
Decision on Royal Mail's quality of service performance, 2021-22

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1. Introduction

- 1.1 As the provider of a universal postal service, Royal Mail is required to achieve quality of service (QoS) targets in the delivery of particular products in each financial year.¹ The objective of Royal Mail's QoS performance targets is to ensure that consumers receive an adequate level of service.
- 1.2 On 10 May 2022, Royal Mail announced² and published³ its performance against its QoS performance targets for the year starting 1 April 2021 and ending 31 March 2022. These showed that Royal Mail had failed to meet several QoS targets, including:
- its daily Delivery Routes target of completing 99.9% of delivery routes each day, achieving 94.29%;
 - its First Class national performance target of 93%, achieving 82%;
 - its Second Class national performance target of 98.5%, achieving 95.6%; and
 - its First Class postcode area performance target of 91.5% in any of the 118 specified postcode areas (PCAs).⁴
- 1.3 Part of this reporting period (1 April 2021 to 31 August 2021) was treated as a regulatory emergency period⁵ due to the ongoing Covid-19 pandemic. While the existence of an emergency period in any part of a year does not mean that Royal Mail should not have regard to regulation, it is a factor which Ofcom takes into account when assessing compliance.
- 1.4 Ofcom has powers to take enforcement action against Royal Mail in relation to its compliance with the QoS performance targets. These powers include imposing financial penalties on Royal Mail in certain circumstances and where appropriate. On 31 May 2022 we opened an investigation into Royal Mail's compliance with its QoS performance targets during 2021-22. This document sets out our conclusion.

¹ See Designated Universal Service Provider (DUSP) Condition 1.9.1. The conditions imposed on Royal Mail require it to monitor, or to procure the monitoring of, its performance in relation to the applicable QoS targets using an appropriate testing methodology. Royal Mail complies with this requirement by way of a series of surveys involving test mail items and the surveys are carried out by the market research agency Kantar TNS ("Kantar"). To carry out the survey, Kantar recruits a panel of private individuals and businesses across the UK who are directed by Kantar to post items of test mail to each other. Panellists record the dates on which test items are posted and the dates on which test items are delivered. The test items are not identifiable to Royal Mail and the participants in the survey are anonymous. This means that where there is an incident that impacts QoS, the affected sample can typically be identified and removed, leaving a statistically robust residual population.

² Royal Mail [press release](#) on QoS in 2021-22.

³ In accordance with its obligations under DUSP 1.10.4.

⁴ Where relevant, these performance figures take into account any confidence intervals associated with the particular result, for example the confidence interval associated with the First Class national result is +/- 0.2. The confidence interval is the margin of error used in the statistical methodology for measuring Royal Mail's quality of service performance.

⁵ DUSP Condition 1, reflecting section 33 of the Postal Services Act 2011, provides that nothing in the condition requires Royal Mail to continue a service without interruption, suspension or restriction in an emergency.

2. Assessment of Royal Mail's quality of service performance in 2021-22

Ofcom's approach to assessment

- 2.1 The QoS targets are set below 100% in recognition of the fact that events may affect QoS performance which are beyond Royal Mail's control. Beyond this, Ofcom has discretion to consider whether an event is exceptional and outside of the scope which this allowance is intended to cover. Should Ofcom consider that an event is exceptional, it has further discretion to consider whether to grant an additional allowance for that event, in excess of the allowance already built into the targets. The assessment of whether an event is exceptional and then whether to grant an additional allowance will be carried out on a case-by-case basis.
- 2.2 Where we decide to grant an additional allowance for what we have determined is an exceptional event, we typically adjust Royal Mail's performance to evaluate the impact of the event in question. Where we find that the impact of exceptional events does not account for any underperformance, we may proceed to find that Royal Mail has not complied with its regulatory obligation.
- 2.3 Carrying out this assessment is contingent on being able to quantify the impact of the relevant exceptional event, or events, on Royal Mail's performance. Where we have previously been able to make quantitative adjustments, it has generally been because the impact has been narrowly time-bound (e.g. a storm which occurred during a particular weekend) and/or sufficiently geographically precise (e.g. particular motorway closures). The QoS data associated with these events can therefore be identified and extracted from the overall sample, enabling quantification of the impact of that particular event on Royal Mail's performance.

Royal Mail's QoS performance

- 2.4 In 2021-22, the Covid-19 pandemic continued to negatively impact Royal Mail's QoS performance, as it had in 2020-21. We acknowledged this when the regulatory emergency period came to an end in August 2021, stating that our approach to compliance monitoring would continue to be pragmatic and proportionate, taking account of any relevant matters beyond Royal Mail's control that impact on its performance, including any continuing impacts of the pandemic.⁶
- 2.5 Based on the evidence submitted by Royal Mail, we consider that the Covid-19 pandemic was an exceptional event in 2021-22, which impacted Royal Mail's QoS performance in three related ways:

⁶ [Royal Mail delivery changes](#) – 11 August 2021 update.

- unexpected change in traffic mix;⁷
- Covid-19 related absence levels; and
- measures to limit the spread of Covid-19.

2.6 These effects were neither time-bound nor geographically precise, but instead were persistent and pervasive across Royal Mail's network. They fluctuated throughout the year and across the country. For these reasons, and given that the scale of the impact associated with these effects was so great, it is not possible to make a reliable quantitative adjustment with any degree of accuracy.

2.7 Nonetheless, as we explain below, in this case we consider the specific nature of Covid-19 was such that it can be considered exceptional in assessing Royal Mail's QoS performance for 2021-22, and that an adjustment should be made even if it is not quantifiable.

Unexpected change in traffic mix

2.8 We have carefully considered the evidence submitted by Royal Mail which demonstrates that the significant unexpected and rapid change in traffic mix, which occurred at the start of the Covid-19 pandemic, continued to have a material impact on its QoS throughout 2021-22. While parcel volumes decreased from the 2020-21 peak, they remained unusually high (31% above pre-pandemic levels)⁸ and the average parcel size increased substantially.⁹ In addition, Royal Mail handled [x<] million Covid-19 test kits in 2021-22, which it prioritised, along with vaccination letters, as part of the central role it played in the national Covid-19 testing effort.¹⁰

2.9 This had two major impacts on Royal Mail's network. First, it resulted in longer rounds for its frontline staff due to increased need for customer interactions in delivering larger parcels, more frequent replenishments of trolleys and a need to use more vans to increase overall capacity. Second, delivery offices struggled to manage the volume of parcels which could not be stored on site (without violating health and safety requirements), resulting in, at times, occasions where it was necessary to prioritise parcel delivery at the expense of letter deliveries. In our view both of these effects were not reasonably avoidable and are likely to have materially affected QoS.

2.10 We have carefully considered whether this should be taken into account as part of an exceptional event for the purposes of this assessment, given that Royal Mail already had some time to adjust to the impact of Covid-19 on traffic mix from the previous year. In our view it was not reasonable to expect substantial adaptation in the 2021-22 period because the period was both unpredictable and characterised by other impacts of Covid-19 that made changes difficult to implement. We have also taken into account that Royal Mail has taken steps to address the impact of a changed traffic mix, in particular through its

⁷ This refers to the volume of letters versus parcels.

⁸ Paragraph 81 of Royal Mail's representations and page 67 of Royal Mail's [annual report](#).

⁹ Paragraph 84 in Royal Mail's representations.

¹⁰ Paragraphs 67 -76 in Royal Mail's representations.

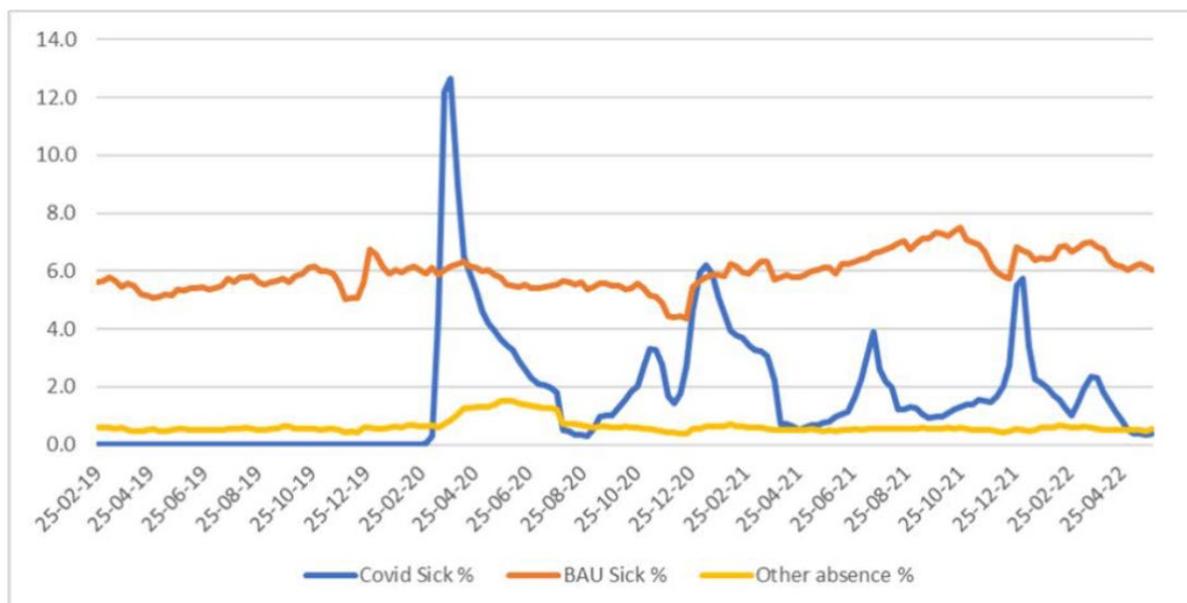
revisions programme.¹¹ We would however emphasise that we do not anticipate continuing to take account of traffic implications indefinitely, not least as the evidence suggests that in the early part of the current reporting period (2022-23) parcel volumes have declined.¹²

2.11 Accordingly, we consider that the impact of the unexpected and rapid change to traffic mix was a result of Covid-19, and Covid-19 was an exceptional event for which Royal Mail should be given an additional allowance.

Absence levels

2.12 A further Covid-19 impact on which Royal Mail submitted evidence and which we have considered was in relation to absence levels. While these absences did not reach the same peak as in the 2020-21 period, the evidence received from Royal Mail suggests they remained both significant and unpredictable, with some Royal Mail offices reporting 40% absence levels at certain points in the year.¹³ In the 2021-22 period, there were three pronounced spikes in Covid-19 related absence. The most severe was between December 2021 and January 2022, coinciding with the peak of the Omicron variant. This is shown in Figure 1 below.

Figure 1: BAU sick absence and Covid-19 absence, as supplied by Royal Mail¹⁴



2.13 Given that staff absence is a factor that Royal Mail must manage in any given year to deliver a service in line with its QoS targets, we need to consider the particular circumstances to determine whether any adjustment is warranted. For example, in 2017-

¹¹ Paragraphs 152 – 157 in Royal Mail’s representations.

¹² Page 2 of Royal Mail’s [trading update](#).

¹³ Paragraph 25 in Royal Mail’s representations.

¹⁴ Figure 7, page 17 in Royal Mail’s representations.

18, Royal Mail sought adjustments to its performance in relation to flu-related illness.¹⁵ Ofcom did not accept that request, in part because we considered that employee sickness at the particular levels seen in 2017-18 was the type of event for which the allowance built into Royal Mail's targets is intended to cover. There will typically be steps and mitigations that Royal Mail can put in place to manage such absence.

- 2.14 We have carefully considered whether absences should be taken into account as part of an exceptional event for the purposes of this assessment. In our view, during the period being assessed, Covid-19 was still creating unpredictable spikes in absence levels, making meaningful planning difficult. Our assessment also accounts for the steps Royal Mail took to address absence levels during the period. These included recruiting 20,000 temporary workers, increasing the use of overtime, simplifying HR processes to facilitate recruitment¹⁶ and in some offices working double or night shifts.¹⁷
- 2.15 Accordingly, we conclude that the absence levels Royal Mail experienced were a result of Covid-19, and Covid-19 was an exceptional event for which Royal Mail should be given an additional allowance. We would, however, emphasise that where there is evidence of increased stability and predictability in absence levels, we would not anticipate continuing to take account of Covid-19 related absence going forward and in future regulatory periods we would expect Royal Mail to have a plan in place for dealing with such absences.

Measures to limit the spread of Covid-19

- 2.16 Social distancing measures were in place for much of 2021-22 and this had a number of implications for Royal Mail's operations which Royal Mail was able to evidence. For example, Royal Mail submitted that the close proximity of sorting frames in delivery offices meant that only half of the sorting frames could be used at any one time, making the sorting process longer.¹⁸ Royal Mail also stated that the measures had an impact on van sharing, which halved its van capacity at a time when the number and size of parcels had grown significantly.¹⁹ This meant that in some offices staff had to walk or use public transport to reach the start of their delivery route, which for some took an hour.²⁰ A further complexity for Royal Mail was the variation in social distancing measures both throughout the year and in their differing application across Scotland, Wales, Northern Ireland and England.²¹
- 2.17 The reintroduction of social distancing measures in November 2021, and the impact on QoS, resulted from a decision taken by Royal Mail, at least in part, to protect its workforce from the Omicron variant.²² Other social distancing measures in place were legal

¹⁵ 3.33 – 3.42 in [Ofcom's decision document](#) for the 2017-18 investigation.

¹⁶ Paragraph 9 (d) of Royal Mail's representations.

¹⁷ Paragraphs 25 & 45 of Royal Mail's representations.

¹⁸ Paragraph 26 in Royal Mail's representations.

¹⁹ Paragraphs 7(b) and 58 in Royal Mail's representations.

²⁰ Paragraph 59 in Royal Mail's representations.

²¹ Figure 8 and annex 1 in Royal Mail's representations.

²² Paragraph 61 in Royal Mail's representations.

requirements which Royal Mail were obliged to implement until they were lifted, which occurred gradually throughout the year.

- 2.18 We acknowledge Royal Mail's need to both protect the health of its employees and comply with the law and it is clear that social distancing measures were necessary due to the impact of Covid-19. We also acknowledge that Royal Mail tried to reduce the impact of these measures by increasing overtime.²³
- 2.19 As with unexpected traffic mix and absence levels, we are satisfied that the impacts of social distancing that Royal Mail experienced were a result of Covid-19, and, as explained above, Covid-19 was an exceptional event that it should be given an additional allowance for. We note that social distancing measures have now been removed and should not impact on QoS performance going forward.

Ofcom's conclusion

- 2.20 We recognise that Covid-19 caused far-reaching effects on Royal Mail's operations over the 2021-22 reporting period through multiple significant, pervasive and unprecedented impacts (including in relation to unexpected change in traffic mix, increased levels of staff absence and measures to limit the spread of Covid-19). We also recognise that these impacts were unevenly spread and peaked on multiple occasions throughout the reporting period, part of which was treated as an emergency period and other parts of which may have resulted in similar challenges for Royal Mail (for example, during the Omicron wave).
- 2.21 For these reasons, and in the specific circumstances of this reporting period, it has not been possible to quantify with a sufficient degree of accuracy the impact of Covid-19 on Royal Mail's business. It is clear however that Covid-19, in particular through the three factors outlined above, had a severe impact on Royal Mail's performance and, in our view, that performance would have been significantly higher had it not been for Covid-19.
- 2.22 While we are unable to determine with any certainty whether Royal Mail would have met its targets in the absence of the impacts of Covid-19, we consider that it is at least possible that it would have done so. Accordingly, we consider that in the particular circumstances prevailing during this period it would not be appropriate to find Royal Mail in breach of its QoS targets for 2021-22.

²³ Paragraph 60 in Royal Mail's representations.

3. Looking forward

- 3.1 From March 2020 and throughout the 2021-22 regulatory period, Covid-19 seriously impacted Royal Mail's ability to meet its QoS targets. Ofcom has been mindful of this when considering enforcement of Royal Mail's compliance with these targets, both last year and this year. In the previous section, we set out our conclusion that Covid-19 was an exceptional event in the context of 2021-22, and considered three specific impacts of Covid-19 on Royal Mail's performance:
- a) unexpected change in traffic mix
 - b) Covid-19 related absence levels; and
 - c) measures to limit the spread of Covid-19.
- 3.2 While the challenges of Covid-19 were once unpredictable and unexpected, they have now, for the most part, fallen away. Social distancing measures are no longer in place, Royal Mail's traffic mix appears to have largely returned to pre-pandemic trends,²⁴ and the impact of Covid-19 on absence levels is likely to be much less unpredictable, allowing for contingency planning. As such, we do not expect Covid-19 to have a continuing significant impact on Royal Mail's QoS in the way it has done in 2021-22.

Assessing future compliance

- 3.3 When assessing Royal Mail's compliance with its QoS obligations in future years, Ofcom will take the specific circumstances of any failure into account. However, in light of the above, we do not anticipate that we will treat the impacts of Covid-19 on Royal Mail's performance in the same way we have this year.
- 3.4 Given that we do not expect to see Covid-19 having such a pervasive impact in future years, we also do not intend to treat Covid-19 as a single event in the future. We will assess any future impacts of Covid-19 as individual factors that impacted Royal Mail's QoS and will consider whether they are exceptional in the context of that reporting period. We have now considered the impacts of Covid-19 on Royal Mail's QoS over two years and believe that Royal Mail has had time to learn lessons from the pandemic. As such, the factors outlined above are unlikely to be considered exceptional in future.
- 3.5 As stated in our 2022 review of postal regulation, the QoS regime helps to ensure that users benefit from certainty that an item will arrive on the date promised, with high reliability.²⁵ We know from our 2020 user needs research that users value these qualities of the universal service above speed of delivery.

²⁴ Ofcom, [Annual monitoring update for postal services, financial year 2021-22](#), 2 December 2022.

²⁵ Page 91 of [Review of Postal Regulation Statement](#).

- 3.6 We are aware that Royal Mail's performance in the early part of 2022-23 continues to fall materially below the regulatory requirements²⁶ and we are concerned that its performance may not have improved sufficiently as the impacts of Covid-19 have lessened. Throughout this investigation, Royal Mail has repeatedly stated that it is committed to providing a high QoS to customers and, in particular, to *"restoring QoS as quickly as possible."*²⁷
- 3.7 We welcome this commitment from Royal Mail. It is ultimately for Royal Mail to devise and implement a plan that enables it to meet its QoS obligations. Going forward, Royal Mail must bring its QoS performance back in line with the standards required. In order to do this, Royal Mail will have to carefully consider how it can adapt and evolve, learning from previous mitigations where necessary, in order to ensure it can deliver services in a way that enables it to manage any continuing influence that Covid-19 might have on its QoS.
- 3.8 We will closely monitor the implementation of these plans and Royal Mail's performance over the remainder of the 2022-23 regulatory period. If Royal Mail fails to meet its targets, we will consider whether enforcement action is appropriate.

Ian Strawhorne

Interim Director of Enforcement

2 December 2022

²⁶ Royal Mail's [Quarterly Quality of Service & Complaints Report 2022/23 Q1](#) and [Quarterly Quality of Service & Complaints Report 2022/23 Q2](#).

²⁷ Paragraph 215 in Royal Mail's representations.