



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

**Wednesday 28 June 2023**

**Session 6**



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**ECONOMY AND FAIR WORK COMMITTEE**

**21<sup>st</sup> Meeting 2023, Session 6**

**CONVENER**

\*Claire Baker (Mid Scotland and Fife) (Lab)

**DEPUTY CONVENER**

Colin Beattie (Midlothian North and Musselburgh) (SNP)

**COMMITTEE MEMBERS**

- \*Maggie Chapman (North East Scotland) (Green)
- \*Jamie Halcro Johnston (Highlands and Islands) (Con)
- \*Gordon MacDonald (Edinburgh Pentlands) (SNP)
- \*Graham Simpson (Central Scotland) (Con)
- \*Colin Smyth (South Scotland) (Lab)
- \*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Ross Hutchison (Royal Mail)  
John Mason (Glasgow Shettleston) (SNP) (Committee Substitute)  
Ricky McAulay (Royal Mail)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Economy and Fair Work Committee

Wednesday 28 June 2023

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Claire Baker):** Good morning and welcome to the Economy and Fair Work Committee's 21st meeting in 2023. Apologies have been received from Colin Beattie, and John Mason is attending as a substitute.

I understand that this is likely to be Michelle Thomson's last meeting with the committee. I thank her for her contribution to the committee and recognise the work that she has done on women in business and women's representation, which are issues that the committee will endeavour to continue to highlight. I wish her all the best in her next committee.

Our first item of business is a decision on whether to take item 3 in private. Do we agree to take it in private?

**Members** *indicated agreement.*

## Royal Mail

09:31

**The Convener:** Our next item of business is an evidence session with Royal Mail. Ahead of the session, the committee put out a call for evidence and received a number of written submissions. I thank everyone who submitted their views to inform this morning's session.

I welcome from Royal Mail Ross Hutchison, the operations director for Scotland, and Ricky McAulay, the operations development director. As always, I ask members and witnesses to keep their questions and answers as concise as possible. I invite Ricky McAulay to make a short opening statement.

**Ricky McAulay (Royal Mail):** Good morning, everyone. I have worked for Royal Mail for 37 years—I started as a postie in the south side of Glasgow. I am exceptionally proud to work for a company that connects households and businesses in communities across the reach of Scotland. I am also proud to be one of the major employers in Scotland—we employ 11,000 people in good-quality jobs in our sector. The average tenure of a postal worker is 18 years. When people join Royal Mail, they tend to stay for a career, and 98 per cent of the jobs that we offer are permanent jobs.

I laid out in our written evidence that Royal Mail needs to change. We are at a crossroads; the markets in which we operate have changed significantly and continue to change rapidly. Although we have had a difficult year, as we have been in dispute, we now have an opportunity—we have a negotiators' agreement with the Communication Workers Union that underpins a lot of the change that is essential for Royal Mail to modernise and adapt in those markets. We need to harvest the benefits of the £900 million that we have invested in Royal Mail's network to ensure that we are fit to compete in an expanding parcel sector. We are absolutely committed to improving quality of service and getting Royal Mail back to its best after this difficult year.

To update the committee on one point in the evidence that we submitted, the negotiators' agreement with the CWU is now out to ballot, which closes on 11 July, with a recommendation to accept. Royal Mail's management and the CWU are spending a lot of time on explaining to the whole workforce why that agreement is essential for our future.

On quality of service, we have not been at our best over the past year—the numbers tell you that. Although Royal Mail is not the only company that has been in dispute, we have been in dispute for a

year, with prolonged periods of industrial action. Unlike other companies, Royal Mail does not cancel appointments or train journeys. We have an open-access network so, when Royal Mail is on strike, it takes us a bit longer to catch up, which has impacted our quality of service. Our network has also had elevated absence levels, which are perhaps associated with the industrial action.

The important thing is that we have a plan to improve quality of service. An action plan is in place in every depot whose performance is not on target. I am sure that we will get into some of that detail today.

I make it clear that Royal Mail is proud to provide the universal service, which is what makes Royal Mail unique. Enshrined in that is the principle that one price goes everywhere, which connects everyone across Scotland—irrespective of their geography—to a standard tariff. To be very clear, I say that we have no plans to change that. However, given that the volume of letters has declined from about 20 billion in the mid-2000s to about 7 billion today, the frequency of letter delivery needs to change—from Monday to Saturday to Monday to Friday. Ofcom undertook extensive research for its postal user needs review, in which it said that a Monday to Friday delivery service would meet 97 per cent of consumer and small and medium enterprise business needs.

As I said at the start, it has been a difficult year, but Royal Mail has an opportunity. We have an agreement in place with our unions and we have invested significantly in our network. We are committed to improving quality of service, which has not been good over the past year, and we believe that we need to reform the universal service. We are happy to take questions from the committee.

**The Convener:** As I said, we put out a call for evidence. The views reflected that people value Royal Mail and recognise the importance of the universal service, particularly for parts of Scotland. I am sure that members will touch on those issues.

We are not the first parliamentary committee to take evidence on Royal Mail; recently, Royal Mail appeared in front of the Business, Energy and Industrial Strategy Committee, which has led to an Ofcom inquiry into parcel deliveries. In evidence that we received, people said that they felt that service in some areas had fallen short of the current standards and that deliveries were happening on only a few days a week. That is a familiar story that we hear from our constituents; they feel that their letters arrive in a bundle and that parcels are prioritised over letters.

Ofcom looked at that during the pandemic and recognised that there was a legitimate reason why

Royal Mail prioritised parcels in that period. However, the concern is that that has continued as a practice. Will you give us an update on the work that Ofcom has done? Has such a picture developed in Scotland?

**Ricky McAulay:** Ofcom's investigation is looking at not only the prioritisation of parcels but the quality of service results for last year. We are co-operating with that investigation—we always co-operate with Ofcom—and we have responded to the call for information, data and evidence. We have been meeting Ofcom monthly to update it on progress with quality of service. My understanding, which I can confirm after the meeting, is that Ofcom's investigation is expected to conclude in November. There will be a period during which Ofcom looks at all the evidence from multiple sources; it will then come to a deliberation.

We have said to Ofcom that last year was unique. Royal Mail was not the only organisation to have been significantly impacted by industrial action, which was regrettable. I apologise to customers the length and breadth of Scotland that they have not been able to depend on Royal Mail in the way that they have historically been able to do. We have a plan of action in place. Ross Hutchison can go into detail about the specifics for Scotland, whether that is to do with recruitment activity in certain areas or establishing the operating standards that we have in our network, which we know deliver great quality of service.

As part of our agreement with the trade union—we are not waiting for the ballot to be ratified—there is a lot of joint activity with the trade union in each unit to put in place the actions that are required. The actions differ in each unit—in some, recruitment is required and in others, there have been elevated levels of sickness absence. Through the bulk of last year, we were dealing with a prolonged dispute, which impacted the service that we were able to provide.

**The Convener:** Ofcom recognised that prioritising parcel delivery may have been necessary during the pandemic. Was it policy to prioritise the delivery of parcels over letters during the industrial dispute?

**Ricky McAulay:** That happens when there is a necessity to do that. What creates that necessity? Parcels take up much more cubic capacity in our network. In terms of the capacity of trunking and the facilities, 10 per cent of the network is letters; 90 per cent of the network is full of parcels. If we do not keep parcels moving through the network, the network will grind to a halt and we will have to shut our door at the front end. We are proud that we did not shut our doors to customers at any point, even though it took us a long time to catch up.

From a health and safety point of view and an operational point of view, I mention that there were three days of industrial action over cyber weekend. When we returned from that, we had to keep parcels moving. Part of the contingency arrangement was to do letters every other day so that we kept parcels moving and so that we could repatriate containers to customers, who would then want to post again. That is not normal practice, however; it is a contingency arrangement for special events.

**Ross Hutchison (Royal Mail):** I will add to what Ricky McAulay said. It has been a difficult few years for Royal Mail in Scotland, as is the case across the United Kingdom. We have had Covid and we have had industrial action. We have had higher levels of absence than before. As Ricky McAulay said, that is possibly connected to the overall feeling that industrial action creates, by its nature.

As the economy has settled after Covid, we have seen pockets in Scotland where there are higher-than-normal levels of vacancies. We are trying extremely hard, using a variety of approaches, to close that gap, and we recognise that we need to make improvements.

I speak daily to my senior managers across Scotland—the managers who manage the postcodes—and I regularly meet representatives of the trade union, as Ricky McAulay outlined. Our objective is to deliver everything every day. That is absolutely what we want to do. Our end-process measures show that we currently have a delivery point coverage in excess of 90 per cent, which means that 90 per cent of addresses in Scotland are receiving regular service. We recognise that that does not make it okay for the customers who say that they do not receive that regular service—those who have given the feedback that the convener referred to. However, as Ricky touched on, the challenges that we face, which result in a requirement to manage the cubic space, on occasion cannot be resolved the next day. The local manager, in line with the trade union, must therefore decide how to manage the workload and how to manage health and safety in the building for two or three days as we try to resolve whatever the challenge is.

**The Convener:** I will mention two issues that are linked to that. First, if you have to decide to prioritise parcels over letters, do you look at the type of letters that are there? There is a concern about hospital appointments. I recognise that a lot of what is posted is birthday cards and stuff like that—social post—but is any distinction made between letters that have to reach people in time and other letters?

Secondly, are penalties attached to parcels? Is there a financial incentive to prioritise them over letters?

**Ross Hutchison:** I will take the first question, if that is okay by you, Ricky. We understand the importance of national health service mailing—indeed, we did a fantastic piece of work with NHS Scotland. Everybody will remember the blue letters that people received with their vaccination appointments. When we can identify NHS mailings, that allows us to prioritise them through the network. We all recognise how important such communication is.

We delivered 17 million vaccination letters across Scotland, which is a huge number, and we are hugely proud of the work that we did to support the UK's attempts to manage the Covid issue. On identifying NHS letters, I will say for context that, on any particular day, even at the peak of the posting of vaccination letters, we got 20 or 30 vaccination letters per delivery at most, in a delivery that might have 500 or 600 delivery points. Where we could identify them, we were able to secure delivery of those letters.

I will touch on an important point that Ricky McAulay made. We want to do everything that we can to avoid a weekly delivery. We do not believe in that. My end-process checks do not tell me that that is a regular issue across Scotland. We make every attempt to deliver. If, for whatever reason, we cannot deliver on day 1, we will ensure delivery on day 2.

**The Convener:** What about financial incentives for prioritising parcels?

**Ricky McAulay:** We do not have that. There are not added bonuses for delivering—

**The Convener:** But would Royal Mail incur a penalty if a parcel was not delivered in a certain timeframe?

**Ricky McAulay:** No. Decisions are made purely for operational and safety reasons; there is no specific penalty. Ofcom regulates letters and parcels to the same quality of service standards, so if we fail with regard to letters, Ofcom will make the same judgment.

09:45

**The Convener:** What if a company is asking you to deliver the parcel? If a person orders something online and the company cannot deliver it, it might ask Royal Mail to do it. Could the company impose a penalty on you if you failed to deliver it in the relevant timeframe, whether that was 24 hours or 48 hours?

**Ricky McAulay:** Our main product is the universal service obligation product—guaranteed

special delivery by 1 o'clock. During industrial action, we take off the guarantee, because we know that we will not be able to provide the service. We did that throughout the period of industrial action.

When it comes to penalties, the ultimate penalty that we face is customers walking away and using another supplier. That is the only penalty that we face. Contractually, the tracked products on our network have no penalty clauses. Compensation tends to be available as advertised with the special delivery product, which is a USO product.

**Maggie Chapman (North East Scotland) (Green):** Good morning, and thank you for joining us.

I am interested in exploring some issues to do with the workforce and workforce planning. Royal Mail's plan has been to cut the number of staff by 10,000 by August this year. In fact, you achieved that by March or April this year. What proportion of that cut has taken place in Scotland?

Ross, you mentioned the pockets of vacancies in Scotland. What are your plans for dealing with those geographically specific vacancies? I would like to hear about the bigger picture on workforce planning first.

**Ricky McAulay:** I will pass over to Ross Hutchison to talk about the picture in Scotland specifically. Across the whole of the Royal Mail network, we have reduced our full-time equivalent head count by 10,000 jobs. We recognise that that is a very significant reduction, which has happened for two or three key reasons.

The industrial action has not helped. We knew that that would be the case. Royal Mail does not have a monopoly on parcels, and there are many other carriers out there that companies will use if Royal Mail is not at work. We have lost volume as a result of industrial action. We are—

**Maggie Chapman:** Is that the primary reason for your achieving the target four or five months early?

**Ricky McAulay:** It is part of it. Essentially, it is a case of responding to market volume.

There are probably three relatively equal buckets. The first is the reduction in volume due to industrial action. The second is our underlying plan to improve efficiency in line with our agreements with the trade union. The third is the reality of the broader macroeconomic environment in which we are operating. Royal Mail is a company that thrives on the back of gross domestic product. If GDP is growing, consumer confidence is high and people have disposable income, advertisers will advertise, which is good for addressed and unaddressed letter volume. If people have discretionary income, they shop

online more. At the moment, the reality is that things are incredibly tough for people, whether because of inflation, interest rates or the cost of fuel. That has an impact on Royal Mail. Therefore, we have had to right-size the network so that it matches the reality of the economic environment that we are operating in. That is why there has been a reduction of 10,000 jobs.

However, I make it clear that we want to grow Royal Mail. We want Royal Mail to get bigger. Many of the investments that we have made are about allowing Royal Mail to compete in the parcels space. Letters will always be important—the 7 billion letters that we deal with are really important to Royal Mail—but it is a declining market. Parcels are growing, and the investments that we have made are about competing in the parcels space.

**Maggie Chapman:** Before we talk about place-specific issues, I would like to unpack that a little more. Do you know how many of the 10,000 FTE jobs that have been lost have been in Scotland?

**Ricky McAulay:** Yes. Ross Hutchison can touch on that.

**Ross Hutchison:** To give context, the figure of roughly 11,000 people working for Royal Mail in Scotland has been pretty static for a number of years. Similar to Ricky McAulay, I have worked for Royal Mail for 20 years—and I am proud to have done so—and that number has not fluctuated hugely during that time. The FTE that Ricky referred to is a balance of all our resource mix; it includes contracted staff and it also includes agency staff and overtime.

The reduction, which we managed in line with volume in Scotland, was about 700, so it was pretty comparable and consistent with the overall UK number. However, it is worthy of note that we are actively recruiting about 300 people in Scotland. That is because we can see microeconomic factors in specific locations where we do not have enough staff at the right time of day to complete the required work. At the moment, we are advertising a variety of roles that involve working at different times of day. There is PM and weekend work because customers demand that, so there is growth in those areas and we are recruiting across Scotland for people to fill those positions. As Ricky said, we are proud that those jobs are good permanent ones.

We did not make anybody compulsorily redundant. We have a continued commitment with the trade union that, for the length of the agreement that is at ballot at the moment, we will not make anybody compulsorily redundant. About 100 employees in Scotland—a fraction of the 700—took voluntary redundancy as part of the



reduction. We managed the rest through attrition and reduction of our casual staff.

**Maggie Chapman:** Thank you for that clarification, which was very helpful.

Ross Hutchison said that Royal Mail is recruiting for evening and weekend working and Ricky McAulay talked about the three reasons why the workforce has been reduced. Ricky also talked about making improvements and efficiencies. Is that to do with the refocusing of where the volume of deliveries or collections need to be, or is it to do with a geographical refocusing? How do those things match?

**Ricky McAulay:** Ofcom meets Royal Mail regularly to talk about quality of service, and it also meets us regularly to talk about efficiency, as you would expect any regulator to. The reality is that we have a significant range in performance across depots that are very similar, so it is about narrowing the range of performance so that the lower-performing units match those whose performance is median or moving towards the upper decile. That local change is difficult for people. People like their routine and what they have always done. Practically, it means maybe adding another 40 or 50 households to a postie's route to try and improve efficiency where our data tells us that we have an opportunity to do that. We report to Ofcom about that regularly, as I said. It is about levelling up performance to a level that we know is achievable for the bulk of our units.

**Ross Hutchison:** To support that, we have touched on the interaction that we have with the trade union, and one of the positives that we have got out of the negotiators' agreement is the joint commitment to productivity and quality of service. Only last week, Ricky McAulay was directly involved in a UK-wide call on which we had all the representatives and managers from every delivery office across the UK to discuss what we needed to do in both those areas.

This week, we launched a checklist that every unit rep and manager will systematically work through to understand where we have gaps in quality of service and where we have gaps in productivity. That is a huge step forward.

**Maggie Chapman:** My final question relates to that. You talked about your relationship with the CWU. Given that you are in the position where there is a clear recommendation for the ballot, what is your perception of morale across your workforce?

**Ricky McAulay:** I need to be honest and say that I think we have a lot of work to do; we need to accept responsibility for that. We went through 18 days of industrial action, in which employees suffered a lot of loss, to get to the agreement that is now recommended, so we need to be

empathetic to that. We understand how our workforce is feeling, and part of what Ross Hutchison referred to relates to the process of re-engagement. We want to get the deal done so that we can put money into people's pockets, through some back pay and a lump sum that has been released as part of the agreement, which will help them in a very practical sense. That will help.

However, let us be honest: postmen and postwomen up and down the country love serving their customers. They want great quality service just as we do. Getting back to our best will help to restore pride in Royal Mail, which we are committed to doing.

**Ross Hutchison:** I will add some important context around local relationships. I think that any organisation that has been subject to industrial action will see some of the issues that Ricky McAulay articulated. Locally, however, we see strong relationships between local managers and posties, who are proud to serve their communities. Even through the industrial action, we saw employee engagement scores move from 62 to 68 to 70 for the local relationship and how employees feel that they are supported and managed by their local managers. The foundations of good relationships are there, and the national UK-wide agreement gives us the opportunity to move that forward.

**John Mason (Glasgow Shettleston) (SNP):** Thank you for your service to my office and to me personally. I enjoyed my recent visit to the centre in my constituency.

To follow up on the employment theme, it is suggested in your submission that you were having challenges in relation to recruiting people in some areas. Will you expand on where, and why?

**Ross Hutchison:** Like other industries and employers, we find that microeconomic factors impact on our ability to attract prospective employees to the organisation. We have had to adapt our approach. We have worked incredibly hard over the past year in Scotland to be flexible in our approach.

Five or six years ago, we were offering only part-time jobs. We are now advertising a range of full-time and part-time jobs to increase their attractiveness, because we understand the cost-of-living pressures that people face and understand that they want a more secure job with longer hours. In certain locations, that is required in order to attract the right talent.

I worked hard to secure the specific allowances that are attached to islands. We have protected those as part of the national agreement. As we move forward, we will therefore continue to understand that people in some locations have

different pressures and that the cost of living can vary.

When we advertise on our website for some locations in Scotland, we also offer an attraction and retention payment, which is a one-off payment on the basis that people apply for a role with us and stay for 12 months.

We are adapting our approach depending on the factors that we face in different parts of Scotland. The islands are difficult. Edinburgh is difficult—

**John Mason:** Is Edinburgh difficult because you are competing with other delivery companies?

**Ross Hutchison:** It is, in fact, cross-sector in Edinburgh. Clearly, the economy in Edinburgh is relatively buoyant and there are other opportunities for people to seek employment elsewhere. We therefore have to react to that.

**John Mason:** Do you think that Brexit has had an impact on that?

**Ross Hutchison:** I do not have an opinion on that. We react to the factors that we see through the applications that we get for the roles that we advertise. We monitor that regularly and react to it as best we can with a variety of approaches, as I walked the committee through.

**John Mason:** I do not want to go into why you are possibly going down to five days for letter delivery frequency, as other colleagues will raise that issue. However, if you go to five days, will that have an impact on the number of staff that you have?

**Ricky McAulay:** Overall, we are trying to make sure that we put the resources where the market is growing. It would therefore largely depend on how successfully we grow our parcel proposition and our share of the parcel market. A lot of the investment that we have made is in order to compete in the area of parcels. We are increasingly expanding parcels to a seven-day network, which creates employment. If we do that well, we can offset the decline in job numbers associated with a reduction in the letter frequency delivery from six days to five days.

I know that that does not answer the question directly, for which I apologise, but it really does depend on Royal Mail grasping the opportunity that is now in front of it and working closely with the trade union and all our employees to make sure that we deliver what customers expect. If we grow—the opportunity to do that is there—it will offset the job reductions that would be associated with a change to the letter delivery frequency.

**John Mason:** So there would be job reductions purely linked to the letters, but you hope that that would be compensated for elsewhere.

**Ricky McAulay:** That is our plan.

**John Mason:** I presume that the job reductions would be evenly spread across the country, because if everybody goes down from six to five days—

10:00

**Ricky McAulay:** It would be across the whole of our United Kingdom network. We would not differentiate between where we have had five and six-day letter deliveries; it would be one change across the country. We have in place the no compulsory redundancy guarantee for our people. That is because we have a lot of overtime and we use agency workers from time to time where we need to, although that is not our preference. We have other means of making the job reductions, which is why we have given that commitment to our employees.

**John Mason:** You mentioned the competition, and clearly many of the changes in Royal Mail are linked to the fact that you have all that competition out there. What do you do better than the competition, or what do they do better than you?

**Ricky McAulay:** Royal Mail has a unique brand. However, that does not last for ever, so we need to improve the quality of service. We have our foot-on-the-ground delivery model, so we do not deliver parcels point to point; 85 per cent of the parcels that we deliver, we deliver with letters, and they are delivered on foot. We therefore have half the CO<sub>2</sub> impact of other parcel carriers that deliver on a point-to-point parcel network. That is an advantage that we have and are looking to sustain.

We need to leverage the investment in our network. We now have 80 per cent of parcels automated in our network, which drives down the unit cost of parcels. As I said, we need to compete on service as well. The one thing that makes Royal Mail unique is our reach and the fact that we go everywhere. People like to deal with one supplier rather than a supplier that does a bit of the UK and a supplier that does all the UK.

Those are all important factors in how Royal Mail competes with other carriers, but we need to differentiate on service.

**Ross Hutchison:** Another one of our strengths is that, as Ricky McAulay referred to in his opening statement, employees work with us for an average of 18 years: that is a real strength. The culture that we have in the organisation and the desire to serve communities are real strengths and an advantage that we need to leverage. There is trust on the doorstep and with our customers. For example, our net promoter score in Scotland is extremely high, at approximately 70 per cent. That

means that 70 per cent of the people who receive deliveries from Royal Mail are active promoters of the service that they have received. That is representative of the service that our people want to deliver.

**John Mason:** Is there still more trust in Royal Mail than in any of the competition?

**Ricky McAulay:** Yes, but we cannot take that for granted. Royal Mail is everywhere and it is trusted, but we cannot take that for granted. That is why I said in my opening statement that the service that people experienced last year is not what they expect from Royal Mail, and we need to get back to being the best in the market. Many of our customers will pay a bit more to do business with Royal Mail, but they have to have the trust. It is the postmen and postwomen up and down the country who turn up on the doorstep every day who make Royal Mail unique and different. They are in a uniform, and not in a private car. They have proper good-quality jobs and careers. That is how we can differentiate.

**John Mason:** Thanks very much.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Good morning. Regardless of the service issues that sometimes arise, the work of your staff, certainly in my area of the Highlands and Islands, is very much appreciated. They are out in all weathers, and I think that any of us who goes campaigning in all weathers appreciates the efforts that are made.

In remote rural and island communities, there are concerns that the service is not as regular as it is in other parts of Scotland. What are some of the challenges with and concerns that you have about delivering the current six-day service and how might those areas be impacted if there was a five-day service?

**Ross Hutchison:** That is a fair challenge.

We have already articulated that we have a recruitment challenge on the islands. Unemployment on some of the islands is extremely low, and there are factors that reduce the availability of potential employees. We have a variety of approaches to address that, and we are making significant progress. In Scotland, at the moment, we are seeing that improve, which is having the result of stabilising the service.

I am sure that everyone will appreciate that there are additional logistics in serving island communities. Every item of mail that enters Scotland for delivery goes through four mail centres—Glasgow, Edinburgh, Inverness and Aberdeen. To serve some of the most remote communities, we need a structured local pipeline and logistics network. In some cases, that is reliant on third parties and other external factors,

such as weather. We have to fly to the islands from parts of the north of Scotland. The weather can be challenging; we can be fogbound, for example. We have had fog as recently as last week, when flights could not land, which can impact on service. For the islands of the Inner Hebrides off the west coast, we use ferries a lot. We work with external contractors to support the movement of mail to some of those locations.

Logistics are challenging, but we are committed to delivering as strong a service as we can. It is worth noting that Ofcom acknowledges that, for those reasons, particularly for HS, KW and ZE postcodes, which are the Western Isles, Orkney and Shetland postcodes, it will be very difficult for us to deliver consistently to the same level of service that we deliver to the mainland UK.

**Jamie Halcro Johnston:** As somebody with a KW postcode, I recognise that.

If a letter arrives at a delivery office, will it always go out as soon as possible? I do not know whether this is the right term, but would you sometimes bank or put together a few letters for a remote household or community to ensure that you are not doing one journey just for one piece of mail, or do you try to ensure that, if there is a piece of mail to be delivered, it will be delivered on the day that it should be?

**Ross Hutchison:** We do everything that we can to deliver everything every day—that is the objective that we measure performance against, as well as the number of delivery points that we cover. There is a challenge in getting letters and parcels to some locations, but once they are there, our objective is to deliver everything that we receive on that day, on the day. If we do not deliver for whatever reason—whatever factor we have experienced—whether through vacancies or sickness, we will do everything that we can to deliver the next day. We do not make a decision to leave it for a couple of days because somewhere is a difficult place to go to—that is not our intention at all.

**Jamie Halcro Johnston:** Okay; that is grand.

I will ask about the consultation that you do with local communities, because the service impacts on them and on local businesses. What consultation do you do with them on the service that is provided and what they need, and how regularly do you do that?

**Ross Hutchison:** Specifically on the point about the move from six days to five days—I recognise that that was part of the question, so I apologise for not responding to that—I think that Ricky McAulay would agree that, in terms of UK-wide data, we do not see any indication that rural communities will be disproportionately affected.

We regularly do lots of work with external stakeholders in Scotland. We have an external relations team that works closely with the Parliament—with parliamentarians in this building—and in business groups outside of that. We are keen to understand the service that we are delivering and what impact we can have. Only last week, my area manager for the Highlands and Islands was in Orkney with some political figures and business leaders to discuss the service that we are delivering and what opportunities there are for enhancement, to react to people's requirements.

We want to actively listen. To be clear, I note that any move from six days to five days will not be an overnight light-switch moment. If we move from six days to five days, there is a lot of work to be done to understand how we can support external organisations to react to that.

**Jamie Halcro Johnston:** Does that consultation include households and ordinary users or just businesses?

**Ross Hutchison:** Absolutely. We have done a piece of work with Ofcom to understand people's needs, and that has included people who live in Scotland's remote locations. We want to understand potential impacts and consult a range of stakeholders.

**Colin Smyth (South Scotland) (Lab):** On the attempts to axe Saturday letter deliveries, you have said several times that that is still your aim and desire, but the reality is that it is not going to happen, is it? The UK Government has already said no, so you will need to move on from that plan. How central to your current strategy to return to profitability within the next two years was the move to five-day deliveries? If that option is no longer there, what is your strategy now?

**Ricky McAulay:** You are quite right—we are not in control of that; provision is enshrined in the Postal Services Act 2011. It would mean changing an act of Parliament, and there is a lead-in time for that—as committee members will know, it does not happen overnight. It would take two to three years to achieve an act of Parliament on that, so it is unlikely to happen before the next election. As a result, that move is not baked into our plan.

I should say that the vast majority of customers—97 per cent—in Ofcom's extensive user needs review said that a five-day letter delivery service would meet their needs, and we believe that requiring the provider of the universal service, Royal Mail, for a prolonged period and at cost to continue to provide such a service is not in the long-term interests of protecting the universal service. That is why we think that the Government needs to act, and we will continue to make representations on why it is important.

When it set up the regulatory framework, Ofcom said that the universal service provider should be able to make a 5 to 8 per cent profit margin from its activities for re-investment in the business. Any business needs to make such a margin, but we have done so only twice since Royal Mail was privatised. Moreover, letter volumes continue to decline every year—not just here in the UK, but around the whole world and across the whole of Europe. We are very much in line with the decline that is seen elsewhere. We will continue to work on trying to revitalise the letter side of things, but the truth is that people are finding other ways. However, we have a number of initiatives in play to defend letters as much as we can.

In direct answer to your question, therefore, we believe that change is needed, and we will continue to lobby and make the case for that change. We believe that it is important to the future sustainability of the universal service—that is, it is important to ensuring that there is one price for delivery everywhere, which is what Royal Mail offers today. That said, the proposal was not in our cash-flow projections, so it will not have an impact on our business plan over the next couple of years.

**Colin Smyth:** Something that does appear to be in your business plan is reported changes to the pipeline for getting mail to delivery offices. Perhaps I can use my own area as an illustration. I represent South Scotland, and I am based in Dumfries and Galloway; currently, the mail comes north to Newcastle airport and is then transported to Carlisle. I appreciate that that is outwith your area, but we are classed as being in Carlisle as far as deliveries are concerned. The mail then heads to local delivery offices in Dumfries and Galloway.

You are now planning a number of central hubs, which, in our case, will mean Warrington. What will that mean for the time that it will take mail to reach the delivery office in, say, Stranraer? How will that compare with the time that it takes to reach that office at the moment?

**Ricky McAulay:** It is important that I give you, first, an overview of why we are making that change. Royal Mail still flies 36 flight sectors a night to connect the network; historically, it has always done that to move letters around the country. No other UK parcel carrier uses inland UK-based air transportation to move the product about.

As for our experience of air transportation as a means of moving parcels about, it has the highest levels of carbon dioxide and is the least reliable and, by far, the most expensive option. There are better alternatives. Rail, for example, emits significantly lower levels of CO<sub>2</sub> and provides an improved quality of service for our customers.

If we are going to compete and meet the needs of our customers, we need to reduce the reliance on air transportation. It does not work when the cube and volume of parcels are growing every year. That affects the transit time, which is about 60 minutes in the air sector and more like three hours for road and rail, so, to be clear, the delivery span is not two hours everywhere. We can save some time in the middle in our network.

10:15

However, the agreement that we reached with the CWU says that the last letter-delivery time will move from a latest last letter-delivery time of 3 o'clock to half past 4, and that would be reflected in the start time in the morning, which would be up to 60 to 90 minutes later in the day. We are doing that so that we can continue to deliver letters and parcels together in a combined network for the vast majority of the parcels that we carry in the network. Putting more planes in the sky just does not work. I can go into a lot more detail on that. We have looked at it very—

**Colin Smyth:** Let me be clear that I am not disputing the importance of moving from planes to trains. Frankly, I support that, but I want to know what you are doing to mitigate the impact on those areas that are further away from the hubs, because their mail will now arrive at the delivery office several hours later. What does that mean for when customers get their letters? Take a rural area as an example. I think that you said that the last delivery time would be 3 o'clock. Is it not 4 o'clock for rural areas at the moment? What will that mean for customers in rural areas, given that their mail will arrive at the delivery office several hours later? By definition, the letters will be delivered later. At what time will people in rural areas get their letters?

**Ricky McAulay:** To be clear, I point out the last letter delivery time will be half past 4.

**Colin Smyth:** Is that in every area? It will not go beyond half past 4.

**Ricky McAulay:** There are current exemptions in isolated areas of the network, where we deliver up to 5 o'clock. I do not believe that Stranraer is part of that, but the exemptions cover the far north of Scotland and some of the islands. Deliveries will be completed not by 4 o'clock but by half past 4. Many of those deliveries are currently completed at half past 2 or 3 o'clock and we do not actually work through to 4 o'clock or half past 4. We see that in a lot of our data. However, the last letter-delivery time will be half past 4.

**Colin Smyth:** You will be putting extra resources into those areas to make sure that you hit that target of 4:30 pm.

**Ricky McAulay:** We will move the start time back to ensure that people are not in the office before the mail has arrived. Part of it is about moving start times, which might require us to look at duty attendance patterns in the unit, but there will be a revision—a change—in the unit to accommodate the new arrival profile and the last letter-delivery time. Whether it attracts investment will be decided unit by unit.

**Ross Hutchison:** I will add to that. One of the benefits of the agreement is that the CWU, which has representatives across the network that are close to it, believes that it can support us to advance some of that network activity. We have a joint working group at UK level, and we are about to set up a joint working group at Scotland level to look at what we can do in the network to mitigate the time that the mail arrives in the delivery office—the journey of a letter to Stranraer, for example, as Colin Smyth has articulated.

Ricky McAulay is right about the 16:30 delivery time. One of the benefits of moving from flights to a greater reliance on rail and road is reliability, because our air network is six times more fragile than the rail and road network. Although a customer might receive a letter up to 16:30, it is more likely to be there on time the next day, because that network will be more reliable. That is what we want to achieve.

**Colin Smyth:** I turn to another issue. When giving evidence to the House of Commons's Business, Energy and Industrial Strategy Committee, your chief executive admitted that postal digital assistants were basically being monitored and had been used to pressure staff to work faster. Do you ever monitor staff social media platforms?

**Ricky McAulay:** If it is private to them and a closed group, we would not monitor staff social media platforms. However, we would not expect anyone in an open group to be making inappropriate comments or saying anything that brings the company into disrepute. We do not slavishly monitor such groups, but if a matter is brought to our attention we follow that up.

**Colin Smyth:** So, there have been cases. In recent months, around 22 staff have been dismissed in Scotland. How many of those dismissals were based in part on social media posts that you had been monitoring?

**Ricky McAulay:** I do not have that level of detail. Some might have been. I would not want to say a specific number, because I just do not have that level of detail.

**Colin Smyth:** Does it not seem a bit sinister to be monitoring what staff post on a social media platform?

**Ricky McAulay:** Every employee who works for Royal Mail needs to act responsibly. Anybody who uses social media needs to act responsibly. It is a public platform and they are responsible for what they put on there. If something is wholly inappropriate, is threatening towards one of our other employees or brings Royal Mail into disrepute in some way that we do not find acceptable, we would follow that up.

As I said, I do not have all the details to respond to your specific question.

**Colin Smyth:** I will make one final point. You have raised the issue of recruitment several times. Am I correct in saying that the pay deal now means that new starts all get paid about 20 per cent less than existing staff and that, for example, new starts lose their allowance for lunch—they do not get paid over lunch? Is it the case that the terms and conditions for new starts will be inferior to those of existing staff? If so, that has, I presume, had an impact on retention and recruitment.

**Ricky McAulay:** We do not see the change that you are talking about to the terms and conditions that we are now offering as we bring in new employees to Royal Mail having an impact on retention and recruitment.

One of the things that CWU is very keen on—this was at the heart of the dispute—is that we do not become a gig economy employer, and that change to the terms and conditions is an alternative to becoming a gig economy employer. We do not want to be a gig economy employer. Equally, we cannot support wages that run 30 to 40 per cent above market rate. The jobs that we are offering are still 10 to 15 per cent above market rate.

You are quite right: new starts are paid around 20 per cent less. If you consider working time, they are paid about 10 per cent less—that is your point about the paid breaks.

In many locations—not in every location—as Ross Hutchison has alluded to, we are getting 30 applicants for every job that we advertise. We will keep a very close eye on what we are offering. We need to attract the right talent into Royal Mail. However, our approach has enabled us to protect staff. Another 130,000 employees have the contracts that they have had for a very long time. Making the change enables us to protect the contracts that we offer to those 130,000 people who, as I said, have served Royal Mail loyally for a long time.

**Colin Smyth:** You are not seeing any changes in retention or turnover of new starts as a result of that, at the moment.

**Ricky McAulay:** Not immediately.

**Ross Hutchison:** I have not looked at the detail UK-wide, but in Scotland specifically we are not seeing in our new entrants—who are under the Ts and Cs that Ricky has articulated—a particular spike in attrition that is beyond what we would normally see.

The job is unique. It is a very physical job and one that a lot of people love, stay in for years and find difficult to leave. There is a difference between the perception of what being a postie is and the reality. We have already touched on that—the weather that you are exposed to and the challenge of the role. It can be really rewarding, but some people find that it is quite difficult.

We have always had evidence of people joining and then leaving. We are not seeing a particular spike in that with the new terms and conditions that is outwith what we would normally see.

**Colin Smyth:** [*Inaudible.*]—recruitment challenges, though.

**Ricky McAulay:** The point that you are making is correct. At all times, we need to watch very closely what we have got and what we are putting into the market. If we see a growing rate of attrition or we see in certain areas that our offer is not competitive enough, we will have to make a response so that we can attract the talent that we need into the company.

We are trying to keep Royal Mail as an employer that offers good-quality jobs, permanent contracts, pension and sick pay—all the things that our employees enjoy. These are not gig economy jobs. You are right that the jobs are different from those that existed previously, but that enables us to compete in a market that is surrounded by gig economy players. We do not want to look like that, but we have had to make the change.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Good morning. What impact would moving to five-day working, which was mentioned earlier, have on collections?

**Ricky McAulay:** We would continue to offer a level of collection services on Saturdays. That would be done on the basis of demand, so we would not go to every post box. At the moment, Royal Mail collects from somewhere in the region of 85,000 of our 115,000 post boxes when posties are out delivering. They will not be out delivering on Saturdays and, therefore, we will not collect from all those post boxes—that just would not make economic sense. However, we will look to continue to offer collection services from post offices that generate a lot of volume and to offer services for business customers. When there is demand for a service, we will continue to meet it.

**Gordon MacDonald:** Royal Mail collects from most post boxes at about tea time—five or six o'clock—so, if somebody posted a letter on a Friday night in response to something that they received when they got home from work that day, Royal Mail would not pick up that letter until tea time on the Monday. The letter would lie in a box for 72 hours. Will that not just further undermine people's belief in the postal service? That person would have to wait 72 hours for their letter to be collected and then up to two or three days for it to be delivered to the recipient.

**Ricky McAulay:** At the moment, we collect from those post boxes when the posties are out delivering, so—

**Gordon MacDonald:** Why change that?

**Ricky McAulay:** They would not be doing that on a Saturday; they would collect from those post boxes on a Friday for delivery on the Monday, if it was an item with next-day delivery.

**Gordon MacDonald:** If I came home from work at six o'clock on a Friday to a letter that I needed to respond to and I stuck my letter in a post box at 7 o'clock that night, that letter would not be picked up until tea time on the Monday.

**Ricky McAulay:** It would be delivered on the Tuesday. That is correct.

**Ross Hutchison:** That is a fair question, and I will support what has been said. We would need to work through the detail—we are, in some ways, talking hypothetically—but we have a recognised approach to prioritised post boxes that worked throughout the pandemic. We had priority boxes for test kits, so we could signpost members of the public to specific boxes that would be emptied. We would need to take that type of approach if we did not collect from every box and had priority boxes, if we want to look at it that way.

**Gordon MacDonald:** We have talked about the impact on letter post, but are there any plans for parcels? I know that we are talking hypothetically, but you have said that change is needed. What would be the situation with parcel collections? Would there still be six-day collection?

**Ricky McAulay:** It would depend on the parcel. Clearly, there would not be six-day collection for a small Jiffy bag with a stamp on it that went into one of the pillar boxes, unless it was a dedicated collection box. I am talking about the items that we collect on delivery.

There are still options through post offices. We are proud of the consumer collect service that Royal Mail launched over the past year, in which posties out on delivery can collect on the doorstep. To be clear, we will still have about 20,000 people out on Saturdays delivering parcels, because the demand is not for a six-day but for a seven-day

parcel network. That is what retailers are demanding of Royal Mail. Therefore, when posties are out, they will be able to do collections on the doorstep, and we will look to exploit that opportunity. We also offer business collections as part of the current service.

**Gordon MacDonald:** What about convenience stores acting as collection points for returns from shopping catalogues and such things? Would they still get Saturday collections?

10:30

**Ricky McAulay:** We tend to use post offices for that, so if there is an item that is due to be at one of our customer service points or post offices, those are the outlets that we have available.

Earlier this year we launched something called automatic redelivery. When we cannot deliver a parcel, instead of just putting a red card through your door saying that you need to go and collect the parcel, we now make a second attempt, and we are up to 98 or 98.5 per cent of parcels being delivered to the household. That is the customer's greatest preference—that is where they want the parcel to be delivered—but if they need to collect, they can instruct us to leave the item in a safe place, they can collect it after the second attempt at the sorting office or they can have the item redirected to a post office.

We are trying to find the most convenient way for customers to receive their items. All the research says that the most convenient way is to have it delivered to their home, which is why we have launched auto redelivery and the second attempt.

**Graham Simpson:** I want to follow up on Gordon MacDonald's questions about letter delivery. If you get your way and go down to five-day delivery, that will clearly be a poorer service than we currently have; indeed, Mr MacDonald outlined a scenario in which a letter could take several days to arrive. In those circumstances, is there any point in continuing with first-class and second-class stamps, or should we just go to a service where everybody gets the same? There is no point in sending a letter with a first-class stamp on a Friday if it will not, under your scenario, arrive on the Saturday.

**Ricky McAulay:** That is not our primary proposal, but you are quite right. You have articulated what we have proposed, which is six-day delivery of letters going down to five-day delivery. I would not be surprised if Ofcom, as part of the on-going review of sustaining the universal service, does not look at that, too.

I spent some time last week with 15 or 16 other postal administrations, and several of them have

moved to a single-tier service. I do not want to comment much more on that, because I do not have enough data or detail on the pros and cons of that against the pros and cons of reducing the frequency of letter delivery. However, we will inevitably end up looking at that if there is reform of the universal service.

**Graham Simpson:** That is fair enough. It is something that just occurred to me, if you were to move to that situation.

What is your level of agency staff compared with staff who are fully employed by Royal Mail?

**Ricky McAulay:** It depends on the time of year and the demand on the network. I will put aside the industrial action, as Royal Mail is obliged by Ofcom to have, in the event of such action, a contingency plan to do our best. We would have had 10,000-plus or perhaps more casual agency workers in operation to try to expedite the speed of recovery.

As for our peak season at Christmas, as much as we give a lot of overtime to our postmen and postwomen, there is only so much that they can do. At that time of year, we add around 15,000 seasonal workers to our network. Underlying that is the fact that, as I have said, 98 per cent of the jobs that we offer are permanent contracts.

Part of the agreement with the CWU is to try to significantly reduce the level of agency workers that we use in the network. I can follow that up in writing to the committee, because I do not have the exact number of agency workers who are in the network today. However, it is probably in the low thousands. That is not to say, though, that they are full time. I will give you a specific example: we have expanded our Sunday service and now deliver for a number of customers on a Sunday. However, it is not very popular with our team; the postmen and postwomen do not really want to be out there on a Sunday. That is why our new contracts for people applying for a job stipulate the need to work on a Sunday.

At the moment, we are using maybe 1,000 agency people—that is not a precise number—who work on a Sunday to make sure that we can provide the network. However, that is not our preference; we want uniformed staff and red vans out delivering for Royal Mail. As I said earlier, that is what differentiates Royal Mail.

**Ross Hutchison:** To support what Ricky McAulay has said, I add that we actively review the situation in Scotland, unit by unit, every week. We look at what our agency usage was in each location in the previous week, what the reasons for using that flex resource were and whether there are opportunities to turn that into permanent jobs. We see quite a lot of agency staff converting to Royal Mail employees, and we actively encourage

that. If people have worked for us and enjoyed it—and if they clearly have the ability and the desire to do the job—they can convert and move into Royal Mail jobs.

We want to keep the use of agency staff as low as we can. They really are used for the reasons that Ricky articulated, and we review the position weekly, site by site, asking whether they can be converted to permanent jobs.

**Graham Simpson:** Okay. Are you looking at the use of drones for deliveries?

**Ricky McAulay:** We have done some initial trials in the Scottish islands and the Isles of Scilly. At the moment, though, they are still trials. We know that the use of drones is more reliable in inclement weather, but at the moment, not all the legislation that will be required to fly drones out of sight and remotely is in place. We have been lobbying and trying to make progress on that, so that we can then think about whether the use of drones is truly a scalable solution that will allow us to develop a use case as an alternative to the use of aircraft or other forms of transport, including for emergency items such as medical items. It would open up a new market. However, the work is exploratory at the moment.

**Graham Simpson:** How have the trials gone? Do you see the use of drones as a goer?

**Ricky McAulay:** It is too early to say for sure. I think that we will need the entry price to come down a bit, given the level of investment that will be required for us to operate in that way. Also, as I have said, we will need legislative change—which will involve, I think, the Civil Aviation Authority—in order to fly drones over the distances that we are talking about.

What we have done so far are controlled trials. Broader legislative change will be required if the use of drones is to be a scalable solution, but it is definitely worth exploring. For some of the more remote islands, such a service would be more reliable, and the payloads that drones can carry are increasing.

**Ross Hutchison:** Ricky McAulay makes a valid point. We serve about 150 populated islands in Scotland, which is a significant number, and some of them are extremely remote with small populations. That lends itself to that method of conveyance if we can make it work.

**Graham Simpson:** Okay—we will watch that space.

My next question is about your delivery offices. You said that you have four main ones, which I guess are sorting centres, with items then going out to local offices. By the way, like John Mason, I visited my local office recently—it is in East



Kilbride—and I went round with a postman. That was all very good.

So, you have the four main sites and then stuff goes out to local sites. How many local delivery offices do you have? Given that many are in quite old buildings that might no longer be suitable, are you looking to modernise by closing offices down and moving them?

**Ross Hutchison:** There are about 170 local delivery sites. We also have a network of scale payment delivery offices for the most remote communities, whereby we operate in conjunction with postmasters running small post offices and rent a small space. There is no huge plan to amalgamate the 170 delivery offices that we operate, although we do review the estate constantly.

As we noted in our written submission to the committee—and with some detail included—we have invested in some sites as best we can, given the financial challenges that the organisation has faced. A couple of weeks ago, I visited Dunbar, where we have taken an external building and transformed it into a parcel-sorting site. That will be good, and it helps us to move forward in line with the strategic direction.

As I have said, we are reviewing the estate, and we recognise that huge parts of it are old and require some modernisation. We try to do that as best we can.

**Graham Simpson:** You do not have a number of offices that you might need to close in order to open up others.

**Ross Hutchison:** No. We are constantly reviewing opportunities to make our network slicker, but we do not have a mass plan in Scotland to reduce the estate significantly below 170 sites.

**The Convener:** I have a couple of questions. In 2019, you had a £1.5 million fine, which was to do with first-class-post delivery failures; I understand that part of the current Ofcom investigation is to do with performance; and, indeed, you recognised at the start that there was disappointment with current performance. When do you see us returning to pre-pandemic performance under the universal service obligation? I know that the Ofcom inquiry is on-going, and I do not think that a decision has yet been made whether a fine will be applied this time. When do you see pre-pandemic performance returning?

**Ricky McAulay:** We are working very hard to restore service across the whole network. We meet representatives of Ofcom on a regular monthly basis to update on progress.

I will not commit to a timescale here and now, but it is something that we are discussing with

Ofcom. We recognise that, for the reasons that I have outlined, we have not been at our best for customers. I have also said that, for Royal Mail to win in the market, we need to get back to being our best. There are many imperatives to improve service, the least of which is avoiding a fine, I have to say. I will not commit to a timescale or say that there is a specific timescale for getting back to the quality of service target. It is something that we discuss with Ofcom frequently, though.

**The Convener:** Consumer Scotland is also doing a short investigation into Royal Mail. We had its representatives before us a few weeks ago; it is a new organisation, and I understand that it is considering Royal Mail services from a consumer point of view. I am not sure when that investigation is going to conclude, but it has shared with us some information, which I think is all in the public domain, on postcodes that are performing below the UK average.

We have talked about some of those areas today, but there are other ones that match them, and the area that I represent contains some of those postcodes that are below the UK average. Are those within Scotland affected by some of the issues that we have already discussed such as remoteness and difficulties in reaching areas? Are there other factors that explain why particular postcodes come up? The ones that are below average are DD, FK, IV, KA, PA and PH, while KY and ML are average. We have ones that are above average, too, but they are still not hitting the target that has been set.

**Ross Hutchison:** I think that that is fair. As Ricky McAulay has highlighted, we recognise that we have not been at our best. Scotland's geography is quite unique in nature; we cover 33 per cent of the UK landmass, and some of the postcodes that you have mentioned contain extreme geographies. We have talked about some of the postcodes in the north of Scotland, but I also point out that the PA postcode covers islands as well as conurbations such as Paisley; it covers, for example, the Inner Hebrides. Moreover, as we have mentioned, the PH postcode ranges from Perth in the south to Aviemore and Grantown-on-Spey in the north and Fort William in the west. In fact, some islands off the west coast are in the PH postcode, too, and there are some logistical issues in that respect.

There are other factors in some postcodes. It would be a fair challenge to point out that the DD postcode is not particularly geographically remote. However, in the context of our local network, that postcode is serviced from Edinburgh, which results in a significant transit time. Because any mail for Dundee goes through Edinburgh, there are some logistics issues to bear in mind.

There are also higher-than-normal levels of absence in that location, compared with other parts of Scotland. Sickness absence in Scotland is around 5 per cent, but in some locations it can be higher, for a variety of reasons, and we are working hard to understand them. There are different factors in different postcodes. Because of the nature and the geography of Scotland, it faces some logistical challenges that are additional to those that are faced UK-wide. The quality of service in Scotland is not where we want it to be, but it is consistent with what we are seeing in the UK.

10:45

**The Convener:** I would also like to ask about the price of stamps. I think that I am correct in saying that it is Royal Mail that sets the price of a first-class stamp, whereas the price of a second-class stamp is still capped by Ofcom. At the moment, it costs £1.10 to send a standard first-class letter, whereas it costs 75p to send a second-class letter, which means that it is 35 per cent—or more than a third—dearer to send a letter first class. It seems that the price of stamps has increased quite dramatically. Do you think that the increase in price might be one of the factors in the reduction in the volume of letters? Particularly at Christmas, when we expect people to buy a high volume of stamps, there is a question whether £1.10 is still affordable.

We recognise that, in the UK, we have a very valued service, with a universal service obligation that other countries do not have. We also recognise that you reach every point of the UK, which is really important and is valued by people, too. However, there has been quite a big increase in the cost of a service that people regard as an everyday service, and the concern is that it has now become a special service that they use only on special occasions, because they are not prepared to pay the high cost. What consideration is given to such matters when you make decisions on the price of first-class stamps?

**Ricky McAulay:** We look at a number of factors, the first of which is the decline in letter volume. Despite that decline, we are still having to provide the six-days-a-week universal service, and there is a cost associated with that.

**The Convener:** Do you not think that that decline is partly to do with the cost? This is very anecdotal, but I know older relatives who think, “I’m not going to send a card any more, because it costs £1.10. I’ll send an email instead.” I know that £1.10 is the third of the price of a coffee, but the issue is the perception that people have. The increase in price is encouraging the shift to alternatives. Maybe it is the pace of the increase rather than the amount that is making people feel

that they are not prepared to pay the cost. Is that not discouraging them from sending things first class?

**Ricky McAulay:** They have the option of posting the item second class for 75p. There is quite a big differential.

**The Convener:** But if it is a card for a special occasion, that could take five days. It is recognised that second-class delivery is slower. I know that three days is the target, but it seems to be the case that second class is now quite a bit slower than first class.

**Ricky McAulay:** We face a volume decline on the network and we are trying to sustain the universal service. Royal Mail is not immune to every inflationary pressure. It is a large network, and the costs of distribution, organisation and some of those inflationary pressures need to be reflected in what we charge for the services that we provide.

Let us look at some of the European benchmarks. The average cost across Europe for a next-day service is £1.25, and many European countries charge £2 for a next-day standard USO-type letter service. I think that what we provide represents good value for money when we benchmark it with the rest of Europe. Moreover, data from the Office for National Statistics shows that household spending on postage accounts for 0.2 per cent of total household spending. Typically, people spend less than 90p a week on postage.

We must find a balance. You are asking whether, if we make the service more expensive, people will stop using it, and I would say that we must always strike the right balance. You are right—Ofcom looks at the cost of second-class stamps. In fact, it looks at the cost of first-class and second-class delivery from the point of view of there being an affordable mail service. Any time we change the prices, we do so in conversation with Ofcom.

It is not that Royal Mail is charging £1.10 and making £1 billion of profits on the back of that. We are not; we are trying to survive and get the company back into profitability so that we can invest in securing our future.

**The Convener:** As members have no further questions, that brings us to the end of this morning’s session. I thank both our witnesses for their evidence, which has been helpful to the committee.

10:49

*Meeting continued in private until 11:11.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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