

# Royal Mail Group

## **Royal Mail Application to Postcomm for Relief from the Impact of Industrial Action upon the Achievement of Condition 4 Service Standards**

(2009-10 Formula Year  $t = 4$ )

This application is based on interim full year adjusted and unadjusted results, which are subject to change. An updated application will be issued when final full year figures are available.

May 2010

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# Submission

# Foreword

This application sets out the extent of the industrial action which disrupted postal services last year, explains the steps Royal Mail was able to take to try to minimise the impact on customers and to recover service quality as quickly as possible, and seeks relief from the financial penalties, over and above loss of business, which arise from the regulatory framework in which Royal Mail operates.

Last year's strikes were a direct result of Royal Mail's progress in transforming our business. We know that creating a fully modernised service, built on world class technology and world class ways of working is essential if we are to meet customers' rising expectations.

Royal Mail's reason for making this application to Postcomm is to ensure that this transformational activity is not halted by the threat of industrial action nor by the immediate consequences of such action, and in doing so seek to protect the universal postal service.

Royal Mail does fully understand the damage and the frustration that industrial action causes to customers and sincerely apologises for the disruption that many businesses undoubtedly suffered last year as a result of localised and national strike action.

We believe customers are now seeing real results from our modernisation programme. Our quality of service in the months before last year's strike action was the best on record, and we are determined to exceed those levels in the future.

Modernisation is, and will continue to be, critical in reducing our costs – which means we've been able to continue to maintain the universal service despite the cash losses we incur in its provision and despite the decline in the amount of mail being sent. At the same time, we've kept the prices of many business services stable.

Royal Mail knows the universal service is vital to businesses and their customers, as well as to consumers and communities, throughout the UK, and we are determined to ensure its long term stability.

The roll out of new technology throughout our operation is well underway. Our postmen and women are already using more than 27,000 handheld Postal Digital Assistant to support tracked products. There are already more than 100 – of an eventual 500 – walk sequencing machines in our offices automatically putting the mail in the right order ready for postmen and women to deliver.

We have achieved a great deal already – but we know, as do our customers, that we still have much to do.

We know that providing a stable and reliable service, every day, everywhere is critical to our customers.

The vote by members of the Communications Workers Union in favour of the far reaching, detailed agreement on the future reached this year means all our customers can have confidence in a stable, consistent daily service in the future, while we accelerate the pace of transformation across the business.

Royal Mail would like to thank customers for their patience and their trust as we continue to restore our service quality following last year's disruption and as we continue to modernise our operation and build a World Class service for the future.

Mark Higson

Managing Director Royal Mail Letters

# Executive Summary

## Background

1. Royal Mail has embarked on the most sweeping operational, commercial and cultural transformation in the company's history – an ongoing programme of transformation and modernisation that must be completed if Royal Mail is to become efficient and remain a viable postal operator in the UK, meeting the needs of its customers and ensuring the provision of the universal service at affordable prices. That transformation encompasses not only significant capital expenditure on new automation equipment but extends through to changes to pay, pensions and working practices. £2 billion capital expenditure has been assigned for this task and of that total £1.6 billion has already been deployed in the Royal Mail Letters business.
2. The commencement of Royal Mail's transformation was the subject of industrial action ("IA") in 2007-08. In spite of the agreement reached with the Communication Workers Union ("the CWU") in 2007 following that period, it was evident in early 2009 that there was a strengthening current of industrial unrest associated with Royal Mail's ongoing transformation of its business and that there was a real prospect of IA in opposition to the further transformation initiatives due to be implemented in that year.
3. Royal Mail therefore wrote to Postcomm on 18 February 2009 explaining this real possibility of IA and the consequences of it, i.e. that it would be likely to undermine Royal Mail's ability to achieve its quality of service targets which, in turn, would have serious and immediate implications for Royal Mail. Consequences which would put at risk Royal Mail's ability to continue to implement transformational change in the way envisaged and as now reflected in the Agreement reached with the CWU following the IA which subsequently took place in 2009. Currently Royal Mail faces severe cash constraints, such that without relief from the effects of quality of service failures caused by IA, it would be unlikely to be able to continue with its planned transformational changes.
4. There are two direct regulatory consequences of failing Quality of Service targets: (i) under the Bulk Mail Compensation Scheme, Royal Mail is liable to compensate bulk mail customers by up to 5% of revenues for failures in performance; and (ii) under the customer service quality factor within the current price control (the "C-factor"), failure to meet performance targets for



certain services results in a 5% decrease in the revenue that Royal Mail is allowed to earn in the subsequent year.

5. Postcomm recognised in a letter sent to Royal Mail on 29 July 2009 (“the July 2009 letter”) the need for Royal Mail to continue to transform its business and acknowledged that it was appropriate for Postcomm to facilitate that transformation.
6. It therefore made a provisional decision that (i) the bulk mail compensation scheme should be suspended and (ii) the C-factor should be adjusted to allow Royal Mail to earn the allowed revenue contingent upon it, provided two requirements were met, namely that Royal Mail demonstrates that IA in 2009-10:
  - arose as a result of transformation and not for some other reason; and
  - had a direct causal link to quality of service failures.
7. In this application, Royal Mail is seeking adjustments to its quality of service results for 2009-10 for the effect that transformation-related IA in this year had upon its performance. These adjustments alone are not sufficient in all cases to bring reported performance back to the target levels set out in Royal Mail’s Licence, but in a number of cases they bring performance to within the tolerance levels within which compensation is not payable or the C factor not triggered. On this basis, Royal Mail is seeking relief for an estimated £36.5 million in compensation that would otherwise be payable under the Bulk Mail Compensation Scheme directly to bulk mail users and £50.8 million in an adjustment to the C-factor.
8. Royal Mail demonstrates in this application that the IA which took place in 2009 arose as a direct result of transformation and that such IA had a direct causal link to quality of service failures, and therefore the criteria set out by Postcomm for providing the financial relief sought are fully met.

### **IA arose as a result of transformation**

9. The roots of the most recent IA lie in disagreement as to the implementation of the Pay and Modernisation Agreement, which resolved the previous episode of IA in 2007-08. Although significant progress with the transformation of the business was made as a result of that Agreement a number of issues arose with the CWU during 2008 and early 2009. These issues were initially concentrated in London and a small number of other areas, as across the rest of the country much of the Pay and Modernisation Agreement had been deployed in the way envisaged. The key points of contention were the transformation of working practices and a lack of

agreement as to what form the modernisation of the business should take in the future, leading on to demands for enhanced protection and benefits in connection with transformation.

10. By the start of 2009 Royal Mail therefore faced a number of challenges from the CWU to its transformation plans. The CWU instructed its members in December 2008 and again in April 2009 not to co-operate with transformation activity at the individual office level. Every opportunity was taken to debate and agree changes through the Industrial Relations framework and other procedures. When agreement was not reached, however, Royal Mail was regrettably left with no alternative if it was to continue with the transformation of the business but to introduce the necessary changes, which in some cases had already been significantly delayed. In response the CWU began to ballot its members in the first few months of 2009-10 as to whether they were prepared to take part in IA.
11. It is evident from the ballot papers, campaign materials and messages put across by the CWU in calling for IA that it was a reaction against the fundamental changes in working practices necessary for the Royal Mail Letters business to transform and modernise. All of the IA forming the subject of this application was taken in protest against activities designed solely or primarily for the purpose of improving either Royal Mail's long-term operational efficiency or its underlying financial position.

#### **IA had a direct causal link to quality of service failures**

12. IA in 2009 consisted of an ongoing series of regional, network and local IA that built in frequency and intensity over a period of seven months, culminating in two national strikes. This IA was of a very different nature to that experienced in 2007-08, being both less predictable and more varied in its form, and the tactics deployed in the later stages were intended to cause maximum disruption to service.
13. Royal Mail's performance in Quarter 1 of 2009-10 was very high across all scheduled services, with first class stamped and metered mail achieving record levels for that quarter. This was in spite of the sporadic, localised IA that took place during that period. No adjustments to performance results are being sought for this Quarter.
14. The IA action that followed during the following two reporting quarters had a material effect on quality of service, not only on the days that IA took place but on the period following such action during which backlogs of mail were cleared and performance restored. In the later stages of regional and network IA, the disruption to service extended beyond the striking units

because of the cumulative effects of a diverse number of factors, including an ongoing climate of industrial unrest in some areas over a protracted period. Residual problems with ongoing IA impacting recovery continued to affect mail posted from and delivered in the London postcode areas following the Interim Agreement reached with the CWU on 5 November 2009.

15. In total, the equivalent of 125,869 full working days were reported as being lost to local, network and regional IA between 19 June and the start of the national IA, of which 92,472 (73%) were in eight London postcode areas out of a total of 121 national postcode areas. In addition, the national strike action in October caused the loss of a further 141,916 equivalent full working days. In total, the equivalent of 267,785 full working days were reported as being lost to IA related to transformation between 19 June and 5 November 2009.
16. Royal Mail has assessed in detail the impact of IA in 2009-10 on quality of service and the length of the post-strike period that it took to return UK performance to at or above target levels, as this was the level of performance being achieved before the IA. That recovery period was dependent both on the form of IA taken and the impact it had on performance at the time. Postcomm stated in its July 2009 letter that Royal Mail should have regard to the length of post-strike recovery periods considered reasonable by Postcomm in its decision in relation to Royal Mail's 2007 application for relief (the "2007 Decision"), which Royal Mail has done. However, the 2009 IA experienced by Royal Mail was substantially different in nature to that in 2007 and the two should not be seen as analogous. In this document, Royal Mail has therefore reflected the actual periods that it took Royal Mail to return to UK performance at or near target levels following IA (which in some cases is longer and others shorter than the recovery periods referenced by Postcomm in their 2007 Decision). Where the impact of regional and network IA upon the overall pipeline was broader than the impact of individual unit strikes, this is also reflected in the adjustments sought for Quarters 2 and 3.
17. Royal Mail is confident that it took all the steps that it reasonably could to restore performance as quickly as possible and that the periods for which relief is sought, i.e. where performance was below the expected standard, are directly linked to the pattern and nature of the IA to which Royal Mail was exposed. The transport network was consistently back to normal within 24 hours of IA and the majority of Mail Centres and Delivery Offices outside London were back on workplan, as far as the IA impact was concerned, within two to three days of regional IA and within four to five working days after the final national strike. Where units were taking longer to recover there were particular local issues at play. Outside London the backlog was fully cleared by 18 November. The backlog in London took longer to clear

and was augmented by the refusal of some units to accept the Interim Agreement and continuing IA. Royal Mail brought forward its recruitment of Christmas casuals to help clear the last of these items.

18. The periods and areas for which Royal Mail is seeking adjustment for the end to end performance standards for the scheduled services in Licence Condition 4 therefore differ according to the different phases of the IA and the impact upon performance.

## Other Factors

19. Postcomm also indicated in its July 2009 letter that it would be likely to consider a number of other factors in taking its final decision in relation to 2009-10 transformation-related IA, and this application addresses all those factors. Royal Mail demonstrates:
  - The extensive efforts made to **avert the effects of strike action** over many months whilst still continuing to progress with modernisation. Such efforts included direct communications with everyone in the business and engagement at all levels with the trade union to secure support for, and participation in, the necessary transformational changes. Between January and May 2009, when the CWU first notified its intention to ballot for widespread action, a significant number of strategic workshops and joint sessions were held to discuss areas of concern. From the start of May until the Interim Agreement was reached on 5 November 2009, in excess of 80 meetings were held with the CWU in order to try to resolve the dispute.
  - The extensive efforts to **mitigate the effects of strike action** on customers through contingency planning, recovery arrangements and operational response in advance, during and after periods of IA. Overall the contingency measures were implemented and operated effectively, ensuring that the pipeline recovered well from IA (although recovery happened faster outside of London).
  - The **effectiveness of Royal Mail's communications** with customers both before, during and after periods of disrupted services, including the positive feedback provided by customers as to how this helped them manage operations and reduce the impact of the IA.
  - That any **cost savings** made by Royal Mail during strike periods, for example, those made by not paying wages to striking staff, are outweighed by the additional costs incurred, including those resulting from the implementation of Royal Mail's contingency and recovery plans. Overall, IA led to Royal Mail incurring a net loss of around [X].

Furthermore, that figure does not reflect the costs of management time devoted to dealing with the IA (including the large numbers of management volunteers undertaking operational duties) instead of and often alongside managing and developing the business. Nor does it reflect the revenue lost to Royal Mail through loss of business as a result of the IA which is estimated at up to £40 million.

- That there is an **appropriate link between quality of service and employees incentives**. Quality of service is a key component of Royal Mail's incentive plans, ensuring an appropriate link between incentivising employees and quality of service performance. Regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments. This will impact all managers who have an element within their relevant bonus plan relating to the Royal Mail Letters business' quality of service performance, as well as all senior executives across the Group, including the Board, Post Office Ltd and Parcelforce Worldwide. These incentive plans and approach to payment this year reflect Royal Mail's commitment to providing a postal service of high quality to all its customers, which is the objective at the heart of Royal Mail's transformation plans.
- That Postcomm can have full confidence in the overall **reliability of the underlying quality of service data** used in support of this application, both in respect of the end-to-end scheduled services and the USO standardised measure figures.
- The **progress made by Royal Mail in transforming its business and the consequent benefit for customers**. Despite the IA in 2007 and 2009, Royal Mail has made significant progress with modernisation and there have already been tangible consequent benefits for Royal Mail's customers. These benefits include a more innovative product offering, better value for money and enhanced security of services. The money set aside for transformation is paying for a number of key operational upgrades including: the rationalisation and modernisation of the Mail Centre, Distribution Centre and Delivery Office network; automated sortation equipment; walk sequencing technology; new vehicles; better equipment for delivery postmen/women; better training for all employees and improved visibility in the pipeline. In parallel, Royal Mail has developed, and is in the early stages of deploying, world class standards of performance. The core underlying principle of this programme is to get the commitment, support and engagement of all of Royal Mail's

employees in the business as transformation will impact widely upon their working lives as working practices are changed.

## Conclusion

20. Royal Mail addresses all of these other factors in this submission and demonstrates that it meets the criteria for relief set out in Postcomm's preliminary decision in July 2009. Royal Mail must be allowed to complete its transformation programme and implement the changes necessary to provide a world class service, whilst also safeguarding the future of the one-price-goes-anywhere universal postal service at affordable prices throughout the UK.

# Chapter 1: Overview of the application

## 1.1 Introduction

In the four years since the market was fully liberalised on 1 January 2006, competition for the supply of postal services has expanded rapidly and the UK market is increasingly competitive. At the same time, Royal Mail remains the only postal services operator required to provide the one-price-goes-anywhere universal postal service at affordable prices through a national delivery network for the whole of the UK, thereby ensuring that over 28 million homes and businesses across the country can send and receive mail six days a week.

The postal services sector is, however, undergoing major long-term and irreversible structural change as a result of the convergence between the digital media and communications industries. Email, broadband internet, text messaging, SMS and other forms of digital communication are all alternatives for the advertising, publications, fulfilment, social and transactional mail that are at the heart of the postal services industry.

Long-term change has been exacerbated and accelerated by the current economic downturn, which has revealed a structural decline in mail volumes previously disguised by economic growth. Businesses and consumers are under financial pressure to cut back on costs, either by sending less in the mail or by choosing to opt for cheaper alternatives, which are readily available. Businesses will now routinely offer their customers a choice - agree to receive your bill or ticket in electronic form or pay a surcharge for the added marginal cost to the business of sending it through the post. Environmental concerns are also influencing behaviour and leading to reduced mail volumes.

Without transformation, it is apparent that structural change and economic decline would have a material impact on Royal Mail's business as its fixed costs would be distributed across a smaller volume of mail. Addressed inland mail volumes have declined by over 10% in the past two years and are expected to experience further substantial decline over the next few years. Every 1% decrease in the number of items of mail that Royal Mail handles costs the company £67 million in lost revenue.

Whilst overall mail volumes are in decline, the number of actual delivery points is still growing - meaning the average number of items per household is less and

hence the cost per item is increasing. At the same time, there is increased pressure on prices with a direct flow through to the delivery cost base. It is important to note that without transformation the delivery function, the shared infrastructure, would remain primarily a fixed cost operation, which would leave it particularly vulnerable to reducing mail volumes. Effectively the cost per item would increase resulting in a rise in prices, making post a less attractive option for customers which would have a negative impact on the postal services market as a whole. This would have consequential implications both for the viability of a one-price-goes-anywhere universal service and for the ability of Royal Mail to complete the necessary investment into the access infrastructure that other postal operators rely on, ensuring the continuing development of an effectively competitive market.

Royal Mail delivers 99% of all items posted in the UK and is the only company with the national network capable both of providing the universal service and ensuring competition through the system of downstream access.<sup>1</sup> A financially viable and efficient Royal Mail is, therefore, key to the future of a world-class postal services industry in the UK.

Royal Mail must therefore be allowed to complete its transformation programme and implement the changes necessary to provide a world-class service, whilst also safeguarding the future of the one-price-goes-anywhere universal postal service at affordable prices throughout the UK. Transformation of Royal Mail's business requires it to modernise, in large part through improved efficiency and reduced costs, which will enable innovation across mails applications to deliver the diversified products and services demanded in a competitive market.

The categorical case for transformation at Royal Mail has been well documented, including most recently in the independent review of the sector by Richard Hooper, Dame Deidre Hutton and Ian Smith published in December 2008: "Modernise or Decline" (the "Hooper Report"), which also commented upon the challenging industrial relations climate, as an obstacle to change. Certain of the headline findings of that review included:

- *"There is a general consensus that the status quo is untenable. The universal service cannot be sustained under present policies.*
- *A radical reform of Royal Mail's network is inevitable. The company has a plan to achieve this. But the pace of change needs to accelerate significantly.*

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<sup>1</sup> These objectives are reflected in Postcomm's statutory duties under the Postal Services Act 2000 (the "PSA"). Postcomm's primary statutory duty (section 3 PSA) is to exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service. Furthermore, section 5 PSA requires Postcomm to have regard to the need to ensure that Licence holders are able to finance the activities authorised or required by their Licence.



- *Unless Royal Mail can modernise faster, a forced restructuring under European rules is highly likely. That would be a costly and poor outcome for the taxpayer, for consumers, for Royal Mail and its employees.*
- *Sustaining the universal service depends fundamentally on modernising Royal Mail.*
- *We believe strongly that modernisation of the business will only be achieved if industrial relations are modernised.”<sup>2</sup>*

Royal Mail is clear about what needs to be done to modernise its business, with change impacting every part of its operational pipeline from collection and sorting through to delivery. Modernisation is not, however, limited just to operational changes such as the introduction of new technology to improve efficiency (for example, through the deployment of new automated sorting equipment), although that does play its part. Instead, Royal Mail’s strategy is to effect a radical root and branch transformation of its business, matching new technology with new ways of working, including more flexible attendance patterns to improve alignment to workload, increase efficiency and enable an overhaul of the product portfolio. It is only through these changes that a vibrant and successful Royal Mail will be able to compete in the market place and meet its universal service obligation.

Modernisation must, however, be seen in context. It is expensive, complex and must be undertaken whilst meeting some of the highest quality of service standards in Europe. At the same time, it must be effected against a worsening likely future financial position resulting from a combination of structural change, economic decline and a volatile pension deficit believed to be as great as any FTSE 100 company. Moreover, it requires the cooperation and support of its employees and effective engagement with the relevant union, the CWU, representing front-line and administrative staff, and UNITE, representing managers below personal contract grade.

The commencement of Royal Mail’s transformation was the subject of IA in 2007-08 when the CWU protested against the changes required by modernisation and the future strategic direction of Royal Mail. That dispute was finally settled in October 2007. It resulted in a sixteen month Pay and Modernisation Agreement being reached between Royal Mail and the CWU outlining a phased implementation of modernisation. The agreement begins with the following statement of intent by both parties: *“In order for Royal Mail to thrive as a business and to ensure that it remains able to compete effectively it is recognised that change is going to have to happen at a scale and at a pace never experienced before.”*

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<sup>2</sup> “Modernise or Decline: Policies to maintain the universal postal service in the United Kingdom” (16 December 2008) (Cm 7529).

Alongside that national agreement, a joint statement was published between Royal Mail and the CWU on restoring good industrial and employee relations, which made reference to the potential of the dispute to damage relationships between managers, union representatives and employees and stated that managers and CWU representatives would meet urgently "*to calm situations down and find sensible solutions to any local issues*" and that the workforce needed to work together "*in a positive way*" "*to bring about a fresh start*". The settlement therefore covered the various aspects of modernisation and in principle allowed Royal Mail to proceed at full speed with the implementation of the necessary transformation of its business.

Despite successfully negotiating the Pay and Modernisation Agreement at the end of 2007, already during 2008 a number of issues began to arise with the CWU in connection with transformational change. For example, during 2008 and early 2009 the national CWU opposed the deployment of Postal Digital Assistants (hand-held devices for scanning signature items at the point of delivery), although the Pay and Modernisation Agreement included full cooperation and support for trials and subsequent deployment of new technology.

Royal Mail informed Postcomm of this strengthening undercurrent of industrial unrest associated with business transformation, citing examples such as the December 2008 ballots concerning Mail Centre rationalisation and a lack of cooperation with trials and deployment, stamp cancelling machines and delivery revisions (such as closing most night-opening Delivery Offices).

The industrial climate continued to deteriorate in the early part of 2009 and ballots as to whether CWU members were prepared to take part in IA took place in the first few months of the year on the grounds of Royal Mail implementing changes that could not be agreed with local CWU representatives despite the enabler of the national Pay and Modernisation Agreement. Royal Mail did everything it reasonably could to seek to avoid further IA. At the same time, it had to have regard to the urgent need to transform the business, given the escalating decline on mail volumes. This required Royal Mail to press ahead with its implementation of the Pay and Modernisation Agreement, despite opposition from the CWU.

Royal Mail is determined to undertake the reform necessary to operate effectively and efficiently in the ever more competitive environment of the future, whilst safeguarding the universal service. In doing so, it needs to effect change in areas that have led to IA. This in turn exposes Royal Mail to the risk of significant adverse financial consequences, both under the Bulk Mail compensation scheme<sup>3</sup> and as a

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<sup>3</sup> The "Bulk Mail Compensation Scheme" is defined in Postcomm's letter to Royal Mail of 29 July 2009 as "*the provisions (excluding paragraphs 3-13) of the Standards of Service Compensation Scheme of Royal Mail annexed to the determination of the Commission dated 7<sup>th</sup> October 2003, in respect of which Royal Mail Group Ltd is obliged to meet its obligations by virtue of Condition 4(15)*"

result of the operation of the C-factor under Condition 21(12) of its Licence<sup>4</sup>. Moreover, Royal Mail relies upon the revenue allowed under Licence Condition 21 (which determines the amount of money Royal Mail is allowed to earn on its price controlled services) in order to fund its modernisation and to contribute towards its ongoing financial viability while it undertakes such activities.

Royal Mail wrote to Postcomm on 18 February 2009 explaining that it anticipated the CWU would call for IA during 2009-10 in dispute against the modernisation and transformation of Royal Mail's business. The IA could be expected to have a material impact on Royal Mail's quality of service performance which, in turn, would have serious and immediate implications for Royal Mail. Consequences which would put at risk Royal Mail's ability to continue to implement transformational change in the way envisaged and as now reflected in the Agreement reached with the CWU following the IA which subsequently took place in 2009.

As in 2007-08 and again in 2008-09, Royal Mail, having foreseen the possibility of IA in connection with its modernisation plans, therefore formally applied for dispensation from the impact of possible IA by suspension or modification of the Bulk Mail compensation scheme and for adjustment of the C-factor. Dispensation is required so that any deterioration in performance against specific scheduled standards and standardised measures (together referred to as "quality of service") arising from IA would not reduce Royal Mail's allowed revenue or cause it to pay additional compensation to users of bulk mail services. Currently Royal Mail faces severe cash constraints, such that without relief from the effects of quality of service failures caused by IA, it would be unlikely to be able to continue with its planned transformational changes. All of the IA forming the subject of this application was taken in protest against activities designed solely or primarily for the purpose of improving either Royal Mail's long-term operational efficiency or its underlying financial position.

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*of the Licence.*" Postcomm published a final version of Royal Mail's retail compensation scheme for loss, damage and delay on 18 November 2008. Royal Mail's revised retail compensation arrangements came into effect on 1 August 2008.

<sup>4</sup> Under the so-called "C-factor", Allowed Revenue is automatically adjusted by up to 5% if quality of service targets are not met. The "C-factor" is defined in Postcomm's letter to Royal Mail of 29 July 2009 as *"the customer service quality factor within Royal Mail Group Ltd's price control, set out in Condition 21(12) of Royal Mail's Licence, providing for an automatic adjustment of up to 5% of allowed revenues in a Formula Year for its stamped and metered mail, outbound international Airmail and Surface mail, and Standard Parcel products if Royal Mail Group Ltd's performance exceeds certain targets for those services, in that Formula Year."*

## 1.2 Postcomm's approach to the possibility of relief being provided should the occurrence of IA lead to a decline in relevant quality of service requirements

Royal Mail formally asked Postcomm on 18 February 2009 to suspend or modify the Bulk Mail compensation scheme and to adjust the C-factor to reflect any deterioration in quality of service caused by IA during 2009-10.

Postcomm wrote to stakeholders on 7 April explaining that it was minded provisionally to agree to the request on the basis that "transformation-related strike action in 2009-10 may prejudice the ability of Royal Mail to finance the activities authorised or required by its Licence".

After considering responses from stakeholders, Postcomm wrote to Royal Mail on 29 July 2009 (the July 2009 letter attached at Annex 32) to inform it of its provisional decision that the Bulk Mail compensation scheme should be suspended and the C-factor adjusted where Royal Mail is able to demonstrate that strike action in 2009-10:

- arose as a result of transformation and not for some other reason; and
- has had a direct causal link to quality of service failures in 2009-10.

In coming to this decision, Postcomm took into account Royal Mail's financial position and the significant risk of strike action being taken in 2009-10 in relation to Royal Mail transforming its business. Having had regard to its statutory duties, Postcomm concluded that it was both necessary for Royal Mail to transform its business and appropriate that Postcomm should facilitate that transformation.

The July 2009 letter made it clear that Postcomm could not make a final decision until after the end of 2009-10 and that, in taking its final decision, Postcomm would consider a number of other factors in determining the relief given to Royal Mail. These were described as being likely to include:

- a demonstration by Royal Mail of reasonable efforts to avert and mitigate the effects of strike action;
- the effectiveness of Royal Mail's communications with customers during periods of disrupted services;
- any cost savings made by Royal Mail during strike periods, for example those made by not paying wages to striking staff;
- a demonstration of progress made by Royal Mail in transforming its business, and the consequent benefits to customers;

- a demonstration by Royal Mail of an appropriate link between employee incentive payments such as bonuses (including Directors' bonuses) and quality of service during the year; and
- the reliability of quality of service figures used in Royal Mail's application for relief.

Postcomm's assessment is to be undertaken against the criteria set out in its July 2009 letter, although it noted that the factors listed are not exhaustive and that it retains the discretion to seek such further evidence as it considers relevant.

### 1.3 The basis on which the relief is sought

Royal Mail sets out in this application how Postcomm's criteria were fully met during 2009-10 and how quality of service during 2009-10 was adversely affected by transformation-related IA.

As to the relief being claimed, the application sets out the actual quality of service results for the quarters in the year when such IA took place and how they have impacted on full year performance, and demonstrates the extent to which these figures should be adjusted to take into account the effect of IA caused by transformation activity.<sup>5</sup> The application also quantifies the impact such an adjustment would have on payments under the Bulk Mail compensation scheme and loss of revenue under the C-factor.

Thus the approach adopted is to seek adjustments to the recorded quality of service results (reflected in the final, adjusted annual quality of service figures), in the same way that Postcomm considers adjustments to quality of service using the so-called "force majeure" process for other events which have an impact upon quality of service and which are beyond Royal Mail's reasonable control (e.g. severe flooding). This is the same approach that Royal Mail adopted, and Postcomm accepted, in its application for relief for 2007-08. Agreed adjustments to the quality of service figures will directly impact upon the extent to which compensation is payable under the Bulk Mail compensation scheme and the extent to which the C-factor adjustment applies.

The Annex to Condition 4 of Royal Mail's Licence sets out the services (referred to as "**scheduled services**") to which quality of service standards (referred to as "**scheduled standards**") set out in that Annex apply (see Annex 2 to this application). There are eight groupings of scheduled services, to which the scheduled standards

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<sup>5</sup> Through removal of test letters ("samples") posted on certain days from the calculation of quality of service results and the removal of USO results for certain days.

apply.<sup>6</sup> The Annex also sets out an additional four service delivery measures (referred to as “**standardised measures**”) and sets targets (scheduled standards) for them: postcode area target, percentage of collection points served each day, percentage of delivery routes completed each day and percentage of items delivered correctly.

As is shown in Annex 2, failure to meet the quality of service scheduled standards has different consequences; the C-factor applies to scheduled services 1, 2, 6 and 7 and all the standardised measures and the Bulk Mail compensation scheme only applies to scheduled services 3, 4 and 5 (namely Bulk 1st Class, Bulk 2nd Class and Bulk 3rd Class). IA also has a different impact on different services (influenced by factors such as the due date for delivery of the relevant postal service) as well as on the standardised measures. For example, the fourth standardised measure (the percentage of items delivered correctly) has not been impacted as the IA did not affect the accuracy with which mail was delivered during periods of IA (as measured independently).

Unlike in 2007-08, this application does not contain a request for a force majeure adjustment<sup>7</sup>. There were no major force majeure events during any of Quarters 1, 2 or 3 of 2009-10 which would necessitate a claim for adjustment of the service standards or the standardised measure for PCA floor targets. Although the USO collection and delivery standardised measures were impacted by certain localised force majeure events during these Quarters, Royal Mail is only seeking exemption in this application for collection and delivery standardised measure failures caused by IA. Royal Mail will instead be making a separate claim under the quarterly force majeure process for any failures falling outside the adjustments for IA. Royal Mail’s quality of service performance was severely affected by the widespread adverse weather during January 2010. However, as there is no application for an IA adjustment for the Quarter 4 period, a separate force majeure application has been made for this period.<sup>8</sup>

Finally, Royal Mail notes that the application has benefited from discussions with both Postcomm and Royal Mail’s independent assessors. An independent assessor has been appointed by Royal Mail to provide assurance over whether specified “Unadjusted” and “Adjusted Results” have been calculated in accordance with the methodologies set out in this application.

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<sup>6</sup> Although in the case of the eighth – Special Delivery – the Bulk Mail Compensation Scheme and the C-factor do not apply.

<sup>7</sup> In 2007 force majeure impacting the service standards occurred during the period of the claim. As it was not practicable to separate the IA and force majeure impacts a combined claim was made.

<sup>8</sup> Adverse weather also impacted performance during the Christmas period but this falls outside the period of measurement for service standards and therefore no application for adjustment is required.

## 1.4 Transformation activity

This application demonstrates in detail how the IA during 2009-10 arose as a result of the CWU's opposition to the transformation activities necessary for the modernisation of Royal Mail's business. The most recent episode of IA should not be seen in isolation, however, but in the context of the sweeping programme of modernisation that Royal Mail started upon in 2006-07 in response to the major shift in the competitive environment for postal services.

Royal Mail's transformation programme has three key operational aims. Customer needs should be met through innovation and efficiency as a result of Royal Mail delivering market leading quality of service. This will be made possible by achieving world-class productivity and through investment in a modernised environment. Finally, Royal Mail's services will be delivered by engaged, flexible and competitively paid people who are appropriately equipped for the job. Together these will ensure Royal Mail's ability to provide the 'one-price-goes-anywhere' universal service and to deliver market-leading quality of service.

Royal Mail has already made good progress in achieving these objectives. It has already deployed £1.6 billion of the £2.1 billion investment being made in the transformation of the Royal Mail Letters business by 2011. In parallel, it is transforming its approach to procurement in order to drive down non-people costs through the implementation of new processes, systems and purchasing strategies. The effect has been to make Royal Mail more efficient and enable the company to remain profitable in spite of falling mail volumes and revenues.

A key enabler in ensuring the transformation of Royal Mail was the negotiation of the Pay and Modernisation Agreement 2007. This was expected to ensure that Royal Mail would progress at pace in implementing the necessary changes. Although significant advances were made as a result of that Agreement, a number of issues arose during 2008 and early 2009 with the CWU in connection with transformational change. This resistance to transformational change was commented upon in the independent Hooper Report into the future of the UK postal services sector.

The key issues in dispute were the transformation of working practices (including efficiency revisions) and a lack of agreement as to what form the modernisation of the business should take in the future. In addition, there were particular pressures in London as a result of a disproportionate number of units still having restrictive and inefficient working practices. Moreover, the situation in London was compounded by the need to ensure greater efficiency in response to lower productivity than in the rest of the UK.

By the start of 2009, Royal Mail therefore faced a number of challenges from the CWU to its modernisation plans. The CWU instructed its members in December

2008 and again in April 2009 not to co-operate with transformation activity at the individual office level. Although Royal Mail rigorously followed the correct processes for introducing transformational changes, the absence of co-operation increasingly meant that no agreed progress was possible and the recent IA was the regrettable consequence.

The background to IA, its scope and the specific links to the transformation of Royal Mail's business are comprehensively described in Chapter 2.

## 1.5 The occurrence of industrial action

The IA that Royal Mail experienced in 2007-08 was primarily characterised by a number of 24 hour and 48 hour national strikes during which Royal Mail's entire collection, processing, network, distribution and delivery operations were shut down for a set period.

The 2009-10 IA was entirely different and only finally culminated in two rolling national strikes after three months of sporadic local strikes and a further four months of intensifying regional and network IA. The 2009 IA was both less predictable and more varied than in 2007, taking the form of officially balloted short one-day, two-day and part-day local and regional strike activity, together with some unballoted strike action, targeted at different aspects of Royal Mail's pipeline at different times (focusing on the separate elements of collection, processing, network, distribution and delivery). Up until the national strikes, however, the nature of the IA taken meant that the majority of Royal Mail's employees were working normally.

IA started out at low levels in the beginning of 2009-10 and built steadily throughout the year with its impact being felt right up until the Christmas service period. The nature of the activity is best understood by considering it as taking place over four related phases.

- *Sporadic local IA (23 March - 7 June)*. During the first three months of the year there was a low level of officially balloted IA and also unballoted action in individual offices.
- *London, regional and network IA (8 June - 31 August)*. Between 19 June and 29 August 2009 a series of regional strikes took place. The majority of these took place in London<sup>9</sup> delivery offices, collection hubs and Mail Centres. In addition, strikes took place at the National Distribution Centre (NDC) and other network units elsewhere to coincide with the London action. There was also officially balloted IA and a number of unballoted strikes at

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<sup>9</sup> The eight London postcode areas E, EC, N, NW, SE, SW, W and WC



Delivery Offices and Mail Centres across the country, mainly in Scotland, the Midlands, East Anglia and the South West.

- *Coordinated rolling IA (1 September - 21 October):* The most intense period of regional and network IA was between 1 September and 14 October 2009 when the CWU called a series of more coordinated rolling strikes.
  - a. Widespread London strikes took place on nine days over this period, interspersed with more localised strikes, particularly in South London.
  - b. Simultaneous strikes in Royal Mail's transport network took place on three of these days, but there were an additional five days of network strikes interspersed with the London action designed to create a rolling pattern of IA.
  - c. Additional strike action in other regions was co-ordinated with major London action on one occasion and with network action on two further occasions whilst major units in other regions also took IA over two separate days.
  - d. There was also widespread unballoted strike action in and around Glasgow and Edinburgh in September.
  - e. Officially balloted IA and unballoted strike action continued in other parts of the country, becoming more extensive.
- *Rolling national IA (22 October - 6 November):* Following the announcement of a series of national strikes on 15 October 2009, officially balloted regional action largely ceased. Two rolling national strikes took place on 22-23 October and 29-31 October 2009, targeted at different parts of Royal Mail's pipeline. Employees in different components of Royal Mail's pipeline were asked to strike for 24 hours over the strike period but on different days. This maximised the period during which services were continuously disrupted whilst minimising the amount of time each individual was on strike, and hence their loss of pay. Royal Mail and the CWU concluded an Interim Agreement on 5 November 2009 averting the two 'all out' national strikes planned for 6 and 9 November 2009.

In fact, the localised action in the first quarter of 2009-10 had only a limited impact upon quality of service and Royal Mail was able to ensure that overall performance was not affected; delivering record-breaking levels of quality for first class retail mail. As the frequency of IA increased over the summer, however, so its impact increased. At the beginning of the summer mail volumes are traditionally low, which allowed the backlog of mail to be cleared relatively quickly after each strike. The situation worsened as the summer progressed and the frequency of regional

and network strikes increased. In addition, the need to meet business plan targets in order to mitigate the financial impact of the IA meant that deployment of transformational change without union agreement also increased during August, which in turn resulted in an escalation of certain other forms of IA such as work to rule activity by CWU members.

With regional and network action on this scale it was inevitable that other parts of Royal Mail's pipeline would be impacted, reducing performance in units that were not themselves on strike. IA in the network is particularly problematic in that respect, as even with effective contingency measures the disruption of normal operations will cause problems further down the pipeline, thereby ensuring that the wider business is disrupted. The wider business was also impacted as a result of non-striking units being required to handle mail for units that were striking.

[&].

Finally, the 2009 IA culminated with the CWU calling two rolling national strikes on 22-23 October and 29-31 October, where employees in different components of Royal Mail's pipeline were asked to strike for 24 hours over the period but on different days.

## 1.6 Quality of service failures

The impact of IA in 2009 on Royal Mail's pipeline, and hence its quality of service performance, was significant. The equivalent of 125,869 full working days were reported as being lost to local and regional IA between 19 June and the start of the national IA, of which 92,472 (73%) were in the eight London postcode areas. In addition, the national strike action in October caused the loss of a further 141,916 equivalent full working days. In total, the equivalent of 267,785 full working days were reported as being lost to IA related to transformation between 19 June and 5 November 2009.

Quality of service is not just affected on the day of the IA, however, but for a period afterwards while the business recovers, due to the backlog of mail which needs to be handled on post strike days. Royal Mail's network is designed to deal with certain peaks and troughs in volume, but not to the extent of the actual backlog experienced from the days of the IA. This was particularly the case after the most severe period of coordinated rolling action between 27 August and 14 October 2009.

Moreover, and as described above, the effect of IA on quality of service is not just felt in striking units. The wider business was affected both as a result of the knock-on effects of network IA on the pipeline, reducing performance in units that were not themselves on strike as well compounding the impact on other striking units,

and as a result of strike-impacted mail being diverted to nearby Mail Centres not taking IA to help service recovery.

At the same time, Royal Mail's Licence requires it to meet stringent quality of service standards for all of its products. The pipeline as currently configured does not exceed these standards by more than around one or two percent and penalties are incurred at one percent below target; therefore there is only a narrow margin before substantial penalties begin to be incurred. For the universal service collection and delivery standardised measures, full disruption on only two days out of 312 during the year will incur the maximum penalties.

The impact of the IA during 2009-10 has to be understood in the context of these Licence requirements, whereby reported quality of service can be reduced and penalties triggered even by relatively localised IA when it happens over a prolonged period and despite the majority of mail across the UK as a whole actually achieving service standards. For example, whilst first class stamped and metered performance fell below target during the second and third phases of the IA it remained above 90% for the majority of days during the second phase and above 75% on most days in the much more difficult third phase of the IA.

Despite the ongoing difficulties it faced, Royal Mail strove to return its quality of service to normal standards as soon as it reasonably could in the circumstances and invested during and after the IA in service restoration (see Chapter 4 for more details about Royal Mail's contingency and recovery planning and the steps taken to mitigate the effects of the IA).

In fact, although national quality of service performance was materially affected by IA, on most days of posting the majority of first class mail failing target arrived just a day late.

### Scheduled services

As has been described, the form that IA took varied considerably during the course of 2009-10. What can be considered a reasonable recovery period is dependent both on the nature of the IA and the impact it had on performance at the time. For the end-to-end performance standards for the scheduled services mail Royal Mail has excluded the days upon which quality of service was affected by the IA, including the time taken to recover, for the mail flows which were affected. The adjustments made are summarised in Table 1.1 below.

**Table 1.1**

Phase of IA	Period	Adjustment required	Comment
Sporadic local IA	23 March - 7 June	None - not included in the application.	IA had no material impact on performance.
London, regional and network IA	8 June - 7 July	Only the actual strike day.	The London, regional and network IA during Quarter 2 had a greater impact on performance as the frequency of IA and the number of units involved increased during the course of the summer. At the start of this period performance was only affected on the strike day but subsequently it took a further three days to recover.
	8 July - 12 August	Each strike day plus three days recovery.	
	13 - 31 August	Each strike day plus three days recovery and, in addition, all mail in the eight London postcode areas.	
Coordinated rolling IA	1 September - 21 October	All UK mail excluded.	This is due to the cumulative impact on UK performance of a range of factors including: <ul style="list-style-type: none"> <li>• the intensification of the occurrence of IA;</li> <li>• the impact of rolling, cross-functional (particularly network) strikes on the pipeline and into non-striking units;</li> <li>• the effect on non-striking units of handling diverted mail,</li> <li>• the specific local issues in London, (where some offices took 19 days of action prior to the national strikes); and</li> <li>• underlying fatigue from dealing with protracted IA.</li> </ul>
Rolling national IA and post IA	22 October - 6 December	Each national strike day plus four days recovery, together with the exclusion of all mail posted or delivered in the eight London postcode areas up to the start of the Christmas service period.	Performance did not fully recover in the four days between the two national strikes. After the second national strike performance outside London did return to target level after a four day recovery period. Residual problems with ongoing IA impacting recovery continued to affect mail posted from and delivered in the London postcode areas.

## Standardised measures

In addition, Royal Mail is claiming relief for the impact of IA on the two USO standardised measures relating to the percentage of collection points served and the percentage of delivery routes completed. The claim is made just for the actual strike days in the units affected, for the small number of instances where failure was caused by IA in the form of an officially balloted overtime ban, and for national strikes the first subsequent working day following the strike. The day following national IA has been included as performance of the measures was also affected on those days due to failures to complete duties caused, amongst other things, by late starts due to necessary return to work briefings and redeployment of equipment to deal with the previous day's national IA. The exclusion of the day following a national strike was accepted by Postcomm in the 2007 application.

### **1.7 The adjustments to quality of service being sought by this application**

As explained at section 1.4 above, Royal Mail is applying for financial relief from the impact on its quality of service of IA during 2009-10 resulting from the transformation of its business.

Table 1.2 sets out Royal Mail's measured quality of service performance on the basis of a three month rolling average in 2009-10 (Formula Year t=4). It provides the actual reported performance results compared with the results once they have been adjusted to take account of the IA described in this application<sup>10</sup>.

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<sup>10</sup> Note: Both the adjusted and unadjusted figures are interim and subject to change by final year end – although the extent of change is expected to be minimal.

**Table 1.2 Impact on Performance during 2009-10 (3 month average)**

	Target	Quarter 1 Un-adjusted Result	Quarter 2 Un-adjusted Result	Quarter 2 Adjusted Result for IA	Quarter 3 Un-adjusted Result	Quarter 3 Adjusted Result for IA	Quarter 4 Un-adjusted Result
Scheduled Services							
Retail 1st Class	93.0%	94.6%✓	90.8%✘	94.2%✓	78.8%✘	90.2%✘	88.7%✘
Retail 2nd Class	98.5%	98.9%✓	98.0%✘	98.6%✓	93.3%✘	97.8%✘	97.1%✘
Bulk 1st Class	91.0%	92.9%✓	90.1%✘	92.9%✓	79.3%✘	88.1%✘	86.8%✘
Bulk 2nd Class	97.5%	98.1%✓	97.6%✓	98.3%✓	91.1%✘	96.7%✘	96.0%✘
Standardised Measures							
PCA floors	118 achieving 91.5%	114 ✘	82 ✘	110 ✘	0✘	37 ✘	24 ✘
%of collection points served each day	99.90%	99.93%✓	99.06%✘	99.92%✓	97.57%✘	99.88%✘	98.46%✘
%of delivery routes completed each day	99.90%	99.94%✓	98.88%✘	99.94%✓	96.88%✘	99.87%✘	97.13%✘
C factor target							
PCA floors - % achieving at least 90.5%	100.0%	96.61%✘	78.81%✘	96.61%✘	0.00%✘	46.61%✘	32.20%✘

✘ Indicates target level performance not achieved during the quarter.

✓ Indicates target level performance achieved during the quarter.

It should be noted that Royal Mail is not seeking relief for the financial impact associated with five of its service standards (as outlined at Annex 2):

- Bulk 3: The full year (unadjusted) result for Bulk 3 is 98.0% (0.5% above target level). Whilst 98.0% is a lower level of performance than normally achieved, it has met the target. Therefore, no relief is being applied for in relation to this standard.
- Standard Retail Parcels: The full year (unadjusted) result for Standard Retail Parcels is 92.7% (2.7% above target level). Therefore, no relief is being applied for in relation to this standard.
- European International Delivery: The full year (unadjusted) result for European International Delivery is 94.8% (9.8% above target level). Therefore, no relief is being applied for in relation to this standard.
- Special Delivery: Royal Mail's Special Delivery product has its own scheme which allows customers to claim compensation for delay of their items. Therefore, neither C-factor nor Bulk Mail Compensation apply to this product.
- Correctly Delivered Mail: As explained previously, national performance against this standard has not been affected by the IA and it has met the target.

It should also be noted that Royal Mail's quality of service results are subject to a series of checking and assurance processes which will not be completed until mid to late May. In the interest of submitting the application as early as possible, however, this document contains interim year end results. Although Royal Mail does not anticipate any significant adjustment to be made to the results, at this stage they are, therefore, technically subject to change. Any final changes should, however, be marginal and will not affect the core of this application, i.e. the dates, locations and services for which Royal Mail is seeking relief. Royal Mail expects to provide Postcomm with an updated submission in June 2010 and specified "Unadjusted" and "Adjusted Results" figures in the final application will be subject to agreed upon assurance procedures by Royal Mail's independent assessors.

The methodology used to calculate the adjusted collection and delivery results and the methodology used to calculate the adjusted quality of service results are shown at Annex 9 and Annex 10, respectively.

Table 1.3 illustrates the impact that the IA had on full year performance for 2009-10 (Formula Year  $t = 4$ ).

**Table 1.3 Impact of IA on 2009-10 performance**

	Scheduled Standard	Unadjusted Result	Adjusted Result for IA
Scheduled Services			
Retail 1st Class	93.0%	87.9% <b>xx</b>	92.2% <b>x</b>
Retail 2nd Class	98.5%	96.7% <b>xx</b>	98.1% <b>x</b>
Bulk 1st Class	91.0%	87.1% <b>xx</b>	90.6% <b>x</b>
Bulk 2nd Class	97.5%	95.6% <b>xx</b>	97.4% <b>x</b>
Standardised Measures			
PCA floors	118 achieving 91.5%	14 <b>xx</b>	87 <b>xx</b>
%of collection points served each day	99.90%	98.70% <b>xx</b>	99.57% <b>xx</b>
%of delivery routes completed each day	99.90%	98.16% <b>xx</b>	99.26% <b>xx</b>
C factor target			
PCA floors - % achieving at least 90.5%	100.0%	29.7% <b>xx</b>	92.4% <b>xx</b>

**xx** Indicates target level performance not achieved and penalties incurred.

**x** Indicates target level performance not achieved but penalties not incurred.

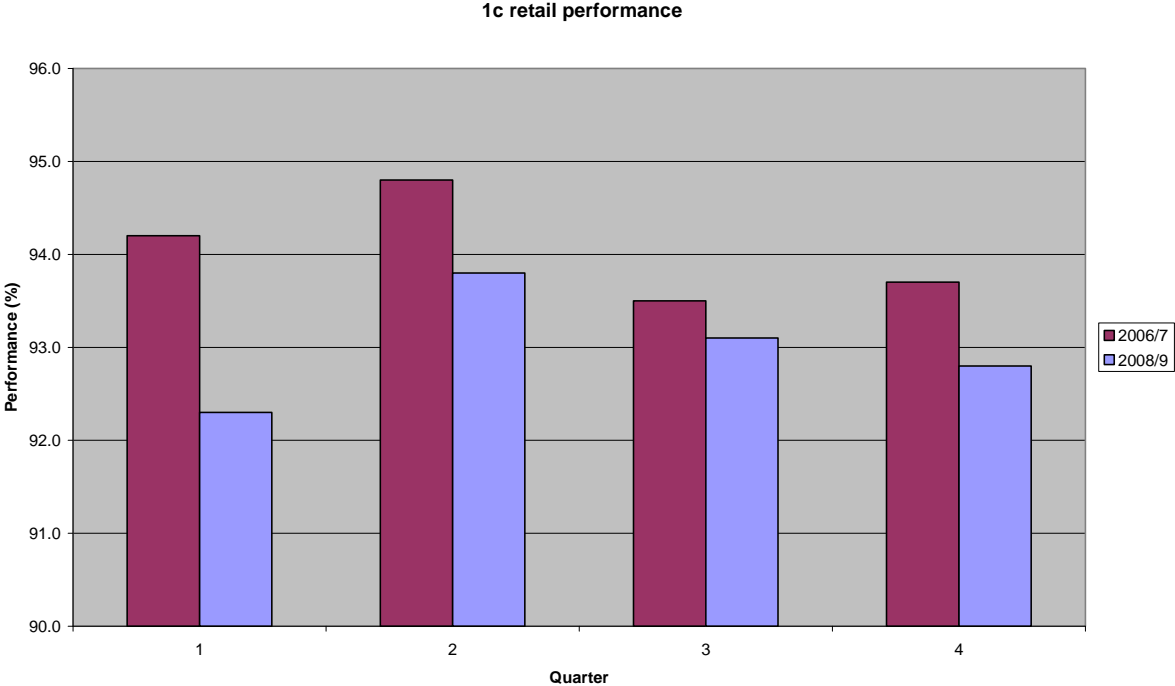
A full product breakdown of the details shown in Tables 1.2 and 1.3 is provided at Annex 26.

As is evident, these IA adjusted results would still not leave Royal Mail in a position of achieving all of its end of year targets for 2009-10. Some, however, would be within the 1% allowed tolerance from the scheduled standards, such that no penalties would be triggered for the scheduled services. These results have been impacted by severe weather in January 2010, which is the subject of a separate force majeure claim. Results for the periods after January 2010 have shown a strong recovery, despite such a prolonged industrial dispute, with the majority of scheduled services and standardised measures performing at or close to target level in period 12. It is expected that the results adjusted for IA as above and for force majeure will exceed the level at which penalties are paid for all scheduled services and standardised measures.

It should also be noted that Royal Mail's performance is normally highest in the summer months (Quarter 2 June to August), as illustrated in Graph 1.1 below, (showing 2006-07



and 2008-09 – which were not affected by IA), building a cushion for the winter months when bad weather and higher volumes impact on performance.



**Graph 1.1**

Royal Mail therefore expects, and indeed requires, performance from June to August to be higher than target level to provide protection against the seasonal decline as mail volumes grow in the build up to Christmas and winter weather can affect outdoor performance.

It is clear that, even with the adjustments set out in section 5.3 of this application, Royal Mail has lost the benefits that it would normally build up during the June to August period. For example, the adjustment that Royal Mail is seeking to its performance in Quarter 2 brings the 1st Class Retail result to 94.1% compared to 94.8% in 2006-07. Moreover, Royal Mail’s 1st Class Retail performance in Quarter 1 of 2009-10 was a record for that quarter, with all London postcode areas achieving the 91.5% Licence standard, and it is reasonable to expect this trend to have continued into the summer if IA had not occurred. Similarly, Royal Mail has lost the opportunity to perform at 93.5% and 93.1% for 1st Class Retail in Quarter 3, as it did in the previous 2 years.

**1.8 The financial impact of the adjustments being sought by this application**

The estimated financial relief being sought for the IA encountered in the Formula Year, as a result of the adjustments sought to recorded quality of service, is set out in Table 1.4 below.

**Table 1.4 Summary of financial consequences and relief sought:**

	Without Relief (£ million)	With Relief for IA (£ million)
C-factor standards and measures		
Retail 1st Class	£39.4m	£0.0m
Retail 2nd Class	£7.5m	£0.0m
Standard Parcels	£0.0m	£0.0m
European International Outbound	£0.0m	£0.0m
Postcode Area target%	£11.6m	£11.6m
%of collection points served each day	£11.6m	£7.6m
%of delivery routes completed each day	£11.6m	£11.6m
% mail correctly delivered	£0.0m	£0.0m
<b>Total C-factor</b>	<b>£81.6m</b>	<b>£30.8m</b>
Compensation standards and measures		
Bulk 1	£22.7m	£0.0m
Bulk 2	£13.9m	£0.0m
Bulk 3	£0.0m	£0.0m
<b>Total Compensation</b>	<b>£36.5m</b>	<b>£0.0m</b>

The methodology for calculating the C-factor and Bulk Mail Compensation is summarised at Annex 12.

In total, for the impact of the IA, Royal Mail is seeking relief for an estimated £36.5 million in compensation otherwise directly payable to bulk mail customers and £50.8 million in C-factor adjustment, being the difference between the penalties without relief for IA and with relief for IA.

## 1.9 Other factors

In its July 2009 letter, Postcomm set out a number of other factors that it stated it would also be likely to take into account in its determination as to the extent of the financial relief given to Royal Mail. Royal Mail has addressed each of those specific items in its application.

In Chapter 2, Royal Mail describes the extensive efforts made in attempting to avert the effects of IA. Royal Mail continually attempted to re-engage with the CWU to overcome the areas in dispute regarding the implementation of the Pay and Modernisation Agreement, as well as seeking a resolution to the regional and national disputes. These efforts culminated in the Interim Agreement on 5 November 2009 that prevented the national strikes planned for 6 and 9 November 2009 and prepared the ground for the final agreement announced on 8 March 2010 after three months of negotiation facilitated by an independent person and (for London) by ACAS.

When it became clear that IA was inevitable, and during those periods when IA was ongoing, Royal Mail made every effort to mitigate the disruption to its customers and restore normal services as quickly as reasonably possible thereafter. As described in detail in Chapter 4, it did so through a combination of effective and robust contingency management, commercial focus and flexible and dedicated managerial action.

In fact, Royal Mail was still able to make significant progress in transforming its business, with consequent benefits for its customers, despite the recent IA. All of the changes planned for the calendar year had been deployed by early October 2009, including the national Network 2009 project to align better resources and duty structures. The full scale of the modernisation measures taken during this period and the commensurate benefits for customers is set out in Chapter 6.

Royal Mail has also learnt from the issues and criticisms that were raised by stakeholders in relation to the 2007-08 IA and significantly improved the effectiveness of its communications with customers during periods of disrupted services. As described in Chapter 7, Royal Mail's communications during the most recent period of IA were designed to provide detailed information on disruption and how customers could get the best possible service in the circumstances. This included an explanation of the steps being taken to maintain and recover service and the contingency plans in place to minimise disruption. It is important to recognise, however, that customer communications cannot themselves remove the actual impact of IA on services.

Two further issues raised by stakeholders, and reflected by Postcomm in its July 2009 letter, are whether Royal Mail may have benefited during periods of IA by avoiding certain costs associated with the normal operation of its business and whether there is a link between quality of service performance and Royal Mail's employee incentive payments.

It is correct that there are a number of cost savings arising from IA, the most significant being that Royal Mail is not required to pay those staff refusing to work their contracted hours during IA. During the period in question, and as quantified in section 8.3, IA resulted in avoided costs for the business of [£X]. However, this reduction was entirely offset by the additional incremental costs of [£X] incurred by Royal Mail due to the IA, both from the implementation of its contingency and recovery plans (for example: incremental staff costs; additional labour costs; hiring additional vehicles and warehouse space) and from the steps taken by Royal Mail to communicate with its customers about the IA. This means that Royal Mail suffered a net loss of [£X] as well as an estimated revenue loss of up to £40 million. Moreover, in making this application Royal Mail has not attempted to quantify the costs of the thousands of days of management time devoted to dealing with the IA. Large numbers of management volunteers assumed operational duties, including as part of the series of managerial "surges" that took place, where volunteers from around the country were allocated to the most affected Delivery Offices and Mail Centres to recover service.

As regards the operation of employee incentive plans, Royal Mail structures its incentive plans to encourage and improve performance against various quality targets as well as financial performance. These incentive plans reflect Royal Mail's commitment to providing a

postal service of high quality to all its customers. This objective is at the heart of Royal Mail's transformation plans. As such, quality of service is a key component of its incentive plans, ensuring an appropriate link between employee incentive payments and quality of service performance.

During periods of IA in 2009-10, managers made extraordinary efforts to carry out operational duties whilst continuing to perform their day jobs, in order to mitigate the inconvenience suffered by customers. This level of dedication shows the importance managers place upon the service Royal Mail provides and the hard work they are willing to put in.

It is important to note that regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group, i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments. This impacts all managers who have an element within their relevant bonus plan relating to the Letters business quality of service performance, as well as all senior executives across the Group, including the Board, Post Office Ltd and Parcelforce Worldwide. Further details of Royal Mail's bonus arrangements are provided at section 8.4.

The final point in Postcomm's July 2009 letter concerns the reliability of the underlying quality of service figures on which this application is based, as these in turn are used to calculate Bulk Mail compensation payments and allowed revenue under the C-factor. As explained in sections 8.5 and 8.6, Royal Mail is satisfied that Postcomm can have full confidence in the reliability of both the scheduled standards and the standardised measures performance figures used in support of this application. Royal Mail's measurement of its end-to-end quality of service performance is conducted by an independent third party and in compliance with the obligations set out in its Licence. The independent Reporter appointed under the Licence has already confirmed that the actual USO collection and delivery performance figures for the relevant periods that are the subject of this application have been correctly extracted.

### **1.10 Settlement of the dispute**

After months of dispute, Royal Mail is pleased to note that it reached a three-year agreement with the CWU Postal Executive on 8 March 2010 on the future modernisation of the business: "Business Transformation 2010 and Beyond". The ballot closed on 27 April 2010, with employees voting two to one in favour of the deal, thereby formally ending the ongoing industrial relations dispute.

The settlement with the CWU allows Royal Mail to move forward in the modernisation and transformation of the Letters business, including completing the installation of the latest generation sorting technology and new delivery methods to improve efficiency.

# **Chapter 2: Background to the industrial action and the link to transformation**

## **2.1 Synopsis**

The IA in 2009-10 arose as a direct result of opposition to the transformational activities necessary for the modernisation of Royal Mail. Royal Mail made extensive efforts to avert IA and to achieve meaningful support for transformation over a period of months, whilst still continuing to progress with modernisation. Such efforts included direct communications with everyone in the business and engagement at all levels with the CWU to secure support for, and participation in, the necessary transformational changes.

## **2.2 Introduction**

The roots of the most recent IA lie in disagreement as to the implementation of the Pay and Modernisation Agreement, which resolved the previous episode of IA in 2007-08. Although significant progress with the transformation of the business was made as a result of that Agreement a number of issues arose with the CWU during 2008 and early 2009 in connection with transformational change. These issues were initially concentrated in London and a small number of other areas, as across the rest of the country much of the Agreement had been deployed in the way envisaged. The key points of contention were the transformation of working practices and a lack of agreement as to what form the modernisation of the business should take in the future, leading on to demands for enhanced protection and benefits in connection with transformation.

By the start of 2009 Royal Mail therefore faced a number of challenges from the CWU to its transformation plans. The CWU instructed its members in December 2008 and again in April 2009 not to co-operate with transformation activity at the individual office level. Although Royal Mail rigorously followed the Industrial Relations framework for introducing change, the absence of co-operation increasingly meant that no agreed change was possible. When agreement was not reached, Royal Mail was regrettably left with no alternative but to introduce the necessary changes, which had already been significantly delayed.

Correspondence between the CWU and Royal Mail, with the ballot papers and campaign materials issued all make evident that IA was directly caused by the deployment of transformation-related working practices and efficiency improvements, and the CWU's

aspiration to make future transformation plans (including those concerning automation and mail centre rationalisation) conditional upon improved benefits for, and the enhanced protection of, its members.

During this time, Royal Mail did everything it reasonably could to avert the IA. Royal Mail continually attempted to re-engage with the CWU throughout this period on both the implementation of the Pay and Modernisation Agreement and to resolve the regional and national disputes. An Interim Agreement, averting the national strikes planned for 6 and 9 November 2009, was finally reached on 5 November following intense discussions and with the help of the TUC General Secretary.

A final agreement was reached on 28 February and announced on 8 March 2010 following endorsement by the CWU Executive Committee. The ballot closed on 27 April 2010, with employees voting two to one in favour of the deal, thereby ending the ongoing industrial relations dispute and averting any further resumption of IA.

## 2.3 Background to the 2009 IA

### 2.3.1 Pay and Modernisation Agreement

The CWU previously organised IA in 2007 to protest against the changes required by modernisation and the future strategic direction of Royal Mail. That dispute was settled in October 2007. It resulted in a sixteen month Pay and Modernisation Agreement being reached between Royal Mail and the CWU outlining a phased implementation of modernisation, including the change and flexibility needed at a local level to support business transformation.

The Agreement makes provision for modernisation and transformation to happen in four phases. These were:

- *Phase 1 Immediate operational changes:* Phase 1 covered revised start and finish times, Network 2007<sup>11</sup>, cessation of nightshifts in delivery units and revised weekend working arrangements.
- *Phase 2 Enabling local flexibility:* Phase 2 anticipated that all offices would jointly draw up a plan to enable local flexibility in order for Royal Mail to “use its resources effectively, efficiently and to adapt at pace”, whilst actively encouraging the participation of employees in supporting change. All unit plans enabling this flexibility were to be in place by the end of January 2008. In addition to the roll-out of new technology, the key to modernisation at phase 2 was the introduction of new ways of working, including

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<sup>11</sup> Network 2007 refers to the restructuring of Royal Mail’s network operations and duty patterns which complied with EC legislation relating to driving speed restrictions.

more flexible attendance patterns to improve alignment to workload, increase efficiency and provide a better work-life balance. The agreed enablers included: rebalancing of the work schedule across the week to reflect the mail profiles; variation in scheduled hours by up to 30 minutes a day; full co-operation with, and support for, trials and deployment of new technology; efficient summer staffing to reflect lower mail volumes during these months; working in nearby offices; innovative duty structures to support the above; and doing other work within the office outside normal duties.

- *Phase 3 Transforming the way we work:* Phase 3 anticipated the introduction of working practice revisions throughout Royal Mail, introducing greater flexibility (for example, through covering for one another, absorbing absences, and ensuring all paid hours are used). The new ways of working were to be in place throughout Royal Mail by April 2008.
- *Phase 4 Supporting further Royal Mail modernisation:* Phase 4 anticipated the use of joint working groups to develop national agreements where appropriate, on relationships to improve industrial relations within Royal Mail, a new reward framework to examine new pay band reward packages and different pay models, and future working looking at operational strategies. These agreements were to be developed by the end of April 2008 and deployed as soon as possible thereafter.

In short, the Agreement recognises that modernisation is not just about new technology but also very much about new ways of working on a daily basis at unit level to increase efficiency by flexible working. In turn, this requires there to be a flexible and innovative working environment to ensure the effective use of resources, including improved alignment to actual workload levels. A full copy of the agreement can be found at Annex 1.

### 2.3.2 Overview of the issues arising with the CWU as to the implementation of the Pay and Modernisation Agreement

During 2008 Royal Mail engaged with the CWU in a series of meetings and workshops to take the four phases forward. The immediate operational changes anticipated by Phase 1 were completed early in 2008. Phase 2 plans were drawn up in each office in spring 2008, setting out how local flexibility would operate on a continuing basis. Royal Mail encountered resistance in some units to putting these changes into practice, as some CWU representatives considered the day to day local improvements integral to the roll-out of flexible working to be subject to renegotiation. For example, the Pay and Modernisation Agreement provided that staff may be asked to undertake other work outside their normal duties if they had spare time and were trained and it was safe to do so. Many CWU representatives (supported by their senior field and national officers) considered the practical implementation of this measure to be a matter for separate negotiation and agreement via the Industrial Relations framework, with the unit representative able to veto the use of staff in this way. National workshops were led by the Operations Director for Area

Managers and senior CWU field officials in an attempt to build confidence and reduce the barriers the union insisted must surround flexibility.

Royal Mail's aim in the Phase 3 deployment agreement was to free up and enable local flexibility. Aligning working hours to workload meant improved efficiency, which in turn meant fewer hours were needed. Flexibility challenged restrictive working practices by asking everyone to work the whole of their paid day and without overtime until all available hours had been used. The implementation of these changes was heavily negotiated by the CWU and, as a result, Phase 3 of the Agreement took longer to implement than planned. Local Phase 3 trials of new ways of working generally failed to make the necessary progress because of CWU resistance, so a national addendum on flexible working was agreed in August 2008 requiring all units to adopt the new approach (Annex 13). Most offices did so, but in some areas continued resistance was encountered, in particular London and parts of East Anglia.

Although significant progress had been made, during 2008 and early 2009 a number of issues arose with the CWU in connection with transformational change.

a) Mail centre rationalisation

In November 2008 the CWU balloted for IA in 14 Mail Centres citing 'failure to negotiate acceptable jobs, terms and conditions in connection with the mail centre rationalisation programme'. Only seven of the Mail Centres voted to strike and IA was scheduled for 19 December 2008. Following discussions between Royal Mail and the CWU, this strike was called off on 18 December without significant concessions by Royal Mail on Mail Centre rationalisation. The resolution of this dispute also coincided with the publication of the independent Hooper Report which highlighted the need for radical reform of Royal Mail's network - noting that the pace of change needed to accelerate significantly - with transformation being the first priority for the business.

b) New equipment

A key enabler under Phase 2 of the Pay and Modernisation Agreement was full cooperation and support for trials and subsequent deployment of new technology. Despite that, during 2008 and early 2009 the national CWU opposed the deployment of Postal Digital Assistants (hand-held devices for scanning signature items at the point of delivery) although individual employees welcomed their introduction. Similarly, the CWU objected on principle to the deployment of new stamp cancelling machines without any substantive reason (the equipment was a straightforward replacement for existing machines, discussions had taken place with local CWU representatives, there were no changes to operational processes and no health and safety issues). The CWU's position was that individual operational changes should instead be the subject of further, new national agreements.



A CWU Letter to Branches (“LTB”) dated 24 November 2008 instructed members that:

*No further co-operation including the undertaking of Risk Assessments or the development of Safe Systems of Work must be given to the introduction of trials or deployment of any New Technology/Automation that have not been previously agreed with the National CWU.*

c) Efficiency revisions

During 2008-09 Royal Mail faced an unprecedented 6% fall in mail volumes. This trend continued in 2009-10 with a decline of around 7% in inland addressed mail volumes. In order to maintain and improve efficiency it was necessary to remove costs in line with the reduced workload from falling mail volumes. In addition to absorbing other work and absence cover, it was essential to revise duty rotas in Delivery Offices, Mail Centres and other units. These were undertaken in line with the Industrial Relations framework and the 2007 Pay and Modernisation Agreement (as described above).

A number of CWU representatives rejected proposals from managers to restructure local duties to improve efficiency, maintaining that flexible working was subject to additional local negotiation. In effect they withdrew from the consultative requirements of the Industrial Relations framework by refusing to discuss these efficiencies regardless of the requirements in the Pay and Modernisation Agreement.

The CWU subsequently wrote to Royal Mail on 9 December 2008 to advise that:

*The Postal Executive will also be holding a meeting next week with our Divisional Representatives to consider a policy of non co-operation with Royal Mail’s latest round of budget cuts. This is because the company’s approach is placing unreasonable pressure on all CWU members which is neither in the long term interests of the business, employees or the service we supply to customers.*

*Furthermore, the Postal Executive has instructed Branches not to agree any further changes not covered by existing National Agreements.*

A LTB was issued to members on 9 December 2008 with a similar message. In some offices, this national instruction not to co-operate built on existing local discontent, although in many offices there was no issue with the revision until the national request was made. The letter and LTB are set out in Annex 5.

The instruction from the CWU to local representatives illustrated its view that all change remained subject to further agreement. Royal Mail wanted local managers and representatives to work within the national agreements, which facilitated and enabled all the changes proposed. In practice, the instruction was understood by

some CWU representatives to mean that all improvements in efficiency must be opposed.

d) London

There were particular pressures in London which had a disproportionately high proportion of units with restrictive and inefficient working practices. These included unnecessary demarcations, such as East London Mail Centre distribution drivers refusing to undertake processing work even if they were not fully occupied on driving work. Many London units also have lower productivity and slower rates of working than other parts of the UK. In some offices working patterns, including agreed levels of overtime, had become increasingly out of touch with operational needs and workload patterns, leading to hours being paid for over and beyond those needed to complete the job efficiently. A particularly contentious issue was a duty pattern consisting of four ten hour day attendances in a week. This pattern has become increasingly unsustainable as mail arrives later in the Delivery Office, increased automation and decreasing mail volumes mean there is less manual indoor sortation work to be completed and Royal Mail's delivery specification constrains the outdoor delivery completion time. Most importantly, ten hour working days are generally incompatible with the new delivery workplan required once operating in a walk sequencing environment. All these factors meant that the need for transformational changes to working practices was particularly strong in London and that the London employees had potentially a lot to lose from these changes and so strongly opposed them.

Royal Mail sought to address these challenges within the national agreements. However in January 2009 the London branch of the CWU advised Royal Mail that it was withdrawing co-operation with 'further savings'. The London CWU branch had also campaigned unsuccessfully for a further increase in London weighting payments to salaries during 2008, which was not supported by a detailed review of external and internal benchmark data.

These issues were also identified as part of the Hooper Report. In December 2008 their final report commented on various restrictive working practices in Royal Mail and concluded that:

*The Pay and Modernisation agreement accepted by the CWU membership in November 2007 (following industrial action earlier in the year) was intended to address these practices and to pave the way for the modernisation of Royal Mail. Some progress has been made. But changes in some mail centres and delivery offices continue to be resisted by local CWU representatives and some of the workforce in spite of the national agreement.<sup>12</sup>*

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<sup>12</sup> Modernise or Decline: Policies to maintain the universal postal service in the United Kingdom, 16 December 2008 Richard Hooper, Deidre Hutton, Ian Smith page 53.

By the start of 2009 Royal Mail therefore faced a number of challenges from the CWU to its transformation plans. Transformation is about continuous improvement (for example, daily decisions on how to adjust working arrangements to give effect to 'flexibility') as well as major capital investments. The CWU continued to insist upon consultation and negotiation about changes but then sought to deter change by withdrawing from the long-established joint Industrial Relations processes and frameworks. The CWU instructed its members in December 2008 and again in April 2009 not to co-operate with any changes to working arrangements at the individual office level (see documents in Annex 5). Although Royal Mail rigorously followed the Industrial Relations framework for introducing change, the absence of co-operation increasingly meant that it was not possible in many places to introduce any changes by agreement. At a national level, Royal Mail sought to persuade the CWU to re-enter the process designed to give them a say in changes that need to be made, but the CWU declined to do so. Once the procedure for consultation had been exhausted, Royal Mail was faced with the position of either accepting a union veto on change (which it could not agree to) or proceeding with changes once every opportunity to consider and propose amendments to these had been offered.

## **2.4 Scope of the 2009-10 IA and link to transformation**

As described at section 1.5 of Chapter 1, the 2007-08 IA was almost entirely characterised by a set number of 24 hour and 48 hour national strikes during which Royal Mail's entire collection, processing, network, distribution and delivery operations were shut down for a set period. In between the all out national strikes that bracketed the period, the CWU changed tactics and deployed a series of rolling national strikes over a 15 day period.

Although superficially similar (widespread strike action related to transformation taking place over the summer and autumn), the 2009-10 IA was entirely different in nature from 2007-08 and only finally culminated in two rolling national strikes after seven continuous months of primarily local and regional IA that started in March, intensifying over a four month period from mid-June to mid October. IA was largely in the form of one-day and part-day strike activity targeted at different aspects of Royal Mail's pipeline at different times (focusing on the separate functions of collection, processing, network, distribution and delivery). London was the main area impacted, contributing 73% of the days lost due to IA prior to the national strikes. Units in London took IA for between 14 and 19 days each, prior to the national IA, compared with an average of around 3 days for striking units outside London. There was also an element of unballoted IA linked to transformation activity, with the most substantial incidents being in Scotland.

In addition, the CWU campaign of non-cooperation progressed into opposition to any efficiencies. Managers were faced with daily opposition to any alterations to improve performance. This created a corrosive atmosphere in many offices, which developed into obstructive behaviour and disrupted normal day to day business, in addition to blocking formal revisions. This is discussed further in section 3.8.

The use of large numbers of coordinated individual strikes allowed the CWU to disrupt Royal Mail's pipeline on an ongoing basis without resorting to an all out national strike. It also resulted in longer periods of continuous disruption than would have been possible with a national strike, causing maximum damage to Royal Mail with the least inconvenience and loss of pay for the CWU's members. As a result, the IA had cumulatively considerably more impact than any of the individual unit strikes would have had if they had occurred in isolation.

As such, the 2009-10 IA was both less predictable and more varied than in 2007. Instead of having to address the more clear-cut impact of a national strike upon the operation, Royal Mail had to mitigate the combined and cumulative impacts of many individual strikes co-ordinated into a single campaign over a protracted period, against the background of a non-cooperation campaign, progressing in some units into outright obstruction.

The nature of the 2009-10 IA is best understood by considering it as taking place over four related phases.

#### 2.4.1 Sporadic local IA (Quarter 1)

During the first three months of 2009-10 there was a low level of officially balloted IA and unballoted action in individual offices. Ballots as to whether CWU members were prepared to take part in IA short of a strike or consisting of a strike in the first few months of 2009-10 were undertaken on the grounds of Royal Mail implementing transformation activity by executive action. There were 21 ballots held prior to the main London ballots during this period, of which 14 resulted in IA. Examples of ballot papers are given in Annex 3. These refer to:

- 'Introduction of an unagreed duty revision by executive action';
- 'Introduction of unagreed business plan savings revision by executive action', and
- 'Unagreed introduction of efficiency savings by executive action'.

A list of all ballots can be found in Annex 11. It is clear that such IA occurred due to the transformation activity associated with the modernisation of Royal Mail. In particular, IA was a response to measures being taken under Phases 2 and 3 of the Pay and Modernisation Agreement to improve efficiency through revisions to working practices in response to declining mail volumes.

#### 2.4.2 London, regional and network IA (Quarter 2)

Between 19 June and 31 August 2009 a series of 24 hour and part day regional and network strikes took place.

The majority of these took place in London, where there were London-wide strikes in Delivery Offices, Collection Hubs and Mail Centres on 19 June, 8, 10, 17, 18, 25 and 28 July and 7, 12, 17, 19, 28 and 29 August, interspersed with more localised strikes. There were also a number of officially balloted and unballoted strikes at Delivery Offices and Mail Centres elsewhere in the country, mainly in Scotland, the Midlands, East Anglia and the South West; for example three other Mail Centres and 14 Delivery Offices joined the London strike on 17 July and there was a strike at Edinburgh Mail Centre and 26 Delivery Offices on 8 August 2009.

In addition, strikes took place at NDC and other network units outside London on 7, 19 and 27 August, to coincide with the London action. The Royal Mail pipeline is considered in detail in Chapter 3. To summarise, however, the point of a network strike is to disrupt the transit of mail around the UK after it has been outward sorted but before it is brought back into the Mail Centres for inward sorting and distribution to the local delivery offices and subsequent delivery. This is important because if, for example, first class mail is to be delivered the next day it needs to have completed its journey through the network by 0200 (although some more remote Mail Centres will receive mail later).

The first formal indication that Royal Mail received as to this phase of the IA was a letter from the CWU to the London Regional Operations Director on 5 May 2009 stating that all London offices would be balloted for strike action. The letter alleged that Royal Mail's actions, including the introduction of working revisions, meant that it was in breach of a number of existing national agreements (citing unspecified breaches of various agreements including the Pay and Modernisation Agreement). It further demanded that Royal Mail entered into negotiations with the CWU regarding a national agreement on Phase 4 of Pay and Modernisation, and took various actions for individual offices, including withdrawing working practice and revision changes<sup>13</sup>. Although the Regional Operations Director offered immediate discussions to deal with specific issues, the CWU went ahead with their ballot.

The London ballot papers called for IA due to 'Royal Mail's breach of existing national Agreements and their failure to negotiate a new National Agreement covering all aspects of modernisation.' This wording was also used for the Network ballots and later ballots in other regions. Again, examples are given in Annex 3 and a list of ballots in Annex 11.

CWU campaign materials used in London clearly demonstrate the link being made by the CWU to Royal Mail's long term transformation, in addition to the rejection of flexible working practices with alignment to workload and increased efficiency. Examples are given in Annex 4.

A CWU 'London Calling' leaflet 'Time to stand together – The truth about Royal Mail's modernisation plans and why members must fight them' 23 March 2009 gives a very negative commentary on the introduction of walk sequencing and other transformation

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<sup>13</sup> See Annex 15

changes, which it links to an inevitable increase in part time working and job cuts, and calls upon members to vote for strike action:

*'The CWU is totally opposed to Royal Mail's plans as not only do they attack full time jobs, lead to further mail's centres closures, the removal of four day weeks and reductions in earning levels, it also reduces the service to the public as well as firms.*

*The CWU have a national policy of giving no savings to management until such time as we have a national agreement which protects full time jobs and terms and conditions, including a shorter working week with no loss of pay...*

*In London we have carried a policy supported by all Branch's that should Royal Mail attempt to introduce a revision in any office in London without agreement the we will ballot the London membership for strike action'*

Another CWU 'London Calling' leaflet 'The time to stand together' May 2009 sets out over four pages similar negative views of the transformation plans Royal Mail had shared with the CWU and calls for strike action against these as well as against the revision changes proposed:

*'Vote No and you stick your head in the sand and allow Royal Mail to cut jobs, reduce full time jobs and close mail centres'*

Equivalent messages are used in other material to encourage members to vote for IA:

*The CWU locally, divisionally and nationally has agreed a united policy that there will be no savings until the CWU force Royal Mail into an agreement that achieves the following: Commitment to remain a full time employer in deliveries ... Overall national agreement to deal with automation and modernisation.' CWU West End branch leaflet 'Why we are saying no to revisions' March 2009*

*'Royal Mail wants to close up to 50 Mail Centres... Royal Mail wants to close another Mail Centre in London'...CWU 'London Calling' leaflet '12 reasons to vote yes - oppose Royal Mail's plans for the future' May 2009*

Similarly, the "Fight for a Fresh Start" flyer campaigning for the national ballot on 2 July 2009 explains the dispute as follows:

*"Why are we in dispute?*

*Royal Mail has breached the 2007 Pay and Modernisation Agreement by imposing route revisions, shift changes, driving up workloads and slashing jobs, whilst refusing to negotiate.*

*[ ... ]*

*What do we want?*

*An immediate halt to imposed and unagreed changes and negotiations leading to a new comprehensive national agreement covering all aspects of modernisation across our industry.”*

### 2.4.3 Coordinated rolling network and other regional IA (mainly Quarter 3)

Between 1 September and 15 October 2009 the CWU called a series of more co-ordinated rolling strikes. These involved the employees in the separate components of Royal Mail's pipeline taking action on different days. The effect was to maximise the period of continuous disruption, whilst minimising the amount of time any individual employee was personally on strike and losing earnings.

Major strikes in London took place on 1, 3, 9, 16, 23 and 29 September and 9-10 and 14 October, interspersed with more localised strikes, particularly in south London. Network and other regional strikes took place to coincide with this action on 16 and 29 September and 9 October and there were additional network strikes on 2, 7, 8, 12 and 13 September. Additional strike action in other regions was co-ordinated with major London action on 3 September and with network action on 2 and 7 September, whilst major units in other regions also took IA on 4 and 5 September. The effect was to create a rolling pattern of strike action.

Network units outside London were balloted for IA in June, July and August 2009. As described in section 6.5.3, in September 2009 Royal Mail introduced various transformational changes in network units, including Network 2009 and the new weekend network (which responded to the volume decline in mail by maximising loads and reducing mileage), and new machinery at the NDC. Royal Mail made every effort to introduce these changes by agreement with the CWU but was prevented from doing so by the CWU's refusal to discuss them with Royal Mail.

*In regard to our policy the position has not changed and there should be no local negotiation in regard to these changes until such time as a National Agreement is in place which ensures that all our members working in the respective functions are protected, rewarded and incentivised as a consequence of moving forward Royal Mail's modernisations plans. CWU Letters to branches Network 09 update Weekend Network Review Update 29 May 2009*

It is evident that, as for the London disputes, the network strikes were caused by both the introduction of more efficient working practices and broader concerns about future transformation.

Units in other regions outside London also continued to campaign for a “yes” vote for IA on the basis of both local issues with proposed changes to working practices and the longer term transformation. Between 18 and 22 September there was widespread unballoted strike action in and around Glasgow, followed by similar unballoted action in and around

Edinburgh between 24 and 28 September. Officially balloted IA and unballoted strike action continued in other parts of the country, becoming much more extensive over time.

#### 2.4.4 National IA (Quarter 3)

Following the announcement of national strikes on 15 October 2009, the emphasis moved to national strikes and regional and network IA ceased, apart from ongoing overtime bans at a small number of Delivery Offices and a strike of London Collection Hubs on 30 October. The national IA fell into two parts:

- Two rolling national strikes took place (22-23 October and 29-31 October 2009). For these two strikes employees in different components of Royal Mail's pipeline were asked to strike for 24 hours over the strike period but on different days. The CWU used the same tactic in the 2007 IA to maximise the period during which services were continuously disrupted whilst minimising the amount of time each individual was on strike and hence their loss of pay. This form of action recognises the importance of connectivity in Royal Mail's pipeline, particularly for mail requiring next day delivery. Disrupting one component of the pipeline significantly reduces the effectiveness of the remaining components of the pipeline. A rolling national strike affects quality of service over several days whilst each employee loses only a day's pay.
- This was followed by two planned 'all out' strikes on 6 and 9 November 2009, which called for employees in all parts of Royal Mail's pipeline to take simultaneous IA over the same 24 hour period. These two strikes were called off following an Interim Agreement reached between Royal Mail and the CWU.

Following the signing of the Interim Agreement IA in the form of unballoted strike action and behavioural activity such as go slows continued in the London postcode areas. This IA was a direct result of transformational activity, as set out at section 5.4.2.

The CWU first notified its intention to ballot for national IA on 6 August 2009, although the ballot was not actually held until 9 September 2009. This was not, however, a sudden decision as the CWU conference in May 2009 had previously voted to hold a national ballot.

At this stage there were two core issues between the CWU and Royal Mail:

- Royal Mail's deployment of transformational change which Royal Mail considered to be covered by Phases 2 and 3 of the Pay and Modernisation Agreement. The CWU insisted that practical implementation required further local and national agreements. These changes included working practice revisions and transport efficiency maximisation, both of which were included in the definition of transformation in Postcomm's July 2009 letter.
- The rate of progress of discussions on Phase 4 of Pay and Modernisation. Despite the attempts made by Royal Mail to engage with the CWU, as



described in section 2.5 below, the CWU continued to take the view that 'Royal Mail are only prepared to consult and not negotiate with the Union'.<sup>14</sup> The CWU would only reach agreement on future modernisation if all the elements of transformation were agreed together as a further comprehensive package, including improvements in terms and conditions of work. Although Royal Mail had shared comprehensive details on its plans, (including much that was commercially sensitive) the CWU demanded more as the basis for a renegotiation of the principles already agreed and paid for in the Pay and Modernisation Agreement.

The ballot paper that was issued for national IA, which can be found in Annex 3, refers to "Royal Mail's failure to reach a national agreement covering pay, terms and condition, and the cessation of managerial executive action." The CWU campaigned for a "yes" vote on the basis of its opposition to Royal Mail's transformation plans, both the changes to working practices introduced without further union agreement and future changes, as evidenced by the following quotes from its campaign material (see Annex 4):

*'The issues at stake are fundamental to the future of all of us, right across Royal Mail Group. It is about whether you will have a decent job or whether the company turn Royal Mail into a part-time industry and eventually move to compulsory redundancies. It is about whether or not we can reach an agreement on a fair process that deals with potential office closures and maximises the choices that are available for our members. This is particularly relevant to Mail Centres where the company are planning more and more closures over the next couple of years. It is about whether you are fairly rewarded for change or whether management continue to attack our members' terms and conditions. It is about whether work rates are fair and measured in an objective way so that people can actually cope – or whether Royal Mail continue to impose its own version of work rates linked to increasingly unrealistic local budget demands. It is about what type of job you will have when the company introduce new machinery. It is about reaching agreement for new mechanisms that make deployment of local change fair. It is about whether or not the CWU – an independent Trade Union – continues to represent our members in the workplace.*

*To resolve this dispute it is vital the Union achieve national agreements on a range of crucial issues that will shape and take forward modernisation.'* – CWU National Industrial Action 2009 Members Briefing August 2009

*"Royal Mail constantly driving down your terms and conditions- not giving you a real share in the savings that are being made or the benefits from automation..."*

*A new job security agreement reflecting the sheer scale of change you are facing...*

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<sup>14</sup> CWU National Industrial Action 2009 Members Briefing August 2009

*You benefiting from change – modern and enhanced term and conditions “– CWU ‘Vote Yes for a fair deal’ poster August 2009*

*‘We are determined that the introduction of automation into our industry must make your working life better. Modernisation must deliver for you.*

- *Improved job security – a secure future for postal workers.*
- *Shorter working week – with fair manageable workloads.*
- *Better attendance patterns – quality time away from work’ CWU ‘Vote yes to benefit from change’ leaflet September 2009*

*‘What do we want? An immediate halt to imposed and unagreed changes and negotiations leading to a new comprehensive national agreement covering all aspects of modernisation across our industry.’ CWU ‘Fight for a fresh start’ leaflet August 2009*

It is again evident that the national IA was directly caused by the deployment of transformation-related working practices and efficiency improvements, and the CWU’s determination to make future transformation plans (including those concerning automation and mail centre rationalisation) conditional upon improved benefits for, and enhanced protection of, its members.

[§].

#### 2.4.5 Unballoted IA

During the period of IA there were some instances of unballoted IA linked to business transformation. This IA is unlawful action which has not been organised in accordance with the statutory provisions. Unballoted action is not the result of a balloted process and Royal Mail did not receive notice of CWU members’ intention to participate in the action. At the same time, it may or may not be officially sanctioned in the sense that it was organised by the CWU. Where possible Royal Mail asked the CWU to repudiate the unballoted action.

The incidents of unballoted action are listed in Annex 8, but essentially can be described as falling into two categories. Some were a direct result of transformation activity at the striking unit, such as a change to working practices introduced by executive action or in reaction to being asked to work flexibly. Alternatively, unballoted action took place in sympathy with or otherwise in relation to officially balloted transformation-related IA. For example, unballoted action took place because employees refused to cross picket lines at a unit taking officially balloted IA (often referred to as secondary IA) or because an officially balloted strike was withdrawn and the employees unilaterally decided that they would still take strike action. The steps Royal Mail took to avoid and deal with unballoted IA are described in Chapter 4.

## 2.5 Royal Mail's attempts to avert and resolve the industrial action

Royal Mail did everything it reasonably could to seek to avoid the IA. At the same time, Royal Mail still urgently needed to transform its business, including the full introduction of flexible working practices and the improvement of long term efficiency to address the continued reduction in mail volumes. This required it to press ahead with its planned changes, including delivery revisions, new delivery methods and Network 2009 (which responded to the volume decline in mail by maximising loads and reducing mileage). Royal Mail also told its unions in April 2009 that, in common with many other businesses in light of the difficult economic climate, it did not envisage being able to offer any increase in pay this year for any colleagues (including directors and managers) across the Group. Royal Mail was not, therefore, willing to put further changes on hold where these were not only necessary to remove costs and increase efficiency but part of the implementation of the Pay and Modernisation Agreement.

Royal Mail continued to deploy its planned changes within the Industrial Relations Framework, attempting to gain agreement, seeking to involve the CWU representatives even when they refused to co-operate with the unit managers, and following rigorously every stage of the Framework and other processes such as health and safety. Where agreement was ultimately withheld, transformational change had to be implemented by executive action. In many units, managers, union representatives and employees simply agreed the necessary changes in the line with the flexible working practices introduced under the Pay and Modernisation Agreement. Some 766 revisions went through the full Industrial Relations framework. Of these, 348 were done by agreement and 418 were implemented without agreement. In some of these 418 units, the local employees and CWU representatives were content with the proposed changes and co-operated with their deployment, even though they were not able to agree them due to the instruction from the national CWU prohibiting agreement. In other units, the local representatives followed national CWU instructions and balloted for IA. Some 409 units balloted for IA of which 346 voted for IA.

Annex 34 provides details of where executive action was taken and the number of locations where revisions (changes to duties) were "changed by agreement" or "changed by non-agreement". In the Midlands, out of 139 revisions, 107 (77%) were changed by agreement whereas in London out of 100, only 12 (12%) were agreed changes and in Scotland, there were no agreed changes. This also reflects a key difference between the 2007 IA and the 2009 IA, where much of the IA in 2009 was local or regional.

During the months leading up to the London IA Royal Mail continually attempted to re-engage with the CWU to overcome the problems described above with Phases 2 and 3 of the Pay and Modernisation Agreement and to extend discussions on Phase 4. Between January and May 2009 when the CWU first notified its intention to ballot for widespread action in London, many meetings and workshops were held. A list of key meetings is given at Annex 6. In particular:

- A two-day strategic workshop with CWU leadership was held in early March 2009, attended by the Managing Director of Royal Mail Letters with his HR, Commercial and Operational Directors. A similar session had been held in September 2008. The workshop covered Royal Mail's financial position and commercial aspirations, as well as its operational strategies. The final sessions of the workshop considered the Royal Mail CWU relationship in the light of the Hooper Report comments and reviewed progress with the Pay and Modernisation agreement.
- Royal Mail wrote to the CWU immediately following the workshop on 6 March 2009 proposing a strategic engagement process (see Annex 15). This was not intended to replace collective bargaining or the existing Industrial Relations Framework, but to focus consultation and negotiation on the transformation agenda.
- Royal Mail project managers and commercial leaders continued to meet the CWU to discuss progress and seek union involvement. For example, Walk Sequencing meetings with the Royal Mail project team took place on 13 February and 16 March and subsequently on 6 and 29 May 2009, 30 June and 21 September 2009.

The effectiveness of these meetings was undermined by the CWU's non-cooperation campaign as it became increasingly active. Nonetheless, despite the CWU withdrawal, Royal Mail attempted to maintain contact throughout and to provide opportunities for the union to take part.

- At local level, unit managers were told to continue with their local consultative forums (such as weekly resourcing meetings) and to give representatives the facilities (time and information) to play an active part in the process of change.
- Royal Mail worked to keep CWU representatives informed and involved at all levels and persisted in these efforts throughout. The Pay and Modernisation Agreement reaffirmed the role of the CWU and Royal Mail was determined to ensure the opportunity was always available, even though in practice the union boycotted.

In a letter to Royal Mail dated 2 April 2009 (Annex 15), the CWU set out its formal claim for significant increases in basic pay, progress towards the introduction of a 35 hour working week, improved job security and family friendly policies – all as conditions of progress on modernisation. In a separate letter to branches, CWU members were again instructed not to co-operate with any change activity:

*Until such time as Royal Mail honour existing National Agreements, accept that major change must be negotiated and reach agreements on the next phase of*

*modernisation, we are instructing all Branches not to engage in revisions or savings initiatives. (Dave Ward CWU LTB dated 3 April 2009)*

In April 2009 discussions were held with the CWU about pay, although as discussed above Royal Mail was clear that it did not envisage further pay increases that year.

In the period between the start of May 2009 and the first notification of a national strike ballot on 6 August 2009 senior Royal Mail managers had held over 50 meetings with national CWU officers totalling many hours of meeting time, as well as continual informal contact by telephone and email. These included meetings to discuss the future modernisation plans of the business as well as other matters. Over 30 further meetings were held leading up to the Interim Agreement on 5 November 2009. In particular:

- On 17 June 2009 Royal Mail met with the CWU in an attempt to resolve the London strikes planned for 19 June 2009 (Annex 15 contains the follow-up letter, which urged the CWU to re-engage with the modernisation programme at all levels).
- On 30 July 2009 Royal Mail met with the CWU and agreed a new programme of talks on the final Phase 4 of Pay and Modernisation (Annex 15 contains the follow-up letter, which set out the approach to be taken and asked for local union representatives to be allowed to re-engage in talks on revisions).
- Royal Mail remained committed to these talks and continued to meet with the CWU in spite of its disappointment at the CWU announcing a national ballot on 6 August 2009 and eventually holding the ballot in September 2009.
- Talks on Phase 4 between senior Royal Mail management and the CWU leadership took place during September and October 2009.
- In all these talks the CWU continued to insist that Royal Mail should make no changes in pursuit of business plan objectives to improve the operating efficiency of the pipeline, making this a condition of any period of calm. Royal Mail was unable to agree to this. While continuing to talk with the CWU, it also demonstrated commitment to transformation in deploying all the changes planned for 2009, including Network 2009, by early October that year. When the changes were completed Royal Mail proposed a period of calm to enable talks to find solutions to the next phase of transformation due in 2010.
- A draft agreement to avoid the national strikes on 22 and 23 October 2009 and provide the basis for productive talks on future transformation was almost reached on 21 October 2009, but rejected by the National Executive of the CWU. (See Royal Mail press statement at Annex 29.)
- Following the rolling national IA on 22 and 23 October 2009 Royal Mail and the CWU accepted an invitation from the TUC General Secretary Brendan

Barber to talks beginning on 26 October 2009, to resolve the issues with the draft agreement.

- Three days of intensive talks and mediation were held at the TUC. These attempts to resolve the dispute were unable to prevent further national IA on 29, 30 and 31 October 2009. The CWU leadership was unable to obtain the approval of its Postal Executive Committee to the draft agreement and reverted with further demands. (See press statement at Annex 29.)
- In spite of these difficulties, talks continued, with the support of the TUC, and concluded on 5 November 2009 with the signing of the Interim Agreement. (See press statement at Annex 29.)

In addition:

- Royal Mail delayed the introduction of Network 2009 by six weeks until 7 September 2009 to allow the CWU to work with Royal Mail on the changes, though ultimately without success. The changes were due to take place during the summer when deployment would have been more straightforward, due to the lower mail volumes.
- In July 2009 Royal Mail challenged the CWU tactic of part day strikes used in the early part of the dispute. By taking a short bout of IA at critical periods during the shift (e.g. when mail is due to be loaded to vehicles to transfer to the next unit), the CWU could maximise the impact of IA whilst minimising loss of earnings. Royal Mail introduced the measure of refusing to pay workers taking strike action during a shift for any part of that shift.
- As part of Royal Mail's commitment to do everything possible to protect service to customers it constantly monitored the possibility of a challenge to the lawfulness of proposed IA. It brought to the attention of the CWU many significant balloting and procedural irregularities identified, and as a consequence several local instances of IA were called off. In July 2009 it was felt appropriate to apply for a High Court injunction to prevent IA planned for London; that application was unsuccessful.
- Royal Mail's strenuous attempts to persuade its employees not to vote for IA, and not to take IA, are described in section 4.5 below.

Throughout the period of IA Royal Mail persisted in its attempts to engage with the CWU on Phase 4 of the Pay and Modernisation Agreement and the future shape of modernisation, and to seek to resolve the regional and national disputes. A diary of key meetings is shown at Annex 6.

## 2.6 Resolution of the dispute

On 5 November 2009, Royal Mail and the CWU, following intense discussions and with the help of Brendan Barber, the TUC General Secretary, signed an Interim Agreement, averting the national strikes planned for 6 and 9 November 2009.

This agreement, which is attached at Annex 39, provided the basis for a period of calm free of IA, during which the CWU and Royal Mail committed to work together to reach a final agreement that would enable “further change and modernisation to be implemented from the beginning of 2010 onward”. The Interim Agreement also recognised the scale of change needed and there was an understanding to “accelerate and complete the modernisation programme”, by jointly resolving all issues from Phase 4 of the 2007 Agreement and by agreeing key principles and milestones and, “reaching further National Agreements, recognising the scale and pace of change that will be needed”.

This was an important step as there was recognition of the challenges facing Royal Mail and it also set the framework for the subsequent talks that delivered the three year “Business Transformation 2010 and Beyond” Agreement. The Interim Agreement also set out the key components for the 2010 Agreement, including delivery of the transformation plan and a commitment to the scale and the pace of change needed to deliver the modernisation of Royal Mail, “at both National and Local” level, a National Mail Centre Framework Agreement and a comprehensive national agreement covering all aspects of delivery. Finally, it recognised the critical importance of building good working relationships and rebuilding trust to deliver a positive workplace culture, “in every part of the Business”.

Importantly, the Interim Agreement demonstrated the economic, commercial and cultural challenges facing Royal Mail and an acceptance that, (in line with the key findings of the Hooper Report) the status quo was no longer tenable and that modernisation of Royal Mail through transformation had to be delivered to safeguard the universal service and the long term future of Royal Mail. It also effectively ended the IA, thereby limiting the prospect of a material recurrence of strike action in the run-up to and during the Christmas period. This was absolutely critical for Royal Mail’s customers.

Under the Interim Agreement, the CWU re-engaged with the normal arrangements for consultation and negotiation on local discussions. During the period of the IA and the run-up to the Interim Agreement Royal Mail had proceeded to transform; the Interim Agreement did not reverse these changes but provided for a review of all revisions implemented in 2009, against a set of criteria which included improved efficiency and the need to meet service specification.

Royal Mail recommenced negotiations with the CWU immediately after the signing of the agreement, under the facilitation of Roger Poole<sup>15</sup>, the independent person appointed by Royal Mail and the CWU (with the help of the TUC and ACAS) under the Interim Agreement to monitor progress and offer support. It was also agreed that ACAS would work with both sides to implement the agreement in London in recognition of the particular complex issues there<sup>16</sup>. Mr Poole's statements during the negotiations are attached at Annex 40.

An intensive series of negotiations took place<sup>17</sup>. The original deadline of 31 December 2009 was extended several times to allow for robust agreements to be made on the complex range of issues. A final agreement was reached between negotiators on 28 February 2010 and announced on 8 March 2010 following endorsement by the CWU National Postal Executive Committee. Over a period of fifteen weeks Royal Mail had committed its senior Operational and HR managers to the process of finding a resolution. This demonstrates the importance Royal Mail placed upon reaching a final agreement with the CWU that resolved the dispute and enabled Royal Mail to continue with its transformation plans.

The three year agreement 'Business Transformation 2010 and beyond' addresses the issues behind the 2009 IA and signals a new start to industrial and employee relations. It will provide much-needed stability during 2010 to 2013, a substantially longer period than allowed for in the 2007 Pay and Modernisation Agreement, and enable modernisation to proceed through agreement. It confirms that there will be significant Mail Centre and network rationalisation and a new delivery model including unrestricted delivery spans and new delivery methods across an optimised six day workplan. There is also a joint commitment to deliver world class methods, working practices and performance using a range of approaches (one such approach developed by Royal Mail being the World Class Mail initiative<sup>18</sup>) and raise productivity to benchmark levels. In return there will be a benefits package including pay rises and a shorter working week linked to implementation milestones. The full agreement is set out in Annex 41 and the implications of the agreement for transformation are discussed further in section 6.8.

The CWU members voted to accept the agreement on 27 April 2010, bringing the dispute to an end.

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<sup>15</sup> Roger Poole is currently a director of Social Enterprise London and Business Link for London as well as being a visiting fellow at Warwick University. He has had a long career in Trade Union movement and was the former Assistant General Secretary of NUPE and of UNISON.

<sup>16</sup> For example, East London Mail Centre took unballoted IA on 6 November and walked out early on Christmas Eve, despite the Interim Agreement and associated period of calm.

<sup>17</sup> The Interim Agreement required four days a week to be scheduled for work on the final agreement.

<sup>18</sup> See section 6.9.



## 2.7 Summary

It is evident that the IA that took place during 2009-10 across the UK, in London and in network units was directly caused by the deployment of transformation-related working practices, including efficiency improvements, and the CWU's aspiration to make future transformation plans (including those concerning automation and Mail Centre rationalisation) conditional upon improved benefits for, and enhanced protection of, its members. The CWU opposed the efficiency improvements Royal Mail sought to deploy through flexible working practices and insisted instead that these must be conditional on further national and local agreements, even though enabled under the Pay and Modernisation Agreement.

# Chapter 3: Impact on services

## 3.1 Synopsis

The impact of IA in 2009 on Royal Mail's complex and highly integrated pipeline, and hence its quality of service performance, was significant. This was the case not just on the day of IA but also whilst the business recovered from the backlogs created. The disruption to services was substantial because of the cumulative effects of a diverse number of factors, including an ongoing climate of industrial unrest in some parts of the UK over a protracted period.

## 3.2 Introduction

Royal Mail's Licence requires it to meet stringent quality of service standards for all of its services. Its first class services all have a target in excess of 90% next day delivery, whilst second class services are required to achieve at least 97.5% delivery within three working days. The standardised measures for universal service collection and delivery have targets of 99.90%.

Whilst quality levels outperformed targets prior to the IA, the pipeline as currently configured does not enable these standards to be exceeded by more than around one or two percent. Penalties are incurred at one percent below target; therefore there is only a narrow margin before substantial penalties begin to be incurred. [8].

The impact of the IA during 2009-10 has to be understood in the context of these Licence requirements, whereby reported quality of service can be reduced and penalties triggered even by relatively localised IA when it happens over a prolonged period and despite the majority of mail across the UK as a whole actually achieving service standards.

The 2009 IA primarily took the form of a series of short local and regional strikes, beginning in March, intensifying over a four month period from June to October, and culminating in a two national strikes at the end of October, with residual IA in London. Up until the national strikes the majority of Royal Mail's employees were working normally. Nevertheless, quality of service was still significantly reduced below target levels as a result of the IA for a number of reasons.

Royal Mail's pipeline is complex, and an individual item of mail will go through many different processes on its journey from collection to delivery. Each process must be successfully completed for an item to be delivered on time. A delay in any one process may cause the item to fail. This makes the pipeline vulnerable to disruption without the need for

a full scale walk out. A similarly disruptive impact can be achieved just by targeting key areas such as the transport network. The pipeline is also highly integrated, which in turn makes it vulnerable to disruption as a result of failure in one part having effects up and down the system. Contingency measures can help to mitigate these impacts to some extent but they cannot remove them.

[§].

All of these different factors are considered separately in this chapter as they had different impacts on Royal Mail's quality of service performance. In addition, the effects of the 2009 IA were aggravated by unballoted action and a deteriorating industrial relations climate, most particularly in London. The chapter is therefore structured as follows:

- A summary of the different processes that make up the Royal Mail pipeline from collection to delivery.
- An overview of the main London, regional and network IA from 8 June up until the national strikes in October 2009.
- The impact of the London, regional and network IA on quality of service by unit type and class of mail.
- Other factors that determine the extent of the impact of IA on quality of service.
- The impact of the rolling national strikes in October on quality of service.
- The impact of unballoted IA and officially balloted IA short of a strike.<sup>19</sup>
- The industrial relations climate in general during 2009-10.

As noted previously, the localised action in the first quarter of 2009-10 is not considered in any detail as it did not have a material effect on Royal Mail's quality of service and Royal Mail is not seeking relief for it in this application.

### 3.3 Overview of Royal Mail's pipeline

Royal Mail's pipeline is complex, and an individual item of mail will go through many different processes on its journey from collection to delivery (an illustration of the journey of a letter is shown at Annex 14). The exact number of stages will depend on whether the individual item is first or second class; a letter, flat or packet; and whether it needs to be manually sorted. Each process must be successfully completed for an item to be delivered on time. A delay in any one process may cause the item to fail.

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<sup>19</sup> Action short of a strike is any industrial action short of a complete withdrawal of labour, for example not taking up normal overtime opportunities.

The pipeline is also highly integrated; therefore disruption in one part may cause failures further down the pipeline in units not affected by the disruption.

The key components are described in Table 3.1 below:

**Table 3.1 Overview of Royal Mail Pipeline** <sup>20</sup>

Collection	Royal Mail collects mail that customers have posted in c.115,400 post boxes and via c.11,900 Post Office outlets. Royal Mail also collects mail from over 82,000 business premises each day. Royal Mail makes multiple collections from many boxes and Post Offices. This process happens from 0900 until 1930 – depending on the location.
Outward Processing	Once collected, mail is brought into one of 65 Mail Centres for outward processing. At this stage: <ul style="list-style-type: none"> <li>• Stamps are cancelled;</li> <li>• first and second class items are segregated; and</li> <li>• Mail is sorted (either manually or by machine, depending on item size or address readability) to its next Mail Centre destination.</li> </ul> For first class mail this process starts mid afternoon (as early collection mail arrives at the Mail Centre). The peak first class processing time is 1900 until 2200 – depending on Mail Centre location.
Network	Once mail is outward sorted it is passed to the transport network. Royal Mail uses a combination of air, road, sea and rail services to move mail around the UK. For first class mail, the peak network operation takes place from between 2200 and 0200 (although more remote Mail Centres will receive mail later).
Inward Processing	Once networked, mail is brought back into one of 65 Mail Centres where a 'finer' sortation is carried out. Downstream access mail and pre-sorted mail products also enter the main pipeline at this point. At this stage, mail is sorted, as a minimum, to the level of the individual Delivery Offices. However, a large proportion of mail is sorted by machine to the individual postman/woman's delivery route. This process should be complete by 0700.
Local Distribution	This process involves moving mail from Mail Centres to the Delivery Offices it serves. A number of local distribution waves take place during the night/early morning.

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<sup>20</sup> The components described relate to the pipeline for unsorted mail such as stamped and metered mail and not to presorted mail.

Delivery	Mail then reaches one of c.1,400 Delivery Offices or c.900 Scale Payment Delivery Offices <sup>21</sup> . Mail is then sorted to each of the c.65,000 delivery routes, where the delivery officer then sorts his/her mail into the order in which s/he will deliver it. This is a particularly labour intensive process. Royal Mail is deploying walk sequencing technology as part of its transformational change programme, which will allow this part of the operation to be carried out by machine. Mail is then delivered to each of the 28 million address points in the UK.
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### 3.4 Overview of London, regional and network strikes from 8 June to 21 October 2009

The regional and network strikes consisted of a series of over 3,000 individual unit strikes at around 350 different units. Between the first major London strikes on 19 June and 21 October 2009 (the day before the first national strike), strike action took place on 87 of the 107 working days. A database of strikes has been developed to perform the analysis of impact on quality of service.

Table 3.2 below gives an overview of the main London, regional and network strikes from June to October 2009.

**Table 3.2 Major London, regional and network strikes**

Date (2009)	Officially balloted IA – major events	
Fri 19 June	All London units except for three Delivery Offices (“DOs”)	
8 to 10 July	Rolling London strike as follows:	
	Wed 8 July	Some collection hubs and most DOs
	Thurs 9 July	Network units, including the Princess Royal Distribution Centre (“PRDC”) and another London Regional Distribution Centre (“RDC”)
	Fri 10 July	Mail Centres, co-located DOs and remaining collection hubs
Fri 17 July	‘National day of action’ All London units, three other Mail Centres, 14 other DOs mainly in Scotland and SW England	
25 and 28 July	Rolling London strike as follows:	
	Sat 25 July	All DOs (including Saturday collections by these DOs)
	Tues 28 July	Two Mail Centres plus co-located DOs, five collection hubs and network units <sup>22</sup>
Fri 7 August	All London units plus the NDC and four other network units	
Sat 8 August	Edinburgh Mail Centre and seven DOs, 16 DOs in SW England and three elsewhere	

<sup>21</sup> Scale Payment Delivery Offices are rural delivery services which are subcontracted to Post Office Ltd – allowing Royal Mail Group to make more effective use of its infrastructure.

<sup>22</sup> Part day IA in other London units notified for various days between 28 July and 3 August was withdrawn following Royal Mail’s decision to suspend pay for the whole shift.

Date (2009)	Officially balloted IA – major events	
Weds 12 August	All London units	
Weds 19 August	All London units except Mount Pleasant Mail Centre and DO NDC, the two London RDCs, three other RDCs, three further network units Six DOs in Kent and Peterborough	
27 to 29 August	Rolling strikes as follows:	
	Thurs 27 August	Network: NDC, PRDC, six other RDCs, nine other network units Bristol Mail Centre, five Cambridgeshire DOs
	Fri 28 August	London collection hubs, London Mail Centres, two other Mail Centres, the London Air Mail Unit (“LAMU”) at Heathrow Airport, one other DO
	Sat 29 August	London DOs, 23 other DOs
1 to 9 September	Rolling strikes as follows:	
	Tues 1 September	Mount Pleasant Mail Centre and DO, five other Mail Centres and five DOs
	Weds 2 September	Network NDC, PRDC, seven other RDCs, 11 other network units Cambridge and Thames Valley Mail Centres
	Thurs 3 September	All London DOs, collection hubs and Mail Centres except Mount Pleasant Mail Centre and DO Greenford and Glasgow Mail Centres, Peterborough DO
	Fri 4 September	Glasgow and Plymouth Mail Centres, 18 DOs in South West England, five further DOs
	Sat 5 September	Plymouth Mail Centre, 27 Scottish DOs and 29 other DOs
	Sun 6 September	Non-working day
	Mon 7 September	Five SW London DOs Three East Anglia Mail Centres, 28 East Anglia DOs 48 hour Network strikes NDC, PRDC, seven other RDCs, 11 other network units
	Tues 8 September	Three SW London DOs Network strikes as above One other DO
	Weds 9 September	All London collection hubs and Mail centres, 95 DOs
Thurs 10 September	16 SW London DOs and one Scottish DO	
Sat 12 to Sun 13 September	48 hour Network strikes: NDC, PRDC, six other RDCs, 11 other network units Also 18 SW London DOs plus two other DOs on 12 September	
Weds 16 September	All London DOs, collection hubs and Mail Centres except Mount Pleasant Mail Centre and DO Greenford Mail Centre Network: NDC, PRDC, five other RDCs, nine other network units	
Weds 23 September	All London DOs and collection hubs except for ECDO, plus East London Mail Centre	
Tues 29 September	All London DOs, collection hubs and Mail Centres Four other Mail Centres Network: NDC, PRDC, six other RDCs, ten other network units	

Date (2009)	Officially balloted IA – major events	
9 & 10 October	Rolling strike as follows:	
	Fri 9 October	Network: PRDC, five other RDCs, eight other network units Three London Mail Centres, ECDO, London collection hubs LAMU and three other Mail Centres
	Sat 10 October	All London DOs except ECDO Three other DOs
12-14 October	London strikes as follows:	
	Mon 12 October	12 SW London DOs
	Weds 14 October	Remaining London DOs, all collection hubs and Mail Centres

In order to understand the difficulties faced by Royal Mail in its contingency planning and deployment it is important not to underestimate the complexity of IA in 2009. In some cases part of a unit was balloted, in other cases the CWU balloted units based at the same location together. The names under which the units were balloted were sometimes ambiguous. Royal Mail challenged the CWU over a number of these ballots.

For each of the strikes, the CWU was then legally obliged to provide a separate notification for each unit, giving the dates, times and how many employees were to take action on the specified day. For larger units the dates and the times were also required by shift. Each of the 15 big London strikes required over 100 individual notifications. The database of strikes contains several thousand notifications in total, received by Royal Mail between mid-June and mid-October 2009. The CWU also withdrew several hundred strikes, sometimes at very short notice. Again Royal Mail challenged the CWU on a number of occasions about notifications and withdrawals.

These complexities also made it more difficult for Royal Mail to manage the IA and to communicate with customers. Section 4.6 describes the processes Royal Mail put in place to overcome this.

### 3.5 The impact of London, regional and network IA on quality of service from 8 June to 21 October

The impact of regional and network IA upon end-to-end quality of service is considerably more complex to determine than the impact of national IA as there are a much greater number of factors that have to be taken into account in determining the effect.

#### 3.5.1 Impact by unit type

[X].

### 3.5.2 Other factors affecting the impact of regional and network strikes upon quality of service

It is important to recognise that the cumulative impact upon quality of service will depend not only upon the unit type but also substantially upon the number, length, frequency and combination of individual strikes. These factors are discussed in turn below, illustrated with specific examples from the actual IA experienced by Royal Mail.

#### The number of simultaneous strikes

The localised IA in Quarter 1 had only a limited impact upon quality of service, which remained nationally at high levels.

Throughout the IA, where officially balloted IA was confined to a small number of Delivery Offices, it was sometimes possible to draft in sufficient volunteers to cover all the work, as discussed in section 4.6.2.

[§].

#### The length of individual strikes

As the length of a strike increases it clearly becomes more disruptive as more mail is affected. The majority of individual strikes were for 24 hours or the equivalent for a shift of employees, thereby disrupting mail for one or two days. There were also a number of 48 hour strikes, most notably in the network on 7-8 and 12-13 September, and in Edinburgh Mail Centre on 8-10 August, delaying two or three days' mail, in addition to any mail caught in a backlog. The longest continuous strike was at Stoke Inward Vouching Office (IVO) from 11 to 27 August.

[§]. This ensured that only part of their delivery work was performed. Deliveries would be prepared but not taken out of the office and all mail due for delivery in those offices would be delayed. This practice was substantially reduced when Royal Mail announced at the end of July 2009 that it would not pay employees for any part of the shift that they worked if they went on strike at any time during the shift.

[§].

#### The frequency of individual strikes or groups of strikes

A striking Delivery Office will disrupt all mail scheduled for delivery on that day, as it will not be processed for delivery or be delivered, even if it reaches the office. The strike will create a backlog affecting mail scheduled for delivery on subsequent days as recovery will not be immediate. [§]. Congested offices affect the flow of work and reduce productivity and, because health and safety is a priority, Royal Mail must take additional precautions to ensure safe systems of work are in place. [§].



## The combination of individual strikes across functions

[X].

The number and range of units balloted as part of the London regional IA meant that from the start the CWU was able to call out strikes across all functions in the London area. London strikes involving all or most Delivery Offices, Collection Hubs, Mail Centres and London network units took place on 19 June, 17 July, 7 August, 12 August (excluding the network units) and 19 August 2009.

Other regions also co-ordinated strike activity across functions within the region (see for example the notice at Annex 38 concerning strike activity in SW England).

The CWU organised 17 July as a 'national day of action', involving three Mail Centres and 14 delivery units outside London, with a work to rule campaign in other units:

*"We have agreed that a national day of action will take place on the 17th July. This will involve co-ordinating IA across the UK for all offices who have already returned a yes vote for IA. To ensure all offices can participate in the national day of action we have further agreed a number of other measures, not involving IA. These will include working safely and a range of visible activities that will bring the public's attention to our case."* (CWU LTB dated 2 July 2009)

Annex 38 contains some examples of CWU notices coordinating IA.

Once additional network units, mail centres and delivery offices outside London had balloted for IA, a series of further co-ordinated simultaneous strikes took place on 16 September, 23 September, 29 September and 14 October (IA on 14 October excluded network units).

[X].

## Rolling regional and network strikes

The complexity of Royal Mail's pipeline is explained in section 3.3. If all of Royal Mail's processes are disrupted in a 24 hour period then mail can be expected to be delayed by at least 24 hours.

- However, if just one of these processes is disrupted there is a high probability that mail will also be delayed by at least 24 hours. Hence, taking out one part of the pipeline on a particular day can have just as significant an impact on performance against quality of service as taking out the entire pipeline.
- For each day of a strike rolled over several days the performance of the whole pipeline will be affected.

- If all key processes are disrupted over a rolling period of days or weeks then the impact on quality of service standards is substantial as backlogs of mail build up across the pipeline.

The CWU called two rolling strikes in London on 8-10 July and 25 and 28 July 2009. Each of these strikes disrupted London operations over three working days.

They also called a series of extensive rolling strikes in London, network and other regional units on 27-29 August, 1-9 September and 9-10 October. These strikes impacted a substantial proportion of Royal Mail's operation. The close proximity of the first two sets of strikes, divided only by two non-working days, caused considerable disruption. Each of the 12 working days in this two week period was disrupted by strike activity. After a gap of only two working days, on which more minor IA took place, Royal Mail then had to deal with a 48 hour network strike.

#### Impacts on other parts of the pipeline

With regional and network action on the scale described above it is inevitable that other parts of Royal Mail's integrated pipeline will be affected, reducing performance in units that are not taking IA. [X].

[X].

These impacts are discussed in more detail at section 5.3.

### 3.5.3 Summarising the impact of London, regional and network strikes

This section has outlined the various ways in which the extensive London, regional and network IA impacted quality of service during 2009.

During the period between 19 June and 21 October 2009 the equivalent of 125,869 days were lost to official and unballoted IA related to transformation. Of these 92,472 days (73%) were for units in the eight London postcodes areas.

In assessing the detailed impact of IA upon the pipeline Royal Mail has compiled a database of each individual strike by unit. Each individual strike has been evaluated using the principles above to determine the impact upon the end-to-end standards for posted and delivered mail by class and type and upon the two universal service standardised measures in relation to the percentage of collection points served and the percentage of delivery routes completed, within the catchment of the unit<sup>23</sup>. This database holds over 3,000 entries. Sample entries are given at Annex 7.

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<sup>23</sup> Except the smaller network units which could not be modelled – see section 5.2.

The end-to-end standards and the USO collection and delivery results have been adjusted for each individual strike on the database according to the methodologies described in Annexes 9 and 10.

This form of analysis does not, however, take sufficient account of the cumulative impact of many individual strikes upon the integrated pipeline. Section 5.3 discusses the analysis performed and the conclusions Royal Mail has drawn about the impact upon quality of service, which are summarised below.

#### Sporadic local IA (Quarter 1)

Although transformation-related IA took place during this period there was no material impact upon national performance and Royal Mail is not therefore including these incidents in its application for relief.

#### London, regional and network IA (Quarter 2)

Up until 13 August the impact upon quality of service is restricted to mail passing through the individual striking units.

- For first class mail posted between 8 June and 7 July 2009<sup>24</sup> performance had recovered by the working day following the strike so the results are adjusted by removing only the actual strike day at each striking unit from the results.
- For first class mail posted between 8 July and 12 August 2009 performance had typically recovered within three working days so the results are adjusted by removing for each striking unit the strike day plus the additional three days it took to recover quality of service from the results.

For the period between 13 and 31 August 2009 the collective impact upon quality of service in the London postcodes is broader than the impact of the individual unit strikes.

- Due to the scale of disruption in London, as described in section 5.4 there was a direct impact upon quality of service results on all first class mail posted or delivered between 13 and 31 August 2009 in the eight London postcode areas. Those results have therefore been removed for those postcode areas in that period.
- For all other first class mail posted or delivered between 13 and 31 August 2009 performance had typically recovered within three working days so the results are adjusted by removing the strike day plus those three additional days at each striking unit from the results.

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<sup>24</sup> Comparable adjustments are made for second class mail as described in Annex 10.

### Coordinated rolling regional and network IA (Quarter 3)

For the period between 1 September and 21 October the impact of the IA on UK performance was felt throughout the period and was broader than the impact of individual unit strikes. As explained in section 5.3, this is principally due to the cumulative impact of the number and pattern of strikes, particularly in London, the consequential impact on non-striking units due to diversions and the impact of network strikes upon non-striking units. It is not feasible to model these impacts individually.

- The entire period between 1 September and 21 October 2009 is impacted by the IA and has been excluded from the results.

### 3.6 The impact of rolling national strikes on 22 -23 October and 29-31 October 2009 – on quality of service

As stated previously, to maximise disruption to Royal Mail and its customers and to minimise the lost earnings due to IA for each employee, the CWU called two national rolling strikes in October 2009 which affected separate parts of the Royal Mail pipeline on different days.

The impact of a rolling strike pattern is described in section 3.5.2. The effects of a national rolling strike are more severe than a regional rolling strike as the entire UK pipeline is disrupted for the duration of the strike action.

The first national strike disrupted the UK pipeline for two working days on 22 and 23 October and the second for three working days on 29, 30 and 31 October. There were only four working days between the two set of strikes. Table 3.5 below provides a summary of the rolling national IA dates and times and a brief description of how each strike impacted on the national pipeline.

[X].

During this two week period Royal Mail handled on average around [X] million first class, [X] million second class, [X] million Mailsort 3 and [X] million Downstream Access (DSA) items per week [X] these items would have been delayed as a result of the IA. A breakdown of the estimated volumes for each of the two weeks is given in Table 3.6 below.

**Table 3.6 Breakdown of processed mail for weeks commencing 19 October and 26 October 2009**

Type of mail affected	Volume (million items)	
	W/C 19 October	W/C 26 October
1st Class presort	[X]	[X]
1st Class Non-presort	[X]	[X]
2nd Class presort	[X]	[X]
2nd Class Non-presort	[X]	[X]
Mailsort 3	[X]	[X]
DSA	[X]	[X]
<b>Total posted mail</b>	[X]	[X]
<b>Total delivered mail</b>	<b>323.4</b>	<b>321.9</b>

In total the equivalent of 141,916 working days were lost due to the two national strikes.

A simplified table is provided at Annex 16 illustrating the extent of the rolling IA, day by day, on Royal Mail's pipeline for first class non-presort mail. This diagram clearly illustrates that for first class mail posted during the 11 day period between 21 and 31 October a total of seven days were directly affected by some form of national IA. This was in addition to the residual impact of the ongoing London, regional and network IA over the previous four months.

Section 5.3 discusses the analysis performed and the conclusions Royal Mail has drawn about the impact upon the national quality of service, which are summarised below.

To reflect the impact of the national strikes the results have been adjusted to exclude both national strikes and the four days it took to recover, such that all UK first class mail posted between 21 October and 5 November 2009 and all UK second class mail posted between 20 October and 5 November 2009 has been excluded from the results.

In addition, as explained in section 5.3 and section 5.4.2, the residual IA in London continued to affect performance following the signing of the Interim Agreement. To reflect the impact upon performance, all mail posted or scheduled for delivery in the eight London postcode areas<sup>25</sup> between 6 November and 6 December 2009 has been excluded from the results.

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<sup>25</sup> E, EC, W, WC, SE, SW, N, NW

### 3.7 Unballoted IA and officially balloted IA short of a strike

#### Unballoted IA

During the period of IA there were some instances of unballoted IA linked to business transformation<sup>26</sup>. This IA is unlawful, i.e. it has not been organised in accordance with the statutory provisions. The major incidents are summarised in Table 3.7 below.

**Table 3.7 Summary of major unballoted industrial action**

Description of unballoted action	Reason for unballoted action
East London Mail Centre Distribution function on 24, 25, 26 and 27 August 2009	Refusal to work flexibly in line with the Pay and Modernisation agreement. Distribution staff walked out when asked to assist with processing work.
Glasgow Mail Centre, Scottish Distribution Centre (“SDC”), Glasgow vehicle services workshop and 27 delivery offices in the mail centre area took intermittent action between 18 and 22 September 2009	The Mail Centre took action due to the removal of restrictive working practices and introduction of cross-functional working. Delivery Office strikes took place when staff refused to cross the picket lines at the mail centre or to handle mail brought in from the Mail Centre. SDC staff walked out in sympathy with the mail centre.
Edinburgh Mail Centre, Perth Collection hub and 9 delivery offices in the mail centre area took intermittent action interspersed with officially balloted IA between 24 and 28 September 2009	<p>Delivery office and collection hub IA began on 24-25 September when staff refused to cross the picket lines at the Mail Centre which was on officially balloted IA.</p> <p>The mail centre took action on 26 and 28 September due to the refusal of drivers to cross picket lines at delivery offices on officially balloted IA on 26 September.</p> <p>Delivery Office action also occurred on 26 and 28 September when staff refused to cross picket lines at the Mail Centre.</p>

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<sup>26</sup> In Royal Mail’s systems such IA is recorded as “Unofficial”

Where there is evidence that unballoted IA is linked to transformation and its impact upon the operation can be clearly quantified it has been included in the application, as described in Annexes 9 and 10. These incidents are listed in Annex 8. Royal Mail has not included any unballoted IA which is not linked to transformation in this application.

In addition there were a number of other instances during the period of IA [8<]. These have not been individually included in the application as they cannot be readily quantified but many of these events will nevertheless have contributed to the loss of performance. The steps taken by Royal Mail to minimise this are discussed in section 4.5.

Officially balloted IA short of a strike

The majority of transformation-related IA was officially balloted (or unballoted) action in the form of a strike.

However 18 delivery offices voted for officially balloted action short of a strike in the form of an overtime ban (i.e. refusal to pick up available overtime). Annex 11 shows the 18 overtime bans in force during the period of IA. In these offices the majority of staff would not accept overtime to complete their own duties if these overran past the scheduled finish time, or to cover for a colleague.

In normal working circumstances overtime is used as a flexible method of covering unplanned absence, so refusing to pick up overtime in a delivery office can cause delivery walk cut-offs – where the delivery officer returns to the office without completing the whole delivery – and collection failures. This impacts the performance of the standardised measures for universal service collection and delivery. In 16 of the offices the overtime ban did not cause any USO collection or delivery failures but in two offices there were USO collection and delivery failures caused by the IA as follows:

Delivery Office	Failures
Largs DO	Collection failures on 5 September 2009
Warwick DO	Collection failures on 19, 21, 22, 28 and 29 August 2009. Delivery failures on 17, 18, 19, 20, 22, 24, 26, 27, 28 and 29 August 2009, on 1, 2, 4, 5, 7, 8, 9, 11, 12, 14, 15, 16, 17, 18, 21, 24, 25 and 26 September 2009 and on 3, 5, 10, 17 and 20 October 2009.

These units and dates have been included in the assessment of the impact of strike action described in Annexes 9 and 10.

## 3.8 Industrial relations climate

This chapter has so far described the specific incidents of strike action that occurred during 2009-10, together with a number of officially balloted overtime bans, and the impact they had upon quality of service. Also relevant is the effect of the general industrial relations climate on quality of service performance, particularly in relation to London units during the month following the signing of the Interim Agreement.

Other forms of action (such as work to rule and go slow, and increased sickness absence) all had an effect on quality of service performance during 2009-10 and, in particular, post-strike recovery times. In some cases employees were taken off pay as a result of these actions. These actions both had an impact on quality of service performance during this period and occurred as a direct reaction against the transformation and modernisation of Royal Mail.

### 3.8.1 Employee behaviours

[X].

Managers were responsible for protecting employees that did decide to come to work, monitoring and challenging inappropriate behaviours on picket lines, deploying critical contingency and recovery plans, ensuring health and safety, protecting Royal Mail property and assets, securing the integrity of mail, coaching and directing casuals and management volunteers, dealing with an increased level of customer enquiries, and often carrying out collection, sortation, driving and delivery duties themselves to help maintain customer service.

After each strike action managers then had to manage the return to work, including briefing all employees, getting the unit back onto workplan and dealing with the atmosphere, for example resentment towards managers and front-line staff who had come into work. During the regional strikes, managers from non-striking units were redeployed from all over the country to support the areas with the greatest and most prolonged backlogs of mail, chiefly London.

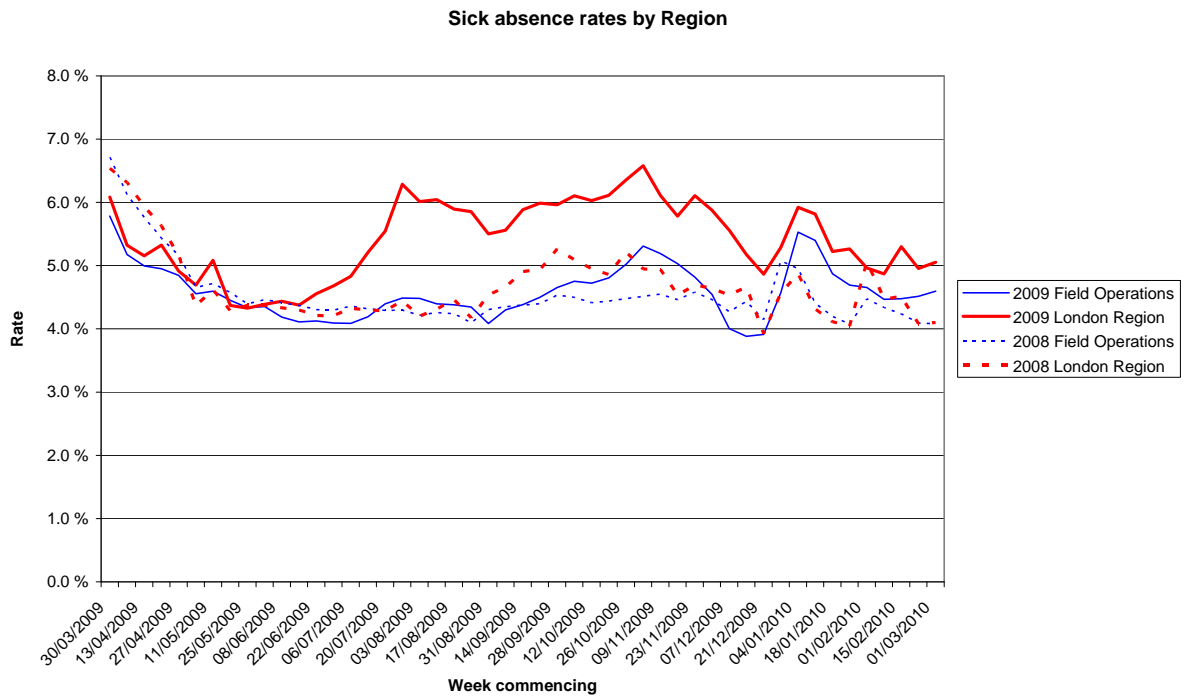
### 3.8.2 Sick absence

Sick absence increases during periods of IA for a number of reasons. In some cases it is planned on a coordinated basis to have the same impact as IA but without loss of pay. In other cases, employees may feel threatened by turning up for work when others are striking or it may be a response to overall stress and tension levels increasing. [X].

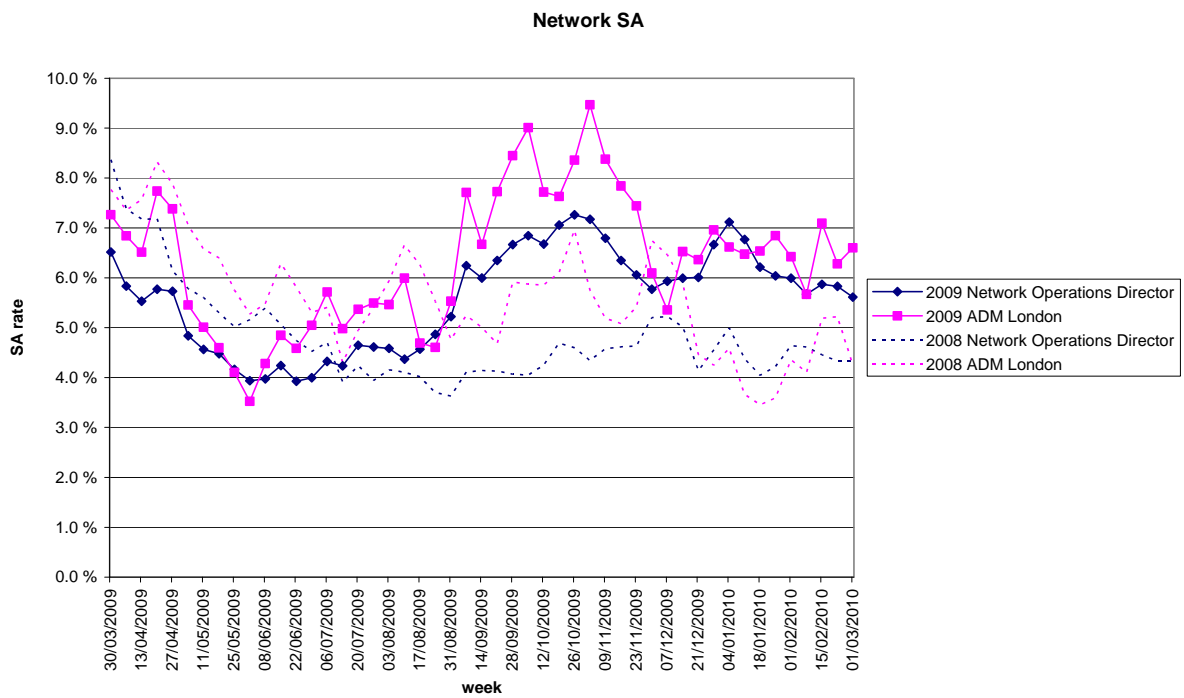
For those parts of the operation affected by increased sick absences, such as London, the consequences were significant and had a material impact on quality of service.



The series of graphs below shows sick absence rates as a percentage of hours for field operations (regional processing, collection and delivery functions) and network operations (the transport network) before during and after the 2009 IA compared with 2008.



**Graph 3.1**



**Graph 3.2**

Graphs 3.1 and 3.2 show clearly the increased sick absence rates in London during the IA and after the signing of the Interim Agreement. These levels of sick absence further restricted the resource available to help clear backlogs of mail and contributed to the ongoing problems in London after 5 November 2009. However for Field Operations as a whole, the increase in sick absence is limited to the period of national IA and just after. Network transport functions have experienced a more sustained increase in sick absence (8% during the IA and 24% during November).

### 3.9 Summary

The reasons why the recent IA impacted upon service performance have been set out in detail in this chapter. A key part of the reason is because of the interdependence of Royal Mail's pipeline, which makes it vulnerable to disruption. As a result, the impact of IA on quality of service is highly complex and varies according to both the unit type affected and the class of mail. Moreover, the cumulative impact depends not only upon these factors but also substantially upon the number, length, frequency and combination of individual strikes. Regional and network activity on the scale experienced was particularly problematic as it had a knock-on impact on the pipeline in units that were not on strike. These non-striking units were also affected by the need to divert mail out of striking units. Finally the effects of the 2009 IA were aggravated by unlawful unballoted action and a deteriorating industrial relations climate, particularly in London.

# **Chapter 4: Royal Mail's contingency planning and service recovery**

## **4.1 Synopsis**

Royal Mail's contingency planning, recovery arrangements and operational response in advance, during and after periods of IA were effective in mitigating the impact of disruption on customers. Both operational and non-operational managers made a substantial contribution to contingency and recovery arrangements on top of their day jobs.

## **4.2 Introduction**

As the undercurrent of industrial unrest associated with business transformation began to strengthen, Royal Mail took all the steps it could to manage its business effectively and to make contingency plans to mitigate the consequences for mail users of IA by its employees. A full description is provided in this chapter under the following headings:

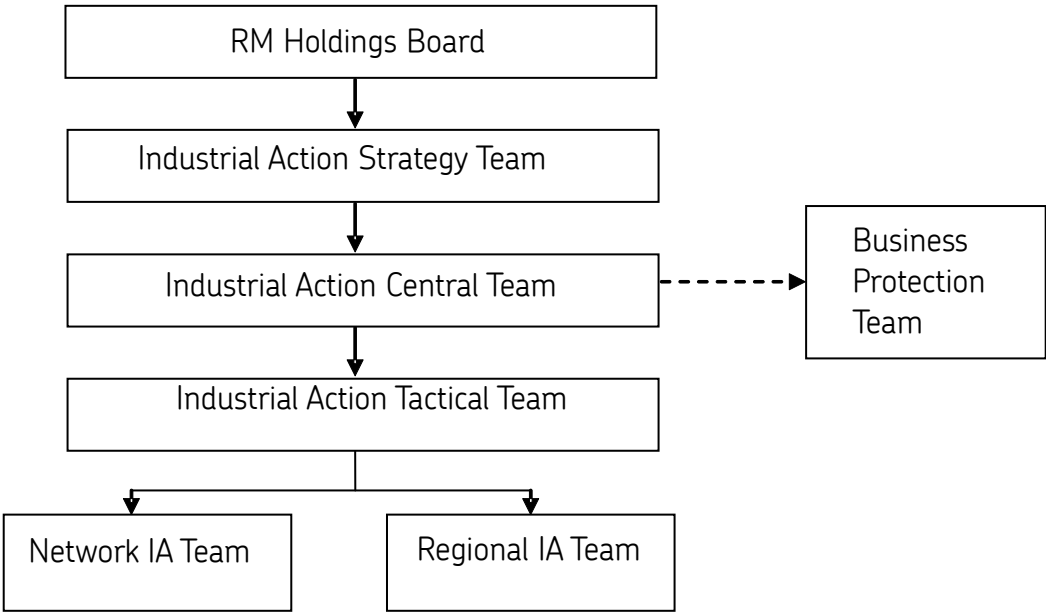
- Corporate Priorities and Governance Procedures;
- Contingency Plan Development and Preparation;
- Internal Communications, and
- Contingency Plan Execution.

In parallel with its contingency plans, Royal Mail put in place mechanisms for keeping both Postcomm and Consumer Focus briefed before and throughout the IA.

## **4.3 Corporate priorities and governance procedures**

Royal Mail reviews its contingency plans which set out the business' operational response to a range of unplanned events that can have an impact upon the operation of the pipeline. These include responding to IA. In expectation of Mail Centre strikes at the end of 2008, and given mounting issues with the local and national CWU concerning the deployment of the Pay and Modernisation Agreement, Royal Mail particularly scrutinised its contingency arrangements for IA in 2009-10.

The diagram below provides an overview of Royal Mail’s management process for the IA in 2009–10. As this makes clear, a number of groups within Royal Mail were responsible for the control and management of the IA.



The **Holdings Board** is responsible for reviewing and deciding Royal Mail’s Corporate Priorities. The **Corporate Priorities** recognise that Royal Mail cannot continue to provide normal service during IA. They therefore aim to maximise the level of service provided, in order of priority, relative to the resources available. The Corporate Priorities take into account Royal Mail’s regulatory obligations and the needs of both strategic and vulnerable customers.

The high level Corporate Priorities, shown below in order of precedence, have not changed since 2007. They were shared and discussed with both Postcomm and the Department of Business Innovation and Skills (BIS):

1. Cash to Post Office Counters.
2. Access to Mail Services.
3. Parcelforce Worldwide Express/Guarantees.
4. Royal Mail high profile bespoke products (such as Ministerial Pouches and Royal Warrants).
5. Special Delivery.
6. Processing of outward mail.
7. Processing of inward mail.
8. Delivery.

Within this overall structure the detailed priorities were reviewed and refreshed to reflect current products and services. [REDACTED].

[REDACTED].

#### 4.4 Contingency plan development and preparation

After refreshing its Corporate Priorities, Royal Mail began detailed planning and preparation work for the expected dispute. The aim of these plans was to minimise disruption to customers during the dispute and restore business as usual service afterwards.

Contingency planning and preparation falls under four main headings, which are each described in turn below.

##### 4.4.1 Scenario Modelling and Development of Key Strategies

By definition, contingency plans attempt to anticipate risks and define the actions that should be taken to mitigate those risks. Given the size and complexity of Royal Mail's operation, it is impossible to anticipate and prescribe a response to every potential combination of risks/circumstances. For this reason, contingency plans are relatively generic in nature – setting out broad principles and strategies that should be followed – and are flexed to respond to the real time circumstances at national and/or local level.

In advance of the 2007 IA, the Central Industrial Action team had prepared high level contingency plans for a set of theoretical IA scenarios. These plans established the level of resource required to maintain service against each of the Corporate Priorities which in turn determined whether each priority could be fully or partially achieved for each scenario<sup>27</sup>.

The approach in 2009 built upon the plans and experiences from 2007, including the key principles discussed with Postcomm at the time. The 2007 plans were updated in Spring 2009 in light of the most likely IA scenarios: region-wide IA, part-day strikes and rolling functional strikes. [REDACTED]. The plans for national IA were also reviewed. The scenarios, strategy and revised principles were shared with Postcomm. Many principles replicated those adopted in 2007, in particular:

- [REDACTED].
- As agreed with Postcomm<sup>28</sup> prior to the 2007 IA, Royal Mail adopted a 'first in/first out' approach to clearing the mail backlog, i.e. ensuring that mail

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<sup>27</sup> For example, over 100,000 people are required to fully cover Corporate Priorities 1 to 8 in the event of a 24 hour national strike – so with a potential managerial volunteer force of around 6,000 managers, not all priorities can be fully covered.

<sup>28</sup> And Consumer Focus' predecessor Postwatch

held in the backlog was handled and delivered in the order in which it was posted. [X].

- Casual and agency staff were used wherever possible and appropriate. [X].
- Royal Mail provided a single collection from Post Office Ltd outlets and Business boxes using managerial volunteers to maintain access to services.<sup>29</sup> A single collection from post boxes was also carried out when the level of available resource allowed; particularly for high volume boxes at risk of overflowing.
- Large posting customers were contacted in advance and informed of alternative access arrangements available to them [X].
- An Enquiry Office facility was maintained at all delivery offices [X].
- There was a strong focus on providing a high level of service for Special Delivery in all areas [X].

[X].

#### 4.4.2 Establishing Service Provision

Contingency plans have existed since 2001–02 for every Mail Centre and the dependent Delivery Offices and for each RDC. These plans are the basis for building the response to strike action, whether local, regional or national. The scale of the dispute determines the management resource available which in turn determines to which level of Corporate Priority can be covered. Once balloting commenced, Royal Mail activated local plans and control rooms for the affected units.

Regions and Network planners have developed various tools to enable them to estimate the numbers of managers they require to perform the set level of Corporate Priorities. The tool can then plot locally available managers, together with information such as their contact details, specialist skills<sup>30</sup>, and booked annual leave.

Nationally a process was developed based upon the principles of the operational skills database to identify, place and monitor managers from non operational functions to assist with contingency operations in prescribed locations.

Immediately following the London ‘yes’ vote on 2 June 2009 all managers were contacted and asked to stand ready to volunteer to work in London units.

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<sup>29</sup> Business boxes are local posting boxes for franked mail found in business parks, industrial estates and some high streets where companies produce large volumes of meter mail.

<sup>30</sup> Such as HGV driving skills, machine operating skills, airport security training/clearance and security training.

#### 4.4.3 Operational Training and Briefing

A number of activities were carried out both in advance of the initial London IA and subsequently as it evolved into more widespread and national IA, to ensure that Royal Mail managers were fully equipped to cope with the IA.

Face to face presentations and conference calls were used to ensure managers understood the Royal Mail Corporate Priorities and the plans that underpinned achievement of these priorities. Directions for the Regional and Network teams were drawn up as soon as the Tactical Operations Team had developed a plan for the threatened or balloted action. At a later stage Regions were sent a questionnaire to ascertain their preparedness. Once plans were closer to being finalised a more detailed planning document was issued to the field to assist planning for the national IA. This translated the Corporate Priorities into detailed priorities for planners on the ground.

A number of supporting documents were refreshed and reissued in advance of the first London strike, the most important being the “Manager’s Guide to Industrial Action”.<sup>31</sup> A number of other guides and tools to assist planning were also issued. As the strikes became more widespread and progressed to national IA, these documents were reviewed, revised and re-communicated. Material was also prepared for management volunteers, such as health and safety briefings and maps.

#### 4.4.4 Performance Reporting and Performance Management Procedures

In advance of the dispute several strike related additions were made to Royal Mail’s ‘business as usual’ performance reporting and performance management procedures:

- A standalone report was introduced to record ‘staff scheduled to work’ (i.e. excluding, for example, annual leave and sick leave) and ‘staff actually at work.’
- A standalone report was also introduced to capture ‘Traffic on Hand’ (i.e. mail waiting to be processed) at Mail Centres and RDCs.
- Reports were also introduced to capture strike day volunteer numbers and Special Delivery performance.

A further report was brought in during the IA to record the number of packets on hand in order to provide better information to customers on problem areas and also prioritise resource into those units. This report has now been incorporated into normal daily reporting.

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<sup>31</sup> A summary of the main topics a manager needs to know about how to manage IA. This guide was enhanced and reissued several times as the IA progressed and different issues became more significant.

Otherwise existing reporting mechanisms were used with appropriate enhancements (for example, daily performance reports included lists of notified strikes updated on a daily basis).

Royal Mail's preparations also included establishing the principle of daily conference calls at regional and national levels to ensure that a complete picture was available across the country of the up to date situation and also intelligence on any potential escalation or local issues. These were highly successful in helping to manage the IA across the UK and to provide managers in regions with information on possible flash point incidents.

#### **4.5 Internal Communications Plan**

Before and throughout the period of IA, Royal Mail embarked upon a series of internal integrated involvement and communications campaigns. The aim of these campaigns was to ensure that employees fully understood the facts relating to Royal Mail's plans for and the necessity for transformation, the commercial realities facing the company, the impact IA would have on its customers and the risk of losing customers to competitors, in addition to the issues specific to the various local and regional strikes.

The core of the campaigns, led by operational managers, were the daily "huddles" and weekly Work Time Listening and Learning (WTLL) sessions between frontline employees and their managers. These briefings and question and answer sessions were supported by a range of other channels such as posters and leaflets, films and presentations shown on the TV screens in each unit, personal letters to home addresses from senior managers and ultimately the Managing Director, as well as articles in the staff magazine Courier. Royal Mail also produced a number of DVDs which explained future strategy in the areas of collections, processing and delivery and some of the changes the business was making, all of which were aimed at engaging with the workforce and informing them of the need for transformation. These DVDs have been shared with Postcomm.

Operational managers were provided with a series of toolkits for briefing frontline employees, together with guidelines on managing the IA and specific guidance on helping frontline employees to come to work during strikes.

The main campaigns are summarised below. Examples of the various communications are shown at Annex 19.

##### London IA

London communications prior to the IA covered topics such as volume decline and the need for more flexible working, to explain why changes were being made and what they would involve and to encourage cooperation. Once the ballot was announced the focus was to persuade employees to vote no, whilst maintaining the other messages. Barometer visits were made to 20 London offices following the 'yes' vote but before any strikes were



announced to understand more about why employees had voted in favour of IA. Employees were subsequently encouraged not to strike. A post-strike briefing was given following each strike, when managers gave an update on how the action had impacted on customers, and communications continued throughout the IA, reiterating the need to change, Royal Mail's willingness to talk and the impact of the strikes upon customers. Briefings were also prepared and delivered to other offices outside London.

#### National "Today and tomorrow" campaign

Communications for the London IA were run in parallel with a national campaign titled 'Today and tomorrow'. This was designed to give managers and frontline employees a joined up view of the challenges faced by Royal Mail, the plans in place and in the pipeline to transform the business and to articulate with energy the vision for the Letters business. These messages were conveyed to front-line employees during the summer of 2009 using many different channels including intranet stories and TV screens featuring case studies, and a series of films featuring Royal Mail operational and commercial directors, with accompanying WTLL briefings, covering such topics as 'the delivery story' (new delivery methods and other plans for delivery).

#### Network and other regional IA

Communications for the network and other regional IA followed a similar pattern to London explaining the need for change, providing reassurance and information on how that change would be deployed, strongly encouraging employees not to take strike action and reiterating the consequences of that strike action.

#### National IA

Once there was a real prospect of national IA, from the beginning of August 2009, Royal Mail undertook extensive communications to persuade employees not to take such action. Again the messages concerned the need for change, the progress towards transformation outside comparatively inefficient London, Royal Mail's willingness to engage with the CWU, reassurance about the impact of change and the damage to customers and Royal Mail as well as to the striking employee. The campaigns also encouraged employees to come to work on strike days.

Briefings continued after the Interim Agreement on 5 November, explaining the agreement and updating on progress with negotiations as well as encouraging employees to recover service and "get on with delivering an excellent Christmas for our customers".

## Communications for managers

An email-based communications campaign “You’ve got mail” for managers in Royal Mail Letters and Royal Mail Group was launched in July 2009. This provided managers with urgent and up-to-date information, predominantly about prospective and actual strike action, with requests to volunteer. It also reinforced the key messages for the business during this time and provided material which could be used to brief teams. The emails contained links to relevant attachments and to an Industrial Relations News page on the intranet which was updated with the latest information as it happened.

During the IA there were also daily email briefings cascaded to senior operational managers giving the latest state of play with negotiations and announcements of further strikes.

### **4.6 Contingency and recovery plan execution**

This section provides an overview of the specific operating plans that were deployed for each of the key phases of IA encountered during 2009-10 and explains how these were developed as the dispute progressed. It demonstrates both that Royal Mail adhered to its Corporate Priorities and that it followed the key principles and strategies described previously.

#### 4.6.1 Quarter 1 Sporadic local IA

[§].

#### 4.6.2 Quarter 2 London IA with some regional and network IA

[§].

On 27 July 2009 Royal Mail advised the CWU that if employees took IA for part of a shift it would stop pay for the full shift. Royal Mail used a three step rule to deal with employees taking IA for two hours or at operationally crucial times:

Step 1: On the first occasion, employees were told that in future they would be taken off pay but they were paid for the part of the shift they had worked.

Step 2: Employees were given a final warning and told that on the next occasion they would be taken off pay for the whole shift.

Step 3: Employees were taken off pay for the whole shift and informed that any work they did they would not be paid for. The business advised them, in these instances, either to go to the canteen or leave the site.

As a result the CWU immediately stopped this approach. Part day London strikes scheduled for 29 July to 3 August 2009 were withdrawn and only a handful of strikes thereafter used this tactic. In addition, this three step process (warning, last chance, off pay for the shift) was used to deal with unballoted action such as slow working or refusing to use shared vans.

Procedures were also in place to minimise disruption from refusal to cross picket lines or to handle mail from striking units. For example, drivers were briefed prior to the start of their duty and informed of the consequences of refusing to cross picket lines. This was repeated on each day of IA. Whilst there were some instances of unballoted action, this procedure was largely effective in curtailing widespread and prolonged unballoted disruption.

In mid-August Royal Mail reviewed how effective its contingency plans had been in addressing the outbreak of IA between 12 June and 12 August. The review concluded that the plans had been effective in delivering the higher Corporate Priorities:

- The nature of the IA meant that cash to Post Office Counters, Parcelforce Worldwide and Royal Mail's high profile bespoke products (Corporate Priorities 1, 3 and 4) [X].
- Effective use of available resource, including management volunteers, meant that access to mail services (Corporate Priority 2) was maintained: all enquiry offices had opened and 98-100% of collections had been made from Post Offices.
- Between 98% and 100% of Special Delivery and Tracked Plus items were delivered (Corporate Priority 5).

For lower level priorities, recovery periods in individual units varied but in general outward mail was back to workplan within two working days (Corporate Priority 6) and inward mail within three working days (Corporate Priority 7). Diverted strike mail was prioritised over local mail, in accordance with the first in/first out principles and striking employees were not paid any additional overtime.

Service had also been maintained in network units serving non-striking units. [X].

In a number of units it was possible to draft in sufficient management volunteers to cover all the Corporate Priorities, including USO delivery and collection activities, where local strikes did not coincide with more major disruption. For example, some Edinburgh Delivery Offices were fully covered on 20 June. However this became much rarer as IA intensified and volunteers were diverted to cover higher level Corporate Priorities and recovery activities in other units.

[X].

Although mail volumes were seasonally lower during the summer, the number of available volunteers also reduced due to annual leave. Volunteers were also spread between a larger number of strikes.

By mid August Royal Mail had moved from a specific plan for each set of strikes to a weekly strike plan, updated and re-communicated as further strikes were announced. The CWU was required to give seven days notice of each strike. Each fresh batch of notifications then had to be analysed to determine their impact upon the operation, which was then used for customer communications as well as the contingency and recovery plans.

[§].

Whilst Royal Mail was able to use the unit and base strike plans described in section 4.4, these had to be tailored and recombined for each occasion. The use of the extended Tactical Operations Team enabled the plans to be produced, vetted and issued more quickly. The planning process was therefore highly iterative, dynamic and flexible, but nevertheless the plans that were deployed whilst still adhering to the key principles and Corporate Priorities described above.

#### 4.6.3 Quarters 2 and 3 (1 September – 21 October) Extensive rolling regional and network

IA

[§].

Royal Mail continued to adhere to the first in/first out policy agreed with Postcomm<sup>32</sup>. As stated above, under this policy diverted mail took priority over local mail at receiving Mail Centres. However, during early September this policy began to cause significant consequent failures for this local mail; as strike hit mail was being processed ahead of mail which was not in a striking area, an unacceptable position for Royal Mail and its customers. On 9 September 2009 Royal Mail therefore agreed with Postcomm that the first in/first out policy should be limited to “mail in a strike hit area which is being processed in a strike hit area” and Royal Mail immediately deployed this revised policy.

[§].

With these enhancements Royal Mail continued to develop and operate weekly or strike specific contingency plans in line with the principles set out above and the Corporate Priorities. The plans operated effectively but, as described in section 5.3.3, recovery was slower than during the summer. In particular the situation in London remained difficult, with backlogs continuing to build up in some delivery units between strikes. Royal Mail therefore put in place a specific recovery plan to reduce the London backlog, alleviate the issues and give customers the best possible service under the circumstances. The main actions were as follows:

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<sup>32</sup> Royal Mail cannot guarantee that there were no instances where the policy was not followed in practice, for example where units became very congested it is possible that some mail was not processed in order. However, overall the policy was successfully deployed.

- [REDACTED].
- “Surges”: As the situation in London worsened, a series of managerial “surges”, took place, where volunteers from around the country were allocated to the most affected Delivery Offices and Mail Centres to deliver the backlog. [REDACTED]. Managers were assigned to specific delivery units to cover delivery walks and to deliver packet and Special Delivery items. Some were also deployed in supervisory roles in units demonstrating work-to-rule and go-slow tactics. The impact upon the backlog was significant. On 30 September there was an on-hand backlog of around [REDACTED] items but by 2 October some [REDACTED] items had been delivered, reducing the backlog by almost [REDACTED]. A second and a third surge took place on 13-14 October and on 20-21 October, to deal with backlogs from the IA on 9-10 and 12/14 October. These volunteer managers made huge efforts to carry out operational duties on top of their day jobs, in order to mitigate the inconvenience suffered by customers. Example surge plans are attached at Annex 23.

- [REDACTED].

[REDACTED].

There were clearly a number of issues that needed to be carefully managed in deploying such a large number of volunteers into a small number of units. Health and safety was a major consideration [REDACTED]. Each successive surge improved upon the previous ones as Royal Mail was able to use the large number of volunteers more effectively and the volunteers themselves became more experienced at the task and familiar with the offices.

The surges and the other measures were effective in reducing the backlog and putting Royal Mail into a stronger position going into the next round of IA. By the time the rolling national IA started, the London backlog had been reduced to below 3 million and Royal Mail continued to drive this down during and after the national strikes. Work to clear the London backlog continued throughout the national IA and right up until Christmas, as described in Annex 23.

#### 4.6.4 National IA on 22-23 October and 29-31 October

Once the CWU had indicated its intention to ballot for national IA in mid August, Royal Mail began to prepare for a national strike based on the plans used in 2007.

Many of the resources required for a national strike were already in place; for example, haulage contractors. During September Royal Mail had brought forward the opening of two outhouses to assist strike recovery, as described above, but also prepared two further outhouses [REDACTED] to be used in the event of a national strike. A fifth outhouse was also set up [REDACTED].

[REDACTED].

Royal Mail also decided to bring forward the usual recruitment of Christmas casuals and increase the number recruited. This decision was intended to ensure an adequate supply of casual workers to meet the operational need going forward and to send a clear signal to the CWU and to customers of Royal Mail's determination to restore service as quickly as possible and to protect service over the actual Christmas period.

For the strikes on 22-23 October and 29-31 October Royal Mail executed a plan which followed the key principles developed in advance for a rolling national strike. In particular:

- Safety remained the number one priority with standards and disciplines maintained throughout the dispute.
- Mails integrity standards were maintained.
- Resource was deployed to maintain key services in line with the agreed Corporate Priorities.
- Customers were contacted as described in Chapter 7 to keep them informed and to agree what postings could be accepted or accelerated.
- [REDACTED].
- Disruption to customers was minimised through maintenance of customer access facilities and maximised delivery of Special Delivery. Royal Mail did not seal collection boxes and although the Special Delivery guarantee was suspended for the first national strike it remained in place for the second.
- Mail was handled in first in/first out order, with maintenance of segregation standards and control a key priority.
- [REDACTED].
- Alternative network schedules were deployed (shown at Annex 21 for the strikes on 22-23 October and 29-31 October) and these were communicated to the operation using the briefing channels described above.
- Managerial volunteers were deployed to collect from key sites, deliver Special Delivery mail and operate automated sorting equipment in Mail Centres.
- Fully vetted casual employees [REDACTED] were trained to operate automation to support recovery and any other corporate priority work, excluding Special Delivery Locker work and delivery. [REDACTED].
- Products were processed to maximise volume movement and ease congestion.

- Upon return to work, normal service was resumed at start of next shift and employees who took part in the dispute operated within normal duty arrangements including normal levels of overtime.

There was no departure from a national perspective from the contingency plan that had been developed and agreed in advance of the IA. The deployment of contingency plans at a local level is dependent on availability of resource and local operational circumstances, as well as a range of factors that are outside of Royal Mail's control.

#### 4.6.5 Service Restoration Action following the Interim Agreement

As discussed in section 5.3 below, Royal Mail's pipeline recovered well from the rolling national IA. The network was back to normal within 24 hours and the majority of Mail Centres and Delivery Offices outside London were back on workplan, as far as the IA impact was concerned, within 4-5 working days after the final national strike. By the time the Interim Agreement was signed on 5 November, the backlog was down to 4 million items of which approximately 40% were in London. Outside London the backlog was below 1 million items by 11 November 2009 and fully eradicated by 18 November 2009. The backlog in London took longer to clear and was augmented by ongoing workplan failures [X] and continuing IA as described in section 5.4.2.

From 6 November onwards almost all of the London backlog was in Delivery Offices rather than Mail Centres. The steps taken to restore service in London following the Interim Agreement are set out in section 5.4 and Annex 23 and included:

- Ongoing support from regional managerial volunteers, for example to deliver packets, supplemented by a "mini-surge" using other volunteers on 10 November at some Delivery Offices.
- Mail Centres undertaking additional sortation work for London DOs throughout November and December and walk sequencing also undertaken for some units until Christmas.
- The use of a courier firm to deliver packets.

In particular, Royal Mail had brought forward its recruitment of Christmas casuals, at significant additional cost, to help with the usual seasonal increase in mail volumes and also to clear any backlogs of mail caused by the IA. All staff with access to mail were pre-vetted in accordance with the usual procedures, including criminal records checks.

#### 4.7 Mechanisms for briefing Postcomm and Consumer Focus

In parallel with its contingency plans, Royal Mail put in place mechanisms for keeping both Postcomm and Consumer Focus briefed before and throughout the IA.

Royal Mail held a number of meetings with Postcomm and Consumer Focus, attended at various times by Royal Mail's Field Operations Director, Head of Network Management and Customer Services Director, together with Royal Mail Group Regulation. This was designed to ensure that they were kept up to date on the latest industrial relations developments; understood and had the opportunity to comment on Royal Mail's Corporate Priorities and Contingency Plans and governance arrangements (such as the Strategy Team and Central Team discussed in section 4.3); were kept up to date on the recovery operation and status of mail backlogs; and understood Royal Mail's customer communications approach for the IA. Royal Mail also met with Postcomm to provide updates on transformation, for example, the World Class Mail initiative (section 6.9).

Specific IA-related meetings were held during the year: on 26 May with Postcomm and on 18 August, 7 October and 19 October 2009 with both Postcomm and Consumer Focus. In addition the IA was discussed at the normal regular meetings between Postcomm and Royal Mail. For the final two rolling national strikes, Postcomm and Consumer Focus were sent a copy of the Service Update for business customers. Consumer Focus customer facing units were also briefed throughout the IA as part of the customer communications process described in Chapter 6.

## **4.8 Summary**

Royal Mail's planning and preparation for the recent IA was highly detailed and enabled it to ensure that the necessary contingency plans were in place to mitigate the consequences of IA for its customers. The operational response aimed to maximise the level of service during IA based on the resources available whilst taking into account Royal Mail's regulatory obligations and the needs of its customers.

The approach taken to contingency planning in advance, during and after periods of IA built on the lessons learnt in 2007. At the same time, the essentially regional nature of IA in 2009 allowed Royal Mail successfully to take a different approach to its operational response in a number of key ways, such as diverting strike-impacted mail to other units to help service recovery.

Overall the contingency measures were implemented and operated effectively, ensuring that the pipeline recovered well from IA (although recovery happened faster outside of London). Royal Mail considers that it secured the maximum practicable level of resource available and deployed it in such a way that optimised the achievement of its Corporate Priorities.



# Chapter 5: Royal Mail's service recovery and analysis of impact on service

## 5.1 Synopsis

Royal Mail has assessed the adverse causal impact of IA upon daily quality of service failures during the 2009-10 IA, as well as the length of the period following strike action before performance returned to at or above target levels. This analysis explains why the approach applied by Postcomm to Royal Mail's 2007-08 application is not appropriate in the context of the recent 2009 IA.

## 5.2 Introduction

Postcomm stated in its July 2009 letter that, in making an application for relief from the effects of IA, Royal Mail should have regard to the length of post-strike recovery periods considered reasonable by Postcomm in its decision in relation to Royal Mail's 2007 application for relief (the "2007 Decision"). There is not, however, a standard recovery period for each type or length of strike; every strike has to be evaluated for its particular circumstances.

As described in detail previously at section 2.4 of this application, although it was superficially similar to what happened in 2007 (widespread IA related to transformation taking place over the summer and autumn), the 2009 IA experienced by Royal Mail was substantially different in nature and the two should not be seen as analogous. In particular:

- The 2007 IA was almost entirely national whereas the 2009 IA was primarily regional, with London the main area affected.
- The 2007 IA consisted of two 24 hour national strikes, a series of rolling national strikes over a 15 day period, an intervening one month "period of calm", with local unballoted strikes and disruptive activity, followed by two 48 hour national strikes taking place either side of a Sunday. The 2009 regional IA ran continually for seven months, with three months of minor disruption from mid March to mid June followed by four months of much more intensive action until mid October when a two day rolling national strike was finally called, followed a week later by a three day rolling national strike.

- The 2007 IA coincided with major force majeure. No major force majeure took place during the period of the 2009 IA.

The impact of a national strike upon the operation and hence the performance is also far more straightforward to assess and mitigate than the combined and cumulative impacts of many individual strikes co-ordinated into a single campaign over a protracted period.

Despite the lack of comparability, Royal Mail has still taken into account Postcomm's 2007 Decision in its assessment of a reasonable recovery period and has adapted the techniques used in 2007 to evaluate the impact of the IA upon performance and the associated recovery periods in 2009.<sup>33</sup> It has done so as follows:

- Royal Mail has compiled a database of each individual London, regional and network strike by unit. This database holds over 3,000 entries. Sample entries are given at Annex 7.
- The individual strikes have been evaluated to determine the impact upon USO collection and delivery and upon posted and delivered mail by class and type within the catchment of the unit<sup>34</sup>.
- The end-to-end survey results were adjusted for each individual strike on the database and for the two national strikes, using a range of recovery periods of between 0 and 4 days.
- Royal Mail has considered whether these adjustments return daily first class stamped and metered performance to target, as this was the level of performance being achieved before the IA. First class stamped and metered performance is measured using the largest survey and has the most accurate daily results. It is therefore the best indicator of whether performance has

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<sup>33</sup> In its August 2008 decision document, Postcomm allowed Royal Mail:

- "To exclude from measurement letters posted on, or due for delivery or processing on, the days on which strikes occurred;
- To exclude from measurement letters posted during, or due for delivery or processing during, a reasonable recovery period following the strike. In the case of national strikes, the recovery period should be four working days (Monday to Saturday) for each day of strike, and in the case of local strikes, the recovery period for the relevant unit(s) should be three working days (Monday to Saturday) for each day of strike. Recovery periods should start on the first working day after the day on which the strike ends.
- Where local strikes occur within the national recovery period, the length of that strike should be added on to the end of the national recovery period for that unit.

At paragraph 4.10 of Postcomm's Decision Document in relation to "Royal Mail's application to suspend the Bulk Mail Compensation Scheme and adjust the C-factor for transformation-related industrial action in 2007-08" (August 2008).

<sup>34</sup> For the smaller network units such as Vehicle Operating Centres (VOCs) it has not been possible to model the impact of strikes upon the end to end survey results so the 77 strikes at these units are excluded from this analysis as described in section 5.3.3. These units do not perform USO collections or deliveries.

recovered and whether the adjustments to performance take full account of the impact of the IA (although the adjusted results for the other major surveys were also checked to confirm the conclusions).

- Where these adjustments do not return performance to target, Royal Mail has examined other sources such as workplan data to establish why there are gaps and to decide what other adjustments to performance should be made to take proper account of the impact of the IA and the recovery from IA upon end-to-end performance.

Royal Mail's analysis and its conclusions are set out in the following sections. The methodology used for Royal Mail's claim is set out in Annex 10. It is important to note, however, that a proper like-for-like comparison of recovery periods contrasting 2007-08 against 2009-10 is not possible.

### **5.3 Return to quality of service for scheduled services performance**

The nature of the IA varied considerably during the course of 2009-10 and this affects what can be considered a reasonable recovery period. Each phase of the IA is considered separately below, in the following order:

- Sporadic local IA (Quarter 1);
- London, regional and network IA (Quarter 2);
- Coordinated rolling London, network and other regional IA (Quarters 2 and 3); and
- Rolling national IA and post IA (Quarter 3).

There is then a separate consideration of the issues affecting just London and the impact these had on recovery times.

The following analysis relates solely to the end-to-end performance standards for posted and delivered mail by class and type. The impact of the IA upon the two USO standardised measures in relation to the percentage of collection points served and the percentage of delivery routes completed is considered separately at the end of this chapter.

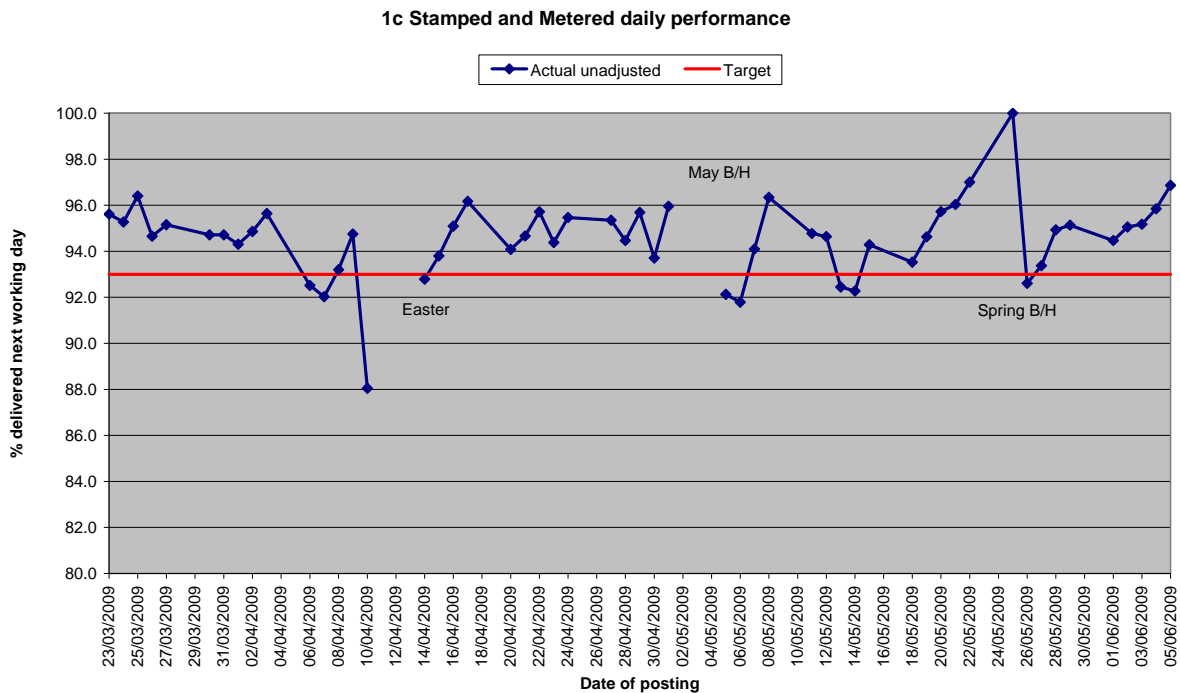
#### **5.3.1 Sporadic local IA (Quarter 1)**

For 2009-10 scheduled services reporting Quarter 1 is the period from 23 March to 7 June 2009.

2009-10 Quarter 1 performance results were very high across all scheduled standards and standardised measures included in the application, including all London postcode areas

meeting the target for Standardised Measure 9. The low level of localised IA made almost no impact on quality of service, as demonstrated below.

Graph 5.1 shows the daily weekday<sup>35</sup> performance for first class stamped and metered mail during Quarter 1. Performance is consistently at or well above target. The bank holidays are marked on the chart; low postings on these days mean that either there is no daily result or a highly variable result due to small sample sizes and wide confidence intervals.



**Graph 5.1**

Performance against the standardised measures for USO collection and delivery was also above target, as shown in Table 1.2 in section 1.7.

Although transformation-related IA took place in Quarter 1 there was no material impact upon performance and Royal Mail is not therefore including Quarter 1 in its application for relief.

### 5.3.2 London, regional and network IA (Quarter 2)

The period under consideration is from 8 June to August Bank Holiday 31 August 2009. This falls within Quarter 2 for 2009-10 scheduled services reporting.

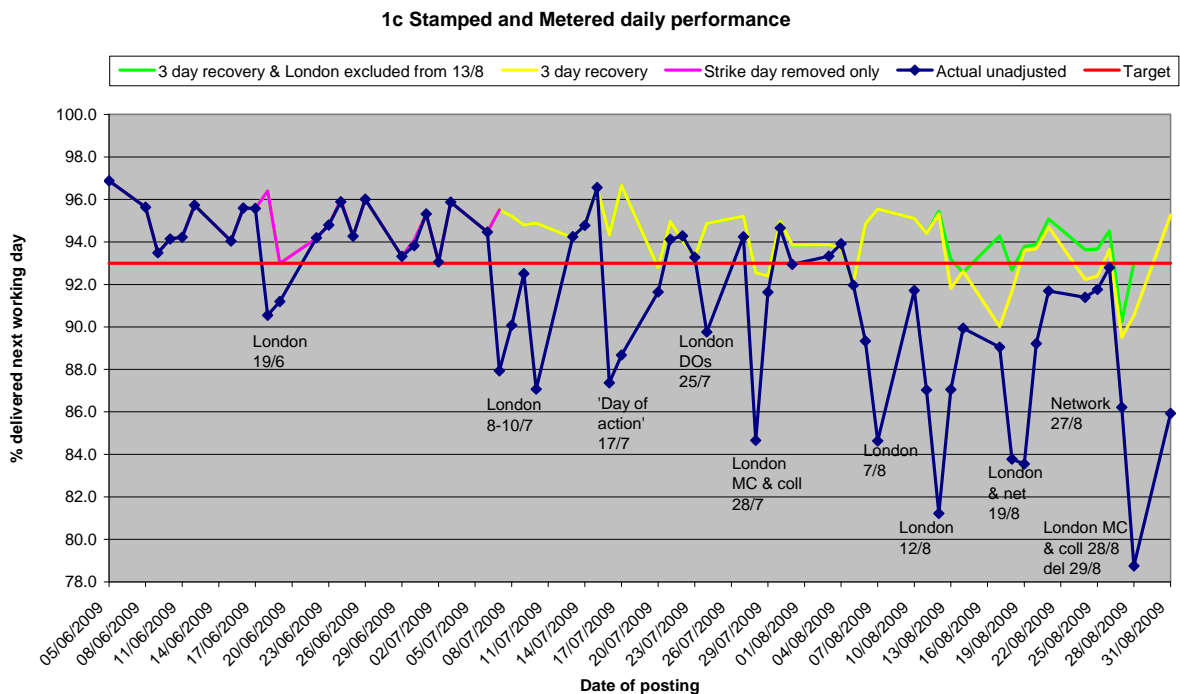
<sup>35</sup> Saturday posted results have been excluded as sample sizes are too small, resulting in excessively wide confidence limits and highly variable results.

Graph 5.2 shows the daily weekday performance for first class stamped and metered mail during Quarter 2 up until 31 August 2009.

The blue line shows actual daily performance.

The pink line shows the adjusted daily performance with the strike days removed for each unit, i.e. with no further recovery period allowed for, and the yellow line shows the adjusted daily performance with the removal of the strike days plus a three day period to recover performance. In each case only mail affected by the striking unit is removed.

The green line shows the adjusted daily performance if, in addition to the removal of the strike days plus a three day period to recover performance, all eight London postcode areas are removed from the results.



**Graph 5.2**

Early strikes

The first major piece of IA was the London-wide strike on 19 June 2009. Although a large number of units took IA the underlying quality of service was good. The IA took place in a period of relatively low mail volumes and Royal Mail was able to deploy a large number of management volunteers. As Graph 5.2 shows, first class performance recovered very quickly. The pink line shows that if the results are adjusted for the impact of the strike day only, this adjustment restores performance to target level for the 19 June strike and other strikes in the period up to 8 July 2009 do not reduce performance below target level at all.

**Royal Mail's claim for the period between the start of Quarter 2 and 7 July 2009 is therefore made on the basis that only the actual strike day is removed from the results to reflect the time taken to recover from the IA.**

8 July to 12 August 2009

On 8 and 10 July 2009 London offices undertook a rolling strike. As explained in section 3.5.2 a longer period is needed to recover from a rolling strike as mail will be impacted at several stages of the pipeline. For this first rolling strike performance stayed below target for several working days. The yellow line on Graph 5.2 shows the impact of adjusting performance to remove each strike day and a period of three working days following that strike to restore performance back to target level. This demonstrates that performance returned to target level after a period of three working days.

On 17 July 2009 the CWU organised a national day of action with strikes in all London offices and three other mail centres and a work to rule campaign [X<] in other units. Thereafter, London offices began to take strike action once a week, sometimes on the same day and sometimes with a rolling pattern. Strikes also began to increase outside London. Performance still returned to target level between bouts of IA and the yellow line on Graph 5.2 shows that until the London IA on 12 August 2009 in spite of the increased incidence and scope of the IA, Royal Mail's contingency activities remained very effective and performance continued to return to target level within a three day period.

**Royal Mail's claim for the period between 8 July 2009 and 12 August 2009 is therefore made on the basis that each strike day plus a three day period for performance recovery is removed from the results to reflect the time taken to recover from the IA.**

13 to 31 August 2009

During this period network strikes intensified and were co-ordinated with the London strikes into a simultaneous strike on 19 August and a rolling strike on 27 to 29 August. Strikes in other regions increased and there was unballoted IA in East London Mail Centre.

Although mail volumes were lower during this period it was also the main holiday season, affecting the availability of management volunteers. [X<].

The yellow line on Graph 5.2 shows that adjusting for individual strike days plus a three day recovery period no longer restores performance consistently to target level as it does not take full account of the issues in London. The green line demonstrates that if in addition all mail for London postcode areas<sup>36</sup> is removed then there is a more consistent return to target level, which was being achieved before the IA.

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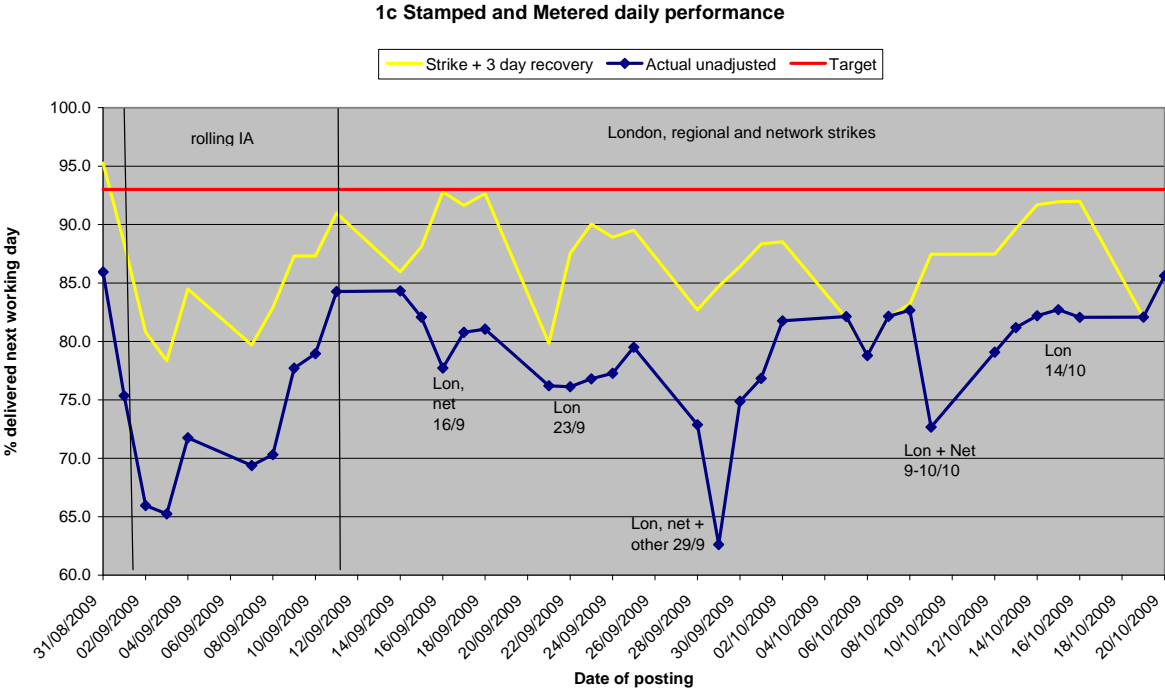
<sup>36</sup> E, EC, W, WC, SE, SW, N, NW

Royal Mail’s claim for the period between 13 and 31 August 2009 is therefore made on the basis that each strike day plus a three day period for performance recovery and in addition all mail for London postcode areas is removed from the results to reflect the time taken to recover from the IA.

5.3.3 Coordinated rolling London, network and other regional IA

The period under consideration is from 1 September 2009 to 21 October 2009, the day before the start of National IA. This falls partly within Quarter 2 (which ends on 6 September 2009) and partly within Quarter 3 for 2009-10 scheduled services reporting.

Following the August Bank Holiday the number and frequency of strikes increased, leading up to the national strikes. Graph 5.3 shows the daily weekday performance for first class stamped and metered mail during this period, together with the adjusted performance based on removing the immediate impact of individual strikes with a period of three working days following each one. Although this adjustment mechanism gives a considerable increase in performance it does not fully restore performance to target level because it does not take full account of the impact of the IA.



**Graph 5.3**

The reasons why the approach to adjustment of performance used by Postcomm in its 2007 Decision do not fully allow for the impact of the 2009 transformation-related IA are explained below.

## Recovery periods

The approach adopted by Postcomm for adjusting individual local and regional strikes do not account for the time the overall pipeline needs to recover.

It is possible that individual striking units may recover workplan within the three working days applied by Postcomm in its 2007 Decision, i.e. the units meet the scheduled times for activities to be carried out. Outside London Royal Mail's contingency plans, which built on the lessons learned in 2007-08, and the efforts of its management volunteers meant that during this period the network in fact recovered within 24 hours and many striking mail centres were back on workplan within two to three working days of IA. Where units did take longer to recover there were various causes. [§]. The issues in London are described in section 5.4. Further details of workplan failures are shown at Annex 25.

The integrated nature of the mails pipeline is such that where a large number of local and regional strikes are co-ordinated into a pattern of simultaneous or rolling action, as experienced by Royal Mail during September and October, the pipeline as a whole and hence the quality of service will take longer than the individual units to recover. Once this situation is reached, adjusting performance according to the approach used by Postcomm does not take proper account of the disruption caused by the IA.

## Network strikes

Royal Mail's transport network is predominantly road-based, with some [§] road services each night based on a hub and spoke design. There are seven major cross-docking operations, the largest at NDC and the next largest at PRDC. There are 38 vehicle operating centres based at the RDCs, some Mail Centres and other sites. Air is used only where distance and speed demand (28 flights each weekday between 11 main airports and seven island airports). Rail is used on a limited basis, mostly for second class (seven routes a day between three rail hubs). Network volumes peak on the day after a bank holiday and on 1 September 2009 the network handled some [§] containers, around a 40% increase on an average day when there are less than [§].

The main network strikes are set out in Table 3.2 in section 3.4. There were five strikes during September and October involving a substantial proportion of network units, following a similar strike on 27 August. The most widespread strike was on 2 September when NDC, PRDC, seven of the other nine RDCs and eleven vehicle operating centres took simultaneous action. These sites are scheduled to handle nearly half of first class non-pre-sort and Special Delivery mail<sup>37</sup> and two-thirds of second class non-pre-sort and returned letter mail going through the road network.

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<sup>37</sup> Including incoming international mail.



The adjustments to performance proposed by Postcomm in its 2007 Decision understate the impact of network strikes in 2009-10 upon the overall quality of service results for two main reasons:

- The integrated nature of Royal Mail’s pipeline and interdependence of its network is such that adjusting the results for individual strikes at network units is unlikely to account fully for the impact upon the overall pipeline, particularly once a significant proportion of the network is on strike. Although Royal Mail’s contingency plans allowed much of the network to operate during the IA this was not a fully normal working environment and inevitably some disruption to non-striking units did result, for example from late arrivals at the inward mail centre or delivery office. Failures arising from these impacted the performance not only of mail directly affected by the IA but also other mail within the non-striking units further down the pipeline.
- Whilst it is possible to adjust the results for strikes at the major distribution centres and hubs such as NDC, it is far more complex to remove from the results the impact of strikes at smaller hubs and vehicle operating centres and this has not been attempted. However, such strikes impact substantially on Royal Mail’s road network and also upon connections to its rail and air network.

During September 2009 Royal Mail deployed both Network 2009 and weekend network changes, which had been deferred from the summer in an attempt to allow CWU buy-in, but which could not be delayed any longer because of the build up of volumes and requirement to establish changes before Christmas. These changes are described in section 6.5.3. Although these deployments took place at a time when mail volumes were increasing, which was not ideal, implementation went well and did not cause widespread network failures.

London

The issues in London and the impact upon London recovery are set out in section 5.4. These issues impacted substantially on performance during this period, resulting in backlogs of mail in London mail centres and many London delivery offices, which were not fully cleared before the national strike.

Diversions

[redacted].

In 2008-09 the three London Mail Centres processed [redacted] of UK outward mail<sup>38</sup> and [redacted] of UK inward mail.

[redacted].

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<sup>38</sup> Including incoming international mail for delivery in the UK.

The mechanism applied by Postcomm in its 2007 Decision to what were essentially all out national strikes occurring on set dates or isolated unballoted regional strikes, does not take account of this broader impact and would not be a fair reflection of the direct impact of the 2009 IA on quality of service.

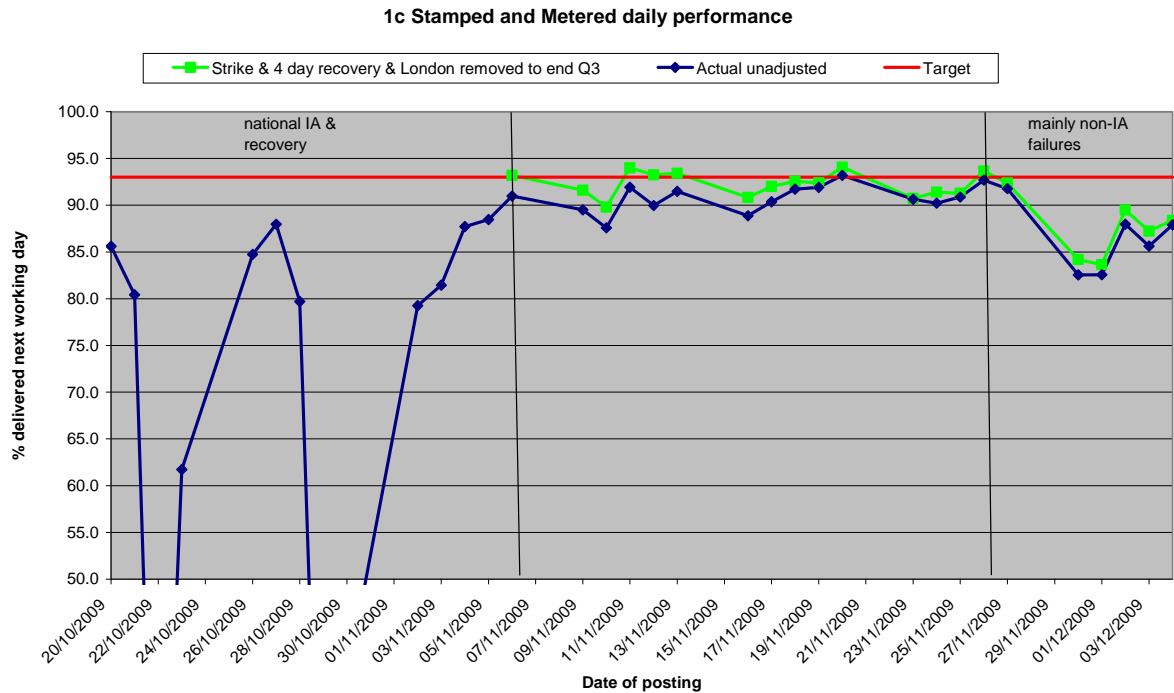
## Summary

The combined effect of all these factors [3<] meant that that in spite of its extensive contingency plans and the effort put in by its managers Royal Mail was unable to fully restore national performance to target levels during this period between bouts of London, regional and network IA. **Royal Mail's claim therefore excludes all UK mail posted between 1 September and 21 October 2009.**

### 5.3.4 National IA and post IA (Quarter 3)

The period under consideration for the National IA is 22 October to 5 November 2009 and for post IA 6 November 2009 to 6 December 2009. These periods fall within Quarter 3 for 2009-10 scheduled services reporting.

National rolling strikes took place on 22 and 23 October and again on 29, 30 and 31 October 2009. There were only four working days between the two set of strikes. As Graph 5.4 below illustrates, although it had improved substantially first class stamped and metered performance had not yet had time to recover to target levels from the first national strike before the second national strike began. The third set of national strikes was due to begin on 6 November 2009, again leaving a four working day gap between the two sets of strikes. These strikes were called off and by 6 November first class stamped and metered performance had risen to over 90%. As described in section 5.4, there were residual problems in London offices and when performance is adjusted for this by removing London mail as illustrated by the green line below, first class stamped and metered performance returns to and remains at or around the target level from 6 November onwards. This confirms that outside London service had recovered from the national IA after four working days. Performance is therefore adjusted by removing all four working days between strikes in addition to the national strike days and the four working days after the second national strike.



**Graph 5.4**

Graph 5.4 also shows that in the week commencing 30 November 2009 performance fell below target level. This was due to a number of network failures and issues with the deployment of the Christmas operating plan in a week that would normally be mostly included in the Christmas service period<sup>39</sup> and fall outside the scheduled standards. As these failures were not generally due to IA Royal Mail has not included any further adjustment to this week in its application.

Royal Mail therefore seeks adjustment to this period on the basis of excluding the strike days for both national strikes with a further four day period for performance recovery, together with the removal of London postcode areas until the end of Quarter 3. This means that

- all UK mail posted or delivered between 21 October and 5 November 2009 is excluded, and
- all mail posted or delivered in the eight London postcode areas<sup>40</sup> between 6 November 2009 and 6 December 2009 is excluded.

<sup>39</sup> The Christmas period begins on the first Monday in December. For 2009 this was 7 December, i.e. the latest it can possibly be.

<sup>40</sup> E, EC, W, WC, SE, SW, N, NW

## 5.4 London issues and recovery

Outside of the wider IA across the UK, there were very specific local issues that arose just in respect of London. The London strikes affected a substantial part of Royal Mail's pipeline:

- The eight London postcode areas cover c.2 million delivery points and c.15,000 collection points covered by c.2,000 collection routes. There are 118 delivery offices with over 4,000 delivery routes and 19 separate collection hubs<sup>41</sup> located administratively in two Royal Mail regions: London (E, EC, N, W, WC, SE and SW) and Thames Valley (NW).
- There are also three Mail Centres, East London (ELMC), Mount Pleasant and South London (SLMC) that process mail for E, EC, N, W, WC, SE and SW postcodes, and also perform collections. (Mail for NW postcodes is processed outside the main London area at Greenford Mail Centre).
- There are over 10,000 front line employees working at the London units above.
- London is served by two regional distribution centres at PRDC and East London Distribution Centre.
- The London strikes also involved the network hubs at PRDC and East London Distribution Centre, and four smaller network units.

### 5.4.1 The situation in London

As described in Chapter 2, during 2009 Royal Mail deployed a series of changes in London offices to introduce more flexible working practices under the Pay and Modernisation Agreement and to put in place foundations for migrating to transformation initiatives such as walk sequencing. There was considerable resistance to such changes from the CWU.

The first major London strike was on 19 June, with further strikes in July. As mail volumes are traditionally low over the summer period, residual mail was cleared quickly after each strike and within the following day or two. East London Mail Centre was the exception to this with failures over a prolonged period of time due to unballoted IA (see for example Table 3.7 in section 3.7).

The situation gradually worsened as the summer progressed and the frequency of strikes increased. Deployment of transformational change by executive action also increased during the second half of August, with eight delivery revisions, two delivery offices amalgamated

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<sup>41</sup> Delivery offices in London do not generally perform weekday collections but do perform Saturday collections.

and relocated and five further revision notices served, along with the removal of four day weeks progressing to the final stage of the IR framework. [X]. Employees at one Delivery Office were taken off pay for refusing to use Car Derived Vans. Restrictive practices were removed at East London Mail Centre, with frontline employees taken off pay for non-compliance, resulting in unballoted IA. Sick absence was also at high levels.

The London and network IA immediately prior to the August bank holiday on Friday 28 and Saturday 29 August led to a step change to the situation in London offices. The bank holiday weekend arrivals and the backlog from this strike increased the backlog of mail building up in the London Mail Centres and Delivery Offices. The subsequent spate of London strikes during September and October made it very difficult to clear this mail backlog completely as there was very little time available between strikes to recover.

Although the frequency and intensity of the IA was the main problem, a number of other factors also contributed to the slower recovery in London and these are described below.

**Behaviours between strikes:** The level of IA in London, where some offices took 19 days of strike action, was unprecedented in recent years. As it went on for week after week with no end in sight the situation became increasingly difficult to control. [X].

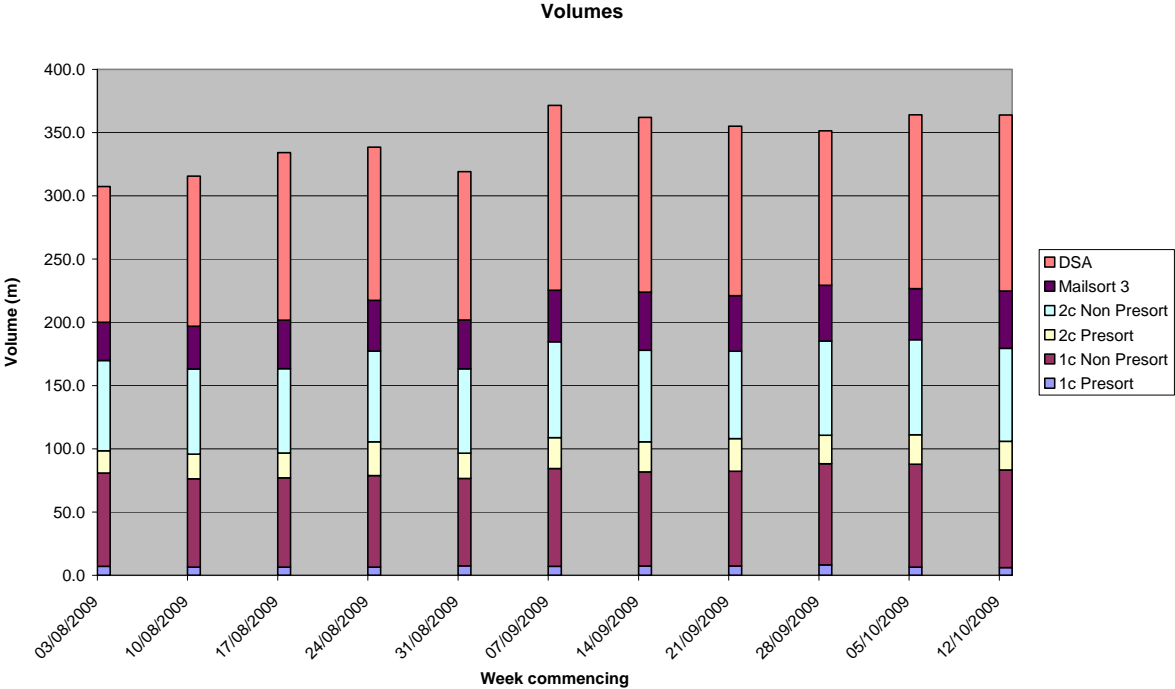
**Delivery revisions:** During September 75 delivery revisions in London units (including NW) were introduced by executive action, compared with 22 during August and 20 during May, June and July. A further 22 were introduced in October. As described elsewhere, Royal Mail needed to make these changes in order to introduce flexible working practices, to align workload with falling mail volumes and to deploy new equipment such as the new Car Derived Vans. [X].

**Managerial pressure:** By the start of September London managers had been dealing with ongoing IA since mid June, with major strikes each week since early July, working long hours to provide as good a service to customers as possible, whilst managing the IA, dealing with the difficult culture and recovering performance. These managers also had to deal with the behaviours described above, managing poor performance [X], acting as yard marshals to prevent deliberate obstruction by drivers, and dealing with employees waiting to be instructed before performing any task, however familiar. Support managers were also assisting with the strike and recovery whilst having to undertake their day jobs.

**Increased sick absence:** Graph 3.1 in section 3.8.2 clearly shows the sustained increase in 2009 sick absence levels over 2008 from the beginning of June until early February. During the 2009 IA period sick absence rates averaged 5.7%, some 16% higher than the pre-strike period and a 0.8% additional loss of resource. The peak rate was 6.6%, some 34% worse than the pre-strike period and a 1.7% loss of resource. This average hides the impact in individual units, some of which experienced sick absence rates of over 10% in some weeks.

**Seasonal increases in volumes:** Graph 5.5 below shows weekly national volumes from 3 August until 12 October after which volumes are atypical because of the national IA. Note that volumes in week commencing 31 August are reduced because of the bank holiday. In

the following week, volumes increased by 15% over the August average. Weekly volumes over the rest of September and October were between 9% and 12% higher than the August average. The increased volumes placed additional pressure on London units already trying to cope with weekly strikes.



**Graph 5.5**

**Space constraints:** In a number of delivery units the office was physically unable to cope with the additional volume of mail caused by the backlog or to take large numbers of additional volunteers to process this mail, meaning that the mail had to be processed on a different site.

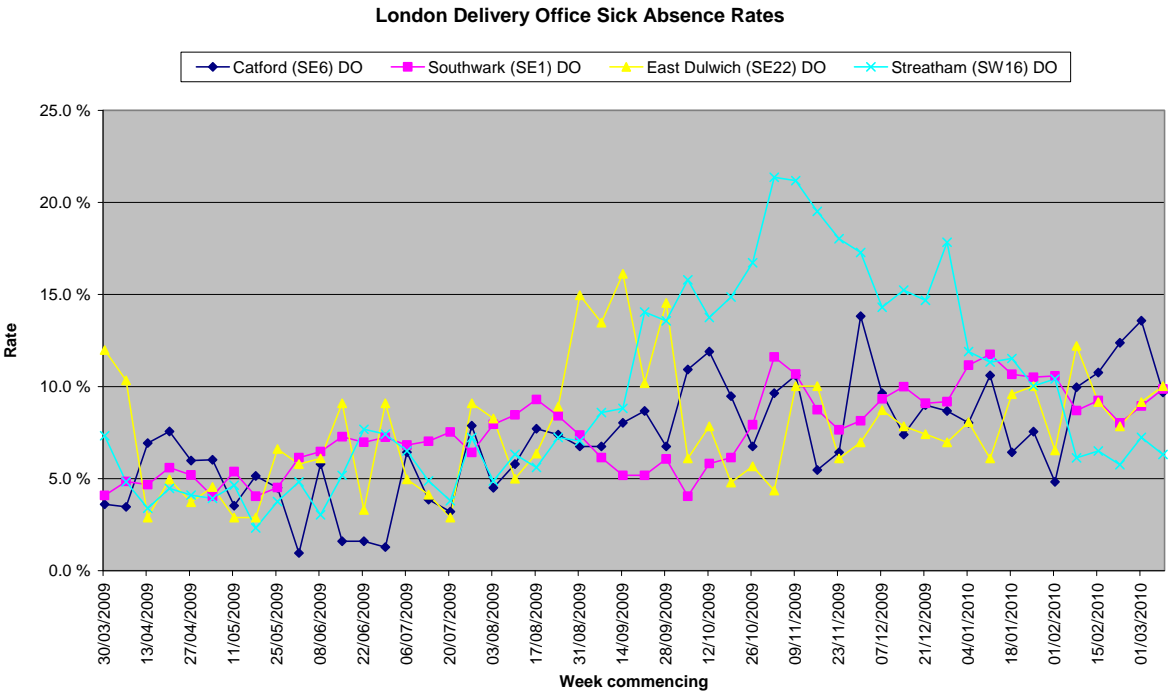
A weekly diary of recovery activity is provided at Annex 23. As described here and in section 4.6.3, Royal Mail instituted a range of operational measures to aid recovery, reduce the backlog, alleviate the issues and give customers the best possible service under the circumstances.

5.4.2 Post-national IA issues in London

The Interim Agreement was reached with the primary objective of creating the environment and time to proceed with national negotiations. Whilst the Agreement brought an immediate end to the official IA related to both the London and National ballot, it did not bring immediate resolution of the key issues that had resulted in the London ballot being called. Therefore, the industrial relations climate in London remained strained and the conflict continued beyond 5 November.

There were a number of specific incidents of unballoted IA in London during this period that resulted in groups of workers having their pay abated, such as the strikes in East London Mail Centre on 6–7 November and Bow Delivery Office on 20 November. Of the 310 working days lost to such unballoted IA during November and December, nearly half were in the eight London postcode areas. [X].

Whilst the level of sick absence saw a step change improvement in London Region shortly after announcement of the Interim Agreement, levels were still significantly higher than prior to the IA, as can be seen on Graph 3.1 in section 3.8.2. Graph 5.6 below illustrates the high sick absence rates, continuing after the signing of the Interim Agreement, for some individual London Delivery Offices.



**Graph 5.6**

During this period, Royal Mail sought to address these continuing issues in the London region through negotiation and consultation with the CWU rather than inflame the situation – and potentially disrupt the national negotiations – by employing some of the more direct responses at Royal Mail’s disposal such as taking people off pay or charging people with improper conduct.

There were a number of reasons why units in London (mostly in delivery) continued to [X]:

- A significant level of transformational change was deployed in London Delivery units during the IA in August and September, despite the CWU’s withdrawal of co-operation with the implementation of the Pay and Modernisation Agreement, and individuals were continuing their protest against these changes.

- Units were also protesting against the fact that Royal Mail management had demonstrated its resolve to continue with the necessary changes even when CWU co-operation had been unreasonably withdrawn. Historically, CWU opposition in London had often successfully resulted in change being delayed or undermined and hence employees and CWU representatives were uncomfortable with this new resolve.
- Many individuals were unhappy that the Interim Agreement did not provide automatic and immediate reversion of the changes that had already been made, particularly in relation to four day weeks [X].
- Many individuals in London were frustrated that they had lost up to 20 days pay as a result of taking part in IA and felt that the Interim Agreement left them with 'nothing to show for it'.
- Some individuals wanted to continue their protest against Royal Mail's policy of only offering normal overtime levels to striking individuals rather than allowing those who went on strike to recover their lost earnings through overtime.
- Units were keen to prove that the transformational changes made despite the ongoing IA (e.g. removal of four day weeks), the tools used to make those changes (e.g. Georoute) and the new methods introduced (e.g. Car Derived Vans) did not work [X].
- Some individuals were concerned that the ultimate National Agreement would not address the issues that had resulted in the London Ballot being raised and hence wanted to put pressure on both their own CWU and Royal Mail national negotiators.
- Relations between local managers, CWU representatives and frontline staff were strained and meant that co-operation and flexibility was very low.

A number of actions were carried out to address the ongoing problems in London and a significant number of hours were committed to negotiations at Regional, Area and Unit level. On 1 December, ACAS were introduced to London Region to facilitate effective completion of the reviews of local changes under the Interim Agreement framework and a Royal Mail/CWU joint statement (attached at Annex 42) was released to help unblock issues at local unit level. On 2 December, a joint conference was held with CWU Area Representatives and Royal Mail management to facilitate a way forward in units where four day weeks had been removed. On 10 December a joint DSM and Area Rep event was held on the future delivery strategy. This event was intended to demonstrate trust and inclusion by sharing strategic information and to explore opportunities to exploit the initiatives contained within the future delivery strategy to help unblock current issues.

However, despite the best efforts of Royal Mail management and ACAS, by late December less than 20% of the reviews required under the Interim Agreement had been concluded in London (when close to 100% had been completed across the rest of the country). The reliance on temporary staff also remained high in London. Between the signing of the Interim Agreement and the start of the Christmas pressure period, on average over 19,000



hours of temporary resource were used in London Region per week – almost half the level used during the Christmas pressure period. Both facts clearly demonstrate that the Interim Agreement had not brought an immediate resolution to the issues encountered in London prior to 5 November 2009.

This was particularly evident in a number of high impacting units which had highest levels of backlog, namely:

- [X].

Performance in London therefore continued to be impacted by IA after the Interim Agreement had been signed on 5 November 2009. This is illustrated further by Table 5.1 below which shows the weekly delivery office workplan failures in all eight London postcode areas. Before the IA began in June 2009 the average total weekly workplan failure was c.14,000 items.

**Table 5.1 London Delivery Office workplan failures**

[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Daily workplan failures in London Region delivery offices (E, EC, W, WC, SE, SW, N) are shown in Graph 5.7 below. Whilst performance improved following the end of the IA it did not return to pre-strike levels, demonstrating the impact of the continuing IA described above. The graph shows further that a substantial proportion of the failures were in just six Delivery Offices, although all postcode areas were affected. Two of the three London Mail Centres also continued to report both outward and inward workplan failures due to IA.

[X].

Royal Mail did not allow excessive overtime for employees in these units but took a number of actions to protect service to customers. Struggling units were ‘buddied’ with other regions, who sent managerial support over a number of weeks. Royal Mail also advanced the use of Christmas casuals, continued to use the courier company for packet delivery and maintained walk sequencing support for one North London office. These measures are described further in section 4.6.3 and in Annex 23. By the start of the Christmas period, performance in all but a handful of London units had returned to typical levels for the Christmas period.

## 5.5 Tail of mail analysis

As described above, the key measure of service recovery is when the **daily national performance** returns to target level, as achieved before the IA, and this has been used to determine the correct adjustments to the results to take account of the IA.

In considering the effectiveness of Royal Mail's contingency and recovery plans it is also instructive to analyse, for days when the target was not met, **how many days late the mail posted on that day arrives**. As for the assessment of daily national performance, this analysis is based on the performance of first class stamped and metered mail because this is measured using the largest survey and has the most accurate daily results. Tail of mail charts for the other scheduled services included in the application are shown at Annexes 27 and 28.

Table 5.2 below sets out the percentage of mail delivered by day for first class stamped and metered mail posted over the period 18 June (just before the first London-wide strike) to 27 August 2009 (the start of the August bank holiday strikes). Day B indicates the first working day after posting, Day C the second working day, etc. This is known as "tail of mail" performance. Note that Saturday postings have been excluded as sample sizes are too small, resulting in excessively wide confidence limits.<sup>42</sup> A green entry shows performance at or above the 93.0% target, a yellow entry performance less than 1% below target and a red entry performance 1% or more below target. Major strike days are shown in bold. On the dates not shown in the table, Day B performance met the target.

**Table 5.2**

1c stamp & meter	Proportion delivered			
	By Day B	By Day C	By Day D	By Day E
Date of posting				
<b>Thu 18/06/09</b>	90.6	99.0	99.8	100.0
<b>Fri 19/06/09</b>	91.2	96.3	99.4	99.9
...				
<b>Tue 07/07/09</b>	87.9	98.3	99.4	99.7
<b>Wed 08/07/09</b>	90.1	98.1	99.4	99.6
<b>Thu 09/07/09</b>	92.5	98.4	99.5	100.0
<b>Fri 10/07/09</b>	87.1	96.0	99.8	99.9
...				
<b>Thu 16/07/09</b>	87.4	97.4	98.4	99.6
<b>Fri 17/07/09</b>	88.7	94.5	99.5	99.9
<b>Mon 20/07/09</b>	91.6	99.2	99.9	99.9
...				
<b>Fri 24/07/09</b>	89.8	95.6	98.5	99.1
<b>Mon 27/07/09</b>	94.2	98.6	99.7	99.8

<sup>42</sup> As an example 91.9% (+/- 3.9%) of 1c Stamped and Metered items posted on Saturday 13 June achieved Day B service, with 99.4% (+/- 1.0%) being delivered by Day C

1c stamp & meter	Proportion delivered			
	By Day B	By Day C	By Day D	By Day E
Date of posting				
<b>Tue 28/07/09</b>	84.7	97.7	99.4	99.8
<b>Wed 29/07/09</b>	91.6	98.5	99.5	99.5
...				
Fri 31/07/09	92.9	95.8	98.9	99.8
...				
Wed 05/08/09	92.0	98.3	99.1	99.5
<b>Thu 06/08/09</b>	89.3	97.7	99.0	99.7
<b>Fri 07/08/09</b>	84.6	93.6	99.7	99.7
Mon 10/08/09	91.7	97.8	99.4	99.7
<b>Tue 11/08/09</b>	87.0	97.4	99.4	99.6
<b>Wed 12/08/09</b>	81.2	95.7	98.4	99.0
Thu 13/08/09	87.0	98.1	99.0	99.7
Fri 14/08/09	89.9	97.1	99.5	99.8
Mon 17/08/09	89.1	96.7	99.3	99.8
Tue 18/08/09	83.8	96.4	98.7	99.3
<b>Wed 19/08/09</b>	83.5	96.4	98.6	99.2
<b>Thu 20/08/09</b>	89.2	98.6	99.0	99.5
Fri 21/08/09	91.7	97.3	99.2	99.3
Mon 24/08/09	91.4	98.6	99.5	99.8
Tue 25/08/09	91.8	98.6	99.6	99.7
Wed 26/08/09	92.8	99.1	99.5	99.6
<b>Thu 27/08/09</b>	86.2	97.1	98.3	99.4

This table shows that during this period of disruption, at least 93% of mail posted on all days where the target was not met had arrived by Day C, the working day after it was due. Although the target level was not met for 30 days during this period, the IA had only delayed the mail by a working day. This illustrates the overall effectiveness of the contingency and recovery arrangements during this period.

The table also demonstrates that Royal Mail followed the first in/first out approach agreed with Postcomm wherever possible. If Royal Mail had not followed this approach then mail posted or due for delivery on major strike days would have had a significantly longer tail of mail than mail posted on other days. However on all 30 days where 93% of mail posted had not arrived by Day B this level had been achieved by Day C.

Table 5.3 below shows the same tail of mail information for the period between 28 August 2009 (August Bank Holiday strikes) and 6 November 2009 (the end of the IA).

**Table 5.3**

1c stamp & meter	Proportion delivered			
	By Day B	By Day C	By Day D	By Day E
Date of posting				
<b>Fri 28/08/09</b>	78.7	88.1	94.6	96.3
Mon 31/08/09	No results - bank holiday sample sizes too small			
<b>Tue 01/09/09</b>	75.3	89.5	95.0	98.2
<b>Wed 02/09/09</b>	66.0	90.1	95.5	97.0
<b>Thu 03/09/09</b>	65.2	87.0	91.8	96.5
Fri 04/09/09	71.7	83.3	94.4	97.2

1c stamp & meter	Proportion delivered			
	By Day B	By Day C	By Day D	By Day E
Date of posting				
<b>Mon 07/09/09</b>	69.4	89.6	96.2	97.7
<b>Tue 08/09/09</b>	70.3	90.0	95.3	97.8
<b>Wed 09/09/09</b>	77.7	92.0	95.8	96.4
Thu 10/09/09	79.0	92.3	95.1	98.3
Fri 11/09/09	84.3	91.8	97.6	98.4
Mon 14/09/09	84.3	94.1	96.8	97.9
<b>Tue 15/09/09</b>	82.1	94.6	97.3	98.0
<b>Wed 16/09/09</b>	77.7	90.3	95.6	96.8
Thu 17/09/09	80.8	93.7	94.6	97.5
Fri 18/09/09	81.0	87.3	94.5	96.6
Mon 21/09/09	76.2	87.4	94.0	96.3
<b>Tue 22/09/09</b>	76.1	89.8	94.6	97.7
<b>Wed 23/09/09</b>	76.8	89.7	94.7	95.5
Thu 24/09/09	77.3	91.6	93.5	96.2
Fri 25/09/09	79.5	85.0	91.3	95.0
<b>Mon 28/09/09</b>	72.9	85.5	93.0	96.2
<b>Tue 29/09/09</b>	62.6	84.2	92.5	95.9
Wed 30/09/09	74.9	88.6	94.0	95.2
Thu 01/10/09	76.8	91.5	93.9	96.2
Fri 02/10/09	81.8	87.5	95.2	97.1
Mon 05/10/09	82.1	92.6	96.6	98.0
Tue 06/10/09	78.8	92.3	95.9	97.2
Wed 07/10/09	82.1	92.2	96.0	97.0
Thu 08/10/09	82.7	91.6	93.6	97.3
Fri 09/10/09	72.7	79.8	91.1	95.9
<b>Mon 12/10/09</b>	79.1	91.0	96.4	98.1
<b>Tue 13/10/09</b>	81.2	93.7	97.8	98.9
<b>Wed 14/10/09</b>	82.2	91.8	96.1	96.9
Thu 15/10/09	82.7	93.6	94.7	97.0
Fri 16/10/09	82.1	86.9	95.1	97.8
Mon 19/10/09	82.1	95.3	98.0	98.0
Tue 20/10/09	85.6	96.0	96.4	98.2
<b>Wed 21/10/09</b>	80.4	87.8	96.1	97.5
<b>Thu 22/10/09</b>	1.2	79.2	91.5	96.6
<b>Fri 23/10/09</b>	61.7	81.5	95.4	97.9
Mon 26/10/09	84.7	96.4	98.2	98.9
Tue 27/10/09	88.0	96.4	98.0	98.5
<b>Wed 28/10/09</b>	79.7	91.3	95.3	97.2
<b>Thu 29/10/09</b>	3.7	40.6	78.4	94.1
<b>Fri 30/10/09</b>	39.3	79.3	93.3	97.3
Mon 02/11/09	79.3	95.3	97.9	98.6
Tue 03/11/09	81.5	97.1	98.4	99.4
Wed 04/11/09	87.7	96.7	98.7	99.1
Thu 05/11/09	88.5	97.6	98.2	99.1
Fri 06/11/09	91.0	96.3	98.9	99.6

This table shows that during this period of intensive regional and national disruption, on the 50 days where the target was not met, at least 93% of mail posted on days where the target was not met had arrived by Day C (one day late) on 14 days and by Day D (two days

late) on 30 days. On the remaining six days 93% of the mail posted had arrived by Day E (three days late). Again this illustrates the overall effectiveness of the recovery during this period. Clearly this is a national average and individual regions will have had shorter or longer tails; however, the regional daily results are not accurate enough to evaluate this with any degree of confidence.

Tail of mail performance was inevitably more varied during this period of rolling regional and national strikes, although the majority hit 93% by Day D, again supporting the deployment of first in/first out. It is possible that the shorter tails on 14, 15 and 17 September reflect the change in first in/first out policy on 9 September, although this may also be due to the end of the rolling action. The six days with the longest tail of mail were:

- September 2009 – mail posted on this day would be delayed by simultaneous London and network strikes.
- 25 September 2009 – no particular reason for a longer tail other than backlog from preceding strikes.
- 29 September 2009 – mail posted on this day would be delayed by simultaneous London and network strikes.
- 9 October 2009 – some mail posted on this day would be delayed twice by network and regional mail centre IA on 9 October and regional delivery office IA on 10 October.
- 22 October 2009 – mail posted on this day would be delayed twice by national IA at mail centres on 22 October and delivery offices on 23 October so a longer tail is expected.
- 29 October 2009 mail posted on this day would be delayed twice by national IA at mail centres on 29 October and delivery offices on 31 October so a longer tail is expected.

For the October national strikes, Table 5.4 below illustrates further that Royal Mail handled, wherever possible, mail on a first in/first out basis during and after the strikes. The table shows the date of delivery for first class items posted during and immediately after the national strikes<sup>43</sup>.

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<sup>43</sup> This table is a representation of Table 5.3 for ease of understanding.

**Table 5.4**

	Date of posting	93% delivered by
Wednesday	21 October 2009	24 October 2009
Thursday	22 October 2009	27 October 2009
Friday	23 October 2009	27 October 2009
Monday	26 October 2009	28 October 2009
Tuesday	27 October 2009	29 October 2009
Wednesday	28 October 2009	31 October 2009
Thursday	29 October 2009	03 November 2009
Friday	30 October 2009	03 November 2009
Monday	02 November 2009	04 November 2009
Tuesday	03 November 2009	05 November 2009
Wednesday	04 November 2009	06 November 2009
Thursday	05 November 2009	07 November 2009
Friday	06 November 2009	09 November 2009

Had Royal Mail not attempted to process mail on a first in/first out basis, the table above would show that first class items posted after the strikes - from 26 October and 2 November - were being delivered before items posted during the strike. This is clearly not the case.

## 5.6 USO collection and delivery standardised measures performance

Royal Mail delivers to over 28 million delivery points per day - served by approximately 65,000 delivery routes. Similarly, Royal Mail collects from around 115,400 post boxes, 82,000 business customers and 11,900 Post Office outlets every day.

As set out in section 4.6.2, for a small number of regional strikes in delivery and collection units outside London, Royal Mail was able to meet its full USO obligations through the use of management volunteers. The sheer scale and frequency of other regional strikes, particularly in London where there are around 2,000 collection routes and 4,000 delivery routes meant that it was not possible to provide a full USO service using volunteers. However in the vast majority of strikes at units providing a delivery and collection service, a full USO service was restored on the following working day. Therefore, for regional IA Royal Mail seeks relief for failures occurring on the strike day only, and for the small number of instances where failure was caused by IA in the form of an overtime ban.

On days of national IA at delivery and collection units, the performance of a percentage of collection points served each day and of the percentage of delivery routes completed each day is severely impacted as Royal Mail does not have sufficient contingency resource to cover these duties. The impact of the national IA is shown in Table 5.5 below. Whilst this table shows a considerable improvement in performance of these standardised measures on the first working day after a strike, it is clear that performance does not immediately

return to pre-strike levels, apart from Collection USO on 2 November 2009.

**Table 5.5**

2009	Impact	Collection USO	Delivery USO
Thursday 22 October	Collections from Mail centres, deliveries co-located with Mail Centres	78.95%	93.56%
Friday 23 October	Collections and deliveries from delivery offices and separate collection hubs	53.27%	21.54%
Saturday 24 October	Working day following national IA	99.48%	98.70%
Thursday 29 October	Collections from Mail centres, deliveries co-located with Mail Centres	79.35%	93.52%
Friday 30 October	Day following national IA, London collection hub IA	95.87%	98.61%
Saturday 31 October	Collections and deliveries from delivery offices and separate collection hubs	52.09%	22.62%
Monday 2 November	Working day following national IA	99.92%	97.06%

On the working days immediately following a national strike:

- There was a considerable increase in the amount of indoor sortation and preparation work that had to be completed before postmen and women could start the outdoor part of their delivery (this was particularly true for rolling/consecutive day strikes).
- Striking employees had to participate in an essential return to work briefing, designed to ensure as quick a return as possible to normal working in the unit.
- These factors resulted in the outdoor part of the delivery starting later than normal and this, combined with the additional weight that had to be carried on delivery and go slow activity in some units, resulted in delivery 'cut-offs'<sup>44</sup> – causing part failures of the delivery routes completion standard.

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<sup>44</sup> A delivery 'cut-off' is where the delivery postman has reached the end of his shift without having completed his delivery round – so he returns to the office with his undelivered mail (which is then delivered the following day).

- Collection vehicles had been redeployed to cover Corporate Priorities during the national IA on the previous day and were not always immediately available for collection activity.
- [X].

For these reasons, Royal Mail is seeking relief during this period not only for the national strike days but for failures occurring on the working day immediately following the national strike, apart from Collection USO on 2 November 2009.

The methodology used for Royal Mail's claim is set out in Annex 9.

## 5.7 Summary

Royal Mail has assessed the impact of adjustments upon the daily performance of first class stamped and metered mail as the most reliable indicator of the underlying quality of service and has made appropriate adjustments to its quality of service results. It has also analysed the length of delay caused by the IA to mail failing the target.

This analysis demonstrates that the approach applied by Postcomm to the 2007 IA is not appropriate for the 2009 IA, which was too different in nature to be comparable. In particular the adjustment of quality of service results for individual strikes alone does not take full account of the collective disruption to the pipeline as a whole of many individual strikes coordinated into a single campaign, nor the quality impact upon non-striking units processing mail diverted from striking units in order to accelerate the recovery in those units.

There is not a standard recovery period for each type or length of strike; every strike has to be evaluated for its particular circumstances so as to properly reflect the direct causal effect of the IA upon quality of service performance. Applying a standard would result in unnecessary adjustments to Quarter 1 results, whilst not removing the full impact of the IA in Quarters 2 and 3.



# Chapter 6: Progress with, and benefits of, transformation

## 6.1 Synopsis

Royal Mail has embarked on a sweeping and radical operational, commercial and cultural transformation of its business. This transformation is of critical importance if Royal Mail is to continue to meet the needs of a rapidly evolving competitive market whilst ensuring the safeguarding of a secure universal service. Royal Mail has already made good progress with the transformation of its business, despite the ongoing strike action, with consequent benefits for its customers.

## 6.2 Introduction

The postal services sector is undergoing a structural shift. Addressed inland mail volumes have declined by over 10% in the past two years and are expected to experience further substantial decline over the next few years. At the same time there is increased pressure on prices with a direct flow through to the delivery cost base.

The critical importance of Royal Mail transforming its business, and especially its operations, to adapt to these changes is well recognised and was at the heart of the recent Government review of the UK postal services sector. The findings of the Hooper Report included the following.

- *“There is a general consensus that the status quo is untenable. The universal service cannot be sustained under present policies.*
- *A radical reform of Royal Mail’s network is inevitable. The company has a plan to achieve this. But the pace of change needs to accelerate significantly.*
- *Unless Royal Mail can modernise faster, a forced restructuring under European rules is highly likely. That would be a costly and poor outcome for the taxpayer, for consumers, for Royal Mail and its employees.*
- *Sustaining the universal service depends fundamentally on modernising Royal Mail.*
- *We believe that for the universal service to be sustainable, Royal Mail must modernise more quickly. This means removing the constraints.”*

The over-riding message from the Hooper Report is not only for Royal Mail to modernise but *“that the process of modernisation must happen more quickly and go further than Royal Mail’s current plans”*. As noted in Postcomm’s letter to Royal Mail of 21 June 2007, however, *“Such sweeping change is believed to create a significant probability of industrial action, as transformation activities are undertaken.”*

### 6.3 Royal Mail’s role in the future of the UK postal services industry

The modernisation of Royal Mail is critical for a number of reasons.

- First, it will ensure the safeguarding of a secure universal service for the whole industry. Royal Mail will continue to provide a high quality, six days a week, national collection and next day delivery service across the UK. This universal service forms the backbone of the industry, underpinning both the competitive postal market and mail’s competitive position against alternative communications and fulfilment options.
- At the same time, it will allow Royal Mail to drive innovation across mails applications to deliver the products and services demanded in a competitive market. This is necessary both to meet customer needs and to meet the structural changes to the industry in the face of the convergence of digital media and communications.
- Finally, Royal Mail will be able to continue to make the necessary investment into the access infrastructure that other postal operators rely on, ensuring the continuing development of an effective competitive market. In doing so, it will offer wholesale customers access to an efficient delivery service based on the universal service infrastructure which, in turn will allow them to compete genuinely on cost, service and innovation.

In order to meet these objectives, Royal Mail has embarked on the most sweeping operational, commercial and cultural transformation in the company’s history. Royal Mail has a radical transformation plan and the funding in place to execute it. Whilst not without risk, with the necessary support from stakeholders and the commitment and engagement of its employees Royal Mail will build a postal service fit for the 21st century.

### 6.4 Royal Mail’s transformation programme

Royal Mail’s transformation programme has **three** key operational aims. Customer needs should be met through **innovation and efficiency** as a result of Royal Mail delivering market leading quality of service. This will be made possible by achieving **world-class productivity and through investment** in a modernised environment. Finally, Royal Mail’s services will be delivered by **engaged, flexible and competitively paid people who are appropriately equipped for the job**.

Royal Mail has made good progress in achieving these objectives. It has already invested £1.6 billion of the £2 billion investment being made in the Letters business by 2011. The following Tables 6.1 and 6.2 set out the main areas of expenditure and highlight the capital intensive projects that form the bulk of the capital expenditure to date.

**Table 6.1 – Breakdown of total investment**

Actual Investment	06/07 Actual	07/08 Actual	08/09 Actual	09/10 Actual	Cum Total
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]

\* Includes project capex, vehicle capex, capital creditors etc

**Table 6.2 – Capital expenditure made on Capex intensive projects**

	06/07 Actual	07/08 Actual	08/09 Actual	09/10 Actual	Cum Total
[X]					
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]

In parallel, Royal Mail is transforming its approach to procurement in order to drive down non-people costs, through the implementation of new processes, systems and purchasing strategies. This project is delivering significant financial benefits for the Royal Mail Group and is a key enabler in delivering the overall transformation.

The effect has been to make Royal Mail more efficient and enable the company to remain profitable in spite of falling mail volumes and revenues. Overall, Royal Mail expects to achieve efficiency improvements of [X] base year. Royal Mail also carries a high fixed cost especially relating to its delivery operation where the impact of volume decline reduces revenue but has much less impact on the costs. For example, delivering two letters rather than three letters to a delivery point still requires the activity to be undertaken (for example, walking the path to a house) but the revenues are reduced proportionally more than the costs. This makes efficiency improvements more difficult.

The main transformation changes being effected are considered in detail below under section headings that relate to each of the three operational aims.

## 6.5 Innovation and efficiency

Royal Mail has invested and will continue to invest in its business to drive innovation and ensure improved efficiency. Innovation does not mean just developing the existing business but also investing in new sources of revenue outside (but related to) the core business to ensure that the company is sustainable and financed in the long term.

Royal Mail will also work with the whole industry to ensure that mail is, and is seen to be, an environmentally responsible medium by simplifying mailing, particularly for small businesses, to reduce the industry's carbon footprint. Royal Mail will also help direct mailers more effectively target their customers and mailings to deliver both greater value and reduced environmental impact which will also help in safeguarding the universal postal service as customers received more targeted communications.

### 6.5.1 Automation

Royal Mail is investing [£] to upgrade existing property and equipment and to automate its pipeline.

#### Walk sorting

Letters are prepared for delivery in two, separate processes: walk-sorting, and walk-sequencing. Whilst Royal Mail's leading competitors in Europe today sort 85% of their mail by machine to each address in the sequence of the postman's delivery route (i.e. sequenced mail), Royal Mail has only recently achieved mechanical sorting (i.e. walk sorted mail) of over 80% of the mail to route level with the postman then sorting by hand (sequencing) to address level on the delivery route. To improve efficiency and reduce costs, Royal Mail is therefore replacing and upgrading its letter sorting and flat sorting equipment.<sup>45</sup>

#### Walk sequencing

Automated walk sequencing is fundamental to transforming the whole Royal Mail operational pipeline. The consequences of automated walk sequencing for Royal Mail

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<sup>45</sup> 138 Integrated Mail Processors have been upgraded so far in Mail Centres nationwide and work is underway on building extensions for up to 90 machines to expand further their sorting capabilities. The first "intelligent" Letter Sorting Machine ("iLSM") (a new generation of automated sorting equipment) has been installed at the Jubilee Mail Centre in Kingston in Surrey and a further ten have been installed with orders placed for a further 65 machines. iLSMs sort mail faster and more efficiently than the existing Integrated Mail Processors. Six more Large Flat sorting machines, which sort larger items of mail such as catalogues and magazines have been installed and Royal Mail now operates 25 of these machines.

include: the need for fewer large machines; Mail Centre estate rationalisation; simplified processes; improved quality of service; reduced costs and cultural change in delivery. The walk sequencing initiative is a key component of the entire Royal Mail transformation and is significantly greater than merely installing new more efficient machines. It changes the entire delivery operation, increases efficiency and changes the roles of the delivery postperson. There will be less indoor work to do, there will be varied start times and more part time people in the workforce. Additionally, there will also be longer outdoor delivery spans linked to new delivery methods such as shared vans, which will remove weight off the shoulder of the outdoor postperson and reduce the risk of musculoskeletal injuries. The walk sequencing initiative, the new machinery and new ways of working, with engaged employees will help Royal Mail deliver both greater efficiency and benefits to customers.

Despite the impact of IA, the national roll-out of walk sequencing machines commenced with three machines being delivered a week. The aim is to have more than 500 in use by the end of 2011. This will see around 75% of letters “walk sequenced” by that time as 85% of the mail is walk sorted. Small machines are already in place at Gatwick and in the West of England; and large machines trialled at Bristol, Hull and Southampton, with machines deployed in Dorset and Northwest Midlands.

Overall, Royal Mail has ordered and started installing over 400 of the new sorting and sequencing machines in the last three years and they are being installed at the rate of approximately six each week, with the one hundredth machine having been installed by mid April. This was achieved during the difficult industrial relations climate.

#### 6.5.2 Mail Centre investment and rationalisation

Royal Mail is investing [£] to upgrade its network of Mail Centres. Sites that are no longer needed or no longer fit for purpose in a mechanised network are being closed. In their place, new sites are being built (or existing sites upgraded) to be optimally designed and located to provide a high quality first class service at lowest possible cost and with a much lower carbon footprint. Overall, there will be a substantial reduction in the number of Mail Centres with an even greater number replaced by modern facilities fit and capable of providing the products and services demanded by the market. After extensive consultations with the Unions, affected employees, local authorities and MPs, Royal Mail has either closed or announced the closure of 11 Mail Centres in total, with work moved to more efficient offices, and the construction of two new Mail Centres.<sup>46</sup> The installation of iLSMs and flat sorting machines (FSMs), together with the piloting of and subsequent roll

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<sup>46</sup> Paddington Mail Centre was closed in 2008 with the mail moved to adjacent mail centres (MC) in the London area. Oldham and Stockport MCs were closed in 2009 and the mail was moved to Manchester MC. Oxford and Reading MCs were closed in 2009 with the mail moved in to Swindon MC during 2008/09. Royal Mail has also announced that it is planning to close Bolton MC in 2010 with the mail transferring to Manchester. Crewe and Liverpool MCs are also closing in 2010 with mail being processed at a new MC in Warrington. Northampton, Coventry and Milton Keynes MCs are closing during 2010 with the mail moving to the new South Midlands MC. [£].

out of World Class Mail<sup>47</sup> (“WCM”) concepts are also central to the changes to the Mail Centres.

### 6.5.3 Network 2009

Since the introduction of the previous changes in its transport network in 2007, Royal Mail has seen significant changes to the business. The decline in overall mail volumes has accelerated and despite an increase in packet volumes [X], there have been a number of key office movements, alongside changing customer requirements and products. Royal Mail has had to respond to these changes by revising its network in order to remain commercially viable and efficient. The key changes have been: [X]; greater efficiency in managing larger packet volumes [X]; improved efficiency in transportation through the optimisation of Royal Mail’s vehicle fleet, also allowing mail to be transported in a more environmentally responsible way; and better forecasting and planning [X].

Royal Mail will undertake annual reviews of its transport and network operation as it responds to changes in transport legislation, volume and mix changes and network infrastructure such as locations of mail centres to ensure optimisation of the network.

### 6.5.4 Improved pipeline visibility

Customers have an increasing need for greater consistency and accuracy, the tracking of services and more flexible delivery options (which requires a more flexible workforce). To address these changing needs, customers’ experience of dealing with Royal Mail will be improved through easier access, particularly online, and more relevant and timely information on the status of postings. Royal Mail is investing [X] in providing visibility across the entire pipeline, allowing customers and recipients to know where each item of their mail is in real time.

### 6.5.5 Product innovation

As well as investing in property and equipment, Royal Mail is driving innovation across its product offering. This includes Royal Mail’s sustainable mail product and building a fulfilment business to capitalise on the growth of home shopping and just-in-time supply chain management, providing new levels of information to senders and recipients on where their goods are, and a range of convenient delivery options that will lead the market.

Royal Mail will also make mail, and particularly advertising mail, easier to use for small businesses, and build Royal Mail’s capability as a partner in growth for SMEs. In parallel, the aim is to grow mail as an advertising medium, both as a highly effective complement to

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<sup>47</sup> See further at section 6.9 below.

digital communications for customer acquisition and relationship management, and as an alternative or complement to broadcast and other media for brand building.

Additionally there are a number of marketing projects that will help deliver new sources of revenue.

## 6.6 Productivity and investment in a modernised environment

Royal Mail is undertaking a number of investments in its business to increase productivity. These include:

- Focusing on delivering world-class standards across its processing operations, applying standard operating procedures based on lean principles and driving continuous productivity improvement through front-line engagement (this is described further at section 6.7 below).
- Capitalising on its investment in the visibility of each item through the pipeline to identify the root causes of failure in customer service (while allowing customers to know where their mail is at any time).
- Overhauling its delivery operations ensuring improving efficiency through a standardised approach to delivery optimisation.

Delivery Offices and outdoor delivery methods are being redesigned to meet the needs of the changing market place. Key to this has been enabling local flexibility and transforming operational working practices as anticipated by the Pay and Modernisation Agreement, thereby achieving a better alignment to workload and an increase in part time delivery hours.

On the technical side, Royal Mail has sought to take advantage of the improvements in sequencing outlined above. It is doing so by investing in a suite of software applications relating to the address/delivery point data (coordinates, hazards etc) that Royal Mail uses for some of its key activities, including optimising collection and delivery routes, to support walk sequencing and to update walk and postcode data.

A further [§<] is being invested in new equipment for delivery postmen and women to ensure their workload is fair and reasonable, and to cope with the increase in bulky and heavy items as the market changes. This has included the purchase of approximately 2,400 electric powered trolleys and 24,000 lightweight trolleys to reduce the risk of musculoskeletal injury and 11,500 new vehicles, thereby improving the working conditions of frontline delivery personnel by reducing the weight they carry.

Royal Mail has also invested in and deployed 27,000 hand-held Postal Digital Assistants (“PDAs”) to improve data capture at the point of delivery to show that a tracked parcel or letter has been delivered on time and safely. This initiative involved the training of 37,000

delivery postmen and women and created one of the UK's biggest corporate WiFi networks. Royal Mail won an accolade for the deployment of the new technology by winning the inaugural 'Wireless and Mobility Excellence Award'. Royal Mail plans to increase the number of PDA's [X] to deliver an improved and enhanced service to customers.

It was important that Royal Mail used the Pay and Modernisation Agreement 2007 to deliver the changes that are absolutely necessary to transform its operations. The detail of this agreement is set out in section 2.3.1 but it has enabled Royal Mail to progress with and deliver the benefits of transformation.

## **6.7 Engaged, flexible and competitive workforce**

There are a number of key steps that Royal Mail will take to ensure that it has a fully engaged, flexible and competitive workforce, with improved customer service the number one priority across all levels of the business.

First, Royal Mail used the Pay and Modernisation Agreement 2007 in order to progress the introduction of flexible working practices across operations. Particular progress was made in the implementation of Phases 1 and 2 of that Agreement. As described in detail in Chapter 2, in Phase 1 Royal Mail was able to implement immediate operational changes in the Network and in delivery units to make better use of automation and weekend working. Phase 2 delivered local flexibility with the two key strands being the roll-out of new technology and new ways of working. The implementation of Phase 3 (or "transforming the way we work"), which was to deliver changes in working practices including greater flexibility with pay increases linked to deployment, was a major contributory factor to the 2009 IA. Chapter 2 provides more details of the 2007 Pay and Modernisation Agreement and the difficulties encountered, particularly in certain parts of the country, in delivering these changes.

Royal Mail has recognised the importance of employee engagement and as transformation changes the roles and responsibilities of Royal Mail's people it is imperative that investment is made in frontline training, as well as ensuring that our operational managers have the skills to lead their teams. Additional investment is being made to ensure that the performance measurement and management systems are in place to support world-class levels of continuous improvement. Increased investment in individual development is designed to increase the levels of capability, involvement and engagement of Royal Mail's employees during a period of unprecedented change. Royal Mail's plan also includes [X] each year in ongoing training.

This training project for frontline employees commenced in April 2008, in line with the changes brought about by the 2007 Agreement, and is ongoing as new equipment is introduced into a unit. All employees are to be trained in standard operating procedures and root-cause problem solving to improve safety, customer service, product quality and unit costs. Front-line management will be provided with the skills to lead and be



supported by the performance measurement and management systems to provide world-class levels of improvement.

Royal Mail intends to remain a high quality employer with a directly employed workforce. However, to make sure it has the requisite flexibility to meet the demands of customers in an increasingly competitive market, there will be some increase in ratio of part time to full time employees.

Royal Mail will continue to offer apprenticeships to enhance the attractiveness of the business to young people entering the workforce. Although the IA in 2009 impacted its roll-out, this training is central to engaging with employees to explain the need for change and the benefits which such changes will bring in helping to safeguard full time positions and jobs. Training is also a key plank of the Business Transformation 2010 and Beyond Agreement.

## **6.8 The Agreements**

### 6.8.1 The Interim Agreement of 5 November 2009

Details of the Interim Agreement are set out in section 2.6. This Interim Agreement was important as it led to the end of the IA, enabled Royal Mail to deliver a strike free Christmas and was also a catalyst of the changes which the 2010 Agreement (described in detail below) brings about.

### 6.8.2 “Business Transformation 2010 and Beyond Agreement”

On 8 March 2010, Royal Mail and the CWU reached agreement on a new three year deal which: “reaffirms the 2007 Pay and Modernisation Agreement, concludes all outstanding Phase 4 negotiations, and builds upon the November 2009 Interim Agreement Key Principles – thus enabling the successful transformation of Royal Mail into a modern, dynamic and world class company”.

The 2010 Agreement acknowledges that the business faces the need to radically transform, “every aspect of its operations” in order to survive and prosper. It also tackles the urgency of the current situation and identifies what has to be done to address it.

The wording reflects the transformation being delivered, which started with the Pay and Modernisation Agreement 2007 and which makes clear the key components of operational transformation, as follows:

- the introduction of new machinery/technology aligned to a new six-day standardised workplan;
- improved delivery methods, equipment and ways of working;

- a mail centre and RDC rationalisation programme that provides a lean, fit-for-purpose, standardised and modern pipeline;
- to provide an operational platform to respond effectively to volume decline and the opportunity for developing new products and services;
- the introduction of world class methods and working practices delivered by fully engaged, motivated and better rewarded employees;
- remuneration lump sums incentives for front line explicitly related to delivering transformation, and
- working with employees to achieve world class productivity.

This enabling agreement is highly significant as it covers a much longer period than previous agreements, giving certainty and stability until the end of 2012-13. It enables modernisation to proceed through agreement, delivers, over the course of the three years, improved performance bringing, “everybody’s actual performance up to the level of the top 10% performance”, with both parties also committed to the deployment of WCM. There is an agreed revisions process for the delivery function with business tools and processes agreed, including the use of the Indoor Workload Tool (IWT) and Pegasus computer programmes. There is also a Mail Centre Rationalisation Framework Agreement for deploying change that streamlines and replaces the 2003 agreement, setting out principles and processes to be followed when looking at mail centre closures and in which both parties recognise that a, “significant reduction in the current mail centre estate will result”. This is underpinned by a National Processing Group and a regional level process, at the end of which, any final decision will be accepted by the CWU, who will jointly support the implementation and deal with the employee impact.

There is also a Logistics Framework agreement for deploying change and a recognition by Royal Mail and the CWU that the combined factors of competition, a new mail centre network, automation, improved efficiency and changing and fluctuating volumes, will, as is the case with mail centre rationalisation, result in a significant reduction in the number of RDCs over the next three years through mergers or new builds. Given the scale of transformation and rationalisation, the national distribution network will be under constant review and there will be changes to the vehicle operating centre network in line with reductions in mail centres and RDCs. Additionally, Fleet and Maintenance Services will be transformed to ensure that Royal Mail has a world class upper decile benchmark operation and the garage network will be reviewed to ensure that it is properly aligned to meet the needs of the Royal Mail business while optimising efficiencies.

Royal Mail recognises the impact on its people that the modernisation of the business will bring. For this reason, the agreement focuses on the need to work to improve relationships and on strengthening the frameworks for doing this, thereby enabling changes to take place whilst providing service continuity to customers. Contracts of employment will be standardised and Royal Mail and the CWU are committed to managing the transformation

by giving employees professional help in making decisions about their future, with a programme of support activity. This will assist the goal of managing headcount reduction without leaving unresolved surplus. Royal Mail has developed programmes currently called “Clear Choice” and “Next Steps” to do this. “Clear Choice” has already been subject to involvement and consultation with the CWU, specifically in mail centres. These involvement principles will be applied to “Next Steps” in other affected functions.

## 6.9 World Class Mail

Royal Mail has developed and is deploying world class standards of performance and methods using a range of approaches.

One such approach developed by Royal Mail is the WCM initiative. The core underlying principles of WCM are the commitment, support and engagement of all employees in the business. As such, it is a comprehensive system for improving safety, quality, productivity, and reducing breakdowns. It recognises that world class performance is achieved by involving all employees in attacking wasted time and resources.

The most important aspect of WCM, and delivering the transformation of the business, is through the involvement of all of Royal Mail’s employees. The approach being followed by Royal Mail is delivering significant benefits, most importantly in the areas of employee engagement and continuous improvement.

As a result of the implementation of WCM, hours have been reduced, efficiency and safety have been improved and continuous improvement is being delivered. Some examples of Key Performance Indicators at one WCM Mail Centre site include a 33% reduction in accidents year on year, cost deployment saving of 5% against operating budget and 197,000 items being processed through an Integrated Mail Processing (IMP) machine without a minor stop. The impact across eight similar machines has incurred a cost of [£] but led to an on-going benefit per annum of [£] (a benefit to cost ratio of [£]).

WCM was originally piloted in a number of locations in January 2009 and is now being rolled out across Royal Mail. All Mail Centres and RDCs will be engaged in WCM by September 2011. In delivery offices WCM is still being developed and will be launched in all delivery offices and network hubs by September 2012.

The Business Transformation Agreement 2010, as explained above, is a key enabler in delivering the change required and the engagement of all Royal Mail employees in order to bring about the necessary change. Royal Mail welcomes the support and full involvement of the CWU in taking WCM forward with a positive role in improving and enhancing WCM to ensure its success in practice. Royal Mail believes that the progress already made in deploying WCM in a relatively few units and sites will bring significant improvements as, with the support of the CWU going forward, it can be rolled out further and faster, engaging positively with our people and delivering the benefits which have already been shown in the pilot units.

The positive engagement, commitment and enthusiasm of people involved in WCM so far has delivered significant benefits and with the support of the CWU under the 2010 agreement, Royal Mail expects a step change increase in continuous improvement benefits.

## **6.10 Benefits of transformation**

Royal Mail's overriding objective in transforming its operations is to help safeguard the long term future of the business and thereby the universal service, which is at the heart of providing the benefits that all types of customers (paying and receiving, large and smaller business customers and residential customers) receive.

Royal Mail's transformation is delivering the changes required through improving efficiency, reducing costs and restructuring the company's national network of Mail Centres, RDCs and Delivery Offices.

Royal Mail is delivering customer benefits through optimising modern working practices and the use of technology which permits efficiency that, when combined with Royal Mail's network and know-how, translates into the best possible service for customers. There is a clear focus on improving the standard service offering, which is providing improved delivery quality and consistency and better tracking and visibility of mail through the pipeline.

Standard services will be complemented by extra delivery and mail access options to meet additional customer needs, particularly for those buying and receiving goods.

There is and will be further automation and efficient pipeline management which is facilitating the rapid processing and movement of mail through the network and the new automation and equipment will make mail deliveries safer for Royal Mail's people and will provide reliable, consistent delivery times for customers.

Improved technology will allow regular provision of performance information, so customers can be assured they are getting what they pay for and improved efficiency and ways of working will allow Royal Mail to maintain a high-quality and valuable universal service for customers across the UK. Increased information about Royal Mail's network and provision of timely information will support customers through changes to services.

Fulfilment customers will see an improved and simplified product portfolio to better meet their needs, with the development of tracked products and other new products to enter new markets. These customers will also benefit from the creation of a suite of convenient delivery options that ensure 'right first time' delivery for receivers.

In the advertising sector, "Sustainable Mail" is being positioned to help promote the Green agenda across the industry.

Better managed collection routes will mean a more efficient, consistent service for customers, at a time when volumes from collection boxes continue to fall and when over

27% of the collection boxes (some 31,000 boxes) generate less than 1% of the daily processed volumes. Better tracking of mail into the network, reduced manual handling and more flexibility for additional customer needs will professionalise the way Royal Mail collects from customers.

The collections transformation includes optimising collection routes to reduce costs and achieve more consistent service, use more handheld tracking to increase the visibility of mail when it enters the Royal Mail network. Royal Mail is also becoming more agile in meeting 'one off' collection requests from customers, is more flexible in collecting from large posters and accepting mail later in the day, using better automation to still achieve delivery aims. Royal Mail is also collecting more mail in containers to reduce manual handling and keeping mail in the best possible condition and enabling speedier processing as more mail can be automated.

Royal Mail's delivery function is the largest part of its operation, serving every community and business in the UK and represents the largest proportion of Royal Mail's operational costs and employing the highest number of employees. Changes are crucial in helping Royal Mail to improve efficiency, adapt to a changing mail profile and satisfy changing customer needs. Royal Mail is also supporting customers through longer opening hours of enquiry offices and the trialling of "packstop" delivery points to provide more convenient choices to home shopping customers. As set out in Chapter 7, Royal Mail has also made significant improvements to its customer communications, including daily customer reporting and the development of email contact databases, which allows Royal Mail to contact customers in contingency situations.

Transformation in delivery is being progressed through optimising delivery efficiency using balanced workloads and more automation to sort and sequence mail for delivery. Royal Mail is providing an expanded range of additional delivery options to meet business customer demand, increasing convenient access options to help customers access their mail, tailoring delivery arrangements to ensure customer convenience in goods fulfilment and will deliver a step-change in the consistency of delivery time. Improving delivery technology will provide customers more mail tracking and delivery assurance, all of which will help to maintain a high quality best value universal service for customers.

## 6.11 Summary

Royal Mail has, despite the IA in 2009, been delivering the business transformation that is essential in helping to safeguard the universal service but it needs now to be able to complete its modernisation programme. Royal Mail has used the 2007 Pay and Modernisation Agreement to deliver change, despite the obstruction of the CWU in 2009, and has already made significant progress with its modernisation. In 2009-10, over 5% of gross hours were removed from the operation, equivalent to around 16 million hours and over 7,500 FTE, as the resolution of issues such as working inflexibly, not making full use of hours paid for, early finishes and demarcation led to improvements in working practices and

increased efficiency. In parallel, Royal Mail continued to make substantial capital investment in its operations across the entire pipeline during 2009-10.

The Interim Agreement and the “Business Transformation 2010 and Beyond” agreement have now created a platform for Royal Mail to continue at pace with its modernisation. The 2010 Agreement, in particular, provides a three year period of certainty and stability for progress to be made.

Royal Mail’s transformation will ensure that modern working practices and the use of technology permit increased efficiency. This, in turn, translates into the best possible service for customers. Better tracking and visibility of products through our network, new service options in delivery and collections and, for customers buying fulfilment goods, standard services will be complemented by extra delivery options including evening and time specific deliveries.

The 2010 Agreement is a catalyst for change and Royal Mail and the CWU recognise that transforming relationships and modernising the culture is critical to the sustainability and success of the business and that without a radical improvement in relationships at all levels then the business cannot succeed. The various framework agreements and the commitment of the CWU to World Class Mail demonstrate that Royal Mail needs to be allowed to continue with its transformation with a sense of certainty for the benefit of all postal users in the UK.

# Chapter 7: Royal Mail's Customer Communications

## 7.1 Synopsis

Royal Mail took the necessary steps to communicate with its customers, taking account of their requirements, in a coordinated and effective way before, during and after the different stages of the IA when services were disrupted.

## 7.2 Introduction

During the previous period of IA in 2007, some stakeholders raised concerns as to the adequacy of Royal Mail's customer communications. In response to those concerns, Royal Mail Customer Services recognised that there was an opportunity to make further improvements and developed a range of enhanced communications to address potential Mail Centre IA in December 2008. The fact that this IA did not take place meant that the communications were not fully deployed, but the planned approach and activity were used as the basis for Royal Mail's 2009 IA customer communications strategy.

Royal Mail's customer communications during the 2009 IA were designed to provide detailed information on the disruption caused by IA and how customers could get the best possible service in the circumstances. It is important to recognise, however, that, no matter how effective the communications strategy and deployment are, they cannot remove the actual impact of disrupted postal services for customers.

The overall approach adopted was designed to:

- Apologise sincerely for the impact and inconvenience of disruption caused by IA.
- Provide targeted, proactive and timely communications to those customers who would be impacted by IA in different areas, using appropriate mechanisms for the type of customer. Where there was regional disruption, communicate proactively with customers who would be impacted by this.
- Provide customers with information about what was happening, why it was happening (including context about the need for Royal Mail to change and

modernise its business), what it would mean for them and how they could continue to access mail services.

- Explain the steps Royal Mail was taking to maintain and recover service and the contingency plans in place to minimise disruption for its customers.
- Detail the collections and deliveries expected to be affected, to allow customers to plan posting schedules around the IA to minimise the impact on their business.
- Provide consistent communication messages across all customer channels regardless of where customers accessed Royal Mail.
- Ensure customers were kept informed as to the different channels through which they could access up to date information on IA.

The approach was integrated with external relations and internal communications.

### 7.3 Service information and communication channels

Within the overall approach to communications described in the above introduction, the specific service information provided to customers included:

- **Delivery** – which offices were affected, which postcode areas they serve, the length of likely delays, mail handled in sequence, hotspot offices.
- **Business Collections** – what to expect, how to still access service.
- **Mail Posted** – collection and handling arrangements, likely service delays.
- **Special Delivery/Tracked Plus** – maintenance of service, delivery details and clarity about when Royal Mail could guarantee next day services and when the guarantee was suspended or reinstated.
- Handling **Downstream Access mail** – clarity about which inward mail centres were affected and when, likely impact and commitment to sorting mail in sequence.
- **Contingency and recovery plans** – information on the mechanisms in place to allow customers to get their mail into the network if service was disrupted, measures being taken to ensure any disruption was minimised and anticipated recovery to normal service.
- **Reassurance** – reassurance that mail was kept moving and was being delivered as quickly as Royal Mail was able.



- **Avoiding speculation** – factual information about ballots, strike notifications and talks, focusing on service.
- **Being honest** about what Royal Mail did not know or could not answer with certainty.

Communications were delivered using a wide range of channels targeted at specific customer types to meet their differing needs.

Smaller businesses and social customers were supported as follows:

- **Website** – information was provided on royalmail.com using a specific service ([www.royalmail.com/serviceupdates](http://www.royalmail.com/serviceupdates)). A national page was first established, and then supplemented by regional pages to allow management of clear information to customers in different parts of the country. This was accessed from the “Latest News” part of the website and customer service area during regional strikes and from the front page of the website when national strike action was announced. The information was updated daily as a minimum or more frequently as required. This was a major source of information for customers, with hits rising from c.18,000 per week in mid July to over 254,000 per week for the second national strike at the end of October.
- In addition to this, “Ask Sarah” – Royal Mail’s **online Customer Service Agent** – delivered a direct link to service pages and was driven by constant updating of frequently asked questions based on keyword searches. Hits about strike activity were typically 1,300 to 2,000 per week during periods of IA.
- **Information Posters in Post Office branches** – posters were sent each week to all Post Offices in affected areas, providing key information to SMEs and consumers throughout the regional IA. During national IA, e-posters and information bulletins were sent to all branches. At the height of the IA in October, some 12,000 posters were produced and sent out each week.
- **Telephone helpline** – Call plans, messaging and geographical routing were adapted to identify affected customers using their STD code and streamline their call handling. Advisors were briefed daily on the IA, including reminders on the handling of compensation claims. On strike days, customer calls to striking delivery offices were routed to central Customer Services wherever possible. Additional resource was deployed to deal with the increased number of calls, as described in section 7.5. At its peak, weekly calls rose to c.184,000 with an average during the IA of around 146,000 per week on the consumer customer service line.

- **Business Helpline** advisors were briefed to help businesses enquiring about the IA; although the work done by the customer handling teams in conjunction with customer use of the website meant that call volumes stayed fairly static at 14,000–17,000 calls per week (Graph 7.2 below).
- Direct targeted **collection communications** on what to expect and alternatives for accessing our network for customers normally receiving a business collection. Typically 5,000 to 9,000 customers were contacted per week, rising to well over 50,000 customers for each of the national strikes.
- Customer communications via the media using press releases and/or advertisements. For example, Royal Mail placed an advert in all national newspapers on 19 October to advise customers about the first national strike and Special Delivery guarantee suspension (Annex 33).

In addition to all of the above channels, communications with larger business customers and national mailers used the following further resources:

- **Sales and service account teams** were used to provide detailed information to large business customers. Detailed impact assessment by account teams were communicated for national posters. All information was shared with Royal Mail Wholesale for use with DSA customers.
- **Customer Handling teams** were given daily briefings and key messages to support both proactive and reactive contacts (typically some 3,500 proactive calls were made to business customers about IA per week). Royal Mail also made significant use of email to alert its customers and keep them informed. For example, ahead of the planned national IA on 6 and 9 November Royal Mail sent c.230,000 emails to its customers in one week explaining what was expected to happen and what it was doing to minimise disruption.
- **Alerts/notifications** were sent daily to some 5,500 customers who had registered for these on the website.

#### 7.4 Communications during different phases of the strike

The IA communications plans were deployed for the first major London strike on 19 June 2009 (the intermittent low level IA in the first quarter was handled using standard customer communications). As the IA progressed from mainly London units into other regions, from intermittent strikes to IA almost every day, and ultimately to a series of national strikes, the communications approach and channels were monitored and adapted to deal with this effectively.

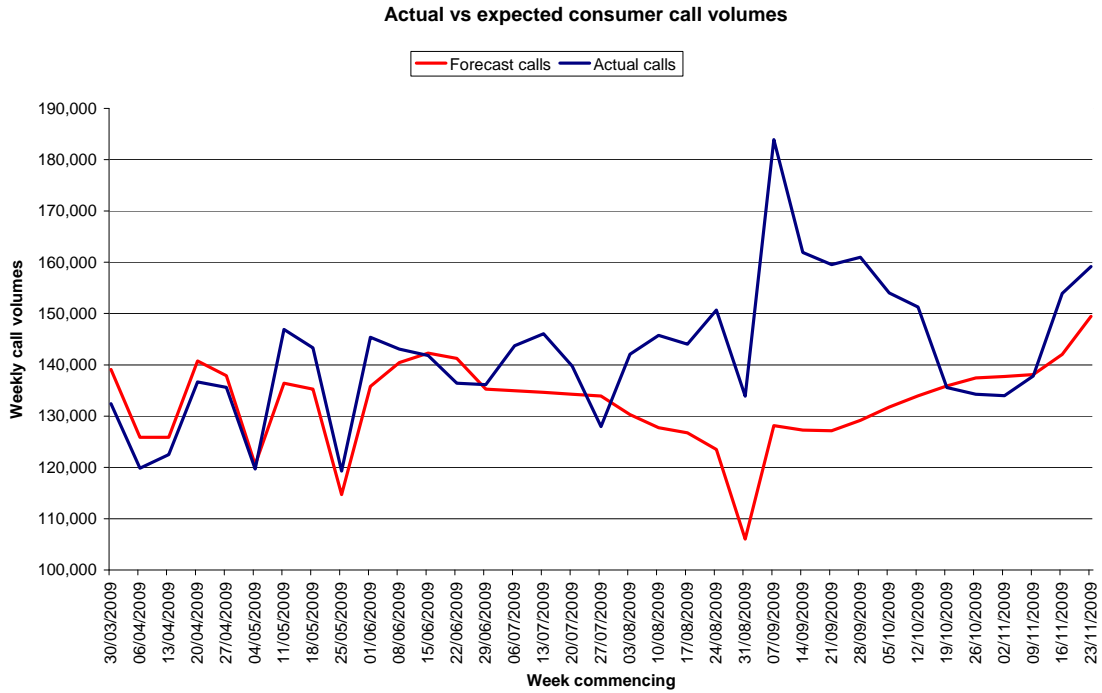
A detailed description and log of all the communications deployed during IA to keep Royal Mail’s individual customers informed on a coordinated basis is set out in Annex 33, along with attached examples where relevant. A summary of the different phases of activity is shown in Table 7.1 below.

**Table 7.1 Overview of communications by phase of strike**

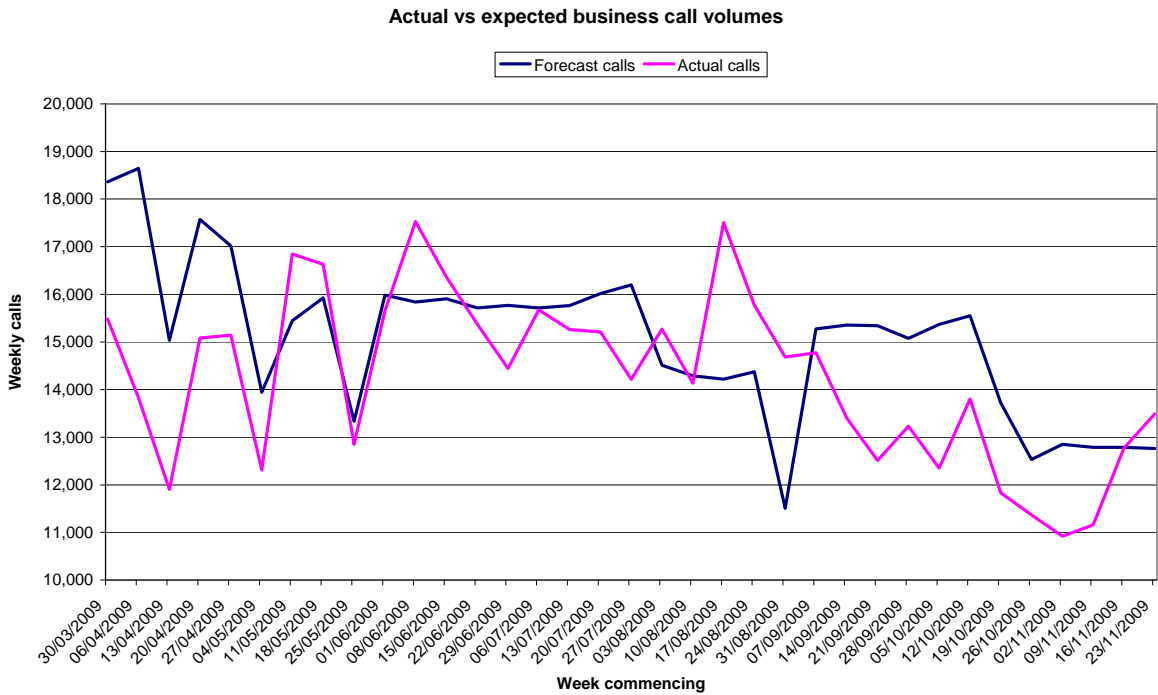
IA phase	Communications approach
Intermittent IA London only (19 June to 10 July)	<p>Proactive communications focused on those affected in London and large national posters with reactive information for other parts of the country and unaffected customers.</p> <p>Communications were tailored for the initial day of announcement of IA, the week before the IA was scheduled to happen, again 48 hours and 24 hours beforehand, on the actual day of the IA and after the IA had happened.</p> <p>Consumer Focus kept updated on a regular basis.</p>
Increasing IA in London and a small number of other areas (July)	<p>As described above, but communications to those affected now also tailored by region (e.g. London, Midlands, South West).</p>
More frequent IA in London and other areas including the network plus low levels of unballoted IA (August)	<p>Communications now follow a weekly cycle with regular daily updates, rather than before/during/after.</p> <p>Breakfast briefing conference calls, email updates and service alerts are used to keep customer-facing teams informed of the far more fluid situation.</p> <p>Bulk mail customers are briefed by email on the impact of network IA.</p> <p>Special measures such as hard copy handouts are used to advise customers of unballoted IA.</p> <p>A more sophisticated call plan with detailed messages is introduced for telephone contacts.</p> <p>Information posters produced and sent each week to Post Offices in affected areas.</p> <p>Consumer Focus kept updated on a regular basis.</p>

IA phase	Communications approach
<p>Almost continual rolling IA in London and other regions (31 August to mid October)</p>	<p>This was the most intense period for consumer weekly call volumes, reaching c.184,000 consumer calls during the second week of September. Weekly business call volumes peaked at c.17,500 calls in the third week of August.</p> <p>Communications were as described above, with the addition of weekly POL briefings introduced to help POL staff in affected areas to advise customers.</p> <p>Use of weekly written customer briefings brought in to supplement verbal updates for business customers.</p>
<p>National IA (22-23 October, 29-31 October, 6 and 9 November)</p>	<p>Communications now targeted at all customers.</p> <p>Mailing agents notified about impact upon collections</p> <p>POL posters distributed as e-posters to branches.</p> <p>Special delivery guarantee suspensions for IA on 22-23 October advertised in press.</p> <p>Proactive contact with customers by Royal Mail customer services at its peak reached c.2,900 phone calls and c.230,000 emails in the first week of November.</p>

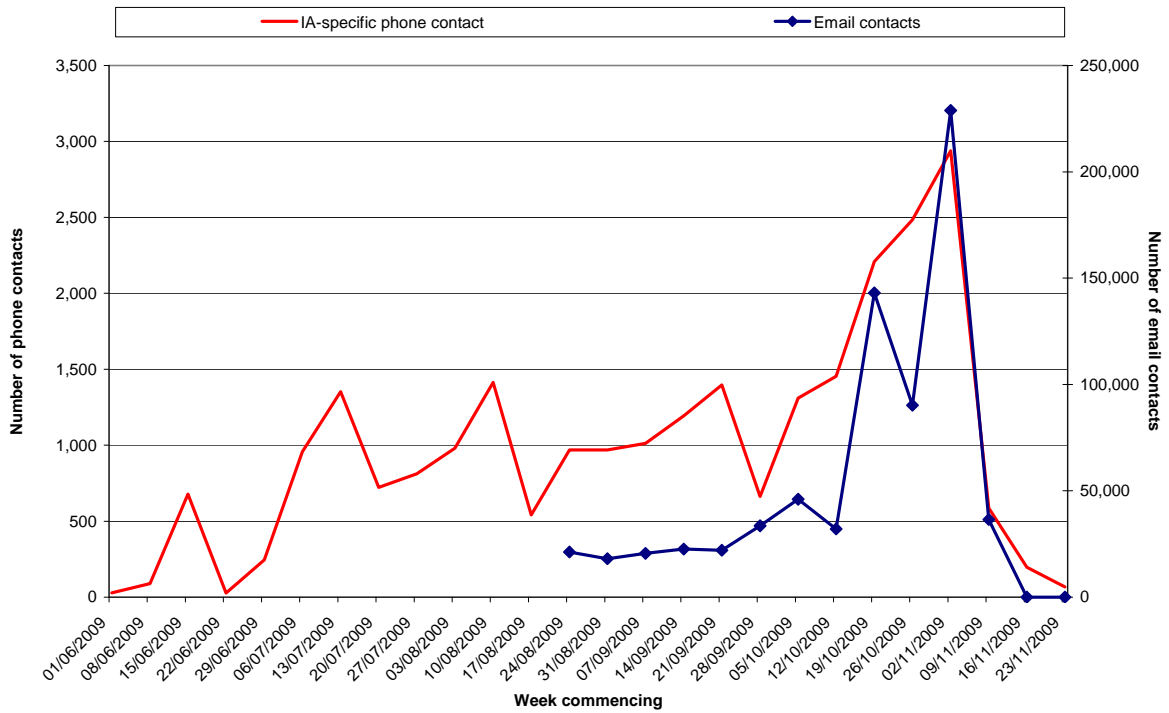
The scale of the IA and increasing take-up and deployment of the various communication options are also illustrated by the graphs below. Graphs 7.1 and 7.2 show the number of calls Royal Mail forecast that it would receive from consumers and business customers against the actual number of calls received. Graph 7.3 shows the number of proactive calls made and emails sent by Royal Mail to its business customers. Graph 7.4 shows activity on Royal Mail's website, including the popularity of "Ask Sarah" – Royal Mail's online Customer Service Agent.



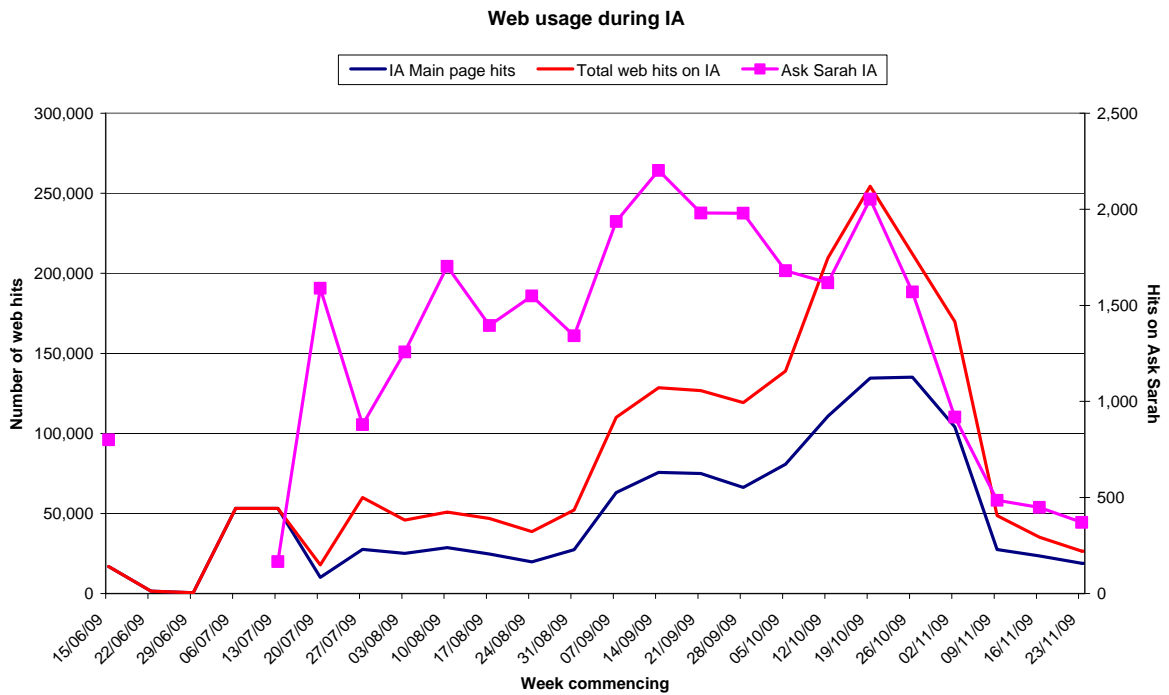
**Graph 7.1 Consumer calls to Royal Mail Customer Services**



**Graph 7.2 Business calls to Royal Mail Customer Services**



**Graph 7.3 Proactive contact with customers by Royal Mail Customer Services<sup>48</sup>**



**Graph 7.4 Customer interactions with Royal Mail website**

<sup>48</sup> Note that the Sales teams also contacted around 2,500 customers per week.

## 7.5 Issues and their resolution

As can be seen from Graph 7.1 above, extended media coverage around the August Bank Holiday (coupled with the spate of rolling IA and unpredictable last minute withdrawals of strikes in South London) caused a sudden and extreme spike in call volumes. In the week commencing 31 August actual consumer call volumes were some 26% over the expected volume. In the week following, call volumes hit c.184,000, some 43% above the forecast volume for that week and 20- 30% above forecast volumes for peak pre-Christmas weeks. Volumes did not return to more normal levels until the week commencing 19 October.

Although Royal Mail had anticipated a certain level of activity, it proved impossible in practice to predict the intensity of the spike in call volumes given the unpredictable nature of the underlying causes. As a result, Royal Mail Customer Services had to deploy standard call centre techniques, such as interactive voice responses linking through to 'closed' information messages in order to manage the immediate issues. This resulted in a temporary deterioration in call centre performance to below the accepted benchmark of 95% calls answered effectively<sup>49</sup> (Graph 7.5 below) and some consequent customer dissatisfaction. Royal Mail therefore undertook a robust set of activities aimed at providing effective help and support to consumers about Royal Mail's services, including:

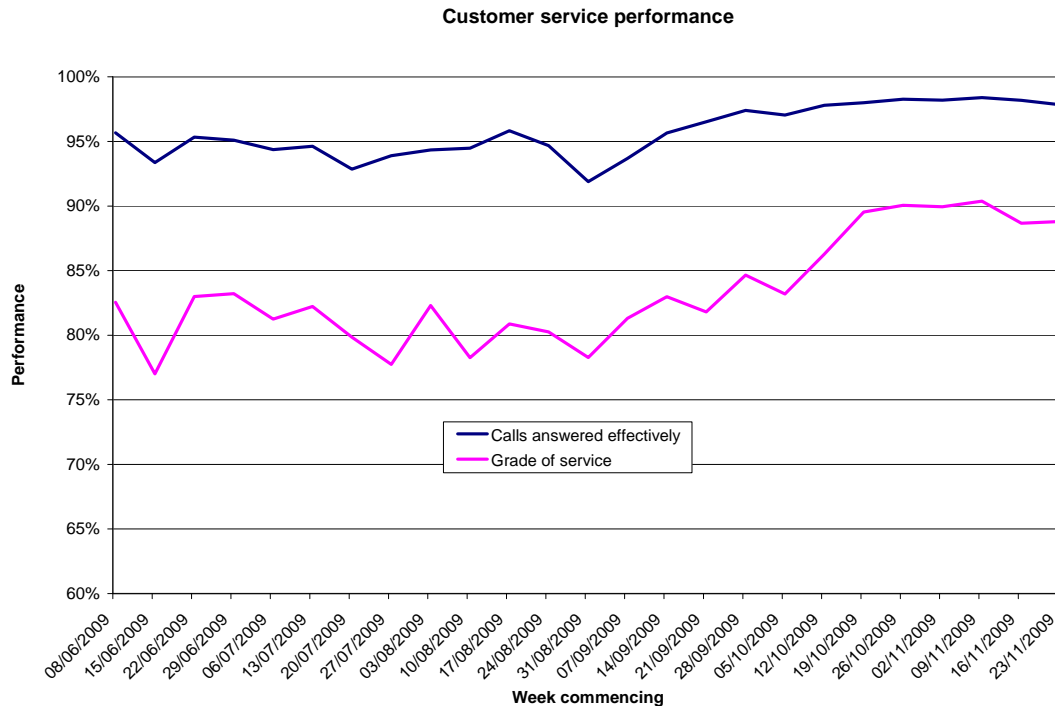
- training and utilising an additional 70 agents to answer customer calls;
- offering existing agents overtime and customer work at weekends;
- using experienced managers and support teams for several days every week and on strike days to talk to customers and respond to customer correspondence. (Royal Mail Customer Services managers spent an additional 9,600 hours - approximately 1,340 days work - diverted from their normal jobs to helping with customer enquiries and in the operation);
- keeping the call plan and messages under regular review to ensure customers have ever clearer routes and a better experience; and
- removing 'closed' information call plan messages.

Graph 7.5 below demonstrates the restoration of service performance by week commencing 21 September to 97-98% of calls answered effectively, a rate which was sustained throughout the rest of the IA. The graph also shows the grade of service<sup>50</sup>, which dipped slightly at the end of August but was swiftly restored and maintained at a high level throughout the rest of the strike period.

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<sup>49</sup> Ineffective in call telephony terms means a contact which does not make it into the call plan. i.e. where a message is used to inform the customer that all lines are busy and he or she should call back.

<sup>50</sup> An industry standard measurement of speed of service. Royal Mail aims to answer 80% calls in 20 seconds.



**Graph 7.5 Consumer calls answered effectively and grade of service**

The large number of individual incidents of IA and volume of notifications, initially in London but increasingly in other parts of the UK, represented a major challenge to the customer communications team in identifying and communicating in a timely manner accurate information about the likely impact of anticipated IA and the contingency arrangements that would be put in place to minimise disruption. These problems were compounded by the sometimes ambiguous nature of the notifications and withdrawals; the latter sometimes at very short notice. This was overcome by strong team-working between the communications team and other parts of Royal Mail.

## 7.6 Review and feedback on effectiveness of communications

The effectiveness of customer communications was monitored throughout the IA using standard measures (e.g. call handling performance metrics as shown in Graph 7.5 above), tracking and measurement of communications take-up (e.g. web hits, see Graphs 7.1 to 7.4), and feedback from customers and customer facing managers. The adaptation of the communications approach described in section 7.2 above was a consequence of both this review as well as practical considerations as they arose.

During the recent IA, Royal Mail also made a number of innovative improvements to its communications policy. One example is the introduction of weekly written customer briefings in mid September to meet the demand for a written update, in order to explain the actual service situation and our efforts to maintain service to major business customers. These carried on throughout the remaining periods of IA and were communicated by email. Feedback from customers about these briefings has been very



positive. Similarly, Adam Crozier’s letters to MPs were shared with all of Royal Mail’s major customers to provide executive level information updating them about the negotiations with the CWU, the contingency arrangements in place and the importance of, and progress made with, modernisation.

Communication with business customers are also monitored as part of Royal Mail’s external business customer satisfaction survey<sup>51</sup>. The Service Communications Scorecard below demonstrates that overall performance in Quarters 2 and 3 of 2009–10 remained stable throughout the IA, as did the associated subsidiary metrics (relevance and frequency of communications). This stability serves to demonstrate the effectiveness of communications during the IA.

	Annual Target: 66 - 69		Annual Target: 69 - 74		
Overall Measure	Q3 2008-09	Q4 2008-09	Q1 2009-10	Q2 2009-10	Q3 2009-10
	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
Performance of Service Communications	67	70	68	68	68
Touchpoint Drilldown	Q3 2008-09	Q4 2008-09	Q1 2009-10	Q2 2009-10	Q3 2009-10
Relevance of communications	63	66	66	65	66
Frequency of communications	62	64	64	63	63
Providing you with a good reason to want to talk to Royal Mail	63	65	65	64	61
Providing you with regular and useful information about how Royal Mail can help your business	64	64	65	64	60
Being given sufficient notice of changes	Not Asked	Not Asked	Not Asked	Not Asked	65
Communications surrounding changes	54	59	54	55	55

Source: CSI All Respondents

**Service Communications Scorecard Q3 0809 – Q3 0910**

**7.7 Customer experience and feedback**

The new approach taken to customer communications resulted in an improved experience for customers, including:

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<sup>51</sup> Business CSI is a wide-ranging business customer survey measuring customer perception on a whole range of service including collections, delivery, products, buying and paying, account handling and communication as well as loyalty and brand perception. It surveys account managed and non account managed business customers at random each quarter. It is managed by Synovate, an external research company, who conduct the research and also collate and report the results.

- Proactive communications to affected customers were faster and more extensive, and management of reactive enquiries was more organised.
- The focus on consistency meant that Royal Mail provided the same accurate advice to customers regardless of channel.
- Daily website updates gave hundreds of thousands of customers detailed and accurate information.
- The new approach with business collection customers enabled advance notification about the IA for the first time.
- Customers ringing striking delivery offices were able to get help as these calls were transferred to Customer Services.

A number of customers gave very positive feedback on the effectiveness of the communications and how this helped them to manage their operations and customers, and to reduce the impact of the IA.

## 7.8 Summary

During the periods of service disruption caused by the IA Royal Mail has put in place a robust, extensive, tailored but consistent and comprehensive range of effective customer communications using a broad but appropriate range of channels. Whilst not removing the impacts of the IA, the communications have enabled customers to understand the impact of the IA and the alternatives available to them.

As well as introducing a number of new approaches to its overall strategy, communications were monitored and adapted during the IA to take account of the different needs of individual customers at each stage. Temporary difficulties with the telephone systems arising from extreme call volumes were overcome. The feedback from customers and from the customer satisfaction survey confirms the overall effectiveness of the communications.

# Chapter 8: Other factors

## 8.1 Synopsis

Any costs avoided due to the IA were exceeded by the additional costs incurred, including those resulting from the implementation of Royal Mail's contingency and recovery plans, resulting in a net cost of [X] to Royal Mail.

There is an appropriate link between incentive payments made by Royal Mail to its employees in 2009-10 and the quality of the service provided to its customers. Regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group, i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments.

Royal Mail has full confidence in the reliability of the underlying quality of service data used in support of this application, both in respect of the end-to-end figures used to measure performance for the scheduled services and the standardised measure for postcode areas, and the USO standardised measure collection and delivery figures.

## 8.2 Introduction

This chapter considers the remaining factors in Postcomm's July 2009 letter that have not already been dealt with in the application.

It first assesses the savings made as a result of the IA (for example, by not paying wages to striking staff). It also considers the additional costs resulting from the IA (for example, by making additional payments to front line staff doing additional work due to the IA); and the estimated impact upon revenues due to the IA.

It then demonstrates an appropriate link between employee incentive payments such as bonuses (including Directors' bonuses) and quality of service during the year. Quality of service is a key component of its incentive plans, ensuring an appropriate link between employee incentive payments and quality of service. As highlighted above, where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments.

Finally, it also establishes that the quality of service figures used in this application for relief are reliable.

### 8.3 Savings made and costs incurred

In its July 2009 letter Postcomm states that it will take into consideration any cost savings made by Royal Mail during strike periods in determining any dispensation given to Royal Mail (for example cost savings made by not paying wages to striking staff).

Royal Mail has assessed both the costs avoided and the incremental costs incurred due to the IA. The main cost avoided made as a result of the IA was the abatement of pay for striking staff. The total avoided costs were [£], as set out in Table 8.1 below. However, Royal Mail also incurred [£] additional costs due to IA both from the implementation of the contingency and recovery plans (as described in Chapters 4 and 5) and from activities undertaken to communicate with customers about the IA, (as set out in Chapter 7).

The incremental costs can be broken down into two categories. First, [£] in incremental staff costs associated with contingency and recovery arrangements. This figure includes costs such as overtime paid to managers and non-striking front-line staff, as well as the additional temporary labour costs. Second, [£] in incremental non-staff costs: The costs avoided and incurred are set out in Table 8.1 below. The net cost arising from the IA is therefore [£]. The methodology used for the analysis is set out in Annex 35.

It should be noted that in making this application Royal Mail has not attempted to quantify the costs of the thousands of days of management time devoted to dealing with the IA, including the large numbers of management volunteers undertaking operational duties to help deliver services to Royal Mail's customers during the strikes and to recover services afterwards, nor the opportunity loss of not being able to deploy this time elsewhere in growing the business. Neither has Royal Mail included any assessment of the damage to its reputation and brand as a result of the IA or the loss of transformation benefits whilst the IA has delayed deployment.

**Table 8.1 Analysis of costs avoided and incremental costs incurred as a result of transformation-related industrial action**

Cost type	2009-10	Description
<b>Staff Costs:</b>	£m	
Pay Abatements	[X]	[X]
Frontline	[X]	[X]
Other Staff Costs	[X]	[X]
Customer Contact Resource	[X]	[X]
<b>Total Staff Costs</b>	[X]	
Total Net Staff Cost (Saving)	[X]	
<b>Non-Staff Costs:</b>	[X]	
Penalties International Q of S	[X]	[X]
External Hire / Courier Costs	[X]	[X]
Other Vehicle Costs	[X]	[X]
Accommodation & Other Costs	[X]	[X]
National and Local Communications	[X]	[X]
Travel & Subsistence	[X]	[X]
Retail Compensation	[X]	[X]
Catering costs	[X]	[X]
Other Operating Costs	[X]	[X]
<b>Total Non-Staff Costs</b>	[X]	
<b>Total Costs</b>	[X]	
<b>Total Avoided Costs</b>	[X]	
<b>Net Cost/(Saving)</b>	[X]	

Royal Mail also estimates that its business lost up to £40 million revenue as a result of the IA.

Royal Mail operates, along with other licensed and unlicensed postal providers, in a competitive communications market. There are other communications media available for postal customers, many of whom already encourage their own customers to switch to alternative channels for receiving their communications, such as online billing or internet publications. Royal Mail also competes against a number of other end-to-end postal providers particularly for large and high value fulfilment mail such as packets and signature items.

When IA threatens or causes periods of service disruption, many of Royal Mail's customers will switch to other market providers. This in turn results in consequent substantial revenue losses for Royal Mail. Royal Mail observed a change in customer behaviour early during the London IA, as customers began contingency planning in the event of National IA.

*"Any suspension of our service will not be acceptable to T-Mobile UK, and if forced to pass work currently carried by Royal Mail to our other carriers it is highly unlikely that this traffic will return to Royal Mail."*T-Mobile

*"We have had no choice but to move some significant business volumes to your competitors... We are not sure if we'll move this business back to Royal Mail."*JD Williams

*"Last month an estimated 100m extra bulk mail items were handled by rivals as a result of the regional stoppages, according to Post-Switch, a postal analysis and advisory service. It said Royal Mail lost over twice as much business as normal as companies turning to other operators."* Guardian, 18 September 2009

Isolating the financial impact of IA is complex because Royal Mail's revenue performance was also impacted by other factors during the same period, including shifts in the underlying market and competitor activity. The impact can, however, be reasonably assessed by looking at performance either side of the IA. Royal Mail has done so using a combination of three methods.

1. Volume trend analysis before, during and after the IA and further supported by Royal Mail's revenue performance measured against budget.
2. Estimates of customer losses as a result of the IA.
3. Assessment of the impact of service quality on revenue projections using Royal Mail's economic models.

These methods give similar estimates of the overall revenue impact that can be reasonably attributed to the IA. The methodology for the analysis is set out in Annex 36.

## 8.4 Employee incentives

Royal Mail is committed to providing a postal service of high quality to all its customers. This objective is at the heart of Royal Mail's transformation plans. During periods of IA in 2009-10, managers made extraordinary efforts to carry out operational duties whilst continuing to perform their day jobs, in order to mitigate the inconvenience suffered by customers. This level of dedication shows the importance managers' place upon the service Royal Mail provides and the hard work they are willing to put in.

Incentive plans are widely recognised by the business world as being essential to attract and retain the highest calibre of staff which guarantees that the business is managed successfully. Additionally, they provide an important driver to improving performance and motivating staff, thereby ensuring that Royal Mail provides a service that continues to meet the needs of customers.

It is for these reasons that Royal Mail structures its incentive plans to encourage and drive up achievements against various quality targets as well as financial performance. Quality of service is a key component of its incentive plans, ensuring an appropriate link between employee incentive payments and quality of service performance. Regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group, i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results prior to any dispensation granted by Postcomm) this will result in a direct reduction of bonus payments.

This will impact all managers who have an element within their relevant bonus plan relating to the Letters business's quality of service results, as well as all senior executives across the Group, including the Board, Post Office Ltd and Parcelforce Worldwide.

Full details on the different incentive schemes are set out at Annex 37.

A summary of the main employee incentive payments and their coverage is provided below.

### Colleague Share Plan

All employees participate in the Colleague Share Plan. The Colleague Share Plan is a scheme that was set up in 2007 for employees (including front line staff) enabling them to have a real stake in the business. Awards of Colleague Shares are made and their value changes to reflect the value of the company, based on expectations of future earnings. This plan gives everyone an incentive to improve the business by co-operating with fundamental changes to working practices. For the first three years of the plan there is also a Stakeholder Dividend which depends on the achievement of annual financial targets, or in the case of the Letters business for the third year, the acceptance of major changes to working practices through a ballot.

Under the rules of the Plan, all Colleague Shares will be bought back by the business in 2012 and participants have the option of selling back half of their holdings in 2011.

### The Business Transformation 2010 Agreement

On 8 March Royal Mail and the CWU entered into the 'Business Transformation 2010 and Beyond' agreement. Key features of this agreement concern improving the quality of service provided to users of postal services by enabling the continuation of transformation activities such as introducing the latest technology and automation.

As part of this agreement, Royal Mail front line employees will receive an increase to basic pay of 2% in April 2010, £400 on ratification of the agreement and £1,000 for full time front line employees who cooperate with delivering planned changes in their work place under a three stage process.

### Managerial incentive plans

All managerial staff participate in annual incentive plans. There are two separate bonus plans; (i) for senior managers (i.e. those on personal contracts) and (ii) for all other managers. Both of the plans depend on a mixture of financial targets ([&lt;]) and quality targets ([&gt;]).

The qualitative element of the plan depends on the level of seniority of the manager.

- For senior managers the [&gt;] quality element is allocated evenly across various quality targets.
- For all other managers, the bonus plan is broken down into different sections depending upon the relevant operational unit (e.g. Mail Centres, Delivery Offices, and Regional Distribution Centres). Such managers have the same quality targets but with higher weighting given to local quality targets which they can influence.

However, it is important to highlight that both bonus schemes for managers include specific quality targets for retail first and second class and Special Delivery (Next Day) services. As such, managers have a direct incentive to ensure a high level of service provision for both business and social customers. For all managers within Royal Mail Group, targets for Post Office Ltd, Wholesale and Parcelforce Worldwide are also factored into the applicable bonus scheme.

This relationship between bonuses and quality targets provides an effective incentive to drive performance levels up, which ultimately benefits postal services users and the postal industry as a whole.

### Executive incentive plans

The Chief Executive and Executive Directors have separate incentive plans and are not part of the senior manager bonus plan. These incentive plans include both profit and quality



elements. Certain elements of the bonus may be subject to mandatory deferment. For all Executive Directors, [X] of their total bonus payment depends upon quality of service performance.

These quality targets are based on the performance of Royal Mail Letters, Royal Mail Wholesale, Parcelforce and Post Office Ltd. The quality of service element is heavily weighted towards Royal Mail Letters performance against its quality of service targets. As such, these bonus payments will be significantly impacted by any quality of service failures incurred by the Royal Mail Letters business and this will be the case regardless of the outcome of this application.

In the case of the Chief Executive, the plan also includes revenues, costs and personal performance.

### Long Term Incentive Plan

Selected executives also participate in a three year Long Term Incentive Plan, in place for financial year 2007-08 to 2009-10. The relevant performance measure under this plan is the level of Return on Operating Assets. As such, the plan makes sure that new investments into the business are applied wisely and all assets fully utilised. A proportion of annual bonus payable under the senior manager incentive plans described above is deferred into the Long Term Incentive Plan, meaning that final payments also reflect the achievement of annual quality of service targets. Payments under this plan will be paid out in June 2010 for the previous three year period.

### Conclusion

Employee incentive plans are widely adopted across most industries due to the acknowledged benefits in terms of attracting and retaining staff of a high calibre as well as improving staff performance, which ultimately ensures that customers' requirements continue to be met. Royal Mail's incentive plans provide a suitable impetus to encourage high levels of achievement both in financial performance and in the quality of the service it provides to users of postal services. Regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group, i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments.

## **8.5 Reliability of end-to-end quality of service figures**

The final additional factor in Postcomm's July 2009 letter to be taken into account in determining the relief given concerned the reliability of the quality of service figures used in Royal Mail's application, as these in turn are used to calculate any Bulk Mail compensation payments and the allowed revenue under the C-factor.

End-to-end quality of service results are used to measure the performance of the scheduled services and the standardised measure for postcode areas.

Royal Mail is satisfied that Postcomm can have full confidence in the reliability of the end-to-end figures used in support of this application. Royal Mail's measurement of its end-to-end quality of service performance is conducted by an independent third party and in compliance with the obligations set out in its Licence. Royal Mail currently contracts with Research International to provide independent monitoring of its domestic quality of service performance, as required by its Licence, by running an end-to-end survey and reporting the results.<sup>52</sup> Research International measures Royal Mail's quality of service performance on a continuous basis using a large panel of business and private volunteers, spread throughout the UK.

The monitoring of Royal Mail's quality of service performance measurement is also independently audited on a regular basis. An independent auditor submits written quarterly reports to Postcomm and an Annual Report within two months of the end of the test period. In addition to these written reports, the independent auditor reports orally to Postcomm at quarterly meetings. As far as Royal Mail is aware, Postcomm has not as yet, however, instructed an independent auditor following the end of the previous independent auditor's appointment as of 31 March 2009. Royal Mail does not anticipate that a delay in approving the final 2009-10 figures has any implications for their reliability or their use in this application.

Royal Mail is currently cooperating with Postcomm regarding allegations that certain employees at locations in the West of Scotland and Belfast had been attempting to manipulate Royal Mail's monitoring of its quality of service performance. Royal Mail's investigation found that a small number of individuals had indeed misguidedly, covertly and ineffectively been attempting to interfere with its performance measurement system. On the basis of an analysis conducted by PricewaterhouseCoopers, Postcomm's preliminary "minded to" decision in that investigation concluded that any attempts to interfere with the system did not affect the statistical significance of the reported figures either in those specific areas or nationally.<sup>53</sup> Moreover, Royal Mail has found no evidence that any incidents of misconduct occurred after June 2009; the time it became known that an internal investigation was being conducted. The period of IA that is the subject of this application, and for which the supporting data are being adduced, therefore happened after any misconduct ceased.

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<sup>52</sup> Research International Limited is an independent market research agency (a division of Kantar, WPP's information, insight and consultancy network). It has long experience in the field of measuring transit times for both domestic and cross-border mail. In addition to performing this function for Royal Mail in the UK, it measures quality of service performance for postal services operators in Australia and Jersey as well as for the delivery of cross-border mail across 34 countries in Europe on behalf of the International Post Corporation (an umbrella organisation for postal operators).

<sup>53</sup> Paras. 1.39 and 1.40 of Postcomm's minded to decision in relation to "*An investigation into Royal Mail's Monitoring of Quality of Service Performance Measurement*", published on 17 February 2010.

## 8.6 Reliability of USO standardised measure figures

Royal Mail is required to measure and report on the two USO standardised measures (i) percentage of collection points served each day and (ii) percentage of delivery routes completed each day in accordance with the obligations set out in Condition 4 of its Licence. The results of Royal Mail's performance against these two USO standardised measures are produced from an internal measurement and assurance process to ensure they are robust and reliable. Whilst there has been occasional confusion during IA in terms of results being reported against the incorrect days, such instances were atypical and for the most part reporting was effectively carried out even during the most difficult phases of IA. Additionally, the methodology for producing the results and the results themselves each quarter and annually are assured by an independent Reporter appointed in accordance with Condition 4(8) (d) of the Licence. The independent Reporter has confirmed the actual results for Quarter 2 2009-10 and Quarter 3 2009-10 (which included numerous incidents of IA throughout the UK which impacted on Royal Mail's performance against these standardised measures) were correctly extracted.

## 8.7 Summary

In addition to the main criteria, Postcomm's July 2009 letter set out a number of additional factors that it would be likely to consider in taking its final decision. Royal Mail has already demonstrated in this application that it took reasonable efforts to avert and mitigate the effects of IA and has described the progress made by Royal Mail in transforming its business, with consequent benefits for customers. The remaining points in the July 2009 letter have been comprehensively addressed in this Chapter.

It is correct that Royal Mail benefited from a number of cost savings during the IA, primarily as a result of not having to pay striking employees. During the period in question, IA resulted in avoided costs for the business of [£X]. These were entirely cancelled out by the additional costs of [£X] incurred from the contingency, recovery and communication activities undertaken to mitigate the impact of the IA. The additional costs of the IA resulted in a net cost to Royal Mail of [£X].

Moreover, in making this application Royal Mail has not attempted to quantify the significant amount of management time devoted to dealing with the IA nor the time devoted by large numbers of management volunteers to operational duties, including as part of the series of managerial "surges" that took place involving volunteers from around the country. In addition, Royal Mail estimates that it has lost up to £40 million in revenue as a direct consequence of the IA.

As regards the relationship between employee incentive payments and quality of service for 2009-10, Royal Mail has set out in some detail the main payments available to staff at different levels of the business. Royal Mail has been concerned to ensure that those incentive plans provide a suitable impetus to encourage high levels of achievement both in

financial performance and in the quality of the service it provides to customers. As such, they are designed to reward employees appropriately for their contribution to the performance of the business. Regardless of the outcome of this application, or any dispensation allowed, the full consequences of quality of service failures resulting from transformation related IA will be applied to all bonus payments across the Group, i.e. where Royal Mail Letters has failed its Licence quality of service targets (based on the unadjusted results) this will result in a direct reduction of bonus payments. This will impact all managers who have an element within their relevant bonus plan relating to the Royal Mail Letters business' quality of service results, as well as all senior executives across the Group, including the Board, Post Office Ltd and Parcelforce Worldwide.

Finally, Royal Mail has explained why Postcomm should have full confidence in the reliability of both the scheduled standards and the standardised measures performance figures used in support of this application. Royal Mail's measurement of its end-to-end quality of service performance is conducted by an independent third party and in compliance with the obligations set out in its Licence. The independent Reporter appointed under the Licence has already confirmed that the actual USO collection and delivery performance figures for the relevant periods that are the subject of this application have been correctly extracted.

# Chapter 9: Conclusions

As Postcomm is aware, Royal Mail relies on the revenue that can be earned under Licence Condition 21, assuming that relevant quality of service standards are met, to help fund transformation activities and to contribute towards the ongoing financial viability of Royal Mail while it undertakes such activity. Currently Royal Mail faces severe cash constraints, such that without relief from the effects of quality of service failures caused by IA, it would be unlikely to be able to continue with its planned transformational changes.

Royal Mail must be allowed to complete its transformation programme and implement the changes necessary to provide a world class service, whilst also safeguarding the future of the one-price-goes-anywhere universal postal services at affordable prices throughout the UK.

Royal Mail's submission sets out:

- The causes of IA and how it arose as a direct result of opposition to the transformational activities necessary for the modernisation of Royal Mail. . All of the IA forming the subject of this application was taken in protest against activities designed solely or primarily for the purpose of improving either Royal Mail's long-term operational efficiency or its underlying financial position.
- The extent and nature of local, regional and national IA and the resulting disruption to services.
- The extensive efforts made by Royal Mail to avert IA and to achieve meaningful support for transformation over a period of many months, whilst still continuing to progress with modernisation. Such efforts included direct communications with everyone in the business and engagement at all levels with the trade unions to secure support for, and participation in, the necessary transformational changes.
- The adverse impact of IA on Royal Mail's complex and highly integrated pipeline, and hence its quality of service performance. This was the case not just on the days of strike action but also whilst the business recovered from the backlogs created. The disruption to services extended beyond the striking units because of the cumulative effects of a diverse number of factors, including an ongoing climate of industrial unrest in some areas over a protracted period.
- The effectiveness of Royal Mail's contingency planning, recovery arrangements and operational response in advance, during and after periods of IA in mitigating the impact on customers.

- The basis on which Royal Mail is making its application for relief from IA and the relevant recovery periods following strike action before quality of service returned to target levels.
- The importance of the three year “Business Transformation 2010 and beyond” Agreement reached with Royal Mail’s employees for the continuing transformation of Royal Mail’s business.
- The effectiveness of Royal Mail’s communications with its customers before, during and after periods of disrupted services, including the positive feedback provided by customers as to how this helped them manage operations and reduce the impact of the IA.
- The critical importance of Royal Mail transforming its business in a rapidly evolving competitive market, the progress that has already been made, despite the ongoing strike action, and the consequent benefits for Royal Mail’s customers.

Royal Mail considers that this application meets the requirements set out by Postcomm in its July 2009 letter and accords with the process described in the annex to that letter. Royal Mail has demonstrated that IA in 2009-10 arose as a result of, and in response to, the transformation of its business and that this had a direct causal link to quality of service failures.

Royal Mail has had regard to the format agreed with Postcomm for 2007-08 and has taken into account the type of evidence that Postcomm accepted and did not accept as adequate in relation to that application. Royal Mail has actively sought to address the issues previously raised by Postcomm and by stakeholders. Royal Mail has also responded to all of the additional factors that Postcomm noted it would be likely to take into account in making its decision on whether, and the extent to which, it should grant relief to Royal Mail for 2009-10.

On that basis, Royal Mail is seeking relief for an estimated £36.5 million in compensation that would otherwise be payable under the Bulk Mail Compensation Scheme directly to bulk mail users and £50.8 million in an adjustment to the C-factor. Without this relief, Royal Mail will be unable to continue to implement transformational change in the way envisaged and as now reflected in the Agreement reached with the CWU following the IA which took place in 2009.