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## **Postcode Area investigation**

Postwatch has long been concerned about Royal Mail's inability to provide an acceptable and consistent level of service across the UK. We have therefore been very supportive of Postcomm's investigation into poor performance in seven postcode areas (PCAs) and the penalty it has subsequently proposed.

We would like to comment at the outset that we are very pleased with Royal Mail's recent quality of service improvements, with 115 Postcode Areas on course to meet the all posted full year target, and all 121 Postcode Areas on course to meet the intra full year target. We do, however, remain concerned about ongoing poor performance in some PCAs, particularly East London (E) which, despite being subject to investigation by the regulator, continues to fail its quality of service targets.

Whilst we do of course welcome the higher levels of performance in many PCAs, one cannot ignore the fact that many customers have endured a substandard service for years. It is therefore only proper that Royal Mail's failures be investigated, and a financial penalty imposed where it is found not to have used all reasonable endeavours to meet its service standards. Such a penalty should serve as incentive to Royal Mail to maintain and build upon the recent improvements.

Postwatch has now reviewed Postcomm's report of its investigation into performance in seven PCAs. We provide the following comments.

### **Approach to the Investigation** **Identifying PCAs for investigation**

Postcomm explains that in each of the PCAs investigated, Royal Mail had failed to meet its quality of service targets in 2001/02, 2002/03 and 2003/04 and appeared likely to fail their targets in 2004/05. It notes that in addition to the seven PCAs it

focuses upon, an additional four also met this criterion: DY (Dudley), CO (Colchester), NW (London North West) and WS (Walsall).

The regulator cites lack of available resource as the reason it did not investigate all eleven PCAs at the same time. Postwatch does not accept insufficient resource to be a valid reason for scaling down an investigation as additional funding could be sought from Treasury to ensure that such investigations are dealt with in their entirety. Postcomm must plan adequate resource to properly carry out its duties in the same way we expect Royal Mail to adequately resource its business.

*Table 1 below compares the performance of the PCAs whose performance met the criteria set by Postcomm for investigation. The PCAs subject to investigation are highlighted in yellow.*

<b>Posted</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>Q2 2004-05</b>
<b>WC London West Central</b>	85.5	88.2	85.6	87.0
<b>CM Chelmsford</b>	87.3	89.3	85.8	89.1
<b>NW London NW</b>	85.7	89.7	85.6	89.6
<b>SE London SE</b>	86.3	89.4	84.4	89.7
<b>SW London SW</b>	86.4	87.7	82.1	90.1
<b>WS Walsall</b>	89.7	89.7	89	90.1
<b>SS Southend-on-Sea</b>	86.4	88.1	87.9	91.0
<b>DY Dudley</b>	88.5	89.5	88.4	91.0
<b>CO Colchester</b>	89.6	89.0	87.8	91.2

<b>Intra</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>Q2 2004-05</b>
<b>E London E</b>	85.8	87.4	88.7	85.8
<b>W London West</b>	88.9	90.2	88.7	89.9
<b>NW London NW</b>	88.5	89.1	86.4	91.6
<b>SE London SE</b>	89.6	92.1	88.8	91.7
<b>WC London West Central</b>	84.9	88.0	90.3	92.8
<b>SW London SW</b>	88.2	91.0	86.5	93.7
<b>CO Colchester</b>	91.7	91.3	91.9	95.1

As the table above illustrates, there is no obvious logic behind Postcomm's decision as to which PCAs to investigate: in terms of posted performance, NW consistently performed at a lower level than SE, SW and SS but was not investigated; with regard to intra performance, NW's quality of service was poorer than SE's. Setting aside our concerns that all eleven PCAs should have been investigated, we believe Postcomm should clearly explain why it chose to investigate the PCAs that it did, and why the remaining PCAs were ignored.

Furthermore, we are somewhat concerned about the statement in relation to the four PCAs not investigated which suggests that once the current investigation is concluded Postcomm will consider what action, if any, is appropriate for these PCAs. Postwatch understands that Postcomm is not able to impose a penalty for poor performance in the years 2001/02, 2002/03, and 2003/04 as a consequence of the period of time (twelve months after becoming aware of the failure) that has elapsed. The current investigation has taken twelve months to complete. Even if a second investigation were to commence at the end of this consultation period it would effectively be 'timed out' and no enforcement action could be taken. We would be

grateful if Postcomm could explain what action would be considered for these failures.

Continuing the issue of 'timing out' (and the fact that no enforcement action could be taken in relation to failures pre-2004/05) one must also question whether there were other PCAs that Postcomm could have chosen to investigate – ones that were more severely failing their quality of service targets in 2003/04 and 2004/05 than the PCAs chosen for investigation. We are aware that the regulator did select other PCAs for an internal review (as opposed to an investigation) and, at Postcomm's request, Postwatch provided comments on these PCAs. We were particularly concerned – and recommended further monitoring – of the following PCAs: L (Liverpool), NN (Northampton), NP (Newport), NR (Norwich), PE (Peterborough), and UB (Uxbridge). The regulator has not made clear why failures in these PCAs were not deemed worthy of investigation.

#### The methodology

Postwatch is supportive of the methodology of Postcomm's investigation into poor performing PCAs. We agree with the four tests the regulator applied to help it decide whether Royal Mail had used all reasonable endeavours to meet its quality of service targets (did-it fail any audit control standards that impact on the performance of the root cause; did the failures in meeting the audit control standards show that Royal Mail had not effectively resolved the root causes; did the audit control specifications show that remedial actions identified in Royal Mail's action plans should have been in place anyway; and did Royal Mail repeat any of the remedial actions identified in its action plans).

#### **Financial penalty**

Postwatch supports Postcomm's proposal to impose a penalty of £271,000 on Royal Mail for its failure to use all reasonable endeavours to meet the quality of service targets in three PCAs (E, SE and WC).

We consider the method used to calculate the financial penalty to be fair and representative. However, Postwatch is concerned that, whilst the financial penalty should incentivise Royal Mail to improve and maintain acceptable levels of performance in PCAs, affected customers will not benefit directly.

Though we recognise the limitations placed on Postcomm in terms of the form in which a financial penalty can be imposed, we would rather have seen customers receiving compensation for the service failures they have had to endure. We wonder whether Postcomm considered whether Royal Mail would be willing to provide a compensatory gesture to customers for the service failures that they have had to endure. , For example, a book of stamps could have been distributed to each household in the PCAs found to be in breach.

#### **Enforcement order**

Postwatch notes Postcomm's assumption that performance for all seven PCAs is above target, based on cumulative performance to 7 November 2005, and therefore an enforcement order can not be justified. However, we are concerned that Postcomm is basing a decision to not impose an enforcement order on data that is not statistically accurate.

There are wide confidence levels associated with PCA data that is less than a 12 month cumulative figure (quarterly data is subject to confidence levels of +/-2.7%).

Any use of Postcode Area data that is for any period of time less than twelve months is not considered by Royal Mail to be statistically accurate. Such figures can only be indicative and should be used with caution.

Postwatch expects Postcomm properly to consider whether to impose an enforcement order based on statistically accurate data. Significant improvements would need to be made to the measurement of Postcode Area performance to achieve this level of statistical validity. For this reason, we would suggest Postcomm consider the twelve month rolling cumulative performance data up until 7 November 2005.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gregor', with a stylized flourish at the end.

Gregor McGregor