the interactive data that accompanies this report.

Payments made to Royal Mail by access operators decreased by 0.6% to £1.6bn in real terms, while reported revenues retained by access operators decreased by 11.7% year-on-year to £0.1bn.

D+5 access volumes continued to increase as customers react to poor reliability on D+2 services and transfer to the lower cost, slower service. Royal Mail has stated this economy service now represents half of access letter volumes.[20]

Figure 1.4: Addressed letter volumes (millions) and revenues in real terms (£m, 2023-24 prices)[21]



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

[20] Royal Mail, 2 April 2024, Response to Ofcom's call for input on the future of the universal postal service, p.47.

[21] Addressed letter volumes and revenues in this section includes all end-to-end and access volumes (including election mail if applicable). This differs from the definition of addressed letters used in the analysis of the performance of Royal Mail's Reported Business in Section 3, which includes international mail but excludes election mail.

Section 2 – User experience

This section summarises information gathered from consumer research on how consumers used and engaged with postal services, including our new research data focusing specifically on parcel delivery services. We also set out our work to monitor our parcel consumer protection measures, as well as our ongoing work monitoring Royal Mail's quality of service and data on the complaints it receives.

Consumer experience of postal services

Introduction

This section outlines information gathered from quantitative research on how consumers and SMEs use and engage with postal services. We continue to conduct tracker surveys that provide data on experiences and attitudes of both residential consumers and small and medium enterprises (SMEs) towards postal services. The latest data from these surveys covers the period from July 2023 - June 2024. We also conduct a separate tracking survey which focuses on consumer experiences of receiving parcels, and we discuss the results in this section.

We have published slide packs summarising each of our research data sets which include further detail on the methodology used.[22] The data is also available as part of our interactive report, which provides analysis by demographic group.

Residential consumers' experience of postal services

Last year we reported on declines in the stated importance of postal services and on increasing signs of user dissatisfaction. This year we have seen importance and satisfaction metrics stabilising at similar levels found in 2022-23[23].

Postal services remain important to residential consumers

Postal services remain important to consumers. Around two thirds (64%)[24] of consumers said that post was important to them as a channel of communication with friends and family. This is similar to findings reported last year, but represents a sustained decline from levels reported two years ago (75% in 2021-2022).

Half of residential consumers said that they only use post if there is no alternative (slide 6), while the proportion of users who report having sent at least one item of post (letters or parcels) in the last month (72%) has not changed since 2022-23 (73%).

Eight in ten (82%) consumers said that there are things they will always need to send by post, with 56% saying they would feel cut off from society if they could not send or receive post (slide 6) (similar to the level reported in 2022-23). Older people are more likely to agree that they would feel cut off from society if they could not send or receive post. Across the UK nations, agreement with this statement was highest in Scotland at 61%, and in particular in the Highlands and Islands region.

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[22] Our Tracker Data; taken from Annual monitoring report on the postal market

[23] This section refers to survey data taken from Residential Postal Tracker – Annual Report July 2023-June 2024 and the underlying data tables.

[24] Ofcom, 2024. *Residential Postal Tracker – Annual Report*, slide 5. Subsequent references to data in the text are to this publication, or to the underlying data tables, unless otherwise stated.

As prices have increased, satisfaction with value for money of First Class service has declined, though the majority remain satisfied overall with Royal Mail

The majority of consumers remain satisfied with Royal Mail overall (80%), although there are increasing signs of dissatisfaction with the cost of postage and value-for-money. In addition, one in ten consumers expressed overall dissatisfaction with Royal Mail, a proportion that has increased from 4% in 2021-22. Overall satisfaction with Royal Mail was higher outside of England, at 89% in Northern Ireland, 84% in Scotland and 83% in Wales.

Satisfaction with cost is lower. Four in ten consumers (39%) said that they were satisfied with Royal Mail's cost of postage (slide 19). This remained consistent with the 40% figure reported in 2022-23 but remains significantly lower than the 54% figure reported in 2021-22.

Value-for-money ratings for Royal Mail's First Class services have dropped as prices have gone up. Forty-four per cent of consumers rated First Class services as good value-for-money, down from 47% in 2022-23, and from 57% in 2021-22. Value-for-money ratings for the First Class service fell further during the course of this reporting period, standing at 40% in the second quarter of the 2024 calendar year. These value-for-money ratings were lower among lower income households, people in receipt of benefits, and those in remote rural areas.

Six in ten (62%) consumers report that they now send fewer letters due to the cost of postage, a similar proportion to those who said this in 2022-23. A third (35%) say that they use Second Class stamps 'all or most of the time' and for these consumers, cost is increasingly a reason for their choice of postage (cited by 75%). This figure has risen in the last two years.

Delays are the most commonly-reported problem

In the context of Royal Mail failing to meet delivery targets in 2023-24, over four in ten (45%) consumers reported experiencing a problem sending or receiving letters via Royal Mail, most commonly citing delayed (25%) or mis-delivered mail (19%). Six in ten of those who made a complaint to Royal Mail about letter service were satisfied with the complaints handling process and 56% of those who complained were satisfied with the resolution of their complaint.

Some consumers have a preference for environmentally sustainable operations

Overall, four in ten consumers said that they have sent a parcel in the last month. Just over half (54%) said that they had used Royal Mail to send a packet or parcel in the last 12 months. Consumers made use of a range of other service providers to send parcels.

Sustainability plays an important role when choosing a provider for sending parcels but is generally less important than other factors.

Just under half of consumers (46%) agreed that they would prefer postal services to be delivered in an environmentally responsible way, even if it took longer for items to be delivered.

However, consumers were less willing to pay extra for post delivered in an environmentally sustainable way. A third (35%) agreed that they would prefer postal services to be delivered in an environmentally sustainable way even if they had to pay more.

The preference and willingness to pay for environmentally sustainable services was higher among younger people and AB socio-economic groups.

Small and medium enterprises (SME) experience of postal services[25]

Among SMEs, overall satisfaction with Royal Mail has declined

Overall, three-quarters (74%) of SMEs are satisfied with the quality of service they receive from Royal Mail, while overall satisfaction with other providers stands at 81%. The level of satisfaction with Royal Mail has fallen significantly from 79% in 2022-23 and is now significantly lower than the overall satisfaction level with other suppliers. The level of satisfaction with other suppliers is consistent with last year's survey finding. Overall satisfaction with Royal Mail was lower among businesses with 1-2 employees (72%).

Price is the area of lowest satisfaction with Royal Mail with 46% reporting they are satisfied (a decline of 4% points since 2022-23). Price satisfaction with Royal Mail was lower in January-June 2024 than it was in the second half of 2023. By comparison, just under three-quarters (71%) of SMEs report that they are satisfied with the price of postage from other postal operators.

Satisfaction with Royal Mail's delivery consistency/reliability stands at 72%, and the proportion of SMEs who agree that UK postal services are good value for money has also dropped to just under six in ten (57%) this year, from 61% in 2022-23.[26]

Consumer experience of receiving parcels

Introduction

Our 2022 Review of Postal Regulation found that, although the parcels market was generally working well for most consumers, some people found it difficult to complain to operators when things went wrong. It also found that disabled customers were more likely than non-disabled customers to experience problems with parcel services.[27] In light of this, we introduced new measures to help address these issues. These were:

- new guidance on complaints handling;[28] and
- a new consumer protection condition to ensure that parcel operators have policies in place for the fair and appropriate treatment of disabled consumers.[29]

Our guidance on complaints handling came into force on 1 April 2023, and the consumer protection condition came into force on 1 November 2023. This section provides an initial assessment of the impact of these measures since their introduction.

We have undertaken a data collection exercise, targeted at larger parcel operators, in order to support close monitoring of the implementation and impact of these new requirements.[30] We have also engaged with a wide range of operators, including operators with a smaller market share, to assess progress of implementation of the new measures more broadly.[31] We have used findings from our consumer survey, which tracks perceived quality of service of parcel deliveries to

[25] This section refers to survey data taken from SME Postal Tracker – Annual Report July 2023-June 2024 and the underlying data tables.
[26] SME tracker survey 2022-23 Table 387
[27] Ofcom, Review of Postal Regulation, July 2022. Section 6.
[28] Ofcom, Guidance for parcel operators on consumer complaints handling procedures.
[29] Ofcom, Consumer Protection Condition 5.
[30] Amazon, DHL, DPD, Evri, Parcelforce, Royal Mail, and Yodel.
[31] DX Delivery, FedEx, and UPS

residential addresses over time (our ‘parcels tracker survey’), to support this monitoring exercise and to enable us to identify changes within the parcels market.

Parcels tracker survey

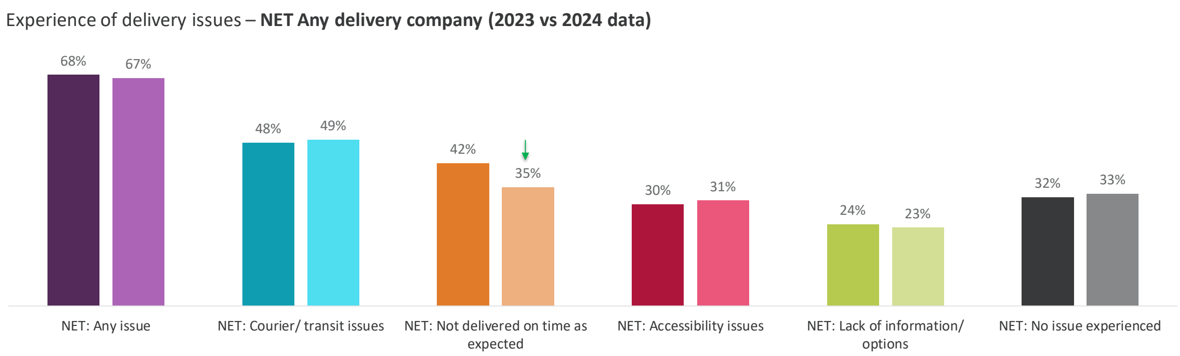
Since 2023 we have been conducting survey research to measure consumer satisfaction with parcel delivery services and with complaints and contact handling. This section summarises the latest findings from that survey.[32]

Overall, the research found that the majority of consumers were satisfied with parcel operators overall (on average, delivery companies satisfy nearly four in five (78%) of their parcel recipients) (slide 7). However, this year, two-thirds of parcel recipients (67%) reported experiencing a delivery issue - such as a delayed parcel, it being left in an inappropriate location, failure to deliver a parcel, and/or insufficient/incorrect tracking information - with any parcel operator in the past six months.

Compared to 2023 results, the most common type of issue experienced by recipients continued to be courier and transit issues (including damage to a parcel, the parcel being left in an inappropriate location, and / or the delivery person not knocking loudly enough or ringing the doorbell). There was no statistically significant change in the proportion of recipients that experienced these issues this year (48% in 2023 compared to 49%). A similar proportion of respondents, just under a third (31%), reported experiencing accessibility issues in 2024, which was similar to the 30% figure reported in 2023. Almost eight in ten (78%) respondents suggested that they would like to see at least one service improvement, with “improvements to, or more, tracking information” noted as the most commonly-cited issue (18% of respondents reported that they would like to see this improvement).

Parcel deliveries being delayed and not delivered remain the most common issues for which contact with a delivery company has been made, however significantly fewer contacts have been made for these reasons in 2024. Of those who reported experiencing an issue with any delivery, we saw a four percentage point reduction in these consumers contacting a parcel company regarding a delayed parcel (23% in 2023 and 19% in 2024) and with a parcel not being delivered (20% in 2023 and 16% in 2024).

Figure 2.1: Experience of delivery issues (2023 to 2024)



Source: Experience of Parcel Delivery Tracker – Annual Report 2024: 2024 data is shown in lighter shading, 2023 data is shown in darker shading. Arrow indicates a statistically significant difference.

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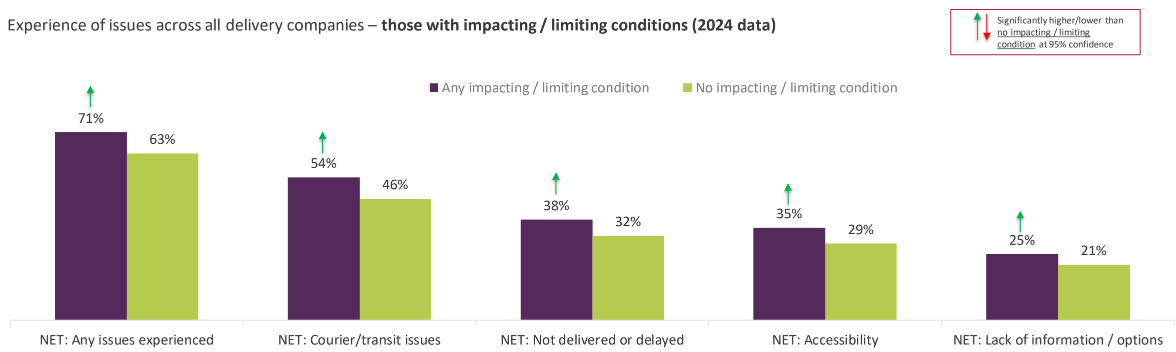
[32] This section refers to survey data taken from the Experience of Parcel Delivery Tracker – Annual Report 2024 and the underlying data tables.

Reported satisfaction with the contact and complaints handling processes remained lower than with the delivery experience from parcel operators overall. On average, under half (44%) of those who contacted a delivery company were satisfied with the experience of contacting the company to discuss an issue. On average, across all delivery companies, under half of respondents who had contacted the parcel operator were satisfied with how their complaint was handled by staff (45%); the contact process (44%); and the resolution of their issue (48%). Among those dissatisfied with the contact process, 53% cited not being able to contact the company by telephone as the reason for their dissatisfaction.

There was considerable variation between parcel operators. Amazon and DHL performed highly in all three areas, while Evri had the lowest levels of satisfaction with the contact process overall. While Evri has seen improved ratings across a number of key metrics in our 2024 survey responses it remains, on average, the lowest-scoring delivery company on satisfaction with contact. Yodel's satisfaction scores were also lower than the average among those who made contact to discuss an issue and how the complaint was handled by staff.

The research also provides insights into the experiences of disabled consumers and those with limiting conditions. These parcel recipients are still more likely to encounter difficulties with the delivery process (71%) than those without a limiting condition (63%).

Figure 2.2: Experience across all delivery companies: comparison between those who have any impacting condition and those with no impact condition (January 2023-July 2024)



Source: Experience of Parcel Delivery Tracker – Annual Report 2024

Accessibility issues, such as insufficient time being allowed to answer the door, or the parcel being left in an inaccessible place, may disproportionately affect groups with impacting/limiting conditions. People with disabilities or conditions which affect their sight are particularly likely to have contacted their delivery company about delivery issues. In addition, people with limiting/impacting conditions would like to see a range of improvements which may be related to their condition, such as having more and better tracking information, more time to answer the door and deliveries being on time.

Engagement with parcel providers

We continue to engage regularly with parcel operators, including some smaller parcel operators, to understand the changes they are making to implement our consumer protection measures. We also continue to gather information on complaints data and procedures from the largest parcel operators.

The complaints data which we have gathered indicates that, while individual operators have different approaches to categorising complaints, the most common categories of complaints across operators relate to lost, damaged and / or delayed parcels. A substantial number of complaints concerned mis-delivery and redelivery issues. Complaints about driver behaviour were generally low. In the majority of cases, complaints were broadly resolved by operators on the same day or within three working days. We will continue to track operator complaint data to understand individual operator performance in terms of overall complaints numbers.

We were pleased that most parcel operators are generally giving careful consideration to our consumer protection measures. We also note that a number of operators have reported that they have used our research and guidance to review and improve their customer service and complaints processes.

In our engagement with individual operators, we noted a number of reported improvements, including:

- providing consumers with multiple contact channels and ways for consumers to share their delivery needs, for example a free text box;
- monitoring complaints received, reviewing customer feedback, and making changes to complaints processes based on this information;
- ensuring that senior management is involved in decision making around improvements;
- ensuring that accessibility options appear front and centre and are clearly signposted to consumers;
- considering website accessibility by, for example, testing websites using a screen reader;
- engaging with disabled consumers and disability charities directly; and
- considering accessibility needs when designing new products.

We are also aware of some examples of good practice in delivering improvements to customer experience. For example, one operator is undertaking mystery shopping exercises to test how well their processes are currently working for consumers. Additionally, a number of parcel operators are choosing to use more inclusive language, such as ‘convenient delivery options’, and / or ‘special accommodations’, to encourage all customers who may benefit from adjustments to standard delivery options to take advantage of these provisions.

Overall findings from our parcels monitoring

Overall, we are pleased to see some progress on the implementation and monitoring of consumer protection measures, including some improvements in relation to complaints procedures and outcomes. In light of our findings on consumer satisfaction more broadly, the fact that a significant proportion of customers are still experiencing difficulties with deliveries, and the experiences of disabled customers (which continue to be less positive than for non-disabled customers and customers without limiting conditions), we encourage operators to prioritise continuous and consistent improvement across the sector. Our consumer survey data also shows that there has been a small reduction in the proportion of customers who are experiencing difficulties with deliveries, while the research also shows initial signs of improvement in the customer experience of the complaints process. We expect parcel operators to build on existing work and to keep their policies and processes under review, both in response to their own customer feedback and to our survey data.

In relation to disabled consumers, we note both that the new consumer protection conditions have been in place for less than a year and that our latest consumer research covers the period up to August 2024. In this context, we are generally encouraged by the evidence on disabled customer experiences provided by most parcel operators as part of our regular engagement, particularly where details of service improvements and future plans were explained.

However, we were disappointed to see that some groups continue to be disproportionately impacted. For example, people with limiting conditions are significantly more likely (at 71%) to have experienced a delivery issue that those who report that they have no limiting conditions (63%). We are also concerned to see that 17% of consumers with a limiting condition identified 'more time allowed to get to the door' as a desired improvement and this increased to 22% among those with hearing related conditions and 20% among those with mobility related conditions. Fifteen per cent desired to see 'drivers reading and following delivery instructions'.

During the course of our engagement with operators, we noted a range of approaches and levels of commitment to addressing customer complaints and the experiences of disabled customers. We expect to see improvements in these areas over the course of the next reporting year, and hope to find that the examples of good practice examples, which we have outlined in this section, are more consistently deployed . We will continue to monitor these areas closely and will take action in line with our enforcement duties if we consider it appropriate to do so.

Royal Mail's service performance

Quality of service (QoS)

As the designated universal service provider, Royal Mail is currently required to collect and deliver letters six days a week, and parcels five days a week, to all UK addresses, and to provide certain universal postal services (such as national First Class and Second Class services) at uniform prices. Royal Mail is also subject to eight QoS targets which cover its performance against expected speed of delivery, collection activities, delivery route completions, as well as performance in 118 UK postcode areas. Royal Mail is required to report its performance in the public domain against these targets on a quarterly and annual basis, and we formally assess its annual results.

There have been ongoing and serious issues with Royal Mail's quality of service performance throughout the reporting period. These have caused significant disruption to users of Royal Mail services across the UK.

In June 2024, Royal Mail published its annual results for 2023-24. This showed that it had failed to meet all of its targets except its target for the percentage of items deemed correctly delivered.[33] Results were significantly below target for First Class (74.5% against the target of 93%), although this was a small improvement on the reported performance of 73.7% in 2022-23. Results for Second Class were also below target (92.4% against the target of 98.5%), a slight improvement from the reported performance of 90.7% against the same target in 2022-23.

In light of these results, on 24 May 2024 we opened an investigation to determine whether there are reasonable grounds for believing that Royal Mail has failed to comply with its obligations, taking into account the steps Royal Mail has taken to improve its performance since the conclusion of our 2022-23 investigation and any impacts these steps have had on quality of service. Should we determine that there has been a failure, we will consider whether it may be appropriate to impose a financial penalty on Royal Mail for that failure, and the level of any penalty. We expect to have concluded the investigation by the end of 2024.

[33] Royal Mail, 2024. *Designated Universal Service Provider Condition 1.0 Annual Adjusted Quality of Service Report 2023/24*. Subsequent references are to this report.

Royal Mail's more recent QoS performance show some small signs of improvement, but they are still well below its targets. Its Q1 2024-25 results show that its First Class performance was 79.1%, while Second Class performance was 94.1%.[34] In August it published details of its action plan to drive improvements in quality, which includes a focus on recruitment and retention, improvements targeted at underperforming delivery offices, reducing sick absence, and addressing changes in workload. It has also introduced new reliability (or 'tail of mail') targets to ensure that the vast majority of mail (95% for First Class and 99% for Second Class) will be delivered either the next working day after it is due for First Class or two working days after it is due for Second Class (by the end of 2024/25).[35] Its Q1 results indicate it has so far achieved 92.4% for First Class and 98.9% for Second Class against these targets. We welcome this action plan from Royal Mail and its reporting against these new targets, as well as the recent improvements to its performance but there is still more for it to do. We will be continuing to monitor this closely and to hold Royal Mail to account for its service performance.

As part of our work on the future of the USO we have recognised the importance of ensuring that any reform of the USO leads to improvements in reliability. As set out in our recent next steps update, we plan to review our overall QoS requirements on Royal Mail, and our approach to enforcement of these requirements to ensure that they appropriately incentivise Royal Mail's performance and secure the high levels of reliability that are valued by customers.

Complaints and compensation

As part of our monitoring programme, we also review the complaints and compensation data which Royal Mail is required to publish.[36]

Royal Mail's completed complaint volumes increased significantly in 2023-24 to 2.55m (up from 1.98m in 2022-23), representing a 28% increase. 'Loss' was the highest complaint category with 1.24m complaints, a significant increase of 38% on the figure of 898k in 2022-23. It is likely that the service failures which Royal Mail customers have experienced has led to this significant increase in complaints.

Royal Mail is required to provide compensation on a fair and reasonable basis where a customer experiences loss, delay or damage in relation to certain universal postal services. The total compensation paid by Royal Mail in 2023-24 increased by 21% to £31.6 million (up from £26.2 million in 2022-23). The total number of complaints where compensation was paid increased by 15% to 1.1m (up from 972K in 2022-23). When compensation was given, the average compensation paid per complaint was £28.35, an increase of £1.42 from 2022-23.

The most recent report published by the Postal Redress Service (POSTRS) – the alternative dispute resolution (ADR) scheme which Royal Mail belongs to – shows that it received 776 domestic disputes, of which 588 were within its scope, an increase of 26% from last year on disputes received and in scope (in 2022-23, POSTRS received 800 disputes, of which 465 were within its scope).[37]

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[34] Royal Mail, 2024. *Quality of Service and Complaints Report Quarter 1 2024/25*.
[35] Royal Mail, 2024. *Designated Universal Service Provider Condition 1.0 Annual Adjusted Quality of Service Report 2023/24*, p.1.
[36] Royal Mail, 2024. *Annual Report – Complaints and Compensation*. Subsequent references are to this publication.
[37] CEDR, 2024. *POSTRS Annual Report Jul 2023 – June 2024*.

Other universal service performance

This section provides an update on our monitoring of Royal Mail which looks at various other areas of its performance. We are continuing to monitor the implementation and impact of developments in these areas as part of our wider monitoring programme.

Exceptions

In exceptional circumstances, we recognise that Royal Mail can depart from its USO obligations. These include delivery and access point (typically post boxes or Post Offices) exceptions where there is an immediate risk to the health and safety of postal staff, the location is not sufficiently secure and/or there are access difficulties. Where Royal Mail decides that such exceptional circumstances exist in relation to a given delivery or access point for a sustained period, it must carry out a review every 12 months. Consumers are able to challenge any such 'exceptional circumstance' determination by Royal Mail. In 2023-24:

- **delivery:** a total of [4,662] delivery points were reported by Royal Mail to be subject to exceptional circumstances. There are around 32 million delivery points in the UK, so excepted delivery points represent a very small proportion of the total footprint;[38]
- **access points:** Royal Mail reported 416 collection points where exceptional circumstances were present for 12 months or more. There are around 115,000 post boxes and approximately 11,500 Post Offices across the UK, so the number subject to exceptions represents a very small proportion of the total number of access points.

Redirections

Royal Mail is required to provide a redirection service, whereby personal and business customers can apply for their mail to be automatically redirected to their new address when they move home or premise.[39] As part of this service, it offers a concessionary rate scheme that allows discounts for residential customers in receipt of particular benefits.

Royal Mail has reported on the performance of the concessionary scheme in August 2024, and stated that applications to the scheme had increased to 6,762 between April 2023 and March 2024, up from 4,742 applications the prior year. Royal Mail reports ongoing partnerships with third parties, such as the Department for Work and Pensions and Citizens Advice, are likely to further promote the Concession Redirection service going forwards.[40]

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[38] Royal Mail, 2024. *USO delivery exceptions, 2023-24*.

[39] Ofcom Designated USP Condition

[40] In August 2024, Royal Mail published its latest statement on the arrangements for users of postal services who are blind, partially sighted, infirm through age, chronically sick, or disabled. This is required under Condition DUSP 1.8.4.

Section 3 – Royal Mail financial performance and efficiency

This section summarises the results of our monitoring of Royal Mail's financial performance and efficiency improvements for the period 2023-24, including comparisons with previous years.

Financial performance

As we have a duty to have regard to the need for the provision of a universal service to be financially sustainable, we monitor both the financial performance of Royal Mail's Reported Business[41] and certain financial health metrics relating to the wider group (International Distribution Services plc - 'the Group')[42] such as cashflow and cash headroom. Royal Mail's financial statements are reported using whole weeks, 2023-24 includes an additional week and is 53 weeks long. For section 3, where possible, 2023-24 results have been adjusted to 52 weeks. This allows for equivalent comparison year-on-year.

Reported Business volumes and revenues

Royal Mail's parcel performance in 2023-24 improved, with it winning back some of the volumes and revenues lost in 2022-23 because of industrial action.[43] Volumes increased by 6.6% and revenue increased by 4.7%. Revenue tracked slightly behind volume growth partially due to customers switching to lower priced products offsetting the effects of increased prices. Royal Mail stated that the ending of industrial action has led to particularly strong parcel growth (17%)[44] in the second half of the year. However, compared against 2019-20 parcel volumes were down -1.7% and revenues are up 13.3%. Parcel volumes decreased in 2021-22 due to normalisation after Covid-19[45] and further dropped in 2022-23 due to impacts from industrial action.[46] However, as explained above, Royal Mail has started to win back parcel volumes. Over the last 5 years Royal Mail has seen a trend of customers moving to higher priced tracked products, which resulted in revenue not declining as much as volume during Covid normalisation in 21/22. [47] This trend, along with price rises meant

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

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

[43] 2022-23 was affected by industrial action, 18 days of mass strikes took place during the Christmas period (its busiest period of the year) resulting in a loss of volumes and revenues.

[44] IDS, 2023-24 Full Year Results - Analyst Presentation, page 8.

[45] Covid-19 led to particularly high parcel volumes in 2020-21 due to increased e-commerce orders and delivery of test kits. After which volumes decreased from 2021-22 mainly because of eased Covid-19 lockdown restrictions, non-essential retail reopened and test kits were withdrawn on 1st April 2022.

[46] 2022-23 volumes were significantly impacted by 18 days of industrial action.

[47] IDS PLC, 2020-21. IDS Annual Report 2020-21, Page 7, IDS PLC, 2021-22. IDS Annual Report 2021-22, Page 6.

revenue decline was not as much as volume during industrial action in 22/23. [48] The increases have contributed to positive revenue growth when compared to 2019-20.

Within total parcels mentioned above, international parcel volumes increased by 24.8%. Royal Mail states this is driven by strong import volumes driven by the recovery from the 2023 cyber incident and growth in Chinese import volumes.[49] Import parcels have a lower average unit revenue[50] than export parcels.[51] This results in revenue growth of 7.2% tracking behind volume growth.

Royal Mail's addressed letter volumes declined by 9.1% but revenue increased by 4.7%. The decrease in addressed letter volumes reflects the structural decline of letters. Since 2019-20 volumes have decreased by 31.8% which is equivalent to an average annual decline of 9.1%. Royal Mail commented that price rises outweighed the decreased volumes resulting in revenue growth.

Table 3.1: Reported Business volume changes

Volumes	Current Year on Year Change 2023-24 vs 2022-23	Previous Year on Year Change 2022-23 vs 2021-22	5 Year movement 2023-24 vs 2019-20
Domestic Parcels	4.3%	-22.8%	8.1%
International parcels	24.8%	-6.0%	-38.3%
Total Parcels	6.6%	-21.2%	-1.7%
Addressed Letters	-9.1%	-8.6%	-31.8%

Table 3.2: Reported Business revenue changes

Revenues	Current Year on Year Change 2023-24 vs 2022-23	Previous Year on Year Change 2022-23 vs 2021-22	5 Year movement 2023-24 vs 2019-20
Domestic Parcels	4.2%	-19.3%	22.4%
International parcels	7.2%	-11.5%	-17.5%
Total Parcels	4.7%	-18.1%	13.3%
Addressed Letters	4.7%	-5.2%	-6.7%

Reported Business EBIT margin

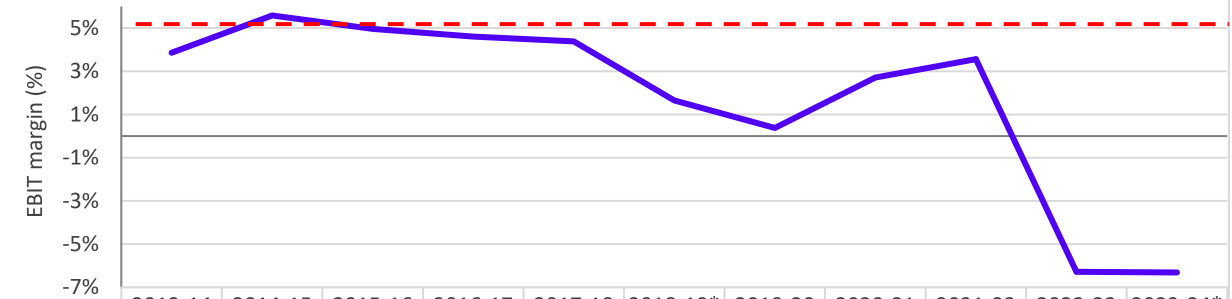
The profit margin, or the rate of return, made by the Reported Business, and its trend over time, is one of the indicators we monitor when considering the long-term financial sustainability of the universal postal service.[52] Specifically we consider EBIT (the earnings before interest and tax (EBIT)

[48] IDS PLC, 2022-23. IDS Annual Report 2022-23, Page 7.
[49] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 65.
[50] Average unit revenue is a metric used to measure the revenue generated per unit.
[51] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 7.
[52] In our 2022 Review of Postal Regulation, we decided to retain the use of EBIT margin to assess the commercial rate of return earned by the universal service. See paragraphs 3.14-3.15.

margin), calculated to include transformation costs and with pension costs restated on a cash basis.[53] We refer to this metric as the '*financeability EBIT margin*'.[54]

The Reported Business made a loss in 2023-24; the EBIT margin was -6.3%, the same as in 2022-23.[55] Figure 3.3 shows that, since 2016-17 the Reported Business's EBIT margin has remained below the lower bound of 5-10%, which is the range we use as a first order indicator of a commercial rate of return for the Reported Business.

Figure 3.3: Reported Business EBIT breakdown



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19*	2019-20	2020-21	2021-22	2022-23	2023-24*
EBIT Margin	3.9%	5.6%	5.0%	4.6%	4.4%	1.6%	0.4%	2.7%	3.6%	-6.3%	-6.3%

*Source: Royal Mail Regulatory Financial Statements, unaudited submissions from Royal Mail and Ofcom analysis. *52 week adjusted figures*

Figure 3.4 breaks down the change in EBIT from 2022-23 to 2023-24. It shows that revenue increased by c.£284m but was offset by costs which increased by c.£303m. Royal Mail stated that costs increased as a result of implementation of the 6% pay award from 1 April 2023,[56] higher delivery costs due to the increase in parcel volume, and increased investment over the Christmas period to improve quality of service. As discussed above, revenue increased due to price rises and Royal Mail winning back some of the market share lost in 2022-23 due to industrial action.

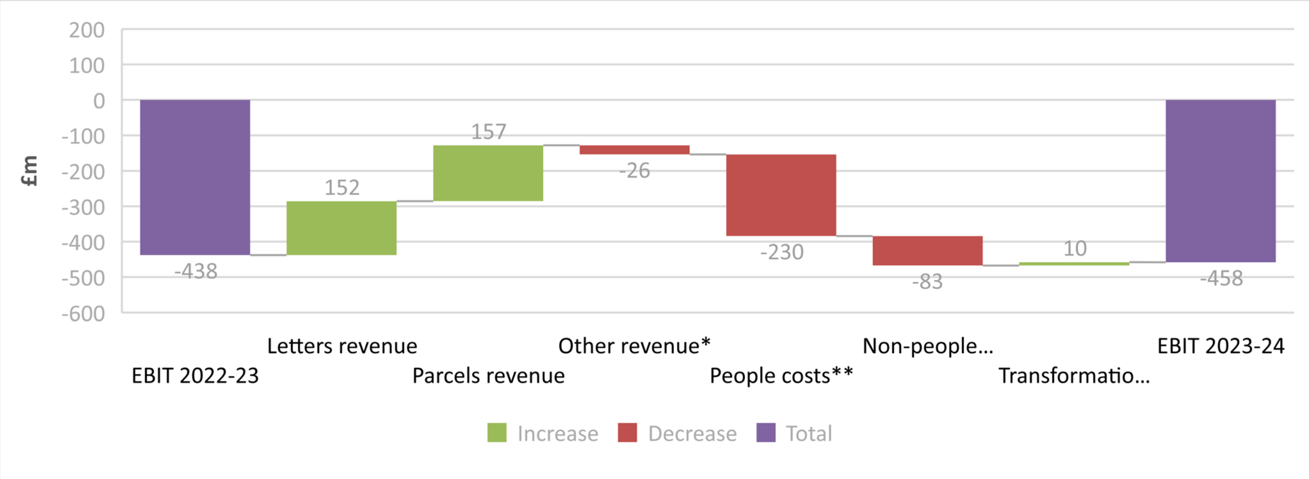
[53] The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 14.8% (2022-23: 22.9%) for the Defined Benefit Cash Balance Section ('DBCBS') and the cash funding contribution rate agreed with the Trustee of 15.6% (2022-23 15.6%).

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

[55] Associated EBIT's 2023-24 -£458m ,2022-23 -£438m and 2021-22 £282m.

[56] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 64.

Figure 3.4: Reported Business EBIT breakdown – 52 Weeks Adjusted



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

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

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

Other financial health indicators

Royal Mail is part of the IDS Group, but our monitoring focuses on Royal Mail's financial position, as the company subject to the relevant regulatory obligations. However, as in previous years we also consider some financial health indicators that relate to IDS, as this is the entity which manages the cash and financing for the Group, is listed on the stock market, and it is IDS that investors invest in or lend funds to.[57]

The financial health indicators discussed below provide us with a view of the financial position of the Group and its ability to service its debt and meet its cash requirements at the end of each financial year. These indicators are consistent with those which investors and analysts use to consider the Group's financial performance and health.[58]

The financial health indicators include cash flow and cash headroom, Standard & Poor's (S&P) credit rating and metrics underpinning covenants on borrowing assessed at a Group level.

Cash flow and cash headroom

Cashflow is a key component of maintaining financial sustainability of the universal service. In 2023-24, free cash outflow of the Group improved to -£14m compared to a -£89m outflow in 2022-23 (See figure 3.5 below).[59] The outflow is mainly because of Royal Mail's trading performance as explained below.

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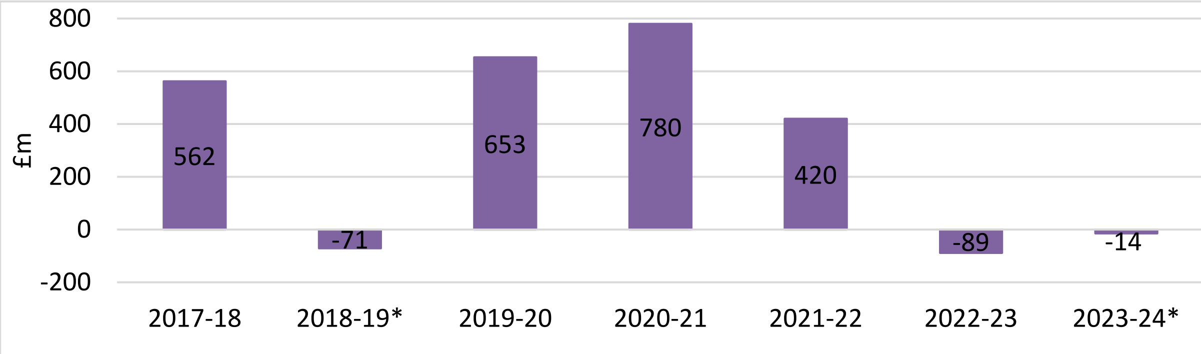
[57] We noted that it is conceivable that, while the Reported Business might make a commercial rate of return, the rest of the Relevant Group might not perform well. This has the potential to pose a threat to the financial sustainability of the provision of the universal service if the liquidity or funding of the Relevant Group was compromised.
[58] Ofcom 2016, Review of the Regulation of Royal Mail Annexes 5 to 11, Annex 6, paras A6.43 to A6.59.
[59] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 72. -£14m for 2023-24 is the unadjusted 53-week figure.

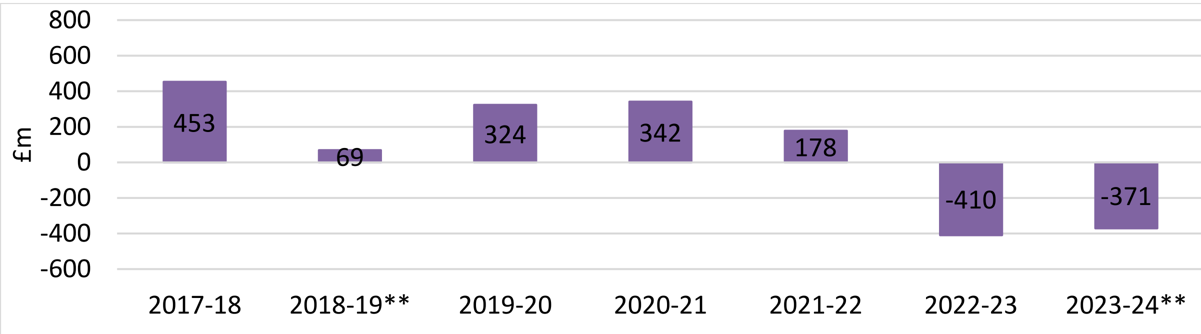
Figure 3.5: The Group's free cash flow[60]



Source: International Distributions Services PLC annuals accounts[61]
**53-week year (unadjusted).*

Royal Mail has had two consecutive years of net trading cash outflow. In these years, the cash outflows related to trading costs outstripped the cash inflows of the revenues generated (see figure 3.6 below). However, the net outflow reduced from -£410m in 2022-23 to -£371m in 2023-24. [62] Royal Mail's poor trading performance, as explained above, has been the main reason for these trading cash outflows.

Figure 3.6: Royal Mail in-year trading cash flow on pre-IFRS 16 basis*



Source: International Distributions Services PLC annuals account, page 63

** IFRS 16 is the International Financial Reporting Standards which is the accounting standard for leases. The cash outflows includes lease payments.*

*** 53-week year (unadjusted).*

IDS have commented on current and planned mitigations of the poor trading performance of Royal Mail. Measures include delivery of the turnaround plan[63] and implementation of efficiency programmes, reduction of capital expenditure, raising capital through asset backed disposals or sale and leaseback options. IDS has commented that Royal Mail and GLS's access to group resources are

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[60] "Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments and GLS client cash movements. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base", IDS Annual Report 2023-24, Page 72.
[61] E.g. see IDS Annual Report 2023-24, Page 72.
[62] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 63.
[63] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 58.

"subject to satisfactory progress against business plan and/or short-term working capital requirements".[64]

As at the year end, Royal Mail had intercompany loans of £603m.[65] As part of its 2023-24 results IDS publicly said; "The Board will keep under review whether it is appropriate to cross subsidise Royal Mail" and that they "believe Royal Mail has the potential to be an independently cash generative business".[66] They comment further that a challenging macro-economic environment, high inflation and industrial action has resulted in a "risk that Royal Mail fails to secure ongoing access to finance and/or is unable to manage working capital and cash to support the ongoing running of, and investment in, the Royal Mail business".[67]

As mentioned in the overview, EP Group's proposed takeover offer priced at £3.70 per share has been recommended to IDS shareholders. If the takeover completes it is likely IDS and Royal Mail's access to capital may change. EP stated in the offer document that IDS could benefit from: "more flexible access to investment capital".[68] However, the changes will only be clear if the takeover completes.

Efficiency performance

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

In our 2022 of Postal Review of Postal Regulation, we strengthened our monitoring regime in relation to efficiency by requiring Royal Mail to publish its expectations for improvements in efficiency (by reference to PVEO) and productivity (based on Weighted Items per Gross Hours) for the next five-year period and annually publish progress against them.

Royal Mail published this information for the first time on 30 June 2023[69], outlining that:

- its PVEO[70] efficiency expectation is that efficiency savings of £690m or 9% will be achieved by 2027-28; and
- its WIPGH[71] productivity expectation is that the expected operational efficiency improvement of its frontline staff by 2027-28 will be 25%.

One of the key enablers for Royal Mail to achieve these expectations for efficiency and productivity is the Business Recovery, Transformation and Growth Agreement.[72] This was agreed between Royal Mail and the Communication Workers Union (CWU) in July 2023 after nearly a year of dispute and 18 days of strikes.

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[64] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 58.
[65] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 73.
[66] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 58 and page 73.
[67] IDS PLC, 2023-24. IDS Annual Report 2023-24, Page 58
[68] IDS PLC, 26th June 2024. Recommend Cash Offer for IDS PLC by EP UK Bidco Limited
[69] IDS, 30 June 2023. Five-year cumulative expectation for PVEO and productivity.
[70] PVEO (or Price, Volume, Efficiencies and Other changes) analysis takes account of the following changes to identify the effects of efficiency improvements: 1) input price inflation; 2) changes in volumes; 3) one-off changes (non-recurring other items).
[71] Weighted items per Gross Hours (WIPGH)
[72] IDS, Annual Report 2023-24, page 53.

The agreement awarded a consolidated pay rise[73] of 2% for financial year 2022-23, a consolidated 6% for financial year 2023-24 and a consolidated 2% for financial year 2024-25 as well as a separate one-off lump sum payment of £500 per employee and introduced a profit-sharing payment for the years of the agreement where Royal Mail Group Ltd generates an operating profit.

Below we consider Royal Mail's progress against these indicators as well as the change in real costs.

Indicators of Royal Mail's efficiency performance

As in previous years, we have considered a range of high-level indicators of efficiency, including the overall change in real costs, a break-down of the causes of cost movements in the year between Price, Volume, Efficiencies and Other changes (PVEO), changes in frontline gross hours in delivery and processing (which captures changes in paid hours) and Royal Mail's own productivity metric (Weighted Items per Gross Hours, or WIPGH) which measures efficiency by capturing the ratio of outputs to inputs.

The results are shown in Table 3.7 below and indicate that Royal Mail's reported productivity rates have improved due to gross hours across delivery and processing decreasing while the workload has increased.[74]

Table 3.7: Unadjusted Indicators of the Reported Business' efficiency performance

Indicator	Performance in 2023-24
Total change in real costs	Real costs (excluding transformation costs) **decreased by 1.8%** to **£6.3bn.**[75]
Price, Volume, Efficiency and Other (PVEO) analysis	Royal Mail reported efficiencies of **£170m (2%)**.[76] However, we note that if this is adjusted for pension escrow credits,[77] then the efficiencies achieved would be **£25m (0.4%).** We discuss this further below.
Frontline gross hours in delivery and processing	Total gross hours across delivery and processing **decreased by 0.1%.**[78] However, we note that if gross hours across delivery and processing are adjusted for the difference in number of working weeks, then the average gross hours across delivery and processing **decreased by 2.0%**. We discuss this further below.

[73] With the exception of fleet technicians who were awarded an 8.7% base pay increase from 1 April 2023 instead of the consolidated pay rise of 2% for the financial year 2022-23 and consolidated 6% for financial year 2023-24. See appendix 4 of the agreement.
[74] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.
[75] IDS, Royal Mail Regulatory Financial Statements for the 53 week period ended 31st March 2024, page 9. People costs are indexed against Average Earnings Index (AEI), while Non-people costs and transformation costs are indexed against Consumer Pricing Index (CPI) to derive real costs for the financial year 2023-24.
[76] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.
[77] IDS, Annual Report 2023-24, page 221.
[78] This figure excludes gross hours from RDCs and Other, such as central administration staff.

Indicator	Performance in 2023-24
Productivity - weighted items per gross hour (WIPGH)	Royal Mail reported that **WIPGH increased by 4.5%** which was achieved against an increase in average workload per day of 5%, calculated using the change in total gross hours per year.[79] However, we note that if the calculation is done using the change in average gross hours, then the WIPGH would be **6.5%.**

Total change in real costs

Real costs (excluding transformation costs)[80] decreased by 1.8% in 2023-24 to £6.3bn (Table 3.7 above). The reduction is mainly due to savings from people and non-people costs. The industrial relations environment has impacted people costs, as Royal Mail postponed planned revisions in delivery or processing during the first half of the year, and although there were pay annulments on industrial action days, these were partially offset by the costs related to preparing and recovering from each day of industrial action.[81] Non-people costs savings were predominantly due to lower volumes.[82]Over the past five years, real costs have decreased by an average of 2.4%.

PVEO Analysis

As shown above, Royal Mail's PVEO analysis indicated an efficiency improvement of £170m, or 2.3%. However, in our PVEO analysis we have removed a one-off credit relating to a released of funds held in escrow by the Trustees of Royal Mail Pension Plan ('RMPP'). This credit was used to fund the one-off payment to UK employees.[83] Royal Mail state that the Trustees of the Royal Mail Pension Plan (RMPP) agreed to the release of the £130m cash held in escrow contingent on the ratification of the Business Transformation, Recovery and Growth Agreement and it being used for the one-off payment to employees. However, we cannot speculate on the operational consequences of not making this payment and given that this credit relates to payments made to the escrow account in previous years we consider it should be removed from the analysis as it does not represent an efficiency saving. When this is removed from the analysis, Royal Mail achieved only £25m, or 0.4%, in efficiency gains. Compared to the five year-PVEO target of 9% set by Royal Mail,[84] the efficiencies achieved in 2023-24, the first year of the five-year projection, have fallen short of expectations and do not align with the long-term target set.

WIPGH Productivity

In 2023-24, Royal Mail reported a productivity increase of 4.5% this was achieved despite a 5% rise in workload, due to an increase in larger parcels.[85]

Royal Mail has calculated its reported productivity (WIPGH) using the change in average workload per working days in 2022-23 and 2023-24, and the change in total gross hours for those years (not average gross hours). The rationale for this approach is that while the workload depends on the

[79] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.
[80] Real cost reduction provides a high-level simplified view of efficiency as costs change due to volume and one-off costs are not adjusted for in this metric.
[81] IDS, Annual Report 2023-24, page 62.
[82] IDS, Annual Report 2023-24, page 62.
[83] IDS, Annual Report 2023-24, page 189.
[84] IDS, 30 June 2023, Five-year cumulative expectation for PVEO and productivity.
[85] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.

number of working days in the year, Royal Mail reports the hours of all frontline employees on a weekly basis. For a 53-week year, the gross hours figure used in productivity calculations should be an average per working week, because the number of working weeks are 53 and not 52. If we applied this approach, the WIPGH productivity increase would be 6.5%. The same approach should also be applied next year when the 53-week, 2023-24, financial year is compared with the 52-week, 2024-25, financial year. These adjustments affect only the productivity (WIPGH) estimated in 2023-24 and 2024-25 and how the results are split between these two years. The adjustments would not change the total productivity (WIPGH) which will be achieved over the next 5 years.

According to IDS, while transformation will take time, significant progress has been made in the right direction.[86] They state that the key initiatives driving this productivity improvement include:[87]

- **New attendance and sick payment arrangements**: Frontline absence rates have steadily declined since the introduction of these arrangements in Autumn 2023. By the end of March 2024, there was an approximate one percentage point year-on-year reduction in frontline sick absences.
- **Seasonal hours**: Employees are required to work longer weeks during peak periods and shorter weeks during the summer of 2024.
- **Reducing reliance on agency staff**: Over 9,000 full-time equivalents (FTEs) were recruited under new terms and conditions, offering greater flexibility, such as weekend work and support for quality improvement. Also, the 10,000 reduction in FTE that was achieved by the end of March 2023 was sustained with a further decrease of 1,000 frontline FTEs achieved by the end of 2024.[88]
- **Enhanced automation**: Automation levels hit 81% in March 2024, up from 76% in the same period last year.[89] Parcel hubs and mail centres have been upgraded to increase throughput and reduce costs per parcel.
- **Digital tools**: Implementation of digital tools to align scheduled and actual hours with workload fluctuations throughout the year, along with scan-in, scan-out technology across the delivery network.

However, while productivity improvements achieved in 2023-24 are significant, they are behind Royal Mail's expectations for the financial year (even when adjusted as explained above).[90] Several factors contributed to this shortfall, including the delay in implementing some initiatives due to the delay in voting on the Business Recovery, Transformation and Growth Agreement.[91] Also, the emphasis on stabilising and improving quality of service led to delays in some delivery revision deployments.[92]

While the productivity progress made in 2023-24 towards Royal Mail's five-year target is considerable (as explained above), the PVEO results indicate much less progress on overall efficiency. Since PVEO encompasses all aspects of costs, whereas WIPGH productivity focuses solely on time, the underperformance in PVEO is related to factors beyond productivity, such as higher pay

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[86] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.
[87] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance.
[88] IDS, Annual Report 2023-24, page 18.
[89] IDS, Annual Report 2023-24, page 17.
[90] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance, page 2.
[91] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance, page 2.
[92] IDS, 30 June 2024, Annual cumulative WIPGH and PVEO performance, page 2.

rates,[93] including the one-off lump sum payment of £500 per employee which was paid with cash released from funds held in escrow, and higher distribution and conveyance costs.[94] This suggests that despite achieving a significant productivity increase within the year, broader cost efficiencies have not been fully realised.

[93] A consolidated pay rise of 6% was awarded for financial year 2023-24, with the exception of fleet technicians who were awarded an 8.7% base pay increase from 1 April 2023.
[94] IDS, Annual Report 2023-24, page 66 and 221.