NAO
National Audit Office

Improving the efficiency of postal services procurement in the public sector

Improving the efficiency of postal services procurement in the public sector

CONTENTS

EXECUTIVE SUMMARY

1   All public sector organisations rely to varying degrees on the collection, transport, and delivery of letters and parcels (postal services) in their communications with citizens, internally, and with other public sector bodies. Of the £750 million spent annually by the public sector on courier and postal services, nearly £650 million (representing 10 per cent[1] of the total UK mail market) is spent on post, with £100m spent on couriers. Some £250 million is spent by central government departments on post, with the two biggest spenders, the Department for Work and Pensions and HM Revenue and Customs, accounting for over half and the top ten organisations accounting for 95 per cent of the total.

2   The significance of postal services does not lie in costs alone. In many parts of the public sector the use of postal services is vital to the successful delivery of key public services, for example to deliver information, benefit payments, or application forms. Despite the growth in e-services, postal services remain, and will do for the foreseeable future, an essential part of departments' and agencies' interactions with citizens.

3   Historically Royal Mail has been the monopoly provider of letters under 350 grams as well as being the Universal Service Provider in the UK.[2] However, since the Postal Services Act 2000, the mail market has been increasingly opened to other suppliers. Liberalisation has occurred in two phases. Phase One was implemented in 2003, when for the first time, customers could use alternative suppliers to Royal Mail for bulk delivery of letters weighing less than 100 grams or costing less than 80p. Phase Two, in January 2006, removed the final restrictions; in effect no part of the postal market is now reserved for Royal Mail alone, subject to an alternative operator having a licence from Postcomm, where this is appropriate. In mid 2005 Royal Mail was still the dominant supplier having over 97 per cent by volume of total market share across the public and private sectors.[3]

4   The focus of this report is on how public sector organisations can become more effective procurers of postal services, making the appropriate product and supplier choices and reducing their costs. In particular, we assessed:

a   the progress of public sector organisations in achieving efficiency in their procurement and management of postal services; and

b   what more needs to be done by public sector organisations and the Office of Government Commerce to improve performance and realise financial and quality of service benefits from their postal services, supported by examples of good practice from organisations in both the public and private sectors.

In identifying opportunities for efficiency gains and reduced costs, the service received by the customer has always been at the forefront of our thinking. The approaches to improved efficiency we highlight in this report and the accompanying volumes, therefore also include the effects on the quality of service provided to customers.

1   Royal Mail, 2004-05.
2   The Universal Service Provider (USP) defined under The Postal Services Act (2000) as the company responsible for delivery of mail to each address, and the collection of mail from every access point, in the UK at least once every working day.
3   Postcomm 2005 Competitive Market Review (based on figures collected for quarter two, 2005-06).

Key Findings

5   On the current performance in the use of postal services across the public sector. We found that there is a wide range of performance across the public sector.

> The average cost per mail item varies from 31.1p to 21.5p.
>
> Proportion of outbound mail achieving volume discounts varies from 93 to 15 per cent.

Departments or agencies with highly centralised output, in particular the Driver and Vehicle Licensing Agency and National Savings and Investments, are able to achieve high levels of volume discounts for their mail, at a level that compares well with leaders in the private sector. The Department for Work and Pensions has a relatively high cost per item which largely reflects its highly distributed network of offices and use of first class mail to send out benefit payments to meet its requirements for security, timeliness and certainty of delivery date. It has, however, made progress in this area. For example, by issuing Winter Fuel payments for 2005 using a second class 'work share'[4] product rather than first class standard tariff, the Department saved over 10 pence per item (which it estimates will generate an annual saving of some £1.2 million) with no adverse impact on customer service. In general, postal services procurement has been reviewed by the bigger-spending departments, but it has been a low priority area for the majority of organisations.

6   On the potential financial savings that can be achieved across the public sector. Our four public sector case study organisations (the Department for Work and Pensions, HM Revenue and Customs, the Driver and Vehicle Licensing Agency, and National Savings and Investments) could demonstrate that they have in recent years achieved significant improvements in the efficiency with which they procure postal services.

7   Despite the progress already achieved, we estimate that additional annual savings of nearly £10 million are achievable across the entire public sector by 2006-07, gradually rising to £31 million by 2008-09, from improved efficiency in four main areas:

a   **Increased use of price discounted 'work share' products**: we estimate that across the public sector, annual savings of £9 million are possible by 2008-09.

b   **Increased use of lower cost second class and products with longer delivery timescales**: we estimate that savings of £9 million are possible across the public sector each year from 2008-09 by organisations appropriately revising the mix of mail classes they use.

c   **Increased use of competitive tendering leading to lower cost products for the same or improved levels of performance**: We estimate, based on evidence from customers, that organisations can save, on average, 10 per cent on postage costs[5] by using alternative suppliers for 'Downstream Access'[6] or 'end-to-end'[7] delivery (based on 2005 pricing structures). This could potentially save £8.5 million across the public sector annually from 2008-09.

d   **Reductions in the volume of 'undeliverable' mail**: Reductions will generate productive time savings for processing mail and postage procurement savings, resulting in estimated annual savings of some £4.5 million across the public sector by 2008-09.

We reviewed the feasibility of the scale of potential benefits with our case study organisations and have used these figures to estimate savings across the wider public sector, including the education[8], health and local government sectors[9] **(Figure 1)**. These potential savings may be used as benchmarks against which performance improvement can be judged. Many of the improvements we have identified can be done at low cost and within short timescales, in particular: changes in class of mail, increased use of competitive tendering, reduction in volume of undeliverable items through data cleansing routines, and better choice of mail products (such as Cleanmail and Packet Post[10]). The accompanying 'Good Practice' guide to this report provides examples of organisations in both the public and private sectors that have realised efficiency gains in their postal services through these and other approaches.

---

4   Postal 'worksharing' involves mailers performing activities such as preparing or sorting mail, often by geographic areas, before providing the mail to their suppliers for final sorting and delivery. They obtain a discounted price as a result, depending on the volumes involved.

5   Savings levels can vary, with some customers achieving significantly higher discounts.

6   Downstream access is where postal services companies other than Royal Mail collect mail from a single customer or from multiple customers (a process refered to as 'consolidation'), before injecting the mail into Royal Mail's supply chain for final delivery.

7   End to end service suppliers provide a full service from collection point to delivery destination (in other words mirroring the service provided by Royal Mail).

8   The education sector referred to in this report consists of further and higher education institutions in England, Scotland, Wales, and Northern Ireland.

9   The health and local government sectors referred to in this report cover England, Scotland, Wales, and Northern Ireland.

10   Cleanmail is a Royal Mail product offering discounts based on basic address presentation requirements. Packet Post, a Royal Mail product, offers discounts on weightier items based on minimum yearly volumes.

1 Total potential annual savings across the public sector in 2008-09

£ millions
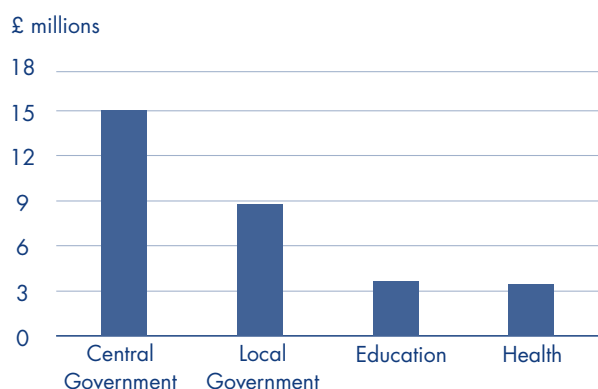
Source: National Audit Office

NOTE

Local Government, Health, and Education sectors cover England, Wales, Scotland, and Northern Ireland.

8   On the extent to which centrally led initiatives could contribute to improved performance. In the light of market liberalisation, OGCbuying.solutions[11] will be establishing mail service framework agreements with a number of suppliers for use by all public sector organisations. A key feature of these frameworks has been the close involvement of the main central government clients in their design and negotiation, resulting in advance commitments on the part of departments to use the frameworks. This is an example of good practice that could be used to good effect on future frameworks for other services and commodities. As a result OGCbuying. solutions anticipates that 60 per cent of total public sector mail spend will go through the frameworks. The agency estimates that use of the frameworks has the potential to generate savings of £30 million a year from 2007-08 onwards through lower prices (9 to 30 per cent savings on particular products) as well as unquantified benefits of reduced tendering and support costs. There is some overlap with the four areas we have identified for savings, particularly 'increased use of competitive tendering' (though, of course, use of the frameworks does not necessarily entail switching suppliers). Furthermore, as part of the implementation of the frameworks, OGCbuying. solutions will provide enhanced management information, enabling improved contract and supplier management.

9   On further aspects of the public sector's approach that inhibit efficiency. In addition to the potential financial savings, we identified three further aspects of the public sector's use of postal services that adversely affect efficiency and service quality:

- **Post is not always considered as part of an integrated communication strategy**. Few public sector organisations have a clear understanding of the willingness and preference of their customers to use lower cost communication channels such as the internet and telephone. As a consequence they have missed significant opportunities to reduce the demand for post and therefore cost. The scale of these opportunities is well evidenced by the work of the Pension Service of the Department for Work and Pensions which, through a switch to greater use of the telephone to meet its customers' preferences, estimates that it will reduce the volume of in-bound mail by 60 per cent.

- **Failure to identify and realise the opportunities for joint working**. There is limited evidence of public sector organisations working together to aggregate their mail volumes despite the fact that many will send mail to the same customers often on related aspects of business. For example, HM Revenue and Customs and the Department for Work and Pensions have recognised that an opportunity may exist to rationalise the mail they send to employers but negotiations are at an early stage. There are opportunities for smaller organisations to centralise their mail production or sortation with other similar sized bodies to be able to take advantage of product discounts and economies of scale in equipment and productive time, but there are few examples of this occurring. There is also limited evidence of public sector organisations taking advantage of the more favourable terms other organisations have negotiated with suppliers.

- **Management structures for postal services are often too fragmented**. Responsibility for post is rarely centralised and more often dispersed across the organisation making it very difficult to implement efficiency measures such as aggregating mail to achieve volume discounts. Local managers are rarely held accountable for reducing postal costs, and information on postal spend can be better collated and analysed to enable organisations to take full advantage of the contracts they have negotiated.

11   OGCbuying.solutions is an executive agency of the Office of Government Commerce. Its role is to deliver value for money gains for central civil government and the wider public sector through its dedicated, professional procurement service providing central purchasing contracts and catalogues.

Overall conclusion on value for money

10   Public sector organisations have made good progress in improving the efficiency of their postal services procurement as highlighted by the examples in our four case study organisations and the range of other successful initiatives cited from other public bodies in this report and associated volumes. Our analysis, however, of comparative performance indicates more needs to be done before the public sector is achieving full value for money from its postal services procurement. If our recommendations below are implemented fully then an estimated annual saving of £31 million is achievable by 2008-09.

Recommendations

11   We identified six main aspects of performance in the procurement of postal services for public sector organisations to focus their efforts on improving. These are summarised in **Figure 2 on page 6**. To help organisations to implement these recommendations and realise the potential for financial savings we have highlighted the good practice most likely to achieve better performance in two associated volumes published alongside this report (both associated volumes are also available on our website at www.nao.org.uk):

■   A guide to help public bodies improve efficiency, focusing on six areas and drawing on examples of good practice which have enabled organisations in both the public and private sectors to reduce their postage, printing, and processing costs while at least maintaining levels of service delivery.

■   A case study volume setting out in more detail the progress, achievements and scope for further improvements in our four case study organisations as well as a 'good practice' private sector case study.

From our analysis of public and private sector organisations that have made efficiency improvements, we believe the benefits brought about through the carefully managed implementation of our recommendations will outweigh implementation costs. It is difficult to be precise, however, about these costs because many of the improvements identified are dependent on wider changes in organisational policies, business processes and IT and will differ from organisation to organisation. This emphasises the need for robust business cases for change and close working with suppliers if the recommendations are to be successfully implemented and the potential savings realised.

12   To assist OGCbuying.solutions in helping public sector organisations improve the efficiency of their postal service procurement and secure the best deals, including maximising the benefits achieved from the framework agreements for postal services, we make the following recommendations. OGCbuying.solutions should:

a   **Promote public sector interests in the market place and with the regulator to strike better deals with suppliers and offer a co-ordinated response to the regulator.** Public sector spending represents ten per cent of the total mail market. There has, however, been no single, co-ordinated face to the market to negotiate on behalf of the public sector. OGCbuying.solutions, through framework agreements, can encourage suppliers to, for example, develop more innovative products for secure payments and provide alternative delivery timescales. The regulator, Postcomm, consults customers on a range of important issues including pricing and operational standards of practice. OGCbuying.solutions needs to do more to collect views from across the public sector (if this approach is acceptable to its customers, such as local government, and does not preclude their decision-making abilities) and provide co-ordinated and hence more forceful promotion of these views to the regulator.

b   **Work to ensure that the potential benefits from the postal framework agreements are realised.** OGCbuying.solutions estimates that the public sector can save £30 million per year through use of the frameworks (if the majority of public sector spend goes through the frameworks); however the agency needs to continue to work to minimise the risks involved. The key risks include:

■   Capacity for tendering and implementation of the frameworks at departments, centrally at OGCbuying.solutions, and at suppliers is exceeded by demand. The agency will need to manage the demand for the use of frameworks and manage implementation in a phased manner across the public sector. Furthermore, suppliers' capacity to provide delivery services in a newly liberalised market will need to be monitored to ensure that service performance remains above minimum service standards.

■ Inadequate customer engagement across the wider public sector, particularly local authorities, education, and health could potentially result in low demand and implementation of the frameworks within these sectors. The agency has begun engaging customers, particularly in central government, and recognises more work is required in this area. The main change agents for local government, the Office of the Deputy Prime Minister sponsored Regional Centres of Excellence, are also addressing this specific risk through the engagement of local authorities.

■ Good postal services practices that are outside of the main thrust of the frameworks will not be supported and encouraged centrally. The frameworks focus on contract and supplier management. In our view significant savings and increased effectiveness are possible in other good practice areas, such as increased use of 'work share' products and co-ordinated communication strategies. The agency and the Office of Government Commerce (in its role to spread good procurement practice across the public sector) need to work to incorporate these good practice points into their engagement and implementation work with public sector customers. The two bodies should seek to work with other public sector organisations who promote good practice in this area. For example, the Central Office of Information has successfully worked with the public sector to increase postal efficiency, in the areas of customer data management, marketing strategy, creative and format design and production, and postal product and supplier advice.

We believe there is scope for OGCbuying.solutions to use their set-up of the postal services frameworks as a template for future frameworks, and if similarly managed, the agency, and the public sector in general, can realise significant benefits from future work.

13 We will, during the course of 2006, be seeking to promote the key messages in this report across the public sector and to support this by developing a range of subsidiary efficiency based tools for use by public sector organisations. For example, we have developed a *postal efficiency improvement tree* to assist public sector organisations in determining the most efficient procurement approach and the postal services and products that might offer the best value **(Figure 3 on page 9)**. The *tree* provides a set of options to:

■ reduce the cost of service, through demand management, reduced cost per unit, and improved management structures; and

■ improve the quality and effectiveness of their post.

The tool can be read 'left-to-right' with each step detailing how the objective can be met and also 'right-to-left' to capture the business objectives behind particular actions and tactics to improve postal efficiency. The associated volumes to this report describe how public and private sector organisations have implemented these actions and the financial and service delivery benefits they have achieved.

2   Actions which departments need to take to further improve their postal services performance

Areas where public sector organisations need to make more progress	Recommendations	Examples of where this has been achieved
Post is not always considered as part of an integrated communication strategy. Departments often have various, disjointed strategies governing their communications with citizens, particularly in those departments comprised of multiple businesses. These strategies sometimes consider communication channels in isolation of each other, increasing the likelihood that opportunities to reduce demand for mail and increase staff productivity will be missed.	**A Departments need to develop an integrated communication and commercial strategy which will require them to:** i plan and implement communication strategies across their business as a whole, identifying the optimal mix of communication methods to best meet the needs of customers, maximise the productive time of staff, and reduce procurement costs. This will include certain scenarios where post is the most appropriate communication channel; ii produce joint plans by those responsible for communications and procurement; iii challenge the demand for inbound and outbound mail; iv review postal requirements and operations within a wider communication, production, and delivery value chain.	Strathclyde Police needed to supplement traditional information gathering techniques in the investigation of a serious violent crime. In consultation with Royal Mail and the Central Office of Information, they targeted a specific, hard-to-reach, geographic area in Glasgow using direct mail to seek further information on the incident. **This use of direct mail had significant time and cost savings as compared with officers canvassing individual households, increased public reassurance, and acquired valuable information on the circumstances of the crime.** National Savings and Investments has reduced its demand for mail through a change in policy where Individual Savings Account statements are sent bi-yearly rather than quarterly. **It has achieved an annual saving of some £90,000 as a result.** The Department for Work and Pensions' Pension Service, in response to a survey stating that 75 per cent of customers would prefer transacting over the phone, has begun to accept applications for State Pensions by telephone. **The change is expected to reduce the amount of inbound post by 60 per cent, from 650,000 new applications received per year to 260,000, bringing about significant productive time savings.**
Management structures for postal services are often too fragmented. Postal services span many areas of the business, including marketing, operations, procurement, and customer service. These areas need to be brought together to deliver the most impact to postal service efficiency initiatives.	**B Develop capable and effective management structures for postal services, including:** i establishing clear accountabilities and responsibilities for the initiation, implementation and monitoring of postal initiatives; ii developing relationships between the postal team and other areas of the business; iii staff with expert knowledge of procuring in the postal market; iv identifying opportunities to centralise processing of output and inbound mail.	The Department of Work and Pensions' Debt Management business' ten sites used to print and dispatch mail at each individual site. In 2004, the business implemented a centralised print service through which 2.5 million items of mail were printed and dispatched in 2005. **This shared service across ten sites has enabled the business to aggregate its print throughput and take advantage of discounted mail products resulting in estimated savings of £80,000.**

2   Actions which departments need to take to further improve their postal services performance *continued*

Areas where public sector organisations need to make more progress	Recommendations	Examples of where this has been achieved
Opportunities for efficiency through better market and supplier engagement and aggregation with other departments are often missed. There are few examples within the public sector of organisations using alternative suppliers to Royal Mail, using external providers, for example for mail printing or sorting, and accessing the power of aggregated purchasing and production across single departments and jointly with others. Departments need to do more to assess whether the economies of scale outweigh the costs of joint requirements gathering, co-ordinated communications planning, operational changes, and integration of IT systems.	**C Use the appropriate procurement and supplier engagement practices through:** i a clear understanding of the business requirements and communication objectives for post; ii engagement with the market place to work with suppliers and survey market intelligence; iii consideration of alternative suppliers and engagement, if appropriate, using the OGCbuying.solutions framework agreements; iv establishing effective incentives and actively managing contracts; v assessing whether specific in-house postal activities can be more efficiently done by external providers.	The RBS Group was the first major customer of Royal Mail to develop and implement 'Downstream Access' for its bulk mail output. **In 2005, RBS despatched over 200 million envelopes via Downstream Access[1] generating net incremental savings of some seven percent of total postage spend[2], along with better customer service through quicker delivery for a considerable proportion of their customers.** HM Revenue and Customs began closer scrutiny of their postal contracts following the set-up of their central post team in 2003. **The department estimates that this team has made contract management savings of £700,000.**
	D Aggregate demand and increase joint working wherever possible within departments and with others, in particular through: i joint contract management; ii joint communication strategies (where departments send mail to the same customers); iii sharing of customer information (for example, on change of address); iv shared services for production and dispatch of mail.	HM Revenue and Customs and the Department for Work and Pensions have agreed a joint contract for courier services as the two departments often have sites close together to each other and require high volumes of mail to be sent between their own and each other's sites. Their joint contract covers inter-office recorded and non-recorded next day delivery. The contract has been let in such a manner to allow additional departments to be included. The key benefit of this joint contract is reduced costs for contract management and tendering and lower prices and **the Department for Work and Pensions has estimated the savings at £1.8 million per year.**
Reduce the volume of mail that cannot be delivered to the addressee because of incorrect address information. Departments do not consistently maintain up-to date customer address information, resulting in unnecessary postage, printing, and processing costs. Improving customer data has benefits that lie outside of postal procurement such as avoiding the costs of customers contacting the organisation because mail has not arrived, improved effectiveness of customer processes (for example, debt management), and better customer service.	**E Improve the accuracy and management of customer address data by use of external data files (such as the Postcode Address File) to:** i check outbound addresses and customer information before mail is sent; ii use 'undeliverable' information from suppliers and customers to update systems.	National Savings and Investments' direct marketing outsourcer has implemented a series of data processing steps to improve their address data quality. **In a direct marketing campaign in September 2005, the redesigned process saved some £20,000 in postage costs as well as printing and processing savings, and improved customer satisfaction as customers did not receive multiple, potentially conflicting, marketing messages from the agency.**

2   Actions which departments need to take to further improve their postal services performance *continued*

Areas where public sector organisations need to make more progress	Recommendations	Examples of where this has been achieved
Mail products which do not represent the closest fit to communication and cost-efficiency requirements are sometimes chosen. Departments do not make best use of postal products, in particular those products offering discounts to the customer in return for performing basic mail preparation tasks, such as address sorting, and lower-cost, reduced timeliness products.	**F** **Select the appropriate mail products, balancing business requirements with cost and quality of customer service, requiring:** i better use of delivery products with alternative timings such as second class or two-day mail; ii increased use of 'work share'[3] products; iii a change in mail formats; iv use of the most appropriate payment method; v better use of high quality postal products.	The Driver and Vehicle Licensing Agency has implemented a combination of software and mechanical sorting equipment at their main processing sites to increase the volume of mail qualifying for postal volume discounts to levels that compare favourably with leading private sector companies. **The approach is achieving annual savings of some £3 million.** HM Revenue and Customs increased its use of second class and products with longer delivery timescales for the dispatch of New Tax Credit newsletters in 2004-05. **The estimated savings for the year is £1.3 million.** The Department for Work and Pensions has chosen to replace standard tariff first class mail with a second class 'work share' product for its Winter Fuel payments and correspondence in 2005-06, while remaining within end-to-end service levels. **The use of second class mail saved the department an estimated £1.2 million, without any adverse customer reaction.**
Supplier and internal performance information is not systematically gathered and used as the basis for postal services procurement and management decisions. Departments do not gather sufficient information on supplier or internal performance, particularly on spend and products to enable smarter supplier and product choice.	**G** **Increase the availability and use of management information to improve postal efficiency and service delivery, by:** i collecting data on spend by product type and team; ii benchmarking services; iii collecting and analysing data on quality of service indicators.	The Higher Education Purchasing Group for Postal Services collates data from suppliers as well as from member institutions to produce progress reports on the use of their contracts. **It has used these reports to demonstrate to member institutions that they were able to get better prices and service quality by transferring onto the national contracts.** The Driver and Vehicle Licensing Agency is provided information by Royal Mail to allow them **to compare the service quality provided for its mail specifically against national benchmarks** to assess whether end-to-end service levels are being met.

Source: National Audit Office

NOTES

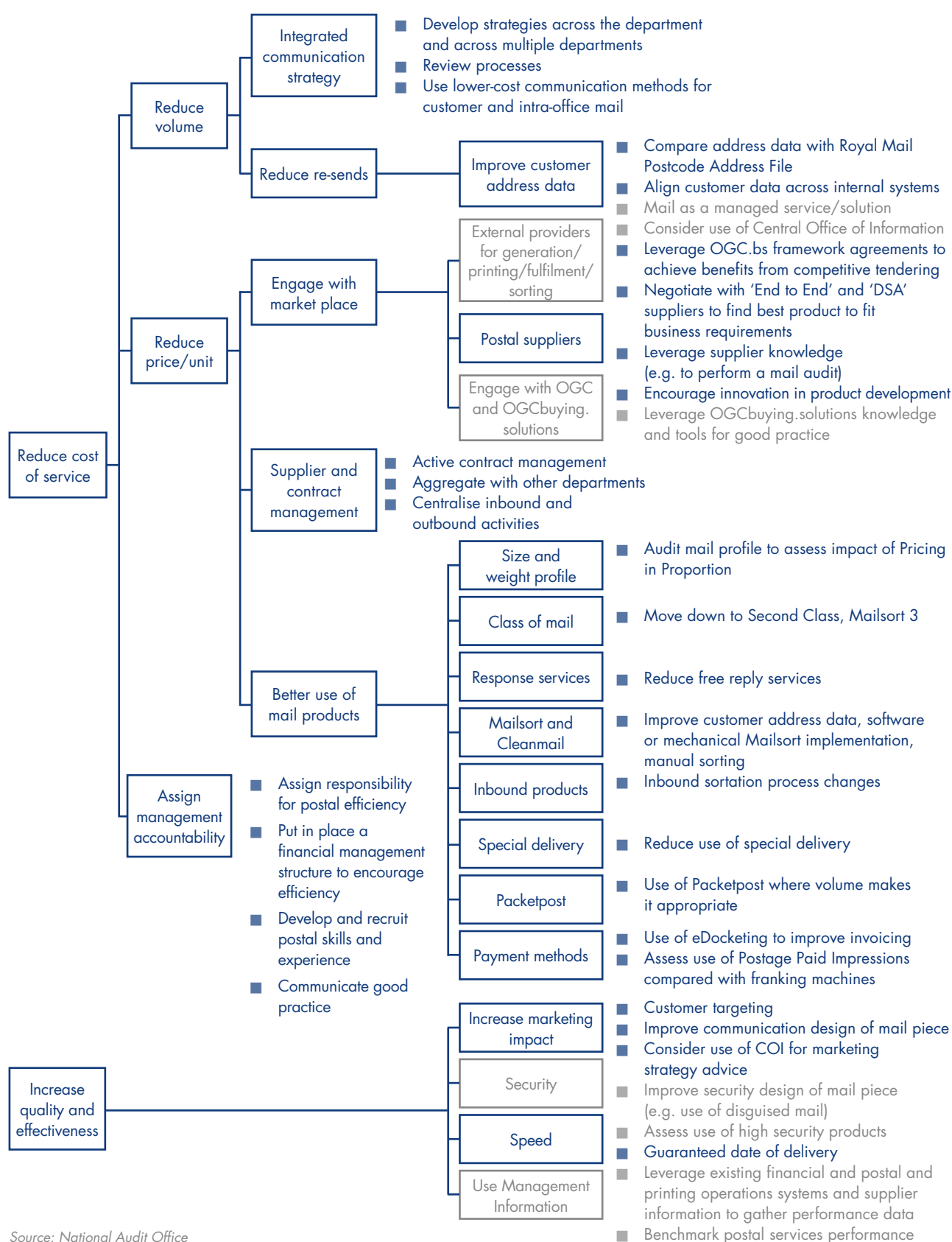1   Downstream Access is where postal companies other than Royal Mail collect mail from customers before injecting the mail into Royal Mail's supply chain for final delivery.

2   The net savings are gross savings less trunking costs.

3   Postal 'worksharing' involves customers performing activities such as preparing or sorting mail, often by geographic areas, and thus receiving discounts from suppliers.

3 Postal efficiency improvement tree

Reduce cost of service

- **Reduce volume**
  - **Integrated communication strategy**
    - Develop strategies across the department and across multiple departments
    - Review processes
    - Use lower-cost communication methods for customer and intra-office mail
  - **Reduce re-sends**
    - **Improve customer address data**
      - Compare address data with Royal Mail Postcode Address File
      - Align customer data across internal systems

- **Reduce price/unit**
  - **Engage with market place**
    - **External providers for generation/printing/fulfilment/sorting**
    - **Postal suppliers**
    - **Engage with OGC and OGCbuying.solutions**
      - Mail as a managed service/solution
      - Consider use of Central Office of Information
      - Leverage OGC.bs framework agreements to achieve benefits from competitive tendering
      - Negotiate with 'End to End' and 'DSA' suppliers to find best product to fit business requirements
      - Leverage supplier knowledge (e.g. to perform a mail audit)
      - Encourage innovation in product development
      - Leverage OGCbuying.solutions knowledge and tools for good practice
  - **Supplier and contract management**
    - Active contract management
    - Aggregate with other departments
    - Centralise inbound and outbound activities
  - **Better use of mail products**
    - **Size and weight profile**
      - Audit mail profile to assess impact of Pricing in Proportion
    - **Class of mail**
      - Move down to Second Class, Mailsort 3
    - **Response services**
      - Reduce free reply services
    - **Mailsort and Cleanmail**
      - Improve customer address data, software or mechanical Mailsort implementation, manual sorting
    - **Inbound products**
      - Inbound sortation process changes
    - **Special delivery**
      - Reduce use of special delivery
    - **Packetpost**
      - Use of Packetpost where volume makes it appropriate
    - **Payment methods**
      - Use of eDocketing to improve invoicing
      - Assess use of Postage Paid Impressions compared with franking machines

- **Assign management accountability**
  - Assign responsibility for postal efficiency
  - Put in place a financial management structure to encourage efficiency
  - Develop and recruit postal skills and experience
  - Communicate good practice

Increase quality and effectiveness

- **Increase marketing impact**
  - Customer targeting
  - Improve communication design of mail piece
  - Consider use of COI for marketing strategy advice
- **Security**
  - Improve security design of mail piece (e.g. use of disguised mail)
  - Assess use of high security products
- **Speed**
  - Guaranteed date of delivery
- **Use Management Information**
  - Leverage existing financial and postal and printing operations systems and supplier information to gather performance data
  - Benchmark postal services performance

Source: National Audit Office

PART ONE

Why postal services procurement is important in a changing postal market

1.1 All public sector organisations rely to varying degrees on the collection, transport, and delivery of letters and parcels (postal services) in the conduct of their business. The public sector sends just over 2.5 billion items of mail each year by post.[12] The Office of Government Commerce[13] estimates that the UK public sector spends upwards of £750 million each year directly with the suppliers of postal and courier services, and this figure does not take account of the significant administrative costs, mainly staff time, associated with the management of incoming and outgoing post.

1.2 The significance of postal services does not lie in costs alone. In many parts of the public sector the use of postal services is vital to the successful delivery of key public services. For example:

■ each week the Department for Work and Pensions currently posts around 600,000 instruments of payment (cheques) to benefit claimants;

■ HM Revenue and Customs posts over 320 million items each year, including 27 million tax code change notices to taxpayers and businesses;

■ the Driver and Vehicle Licensing Agency receives and processes 70,000 items of post each day;

■ National Savings and Investments uses post as a key contact method for its marketing campaigns, bringing the public's attention to new or modified products.

1.3 Despite the growth in e-services, postal services remain, and will do so for the foreseeable future, an important way in which departments and agencies interact with citizens. As such they form an intrinsic part of any customer communication or 'contact' strategy, particularly as the speed, accuracy and reliability of departmental postal services strongly influence customers' view of public services and departmental performance. For example, HM Revenue and Customs estimates that at least five per cent of its outbound mail is incorrectly addressed, creating significant delay and additional administrative costs for taxpayers and businesses, while over one million letters sent by the Department for Work and Pensions are returned to them undelivered. While part of the reason for incorrectly addressed mail lies outside of departmental control, for example, customers not updating their details, these problems also reflect limitations in existing processes and IT systems.

12   Royal Mail, Financial Year 2004-05.
13   The Office of Government Commerce is an independent Office of the Treasury reporting to the Chief Secretary of the Treasury. It is responsible for a wide-ranging programme which focuses on improving the efficiency and effectiveness of public sector procurement.

1.4 Under the Government's Efficiency Programme[14], as announced in the 2004 Spending Review, departments have to secure sustainable efficiency gains of £21.5 billion per year by March 2008; and it is very likely that increasingly demanding efficiency targets will remain a key priority for the next spending review.[15] Procurement is currently the single biggest workstream of the Efficiency Programme, with many departments seeking to gain efficiencies in this area.[16] Some public sector organisations have therefore identified the management and procurement of postal services as an area where efficiency and operational performance can be improved through better management of demand and wider application of best practice, including more cost-effective use of existing postal service products. Many public sector organisations are also aware of the opportunities to improve their efficiency as new postal products and services emerge in an increasingly competitive postal services market.

The value and nature of public sector use of postal services and the opportunities for improved performance

Current public sector spending on postal services

1.5 The total UK postal services market is worth £6.5 billion per year[17] of which the public sector represents 10 per cent.[18] Of the £750 million spent annually by the public sector on courier and postal services, nearly £650 million is spent on post **(Figure 4)** with £100m spent on couriers. This spend covers delivery not only to citizens, but also across different sites within departments and across different departments within the public sector. Within post, over £250 million is spent by central government, with the two biggest spenders, the Department of Work and Pensions and HM Revenue and Customs, accounting for over half that spend and the top

eight organisations accounting for 90 per cent of the total **(Figure 5)**. Of the nearly £100 million spent on couriers, the largest spenders are also the Department for Work and Pensions and HM Revenue and Customs who hold a joint contract totalling £13 million per year and the education sector holding an annual contract of £10 million.

How public sector organisations manage and use postal services

1.6 The public sector requires its postal services suppliers to cater for a range of sizes and weights, delivery timelines, and security options. Departments and agencies manage their postal services in different ways depending on the nature of their operations, the volume of post and how much they spend. For example:

■ **As part of the facilities team**: in a small site, mail is seen as day-to-day operations and is managed in a similar way to the energy or water suppliers. This set-up uses very simple mail products, relying largely on standard priced, non-discounted products, and the team does not have a close relationship with its supplier. Within the single site, there may be multiple organisations, where the facilities team is accountable to all 'residents'.

■ **As part of the mail room team**: in a larger site, there will be a dedicated mail room where inbound and outbound mail is sorted and often paid for using more sophisticated products such as franking machines (machines that provide payments for items).

■ **Along with the print and stationery team**: as stationery and printing management are part of the same process flow, many organisations integrate these with their management of postal services.

■ **As a dedicated team handling all post and courier activity**: larger organisations with significant spend and volumes often create a dedicated team for post and courier with personnel responsible for relationships with external post and courier suppliers.

---

14   In July 2004, the Chancellor announced an Efficiency Programme designed to improve front line services by achieving £21.5 billion of efficiency gains a year across the public sector by 2007-08. While departments are responsible for delivering the efficiencies, the Office of Government Commerce is responsible for coordinating the Efficiency Programme.

15   The Chief Secretary to the Treasury has stated that "[the next spending review] will… look at how the public expenditure framework can best embed and extend ongoing efficiency improvements". Written Ministerial Statements, 19 July 2005.

16   The five key workstreams with their targeted annual efficiency gains are: Procurement (£8bn), Productive Time (£5bn), Policy, Funding, and Regulation (£4bn), Corporate Services (£2bn), and Transactions (£1bn) with the other areas totalling £1.5bn. OGC, Efficiency Programme Briefing Pack, December 2005.

17   This figure refers to distribution within the UK of physical text and packages up to 10 kg, but excludes the courier market (Postcomm: Competitive Market Review, 2005).

18   Royal Mail, Financial Year 2004-05.

- **As an outsourced mail room and operations, run as a service**: mail rooms can be outsourced fully to external companies who sort inbound and outbound mail. Another option is for mail requirements to be part of outsourced IT or printing contracts where the supplier is responsible for producing and dispatching the post to set service levels and specifications.

- **Along with supplier management team**: for organisations with more in-depth relationships with their postal suppliers, there will be a person within the department who is the focal point for co-ordinating this relationship. Products and services such as facilities, IT, telephony, and stationery will have a similar focal point and all of these personnel can be grouped together as 'supplier relationship managers'. Their role is to ensure that the department is getting value from their suppliers and these suppliers are adhering to their contracts and obligations.

1.7 These operating models are not necessarily distinct from one another and often a mix of approaches will exist. For example, at the Department for Work and Pensions there is a central postal management team while at field offices there are in-house and outsourced mailroom functions. More generally, responsibility for postal spend across departments can vary, from sitting within a central procurement or facilities management team to being dispersed across the organisation without a central lead. The wide geographic spread of departmental sites is often one of the key reasons for a dispersed management model, but this can potentially make it more difficult for suppliers to engage with the departments around new products and services and for departments to deal with suppliers as a single customer.

4 The split of spend on postal services across the public sector in 2004-05

Education £83m

Central Government £257m

Health £79m

Local Authorities £201m
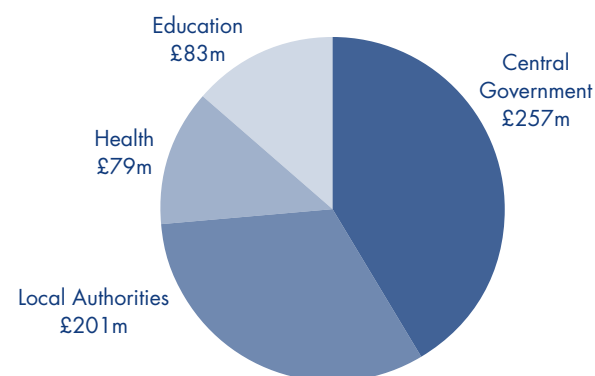
Source: Royal Mail

NOTE

Local Government, Health, and Education sectors cover England, Scotland, Wales, and Northern Ireland.

5 The top eight spenders on postal services in central government

Organisation	Spend 2004-05 £m
HM Revenue and Customs	77
Department for Work and Pensions	69
Department of Constitutional Affairs	33
Driver and Vehicle Licensing Agency	21
National Savings & Investments	12
Department of Health (HQ)	9
Department of the Environment, Food and Rural Affairs	6.5
Central Office of Information	4
Total	**231.5**

Source: Royal Mail

NOTE

These figures only account for spend with Royal Mail; however, estimates from departments indicate that this spend covers over 99% of mail spend.

The opportunities for improved performance

1.8 Public sector organisations appear to be less efficient than other sectors in how they procure and manage their postal services. For example, the average price per item of post in the public sector (28p per item) is a quarter higher than that paid by the financial services sector (22p per item) and higher still compared to the utilities sector (20p per item).[19] There may be good reasons to explain some differences in performance across sectors; for example, departments may send out bigger and weightier items such as application forms or their customer commitments for speed of service may favour the use of first-class post. We identified, however, a number of areas where there may be scope to improve performance including:

■ insufficient use of discounted postal products such as 'work share';[20]

■ overuse of 1st class mail;

■ few instances of competitive tendering to achieve lower tariffs within the liberalised market;

■ limited use of economies of scale in purchasing, printing, and mail processing to reduce the cost of services;

■ excessive dispatch of incorrectly addressed mail which is returned undelivered;

■ insufficient replacement of post by lower-cost communication methods.

These opportunities for efficiency gains are applicable even for departments and agencies where postal services are less critical and with relatively small spend.

1.9 The Office of Government Commerce acknowledged these concerns as well as the shortfall in cross-government sharing of best practice and innovation. Historically, post has not been an area of close scrutiny as it represents on average less than five per cent of procurement budgets as compared to bigger expenditure areas such as accommodation and IT costs[21] and opportunities for efficiency are therefore not always apparent or high priority. This can, in particular, be an issue at smaller organisations such as some local authorities, educational institutions, or NHS Trusts where the total mail spend is low.

1.10 While the objectives and operations of organisations in the public and private sectors may vary, many of the principles of best practice in the use of postal and courier services are common to both sectors. **Figure 6** sets out the main characteristics of smarter, more successful procurers and users of postal and courier services, along with examples of the improvements to efficiency and service delivery that their approach has achieved.

The action being taken to improve public sector organisations' use of postal services

1.11 The Office of Government Commerce, as part of its wider role in establishing and sharing best practice in procurement and in support of the Efficiency Programme, has set up a commodities procurement team to facilitate, across the whole public sector, a co-ordinated approach to the procurement of commodity goods and services. Based on initial research on the efficiency of the public sector's use of postal services and the need to make the most of emerging opportunities in an increasingly competitive market, the Office's first phase of commodity reviews included a project examining the public sector's procurement and management of postal services. This work was commissioned in November 2004 with the objectives of understanding the size of the government market, current approaches to postal services procurement, and the size of the potential efficiency gains. The main recommendation from this review was the establishment of framework agreements accessible by all public sector organisations to procure postal services.

19　Analysis of Royal Mail outbound mail data for 2005; the average unit price is calculated by dividing the total expenditure on outbound mail with Royal Mail in the period by the total volume of post items.

20　Postal 'worksharing' involves customers performing activities such as preparing or sorting mail, often by geographic areas, and thus receiving discounts from suppliers.

21　'Improving IT Procurement: The impact of the Office of Government Commerce's initiatives on departments and suppliers in the delivery of major IT-enabled projects', National Audit Office 2003-04 (HC 877).

6 Smarter procurement of postal services can improve both efficiency and service delivery

Characteristics of a successful procurer of postal services	Benefits to efficiency and service delivery	Example
Including post within an overall communication strategy which uses the appropriate channel (post, internet, phone, face to face) to communicate the required messages	The best value for money channel is used for each appropriate customer segment and type of communication	HM Revenue and Customs moved 17 per cent of self-assessment tax applications on to the internet in 2004-05, which, in the long-term, is a lower cost to the department and provides better customer service as compared to paper-based forms.
Establishing effective postal services management structures to implement changes throughout the department	Management accountability is set in place to deliver efficiency. A central point is responsible for setting up postal efficiency initiatives and monitoring their progress across the entire department.	To raise awareness of postal spend and suggest and implement postal efficiency initiatives, HM Revenue and Customs established a dedicated postal and courier team within their commercial directorate. This team has successfully implemented change (for example, through stricter contract management) which the department estimates has saved £2 million over the period from 2003 to 2005.
Choosing postal products that fit specific communications objectives while providing value for money	Postal costs are reduced if the appropriate product is chosen for each mail stream.	The Driver and Vehicle Licensing Agency has a very high use of discounted products (93 per cent of total volume), where the department does geographic sorting before passing the mail on to Royal Mail. This use of 'work share' by the agency saves some £3 million per year with no adverse impact on service delivery.
Taking advantage of opportunities arising from the liberalised market	Better fit between supplier products and services and business needs.	Lloyds TSB engaged an alternative supplier to deliver high-volume output from their print centres from May 2005. Lloyds TSB states that the change of supplier has resulted in cost savings of £150,000 per month, improved service, and more timely and accurate management information.
Minimising inaccurately addressed mail through improved accuracy of customer addresses in the output system	The cost of posting an undeliverable item is removed as well as the cost of processing the returned item and determining up-to-date address information. Furthermore, up to date address information ensures the communication reaches its intended audience.	National Savings and Investments' direct marketing outsourcer runs a series of data processing steps before sending out its marketing campaigns to remove, for example, addressees who have passed away. These steps can eliminate 30 per cent of records, avoiding printing and returns processing costs. For example, for a marketing campaign of September 2005, approximately £20,000 in postal costs was saved.
Active monitoring of performance using relevant and reliable management information	Information on spend split by product and mail type and service quality allows intelligent decisions to be made around changes to postal services.	The Higher Education regional purchasing group for post collects information on the use of its framework agreements which enables it to strike better terms with suppliers and encourage best use of the agreements by member organisations. The estimated savings from use of the competitive prices obtained in the national frameworks is estimated at £260,000 per year.

Source: National Audit Office

1.12 In response to the recommendations of the Office of Government Commerce commodity review, a separate project under the lead of OGCbuying.solutions[22] was established in March 2005 to set up a series of framework agreements with licensed postal services providers post full market deregulation on 1 January 2006. These frameworks are expected to be put in place by the end of March 2006 with the aim of delivering efficiency gains through the adoption of a centrally procured approach and combined leverage. The agency has ongoing responsibilities for marketing the existence of the frameworks across the wider public sector, encouraging and monitoring their use (which will be voluntary), and managing the contracts.

1.13 The framework agreements project is being supported by the Postal Services Forum. This Forum has been established to provide a focal point across the public sector to discuss commercial and performance matters in the field of postal services such as postal good practice and supplier issues. It is currently chaired by OGCbuying.solutions with members drawn from across the public sector, including departments and agencies, as well as the higher education and local government sectors.

Overview of changes in the UK postal services market

1.14 Historically Royal Mail has been the monopoly provider of letters under 350 grams or £1 as well as being the Universal Service Provider in the UK.[23] Following the Postal Services Act 2000[24], and under the policy lead of the Department of Trade and Industry[25] and administered by the postal regulator Postcomm[26], competition in the postal services market has been fostered with the objectives of improving quality, reducing prices, driving innovation for customers, encouraging growth in the postal market as a whole, and improving the efficiency of Royal Mail.[27] When introducing competition, Postcomm must ensure that this does not adversely impact on the

provision of the universal postal service. Since the Postal Services Act 2000, market liberalisation has occurred in two phases **(Figure 7)**. Phase One of the opening of the postal services market was implemented in 2003, and for the first time, customers could use alternative suppliers to Royal Mail for letters weighing less than 100 grams or costing less than 80p.

1.15 Between January 2003 and January 2006 about a third of the market (by volume) was open to competition. Postal services companies could collect from a single customer or from multiple customers (a process refered to as 'consolidation'), before injecting the mail into Royal Mail's supply chain for end delivery (a process referred to as 'Downstream Access') **(Figure 8)**. There are two options within 'Downstream Access':

- ■ 'Operator Access' where a customer buys directly from a licensed supplier and mail can be handed over pre-sorted by postcode or unsorted for the supplier to do the sorting; and

- ■ 'Customer Direct Access' whereby the customer buys wholesale directly from Royal Mail and contracts directly with a third party logistics supplier to transport the mail.

In both of these options for 'Downstream Access', Royal Mail remains responsible for the final delivery of mail.[28] Alternatively, suppliers could provide a full 'end-to-end' service, from collection point to delivery destination.

1.16 The latest phase of liberalisation of the letters market was implemented on 1 January 2006 when the final restriction requiring a minimum quantity of 4,000 items was removed; therefore Royal Mail now accepts any quantity of mail from a 'Downstream Access' provider for final delivery. In effect no part of the postal market is now reserved for Royal Mail alone. Full market liberalisation also brings the UK to the forefront of EU directives intended to harmonise postal services within the European Community, with the market opening in all member states by 2009.

---

22   OGCbuying.solutions is an executive agency of the Office of Government Commerce. Its role is to deliver value for money gains for central civil government and the wider public sector through its dedicated, professional procurement service providing central purchasing contracts and catalogues.
23   The Universal Service Provider (USP) defined under The Postal Services Act (2000) as the company responsible for delivery of mail to each address, and the collection of mail from every access point, in the UK at least once every working day.
24   The Postal Services Act 2000 put into effect EU Directive 97/67/EC designed to guarantee the free provision of services in the postal sector, while ensuring that member states' universal service providers' obligations and rights are respected.
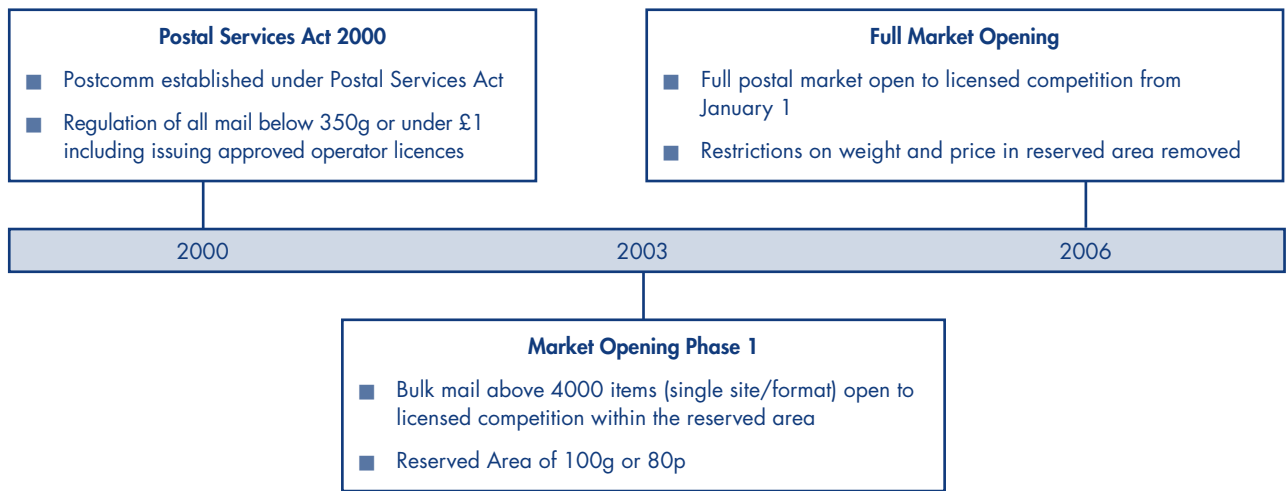25   The Department of Trade and Industry is responsible for implementing Government policy on postal services (including the regulatory framework, the provision of the Universal Service, and the nationwide network of post offices) and representing UK's interests in international postal organisations. They also discharge the Government's shareholder responsibilities in relation to its 100 per cent shareholding in Royal Mail Holdings plc.
26   Postcomm, a non-ministerial government department, is the independent regulator for postal services in the UK. Its role is to protect the universal service and promote the interests of mail users in the UK and develop a sustainable competitive market environment ensuring that postal operators, including Royal Mail, meet the needs of mail users throughout the UK.
27   Department of Trade and Industry at http://www.dti.gov.uk/postalservices/competition.htm.
28   The Postal Services Act (2000) stipulates that the Universal Service Provider (Royal Mail) must allow other service providers the use of its delivery infrastructure at an appropriate cost.

7   Key dates in the liberalisation of the postal services market

Postal Services Act 2000

■ Postcomm established under Postal Services Act

■ Regulation of all mail below 350g or under £1 including issuing approved operator licences

Full Market Opening

■ Full postal market open to licensed competition from January 1

■ Restrictions on weight and price in reserved area removed

2000	2003	2006

Market Opening Phase 1

■ Bulk mail above 4000 items (single site/format) open to licensed competition within the reserved area

■ Reserved Area of 100g or 80p

Source: National Audit Office

NOTE

Letters above 350g have been subject to competition since 1981. A licence is required for carrying letters that are less than 350g and costing less than £1 to post. Other postal operators, carrying heavier or more expensive mail, are not required to have licences.[29] Exemptions include: letters weighing more than 350g; books; catalogues; newspapers; periodicals; unaddressed items; Christmas cards delivered by charities; outbound international mail; services outside the scope of the universal service; courier, express and other services charging more than £1.

8   How Downstream Access (DSA) works

Production by customer

Collection by DSA provider

Sorting by DSA provider

Delivery to Royal Mail

Receipt by addressee

Final delivery

Royal Mail further address sorting

Source: National Audit Office

29   Postcomm's Competitive Market Review 2005.

1.17 Currently, the 'Downstream Access' model is more prevalent than the 'end-to-end' model with approximately 90 million items per month in the second quarter of 2005 going via this route.[30] 'End-to-end' services are emerging for specific geographic areas, but full geographic coverage was not expected to emerge immediately upon market opening as there are very large infrastructural costs involved in replicating Royal Mail's network of postmen and women. Royal Mail remains the dominant supplier having over 97 per cent[31] by volume of total market share across the private and public sectors.

1.18 A number of other countries have already liberalised their postal services markets, such as New Zealand and Sweden, or are in the process of doing so. To date this has had only a modest impact on the dominant positions of their respective Universal Service Providers whose market share has remained high (above 90 per cent) long after the markets have been opened up to full competition. These countries; however, have seen varying degrees of improved efficiency on the part of the Universal Service Provider. In part, the market retained a dominant player because postal services markets are typified by strong monopolistic characteristics. It is also likely, in the case of New Zealand and Sweden, that these relatively small and geographically isolated markets have not been attractive to some of the bigger international firms involved in postal services and logistics. The UK market is likely to be more attractive to major suppliers, as evidenced by the entry of DHL Global Mail (owned by Deutsche Post World Net) and TNT (owned by TPG NV) into the market since the inception of market liberalisation.

1.19 Another significant change in the market is the introduction of 'Pricing in Proportion' by Royal Mail, planned for August 2006. This change will add size and format into pricing calculations, whereas currently only weight is used. Royal Mail has proposed this pricing change to make prices more accurately reflect their internal cost base. For example, an A4-sized letter weighing less than 60 grams currently costs 30p for first class delivery; under 'Pricing in Proportion', where the cost will include size, the same letter will cost 42p. Alternatively a letter (a smaller-sized item) weighing between 60-100g currently costs 46p, whereas under 'Pricing in Proportion' it will cost 30p. 'Pricing in Proportion' has been designed to be cost neutral

and some 70 per cent of customers' mail is expected to be unaffected. All organisations need to understand the consequences of this change on their mailing activities and reorganise their mail to take best advantage from the change, or at the least minimise increased costs. Furthermore, Royal Mail's current Price Control arrangements are due to be revised on 1 April, 2006, provided agreement can be reached between Royal Mail and Postcomm on a new Price Control to cover the period 2006-2010. In January 2006, Royal Mail announced price increases to take effect on 3 April, 2006 which are based on the assumption that such an agreement will be forthcoming.

The National Audit Office's examination

1.20 The focus of this report is on how public sector organisations, as a customer of the postal services industry, can take advantage of both Royal Mail postal products and the opportunities emerging from full market liberalisation. The report therefore excludes government's use of Post Office Counters, stationery procurement, mail room operations and printing. Similarly the report does not include an examination of Royal Mail's efficiency and performance.[32]

1.21 In particular, we assessed:

■ the progress of public sector organisations in achieving efficiency in their procurement and management of postal services; and

■ what more needs to be done by public sector organisations and the Office of Government Commerce to improve performance and realise financial and quality of service benefits from their postal services.

Our detailed methodology is set in the Appendix. The supporting volumes of:

■ case studies; and

■ guide to improve postal services efficiency set out examples of good practice which organisations in the both the public and private sectors have used to improve their performance.

---

30   Postcomm's Competitive Market Review 2005.
31   Postcomm 2005 Competitive Market Review, based on figures collected at quarter 2, 2005-06.
32   Postcomm have reviewed Royal Mail's prices and quality of service in their "Price Control 2006-2010" review. A review of the quality of standards regime administered by Postcomm is the subject of NAO report, "Re-opening the post: Postcomm and Postwatch".

PART TWO
Progress in improving public sector organisations' use of postal services and the scope to go further

2.1 This part of the report considers the progress that public sector organisations have made in improving the efficiency with which they use postal services, concentrating on:

■ an overview of current performance in the use of postal services across the public sector;

■ the progress towards improved efficiency and service delivery already achieved by our four detailed central government case study organisations;

■ an evaluation of the potential further efficiency gains and financial savings that can realistically be achieved across the public sector;

■ the extent to which centrally led initiatives could contribute to improved performance;

■ further aspects of the public sector's approach that inhibit efficiency.

Our findings are based on:

■ analysis of postal services performance data, provided by Royal Mail (covering the central government, education, health, local government sectors, as well as private sector financial services and utilities industries) validated against data obtained directly from public sector organisations and collected by the Office of Government Commerce;

■ case study examination of four central government and one private sector organisations. Each involved collection of performance data, interviews with procurement and operational staff, and document analysis;

■ meetings and correspondence with Royal Mail and all licensed suppliers;

■ engagement with postal services stakeholders, including the Postal Services Forum and the Mail Competition Forum (a private sector group representing the interests of entrants to the UK postal market);

■ engagement with Postcomm, the independent postal services regulator;

■ interviews with postal procurement and operations personnel from public and private sector organisations, including for example, NHS Collaborative Procurement Hubs, the Central Office of Information, British Forces Post Office, the UK Passport Service, Lloyds TSB, and the Stationery Office;

■ engagement with the OGCbuying.solutions framework agreements project team.

Current performance in the use of postal services across the public sector

2.2 We compared the performance of four of the largest users of postal services in central government (our four central government case study organisations), against each other as well as other parts of the public sector. Performance was also compared against available data from the financial services and utilities industries, both of which are considered by suppliers as sophisticated and efficient users of postal services. Performance is assessed using a number of key indicators of the cost-effective use of postal services and products and the level of misdirected outbound mail **(Figure 9)**.

2.3 We found that there is a wide range of performance across the public sector, with departments who produce high volumes of mail performing more efficiently than organisations with smaller outputs of mail. Within large users of mail, those with highly centralised output, in particular the Driver and Vehicle Licensing Agency and National Savings and Investments, are able to achieve high levels of discounts for their mail, at a level that compares well with leaders in the private sector.

2.4　On cost per item: The main factors influencing cost are the class of mail, volume of mail qualifying for 'work share' discount, and weight of item. National Savings and Investments has the lowest cost per item amongst the case study organisations and is very close to private sector organisations. Its performance is attributable to its considerable use of 'work share' products, second class mail and products with longer delivery timescales. For the same reason the Driver and Vehicle Licensing Agency also compares well with the other case study organisations. The cost per item in the education, health and local government sectors is relatively high for reasons discussed below.

2.5　On the percentage use of 'work share': Use of 'work share' products, where customers prepare mail for presentation to the carrier to in accordance with suppliers' address and sortation specifications **(Figure 10 on page 24)**, can offer discounts of 5 to 46 per cent on standard tariffs.[33] Across the public sector approximately one-third of mail (by volume) is dispatched using 'work share' products. The Driver and Vehicle Licensing Agency and National Savings and Investments both achieve

very high levels of 'work share' through a combination of software sorting technology and mechanical sorting machines. Both have very centralised output (similar to utilities and financial services companies), enabling this high level of 'work share'. The Department for Work and Pensions and HM Revenue and Customs have distributed output networks; approximately half of the former's and three-quarters of the latter's output is generated in central print centres (where 'work share' products are largely used), while the rest comes from their field offices. A distributed network makes it difficult to achieve the minimum volume thresholds required for many of the 'work share' products as each site is unlikely to consistently produce more than the required 4,000 items daily. The lower volumes at each site within a distributed network also make investment in sorting technology or equipment at each site less attractive as it takes longer for savings to exceed investment costs. The education, health, and local government sectors are also characterised by highly distributed networks, a key factor in their low level of 'work share' and therefore high overall cost per item.

2.6　On the use of first, second class mail and products with longer delivery timescales: The Department for Work and Pensions sends a relatively high proportion of its mail first class. Payments to benefit recipients form an important part (nearly one-eighth of output) of its outbound mail, almost all of which are sent by first class. The department's reasons for using first class for benefit payments are:

a)　　Security – the department considers 'first class Mailsort' is more secure than second class because mail is in the Royal Mail delivery network for less time and passes through fewer hands;

b)　　Timeliness – many benefit payments are meeting the critical needs of recipients, therefore, prompt arrival is paramount, especially where Ministers have made public commitments on the speed of payment and;

c)　　Certainty of delivery – as the date of payment delivery is communicated in advance to recipients, first class mail provides greater assurance of the payment arriving on a given day reducing the level of enquiries from customers.

National Savings and Investments is the biggest user of Mailsort 3 mail (a product with longer delivery timescales) amongst the case study organisations.

33　　Standard tariff prices for a letter (under the current pricing structure as of March 2006) are: 30p for first class and 21p for second class.

9 Comparative analysis of postal services performance (2004-05)

Indicator	Department for Work and Pensions	Driver and Vehicle Licensing Agency	HM Revenue and Customs	National Savings and Investments	Rest of central government	Education	National Health Service	Local Authorities	Private sector benchmark Financial services	Utilities
Total spend[1,2]	£69m	£21m	£77m	£12m	£86m	£83m	£79m	£201m	£1,233m	£300m
Total number of mailed items	248m	97m	320m	56m	355m	277m	262m	647m	5,595m	1,471m
Average cost per item[3]	27.8p	21.7p	24.1p	21.5p	24.2p	30.0p	30.0p	31.1p	22.0p	20.4p
Percentage of 'work-shared' mail[4]	56%	93%	60%	88%	Not available	19%	15%	21%	73%	81%
Percentage of mail sent by[5]:										
1st class	41%	1%	2%	20%						
2nd class	58.5%	99%	87%	49%			Not available[9]			
Mailsort 3[6]	0.5%	0%	11%	31%						
Undeliverables[7]:										
■ 000s items per year	1,160	143	3,440	42						
■ as a % of total volume	0.5%	0.1%	1.1%	0.1%						
Total cost of processing undeliverables[8] (£m)	£0.65m	£0.07m	£4.0m	£0.02m						

Source: National Audit Office analysis of departmental and Royal Mail data

NOTES

1 Spend covers Royal Mail only, including UK inland and international mail. These figures do not include international mail spend with other suppliers, however such spend represents a very low percentage of total mail spend.

2 Local Government, Health, and Education sectors cover England, Scotland, Northern Ireland, and Wales.

3 Average cost per item is the total spend divided by the total volume.

4 'Work shared' mail includes Mailsort, Packetpost, Presstream, Cleanmail, Walksort products where the customer does some initial work, such as sorting mail by post codes, before hand-over to supplier to gain discounts. These are calculated using volumes, departments can also choose to analyse this data as a percentage of spend.

5 Split of mail class has been done using management information from main processing centres and estimates for local field offices.

6 A Royal Mail product with longer delivery timescales than first or second class. This product has volume and sortation requirements.

7 Volume of undeliverable items is measured as the volume of mail returned to the sender because address information was incorrect or out-of-date and hence could not reach its intended recipient. As undeliverable items can only include the items that are returned by customers and hence disregards all items that are sent to an incorrect address but are thrown away rather than 'returned to sender', this figure is indicative of performance, rather than a definitive figure.

8 Cost of processing undeliverables includes staff costs and re-posting costs, with the department's average cost per item used to calculate re-posting cost.

9 Royal Mail does not collect the split of mail across classes for standard tariff mail, therefore, we are unable to calculate a ratio for first and second class mail for these sectors. The volume of 'undeliverable' items and their cost is not centrally collated by any supplier or public sector organisation and the collation of this data across the public sector is out of the scope of this study.

10 Requirements for use of 'work share' products

The key requirements on customers to qualify for 'work share' discounts are the following:

■ Minimum customer address data match with Royal Mail's Postcode Address File;

■ Address formatting, for example location and font size, adhering to Royal Mail specifications;

■ Mail size, shape, weight, and thickness adhering to Royal Mail specifications;

■ Labelling, bundling, and bagging requirements adhering to Royal Mail specifications;

■ Minimum daily volumes, for example 4,000 items for the 'Mailsort 700' product;

■ Grouping of mail by post code as per product specifications;

■ Mail is ready for pick-up by the supplier according to its pre-determined timetables.

Source: National Audit Office

2.7 On undeliverable items: These figures represent the volume of mail returned to the organisation as undeliverable. The cost is comprised of staff time to process undeliverable items and postage costs, where mail is re-sent. Industry experience suggests that there will always be an irreducible level of undelivered items because it is impossible to keep track of the changing circumstances of every customer. On the other hand industry experience also indicates that only one-quarter to one-sixth of 'undeliverable' mail is actually returned to sender. The figures shown are, therefore, only indicative of performance and may not demonstrate the full risk to efficiency and service delivery. Furthermore, the costs of printing and stationery and tracing up-to-date address information can also be added to this figure. The volume of undeliverable items is a function of the quality of customer address data held by the organisation.

2.8 National Savings and Investments experiences relatively low volumes of undeliverable items, largely because, in the agency's role in managing customers' finances, customers have a clear incentive to keep their address details up-to-date. HM Revenue and Customs, however, faces the converse challenge with some customers less likely to maintain up-to-date contact details. It has estimated that it can save £2 million per year (from their current costs of £4 million) by improving their address data quality to a 95 per cent match with Royal Mail's Postcode Address File[34] and thereby reducing the volume of undeliverable items.

2.9 Public sector organisations have made progress in increasing their postal efficiency, in particular, we have assessed the four case study organisations for improvements they have made in:

■ increased use of 'work share';

■ increased use of second class mail and products with longer delivery timescales;

■ increased use of competitive tendering; and

■ reduction in volume of 'undeliverable' mail.

The progress towards improved efficiency and service delivery already achieved by our four central government case study organisations

2.10 All four of our case study organisations (which in total represent 70 per cent of postal spend within central government) have been implementing improvements to their postal services, often within the context of wider business strategies. For example HM Revenue and Customs, within a wider customer data quality initiative aimed at improving effectiveness of tax collection and providing improved customer service, has reduced the level of undeliverable mail by improving customer address data. From our case study examination it was clear that many departments have implemented improvements in their procurement and management of postal services and realised significant financial savings (compared with implementation costs) as a result **(Figure 11)**.

34　The Postcode Address File, managed by Royal Mail, lists all 'official' postal addresses in the UK. It is used to facilitate delivery of mail. HM Revenue and Customs has found that a 95 per cent match of customer addresses against the Postcode Address File is industry best practice.

11	Improvements in value for money demonstrated by the case study organisations

Organisation	Quantifiable improvements to efficiency and service delivery
Department for Work and Pensions	**Increased use of 'work share' products:** The department has installed mechanical sorting machines in its Service Delivery Centres to increase their use of discounted 'Mailsort' products for centrally processed outbound mail to 85 per cent of mail. The department estimates that this has saved £6 million, a significant return on the initial investment of £3 million. **Increased use of second class mail and products with longer delivery timescales:** By issuing Winter Fuel payments for 2005-06 using second rather than first class (and by using a 'work share' rather than standard tariff product), the department has saved over 10p per item with no adverse effect on customer service, a total saving of some £1.2 million for the year. **Increased use of competitive tendering:** A six month trial of TNT and UK Mail's 'Downstream access' services begun in September 2005 shows a saving of ten per cent is possible compared to Royal Mail as well as an improved level of service with four per cent more mail arriving within two working days. The department is currently considering a decision to increase volumes going through 'Downstream access' services, which it estimates could lead to annual savings of £1 million. **Reduction in volume of 'undeliverable' mail:** As part of the Payments Modernisation Programme, the department made considerable strides in improving customer information, including address data.
Driver and Vehicle Licensing Agency	**Increased use of 'work share' products:** The Driving and Vehicle Licensing Agency has successfully installed software 'Mailsort' on their in-house print system to manage the production of its bulk outputs. The agency sorts over 90 per cent of its mail, saving some £3 million per year. **Increased use of second class mail and products with longer delivery timescales:** The Driver and Vehicle Licensing Agency claims savings of £1.5 million from moving the dispatch of mail such as vehicle registration documents from first to second class post in 2003-04. **Reduction in volume of 'undeliverable' mail:** The agency carried out a major exercise in 2005 to improve the accuracy of its customer address data.
HM Revenue and Customs	**Increased use of 'work share' products:** The department is implementing software Mailsort technology (to replace sorting machines and avoid the use of external providers) with target benefits of £2 million per year. **Increased use of second class mail and products with longer delivery timescales:** In 2004 the department began using second class mail to return customer documentation. It estimates this change resulted in savings of £150,000. Mailsort 3 (a product with longer delivery timescales) is used for New Tax Credit newsletters, amongst other correspondence, saving some £1.3 million in 2004-05. **Reduction in volume of 'undeliverable' mail:** The department has a project underway to improve customer address data, with estimated savings of £2 million per year.
National Savings and Investments	**Increased use of 'work share' products:** The agency moved from mechanical sorting machines to software Mailsort technology in 2003 to increase the capacity to 'Mailsort' large volumes of mail and to re-use the amount of space used by the mechanical sorting machines in the print centre. This implementation of the software technology has enabled the agency to reach its high proportion of 88 per cent 'work share'. **Increased use of second class mail and products with longer delivery timescales:** The Mailsort 3 product is used to deliver mail where time-criticality is not an issue. The agency estimates that this initiative has achieved savings of £160,000 for 2005. **Reduction in volume of 'undeliverable' mail:** The agency's direct marketing outsourcer implements a series of customer data cleansing steps for its direct marketing campaigns. For example, during a 2005 campaign, over 30 per cent from the original data file of 290,000 was removed using various data cleansing techniques, generating postage savings of some £20,000 as well as printing and processing savings. Furthermore, effectiveness is increased as customers do not receive multiple, potentially conflicting messages from the agency.

Source: National Audit Office case study examinations

NOTE

Further details are provided in the supporting guide and case study volumes to this report.

The potential further efficiency gains and financial savings that can realistically be achieved across the public sector

2.11 We analysed the scope for our four case study organisations to achieve further efficiency gains in their use of postal services, and extended this analysis across the rest of the central government sector, as well as the education, health and local government sectors. In doing this we were mindful that these efficiency gains should also lead to improved, or at the least not compromised, service quality (in the supporting guide to the report we provide evidence to show how efficiency and quality improvements can be delivered jointly). We calculated potential savings (as described more fully in the Appendix) based on:

■ An assessment of the savings achievable in each year from 2006-07 to 2008-09 against a baseline of performance and expenditure on postal services in 2004-05 (using the assumptions that mail volumes, expenditure, products and prices remain the same for each of the three years after 2004-05);

■ Detailed analysis agreed with the four case study organisations on the scope for financial improvements, with improved or at least neutral impacts on service quality, which might have wider application in public sector organisations. The targeted potential benefits are indicative of what is possible, however, each organisation will need to make detailed business case plans to set out how the targets will be reached and assess the costs involved;

■ We have not explored the barriers and practicalities of implementation in education health, local authorities, and the rest of central government. Rather, we have used the target savings from the case study organisations to produce conservative estimates of savings across these sectors and subjected these estimates to critical review by experts. We recognise that these sectors may act

differently from our large, central government case study organisations and that the baseline data has been largely sourced from Royal Mail, not directly from customers. We also acknowledge the difficulties that the highly distributed systems in these sectors would face in implementing the recommended strategies in the context of other, higher profile, procurement efficiency targets. Within this context, however, we believe individual organisations are able to make savings using the guidance in this report and in the accompanying good practice guide.

2.12 We identified scope for significant savings in four main areas, applicable to organisations across the public sector, ranging from smaller-volume mailers such as individual NHS Trust to the large departments **(Case Example 1 and Case Example 2)**:

■ increased use of price discounted 'work share' products;

■ increased use of second class mail and products with longer delivery timescales;

■ increased use of competitive tendering leading to lower cost products for the same or improved levels of performance (Figure 14 on page 30); and

■ reductions in the volume of 'undeliverable' mail (Figure 15 on page 31).

The supporting guide to this report and the case study volume provide examples for customers with differing postal requirements and capacity. It is possible to implement improvements in any of the four areas in isolation or through any combination of them. For example, use of an alternative supplier for 'Downstream Access[35], can also involve the change of mail class to a two-day service and the use of 'work share' products. We have taken an average savings for these efficiency tactics to take into account factors such as 'work share' products used, contract terms offered by alternative suppliers and the mix of initiatives implemented.

---

35   'Downstream Access' refers to the service model where a licensed carrier picks up mail from a customer and 'accesses' Royal Mail's delivery network of postmen and women for final delivery to the addressee.

CASE EXAMPLE 1

Outsourcing of print, production, and dispatch of mail

Airedale NHS Trust, as part of an overall review of outpatient services, outsourced the print, production, and dispatch of outpatient communications to Royal Mail Electronic Services (now Optecon). Patient communications were previously printed internally from the Patient Administration System, then enveloped, franked, bagged, and dispatched. With the new system an output file is sent electronically to the external provider who performs the printing to dispatch tasks. The chief benefits realised by the Trust are:

■ productive time savings equivalent to 1 FTE (hospital staff are no longer required to print, envelop, and dispatch letters);

■ production and postal costs were reduced by four per cent as maintenance and stationery costs were reduced;

■ the 'Did Not Attend' rate was reduced, partly due to the increased quality of the letters and patient satisfaction increased;

■ physical space within the hospital was put to better use, as the space previously occupied by machinery is now used for patient treatment;

■ more flexible letter templates which can be modified more quickly and easily.

The key challenges faced by the Trust were a cultural shift away from in-house production of the letters, with an accompanying loss of control, and the rationalisation of letter types from 99 to seven main types. These challenges were overcome through communication of the benefits, a pilot of the system, and support to the teams affected during the change-over of service.

Source: National Audit Office examination of Airedale NHS Trust

CASE EXAMPLE 2

Use of an alternative supplier by Hull and East Yorkshire Hospitals NHS Trust

Hull and East Yorkshire Hospitals NHS Trust has made two key changes to decrease its postal costs: the decreased use of first class mail and the switch from Royal Mail's second class to UK Mail's three day service.

The change of product and supplier has reduced the Trust's postal costs by some 25 per cent. A three day delivery timeline is the default service and first class is only used when a clear business need exists. The Trust has found that the three-day delivery timescale is sufficient for about 70 per cent of its correspondence (for example, patient appointment letters that are sent out well in advance). The three day service has been provided by UK Mail since January 2005, with Royal Mail remaining responsible for final delivery to the addressee. The Trust does not sort the mail before passing it on to UK Mail. As the mail is unsorted and cannot be read by UK Mail's sorting machines, the end-to-end delivery timescale is three days.

The main challenge arising from this change was convincing staff that the three day delivery timescale was acceptable. The Trust overcame this challenge by retaining the facility for staff to send approved mail first class and through weekly testing of the mail to monitor performance.

Source: National Audit Office examination of Hull and East Yorkshire Hospitals NHS Trust

Our case study organisations have demonstrated that these strategies are possible; however, we have not discussed in depth the barriers and risks to implementation with the education, health, and local government sectors. Out of the four case study organisations, HM Revenue and Customs has the largest potential savings by 2008-09 of £2 million, while the Driver and Vehicle Licensing Agency and National Savings and Investments are currently such strong performers that improvement for them will be minimal.
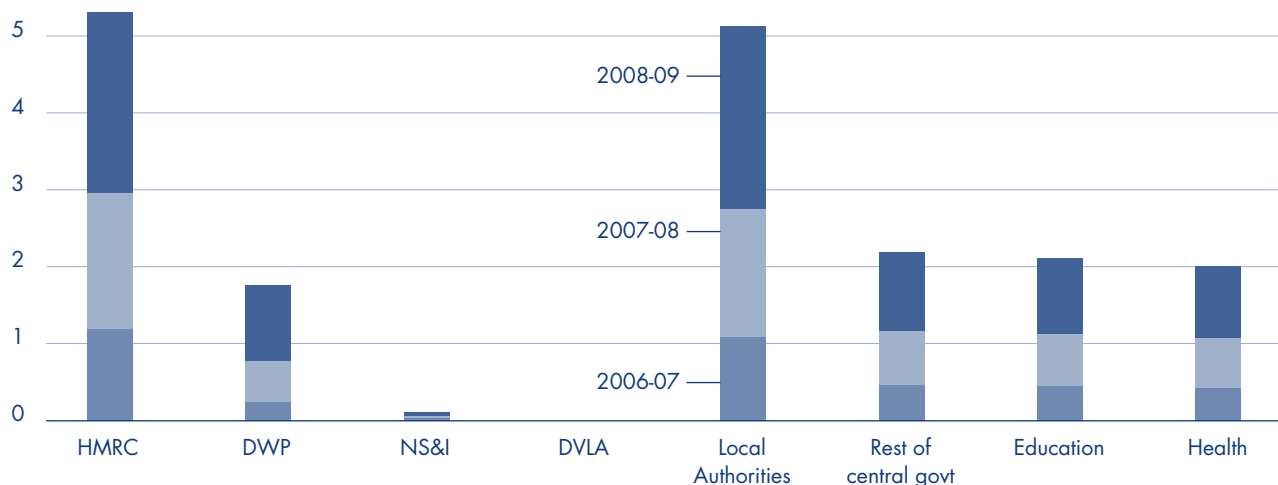
■ **Increased use of second class mail and products with longer delivery timescales**: as we do not have baseline data for the split of mail across first and second classes for education, health, local authorities, and the rest of central government, we have assumed a similar savings ratio to that agreed with the case study organisations. We estimate that a saving of £9 million is possible across the public sector each year from 2008-09 by revising the mix of classes used by organisations **(Figure 13 overleaf)**. The Department for Work and Pensions has the highest potential for savings of some £2 million by 2008-09.

2.13 In summary, the results indicate that savings of £10 million in 2006-07 rising to £31 million in 2008-09 can be achieved each year across the public sector. We believe that performance can be incrementally improved over the three years as organisations are able to effect more changes. The savings are comprised of:

■ **Increasing the use of discounted 'work share' products**: we estimate that across the public sector, annual savings of £9 million are possible by 2008-09 **(Figure 12 overleaf)**. The education, health and local government sectors currently have low levels of use of 'work share' products. Assuming that these levels can be increased by about three per cent each year, total savings of £4 million per year by 2008-09 across these three sectors are possible. Use of 'work share' can be increased; for example, through the centralisation of output across multiple sites, centralised sortation, or the use of an external provider to perform sorting activities.

12 Potential savings from increased level of work share

Assumptions underlying the potential gains from increased use of work share: (1) the savings are calculated using work share targets over three years (2) a work share product is typically 15 per cent cheaper than the standard tariff and (3) the average cost per item was used for each organisation to calculate total savings.
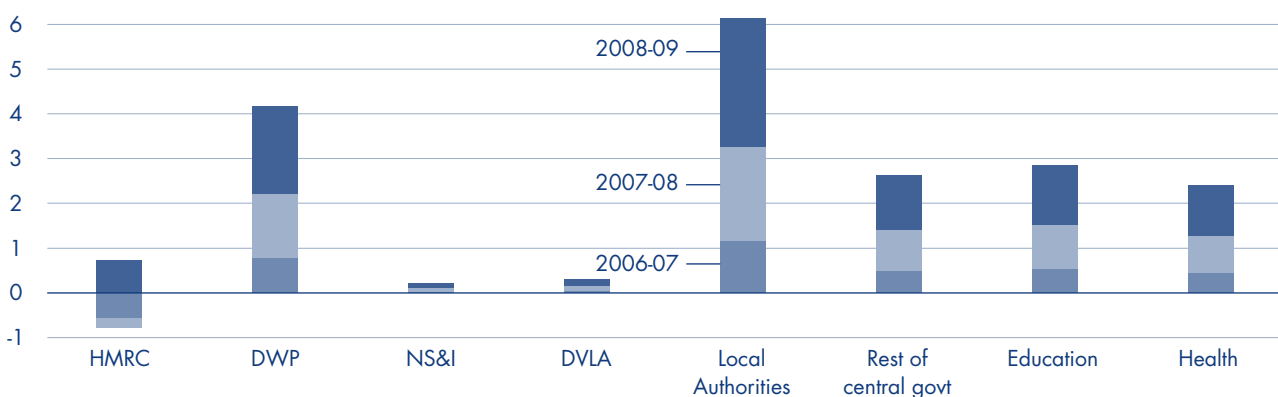
£ million

Source: National Audit Office analysis of Royal Mail and departmental data

13 Potential savings from increased use of second class mail and products with longer delivery timescales

Assumptions underlying the potential gains from increased use of second class mail and products with longer delivery timescales: (1) the savings are calculated using first and second class and Mailsort 3 mail proportions targets phased over three years (2) the savings from moving from first to second class mail is 17.7 per cent, moving from second to Mailsort 3 is 9.5 per cent (3) the average cost per item was used for each organisation to calculate total savings (4) baseline data for education, health, local authorities, and the rest of central government does not exist, so the savings level from the case study organisations is used.

£ million

Source: National Audit Office analysis of Royal Mail and departmental data

NOTE

Dispatch of 'Child Benefits' will transfer from the Department of Work and Pensions to HM Revenue and Customs in 2006. As these payments are sent using first class mail, the amount of mail sent first class by HM Revenue and Customs will increase in 2006-07, outweighing gains the department is projected to make in transferring other mail to second class and Mailsort 3 (a product with a seven working day delivery timescale).

■ **Increased use of competitive tendering**:
Opportunities presented by market liberalisation have existed since 2003, with the RBS Group being the first major customer to use 'Downstream Access' in March 2005 **(Case Example 3)**. There have, however, been very few public sector organisations who have taken up this service. Currently alternative suppliers have three per cent of market share,[36] however, less than one per cent of public sector expenditure on postal services is with alternative suppliers. To a large part this reflects a cautious approach on the part of public sector organisations and a desire to see the benefits proven by others before committing themselves. We estimate, based on evidence from other customers, that organisations can save, on average, 10 per cent[37] by using alternative suppliers for 'Downstream Access' or 'end-to-end' delivery (based on 2005 pricing structures). This could potentially save £8.5 million across the public sector annually from 2008-09, assuming that the public sector moves a proportion of its mail to alternative suppliers **(Figure 14 overleaf)**. For example, the Department for Work and Pensions, which began a trial of UK Mail and TNT for 'Downstream Access' in September 2005, considers it could save nearly £1.7 million each year by 2008-09. We assume that, on average, about four per cent of mail by volume can move to an alternative supplier in each of the three years. Based on discussions with the Office of Government Commerce and the case study organisations we are satisfied that the capacity of the market would be sufficient to manage this volume.

CASE EXAMPLE 3

The RBS Group's use of Downstream Access with UK Mail

The RBS Group was the first major customer of Royal Mail to develop and implement 'Downstream Access' for its bulk mail output. The Group began using UK Mail to collect mail from its print centres and deliver to Royal Mail for final mile delivery in March 2005 with over 200 million items processed in 2005. The required post code sortation is done through a mix of software and mechanical sorting. The implementation was done in three months, with the key challenge being managing the risk to customer service from moving suppliers. This risk was managed through close working with suppliers, testing of the system, and communication of the strong financial and non-financial benefits of the change. The Group's implementation of 'Downstream Access' won the 'UK Mail Award for Innovation' in November 2005. The use of the 'Downstream Access' model has brought about the following benefits:

■ cost savings of approximately seven per cent net[1] for 2005 (set against RBS Group's already optimised use of 'work share' discounts);

■ greater delivery day certainty as 98 per cent of mail is delivered on 'Day 2' after posting;

■ quicker delivery as 10 per cent of customers receive their mail one day earlier compared with Royal Mail's 'Mailsort 2' (a second class 'work share' product) service;

■ a more secure network because the mail arrives to Royal Mail in sealed bags and is tracked until this point;

■ extension of the print window from 15:00 to 21:00 enabling mail for 20 per cent of customers to be dispatched (and hence delivered) a day earlier than Royal Mail's 'Mailsort 2' service and the print infrastructure to be leveraged to a greater extent.

Source: National Audit Office examination of the RBS Group

NOTE

1 Net savings = gross postal saving – trunking costs.

---

36   Postcomm, "Competitive Market Review", November 2005.
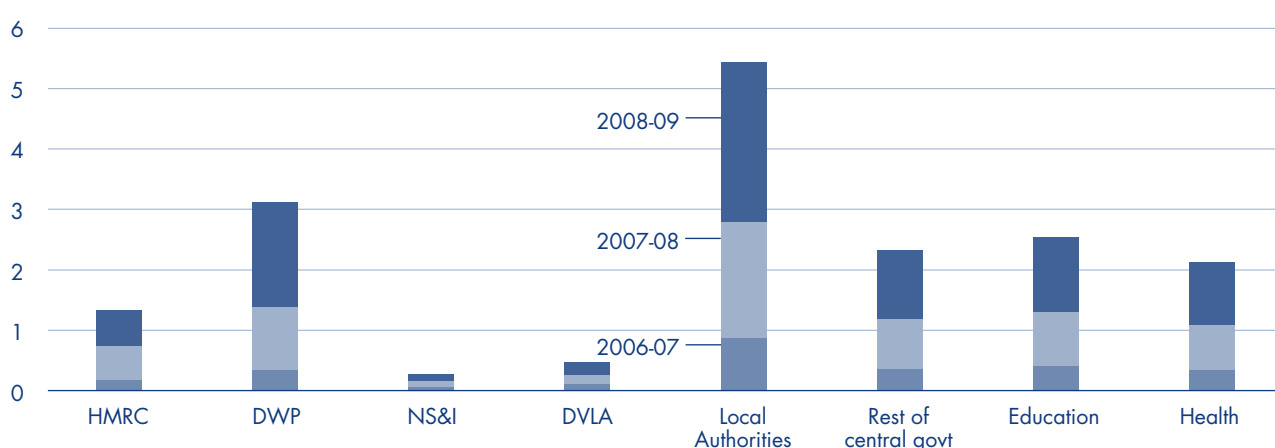37   Savings levels can vary, with some customers achieving significantly higher discounts.

■ **Reducing the volume of undeliverable mail**: Reducing the volume of undeliverable mail will generate productive time savings for processing mail and postage procurement savings, resulting in estimated savings of some £4.5 million annually across the public sector by 2008-09 **(Figure 15)**. However, as only one-quarter to one-sixth of 'undeliverable' mail is actually returned to sender, it is likely that this savings figure is conservative. As we do not have baseline data for education, health, local authorities, and central government, we have assumed that these sectors can realise similar levels of savings as the case study organisations. The National Health Service's existing patient pathway processes include checks of address details; nonetheless, there remains scope for efficiency savings in this area. HM Revenue and Customs has the highest estimated potential savings amongst the case study organisation, with £2 million per year beginning in 2007-08. National Savings and Investments and the Driver and Vehicle Licensing Agency have such low volumes of undeliverable mail currently that it is unlikely to be cost-effective to significantly reduce this volume further.

2.14 Figure 16 shows the total value of potential savings for the case study organisations, the rest of central government and the education, health and local government sectors across all four efficiency areas. Taken together the potential savings across the four areas indicate an annual saving of £31 million by 2008-09 and the percentage savings against the baseline of 2004-05 in 2008-09 would be 4.9 per cent **(Figure 17 on page 32)**. The potential savings have been reviewed with the case study organisations and an average level of savings from the case study organisations has been used to calculate potential savings for the rest of central government and the education, health and local government sectors, which we consider provides a reasonable target. These potential savings may be used as benchmarks against which performance improvement can be judged.

---

14 Potential savings from increased use of competitive tendering

Assumptions underlying the potential gains from increased use of competitive tendering: (1) the savings are calculated using volumes of mail that would be delivered by alternative suppliers phased over three years (2) a typical price reduction by moving to an alternative supplier of 10 per cent[1] (3) the total saving is calculated by multiplying the percentage of mail moving to an alternative supplier by the total mail spend by the customer by the average saving.

£ million

Source: National Audit Office analysis of Royal Mail and departmental data

NOTE

1   Savings levels can vary, with some customers achieving significantly higher discounts.

15 Potential savings from reduction in volume of undeliverable mail

Assumptions underlying the potential gains from reduced volumes of undeliverable mail: (1) the savings are calculated using volumes of mail that are undeliverable over three years (2) the average cost to process an item of undeliverable mail is calculated using current volumes and costs of processing personnel. We assume this cost remains constant to calculate savings and (3) the average cost per item for each organisation is used to calculate re-posting costs (4) baseline data for education, health, local authorities, and the rest of central government does not exist, so the savings level from the case study organisations is used.

£ million
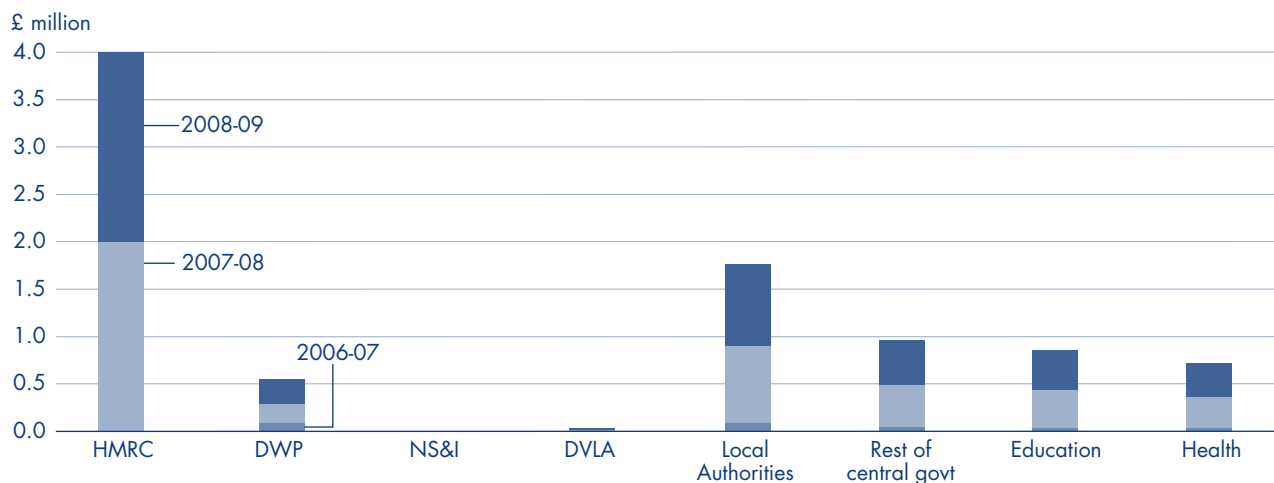
Source: National Audit Office analysis of Royal Mail and departmental data

16 Total potential savings across the public sector 2006-07 to 2008-09

£ million
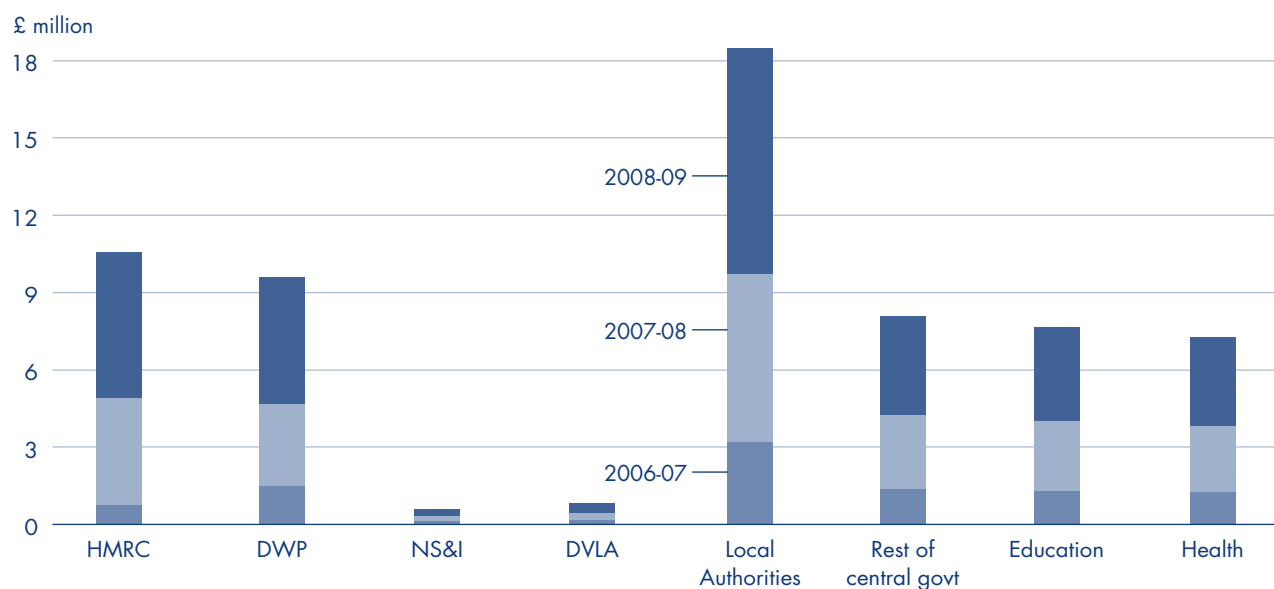
Source: National Audit Office analysis of Royal Mail and departmental data

17 Potential savings as percentages of 2004-05 postal spend			
Organisation/sector	Percentage saving year 1	Percentage saving year 2	Percentage saving year 3	Total annual saving in 2008-09 (£ million)
Department for Work and Pensions	2.2	4.6	7.1	4.90
Driver and Vehicle Licensing Agency	0.8	1.3	1.6	0.40
HM Revenue and Customs	1.0	5.4	7.3	5.70
National Savings and Investments	1.1	1.7	2.1	0.26
Education	1.6	3.2	4.4	3.60
Health	1.6	3.2	4.4	3.40
Local government	1.6	3.2	4.3	8.70
Rest of central government	1.6	3.3	4.5	3.80
Totals	**1.6**	**3.6**	**4.9**	**30.80**

Source: National Audit Office analysis of Royal Mail and departmental data

2.15 The potential savings must, however, be set against the costs of implementation. **Figure 18** lists the main tasks involved in achieving the savings identified in each of the four main areas; although not all activities will be required in every case and, in some cases, a mix of these activities will be required. It is difficult to be precise, however, about the costs involved in implementation because many of the improvements identified are dependent on wider changes in organisational policies, business processes, and IT. For example, the Department for Work and Pensions' debt management business rationalised its IT systems across its ten sites to move onto a common platform. This IT change enabled the business to centralise its print output, generating savings from increased use of 'work share'. Its 15 per cent mail savings, however, should not be set against the total IT rationalisation cost, but should be assessed as part of the IT rationalisation project. Where complex change or investment in new IT or equipment is necessary, a clear business case needs to be made. However, many of the improvements we have identified can be done at low cost and within short timescales, in particular: changes in class of mail, increased use of competitive tendering, reduction in volume of undeliverable items through data cleansing routines, and better choice of mail products (such as Cleanmail and Packet Post[38]).

The extent to which centrally led initiatives could contribute to improved performance

2.16 The Office of Government Commerce, and its executive agency OGCbuying.solutions, have led on initiatives to improve the efficiency with which all public sector organisations procure and use postal services. The main action aligned with full market liberalisation will be the establishment by OGCbuying.solutions of framework agreements for mail services and products for use across the public sector.[39] The full framework agreements will be made available for use in April 2006, with a number of licensed postal operators on the frameworks. In July 2005, as an interim step before the frameworks were ready for use, OGCbuying.solutions made existing Cabinet Office contracts with deregulated suppliers available for use across the public sector.[40] The Cabinet Office had already, in July 2004, switched to good effect from Royal Mail to an alternative supplier for its eGovernment Unit's mailings of Government Gateway registration documents **(Case Example 4 on page 34).**

38   Cleanmail is a Royal Mail product offering discounts based on basic address presentation requirements. Packet Post, a Royal Mail product, offers discounts on weightier items based on minimum yearly volumes.

39   The main overall recommendation of the Office of Government Commerce's postal services commodity review report (March 2005) was that, in light of the market liberalisation, framework agreements for mail services and products should be established by OGCbuying.solutions for use by all public sector organisations. Framework agreements have been set up with 12 suppliers, covering a range of mail products, including: standard tariff mail, secure mail, 'work share' products, and packets.

40   The interim frameworks enabled other government departments (encompassing central government and the wider public sector) to take advantage of the partially deregulated bulk letters market. The frameworks were awarded by the Cabinet Office on a pan-Governmental basis following a full competitive procurement exercise in accordance with the OJEU restricted procedure.

18	The main tasks involved in achieving the identified savings

Areas for potential savings	Implementation tasks
Increased use of 'work share' products	■ IT changes are required of the print system for the implementation of software sorting technology. These changes include, for example, address re-formatting and print to be output in post code sequence; ■ All output forms must be assessed for their fit with mail presentation requirements, such as address formatting, to achieve discounts. Some organisations have used this opportunity to rationalise the number of different forms used, achieving efficiency and service delivery benefits; ■ Capital costs and changes in operational procedures are required to install mechanical sorting equipment. For example the Department for Work and Pensions' IT outsourcer spent £500,000 on each of their six sorting machines; ■ Operational and financial arrangements must be agreed if an external provider is being used to sort the mail; ■ Minimum customer address accuracy is required by suppliers for customers' use of discounted products. For example, use of Royal Mail's Mailsort product, requires a 95 per cent match between the post codes on the outbound mail with the Royal Mail's Postcode Address File. This level of customer address cleanliness requires IT and process change; ■ Output volumes from sites may not meet suppliers' minimum thresholds for access to certain 'work share' products. For example, the use of 'Mailsort' products requires minimum daily volumes ranging from 2,000 to 4,000. Organisations can look to centralise printing and / or sorting activities to meet minimum volume restrictions.
Increased use of second class and products with longer delivery timescales	■ End-to-end process Service Level Agreements may need to be reviewed in light of the increased timelines of second class and Mailsort 3 (a product with a seven working day delivery timescale). For example, other activities within the process may need to be revised to remain within overall timescales; ■ Organisations must review if customers will use other, higher-cost communication methods (for example visits to local offices) if the delivery timelines are increased; ■ A change in culture and behaviour is required from staff to assess the potential commercial benefits of the lower-cost products alongside potential customer service implications; ■ Organisations must assess if the risk to security of their mail increases with longer delivery timelines as the mail remains within the supplier's logistics chain for a longer period of time.
Increased use of competitive tendering	■ Assessment of capacity of the supplier to take on volumes of mail; ■ Assessment of risk of changing supplier; ■ Operational changes (for example, pick-up times and daily forecasting of volumes) must be put in place; ■ Stationery stocks may need to be re-ordered as mail going via alternative carriers cannot have the Royal Mail indicia on it; ■ The strategy for reclaiming VAT, which is not applicable to Royal Mail, but is applicable to services provided by its competitors, must be agreed with HM Treasury; ■ If Customer Direct Access is chosen, relationships must be maintained between the customer and Royal Mail as well as with its 'trunking' supplier that delivers mail to Royal Mail; ■ The eGovernment Unit, within the Cabinet Office, switched to UK Mail for delivery of customer registration documentation. The cost of the change in supplier is comprised solely of staff time, estimated at £3,000.
Reduction in volume of 'undeliverable' mail	■ IT change required for database clean-up to improve the level of match against external data sources such as the Royal Mail's Postcode Address File; ■ Existing IT systems may need to be changed to provide post code validation at the point of data entry; ■ Business processes and IT can be re-engineered to support the use of computer-generated address labels to replace handwritten labels which are more likely to be unreadable and hence undeliverable; ■ Business processes must be put in place to deal with exceptions where addresses as given and validated by customers do not appear in external address data sources such as the Royal Mail's Postcode Address File.

Source: National Audit Office

NOTE

The supporting guide to this report provides more information on how public and private sector have overcome the barriers to implementation.

CASE EXAMPLE 4

The use of UK Mail by the Cabinet Office for Downstream Access

In July 2004 The Cabinet Office's eGovernment Unit switched from Royal Mail's standard tariff first-class service to UK Mail's two-day service for the mailing of Government Gateway registration documents. The eGovernment Unit was looking for financial savings while maintaining a service delivery target of seven days between customer registration and completed registration. The printing of registration documentation is outsourced to Adare-Halcyon who sort and prepare the mail for pick-up by UK Mail who pass the mail on to Royal Mail for final delivery to the addressee. The benefits achieved include:

- **Financial savings**: The eGovernment Unit assessed the use of UK Mail against four Royal Mail standard tariff and 'work share' product options for their volume of 2.7m items per year: first class standard tariff, first class Mailsort 1400, second class Mailsort 1400, and second class standard tariff. Annual savings of the UK Mail 2-day service ranged from £22,000 to £285,000 against these options with an extra day for delivery versus first class and one day less versus second class.

- **Better management information** on the following areas: sorting software 'up-time', on-time mail collection by UK Mail, on-time mail delivery by UK Mail to Royal Mail, accuracy of delivery by UK Mail to Royal Mail, provision of management information reports, and on-time delivery of mailing materials by UK Mail to the eGovernment Unit.

- **Minimal cost of implementation**: Implementation involved staff time of six workdays, covered within the eGovernment Unit's existing budget. The software and consumables (ties, bags) were provided free of charge. Envelopes with Royal Mail indicia were kept for the mail that remains with Royal Mail while blank envelopes were purchased for use with UK Mail. Adare-Halcyon implemented their changes in process, technology, and organisation also free of charge.

- **Security of supply**: The key risk prior to implementation was that UK Mail would fail to perform to target. To address this risk eGovernment Unit put in place a fall-back arrangement to use Royal Mail (which could be invoked at any time) and for the contract to initially be only for a short-term period of three months.

Source: National Audit Office examination of the Cabinet Office's eGovernment Unit

2.17 Use of the frameworks is voluntary, but the benefits that public sector organisations can expect through their use are:

- **Reduced product and service prices**: Centrally and expertly negotiated frameworks, where it is possible to aggregate demand and increase purchasing power, can generally deliver better contract prices than those that might have prevailed through deals negotiated individually by public sector organisations. For example, the international mail framework agreements put in place by the Higher Education Purchasing Group for Postal Services were at prices 5.4 per cent lower than pre-framework prices. The negotiated prices also serve as a benchmark against which non-framework deals can be assessed. OGCbuying.solutions estimates individual public sector organisations may save anywhere between 9-30 per cent on particular products.

- **Reductions in the costs and delays associated with independent procurement exercises**: The centralised procurement process undertaken by OGCbuying.solutions will reduce the effort and resources required for individual buying organisations to tender for postal services, which is estimated to be 8 or 9 months. Nonetheless, organisations will remain the contracting parties with suppliers with the facility to have 'mini-competitions' to find a deal that best fits its needs.

- **Improved access to management information**: The implementation of the frameworks places emphasis on suppliers' obligations to furnish management information at both a local departmental level as well as at a central level for contract and supplier management purposes.

- **Assurance that the contracts negotiated through the framework are legally compliant with UK and European Union legislation**: This is of particular assistance to those public sector organisations that may have little practical experience of often complex European procurement rules.

Use of the frameworks does not necessarily entail an organisation switching suppliers. It can for example, remain with Royal Mail but simply move from its own contract, if one exists, to use of the framework.

2.18 If these benefits are to be realised it is essential that public sector organisations make use of the frameworks (or prove that their own deals represent good value for money by comparison). A key feature of the setting up of the postal services frameworks, however, has been the close involvement of the main central government users of mail, both directly on the OGCbuying.solutions project team and project board and through close liaison with the Postal Service Forum. As a result of the close involvement of expert practitioners in procuring and managing postal services, the frameworks have been designed to meet the planned needs of the main users in the public sector. As a consequence, the Department for Work and Pensions and HM Revenue and Customs (the two single largest central government users of postal services) have been prepared to enter into commitments to use the frameworks. Similarly, the East of England Regional Centre of Excellence, which is sponsored by the Office of the Deputy Prime Minister, has developed an action plan to achieve efficiency gains through the use of the frameworks.

2.19 This represents a marked change from other frameworks the agency has established. OGCbuying.solutions can therefore predict with some confidence that some 60 per cent of total public sector annual spend on mail will be through the frameworks. In turn, this forward commitment has placed them in a strong position to negotiate favourable terms and to seek innovation on the part of suppliers, who themselves are willing to negotiate on this basis because of their increased confidence about future levels of business.

2.20 Based on these commitments OGCbuying.solutions' estimate that the potential savings if a significant majority of public sector postal spend goes through the framework agreements are £6 million in 2006-07 and £30 million in 2007-08 and subsequent years. The agency expects savings to increase as the level of spend through the frameworks increases and terms become increasingly favourable. We reviewed the key risks to achieving these savings and the agency's main actions to mitigate these in four areas **(Figure 19 overleaf)**:

■ the postal market place;

■ public sector and supplier capacity and capability;

■ communication; and

■ benefits realisation.

While the savings remain to be realised, our overall conclusion is that to date the frameworks have been well managed, and in many respects serve as a model of good practice that OGCbuying.solutions should seek to emulate when developing and negotiating frameworks for other sectors or commodities, especially getting upfront commitments to use the framework from public sector organisations.

2.21 Two of the additional benefits of establishing framework agreements are the influencing of early market development and the successful management, motivation and engagement of the supplier community in a co-ordinated manner. In relation to this OGCbuying.solutions during 2005 negotiated with Royal Mail for a public sector-specific pricing structure treating government expenditure on aggregate; however, this approach could not be taken further as Royal Mail stated that non-discriminatory pricing must be made available to all customers as a key element of their licence agreement with Postcomm (Condition 11).

2.22 In our view there remains scope for the larger central government departments and the Office of Government Commerce to push for better deals with suppliers and modified products to match the public sector's requirements. There is no reason why departments and OGCbuying.solutions should not continue to seek improved terms subject to any such agreement being consistent with UK and European Competition Law and obligations under its licence. Our discussions with Postcomm indicate that Royal Mail could, for example, offer improved pricing under their licence terms, as long as the price was transparent and offered to all clients, private or public, who meet the required criteria, it accurately reflects their internal costs, and is not anti-competitive by way of being predatory or discriminating against another supplier or client. Other licence holders operate under more flexible licences and therefore there are no regulatory restrictions to offering these discounts.

2.23 In a similar vein, OGCbuying.solutions has, for example, successfully in the past negotiated improved volume discounts from British Telecom in respect of telephone call charges through aggregation of public sector demand.

19	Risks to the successful adoption and use of the postal services framework agreements

Risk area	Risk detail	NAO assessment of mitigating actions
Market place	Framework agreements will not be able to keep pace with the changing marketplace, in particular, in terms of new products and new suppliers.	The first set of frameworks has been let for two years, locking out a number of suppliers for that period. There is always a need to get the right balance between reduced numbers of suppliers and reduced competition. The balance appears right on postal services but OGCbuying.solutions will need to keep this under review. Any suppliers who are not on the initial set of frameworks can bid to be involved in the next set. Those that are on the framework list will be able to include new products onto the frameworks. OGCbuying.solutions will appoint a postal 'category manager' whose role will include providing strategic direction for postal services.
	Frameworks may lose competitiveness over time.	Customers have the option of awarding contract using 'mini-competitions' between companies on the frameworks, maintaining competition. The initial set of frameworks are for two years, hence, the next tender exercise will re-invigorate competition, if required. In the meantime, to maintain competitive tension OGCbuying.solutions will need to ensure that public sector organisations make the appropriate use of the mini-competition facility. They will also need to keep the prices offered under review, by regularly benchmarking against the market leaders, and refreshing the pricing on offer if necessary.
	Government will not present a "joined-up" front to the regulator and to the marketplace.	The Postal Services Forum, chaired by OGCbuying.solutions, needs to take the lead to co-ordinate government's response to the regulator (if this approach is accepted by its customers). This joined-up approach will allow government to exert more pressure to represent its needs. Care needs to be taken that the Forum is truly representative of the wider public sector and not just the main departmental users of postal services. OGCbuying.solutions, through the framework agreements, will provide a joined-up front to suppliers to promote efficiency, innovation, and manage capacity and demand.
Capacity and capability	Public sector organisations will not have the required skills and experience for the tendering and implementation of framework agreements.	OGCbuying.solutions' will provide support to customers through a variety of means, including: ■ a helpdesk; ■ the OGCbuying.solutions website; ■ a contract management team producing a range of products including implementation guides and checklists; ■ an implementation team comprised of postal experts (including secondees from departments) providing telephone, email, and on-site support for customers; ■ OGCbuying.solutions, under a licensing agreement, can offer eSourcing capabilities to help support electronic tendering, evaluation, and contract management. OGCbuying.solutions will need to ensure that these means are sufficiently scalable to support the potentially large number of organisations required to take-up the frameworks to achieve the agency's target of 60 per cent of spend going through them.
	Departments, OGCbuying.solutions, and suppliers are not geared up for a mass of tendering activity and alternative suppliers have limited capacity to take on public sector business.	OGCbuying.solutions, as the central point for tendering activities, and the Office of Government Commerce's market intelligence unit will maintain a view on supplier capacity for tendering and providing service until Postcomm develops a market intelligence capability during 2006 and can use this information to suggest a phased, or in some cases such as with local authorities and health, an aggregated, approach to tendering and implementation across the public sector. OGCbuying.solutions will need to improve its communications and contact with education, health, and local authorities to ensure that it maintains an accurate view of demand. The agency is not able to mandate a timetable for use to public sector organisations, therefore, the customer-led timing for the take-up of the frameworks may not align with theirs.

19   Risks to the successful adoption and use of the postal services framework agreements *continued*

Risk area	Risk detail	NAO assessment of mitigating actions
Capacity and capability *continued*		The ability of the market to provide a universal mail service, given its importance to UK public service delivery and business performance, is a strategic risk that will require careful management on the part of the Office of Government Commerce and the Department for Trade and Industry.
Communication	Customers will not be aware of the existence of the frameworks.	Project team have and will continue to engage with customers through the following channels:

Project team have and will continue to engage with customers through the following channels:

- bilateral visits to departments and wider public sector organisations;
- engagement with senior procurement staff and / or Finance Directors;
- engagement of local authorities through Regional Centres of Excellence and local councils;
- seconded departmental staff onto the project team;
- marketing by OGCbuying.solutions account managers;
- promotion by the Office of Government Commerce's Efficiency Team;
- presentations at procurement and mail conferences;
- production of marketing collateral (for example, pamphlets);
- promotion on OGCbuying.solutions website.

The agency can do more to communicate, and develop effective contacts, with the education, health, and local government sectors. In relation to local government, the key challenge is to work effectively with the existing change agents, in particular, the Office of the Deputy Prime Minister sponsored Regional Centres of Excellence.

The agency can do more to communicate, and develop effective contacts, with the education, health, and local government sectors.

Risk area	Risk detail	NAO assessment of mitigating actions
Benefits realisation	Opportunities for efficiencies in areas related to post within the postal value chain will not be taken.	The agency has set up a category manager role to liaise with the leads for other commodities such as courier and print to develop opportunities across the postal value chain. The focus of their work may include 'total output management' (shared service or outsourced printing and dispatch) and courier services (including inter-office mail).
	Improved mail usage, in particular product choice and use of management information will not be supported and encouraged by OGCbuying.solutions and the Office of Government Commerce.	OGCbuying.solutions helpdesk and implementation teams will provide knowledge and skills to improve mail usage. For example, OGCbuying.solutions has communicated the effects of Pricing in Proportion through their website (http://www.ogcbuyingsolutions.gov.uk/postalservices/developments_pricing.asp), and is encouraging organisations to prepare for the change in pricing structure. The framework implementation team will review customers' current product usage and encourage closer ties with suppliers who will be able to promote more efficient use of products.
		As shown by the potential savings listed in this part of the report, the use of alternative suppliers is only one of the possible tactics to realise financial and service delivery gains. The agency will need to keep improvement of product usage, change in mail class, and reduction in undeliverable items at the forefront of its thinking along with the use of framework agreements.
	The framework agreements will become geared towards a small set of stakeholders (for example, large departments), thus reducing its effectiveness across the wider public sector.	A 'User Group' will be set up to represent the needs of the customers and ensure the framework agreements are aligned accordingly. OGCbuying.solutions needs to take care that the needs of the education, health, and local government sectors are represented, and to carefully manage the risk that the frameworks become overly skewed towards the needs of the larger departments.

Source: National Audit Office examination of the postal services commodity review and framework projects

Further aspects of the public sector's approach that inhibit efficiency

2.24 We identified three further aspects of the public sector's use of postal services that adversely affects efficiency and service quality.

Post is not always considered as part of an integrated communication strategy

2.25 Despite advances in technology and methods of communicating with customers, the vast majority of customer communication in the public sector remains dependent on the use of mail. Few public sector organisations have a full understanding of how their customers would prefer to deal with them, or of the capacity of their customers to switch to alternative channels. Public sector organisations can do more to implement integrated communication strategies that identify customers' preferences and needs, and the full opportunities to use lower-cost channels such as the internet and telephone. Aligned with this, organisations can also do more to identify opportunities to redesign processes to better manage the demand for inbound and outbound mail in their communications with citizens, within the department, and with other public sector organisations **(Case Example 5)**.

CASE EXAMPLE 5

The potential for process re-design and reduced mail volumes

The Pension Service of the Department for Work and Pensions, reviews all 14 million pensioners' entitlements every year. Each individual review involves contacting applicants by post. However, the Service has identified an opportunity for it to re-consider this policy, and only review pensioners who, according to the Service's profiles, are likely to have had changes in circumstances. If this re-design of processes were to remove interactions with one-half of pensioners, savings from outbound postal volumes would be close to £2 million per year (assuming a reduction of 7 million outbound items).

Source: National Audit Office case study examination of the Department for Work and Pensions

---

Failure to identify and realise the opportunities for joint working

2.26 There is considerable potential for joint working across departmental boundaries, for example, making full use of the capacity of large printing and mailing centres or reducing the volume of mail by sending the mail outputs of two or more departments in one envelope to the same customer. On the latter, the Department for Work and Pensions and the HM Customs and Revenue have recognised that they often send material to the same set of customers, to employers for example, and that there is considerable scope for the mailings to be sent as one package, significantly reducing the combined cost and providing a better service at the same time. They are in the early stages of discussions about the potential for a more joined up approach. The Cabinet Office, as part of a wider project 'Connecting with Citizens', led an initiative to pull together all the channels available to reach citizens and business and the relevant departmental owners. The document was published in October 2005 and circulated to communication directorates. The intention was for departments to use this list to integrate messaging where relevant and to co-ordinate existing or new mailings. There has yet to be a full review of how departments are using these vehicles. More generally, however, there is limited evidence that public sector organisations have recognised opportunities for joint working or are taking action to join up sensibly and reduce their costs by lowering the volume of mail being sent out.

2.27 There is limited evidence of public sector organisations making the best use of existing contracts that are open for other public sector customers. Cross-departmental contracts for mail can be at their most advantageous where organisations are located in close proximity, or even in the same facilities **(Case Example 6)**. For example, the international mail contracts held by HM Revenue and Customs and the Department for Work and Pensions are open for other organisations to use but to date the sole organisation that has taken advantage of the reduced tendering and support costs and improved prices of these existing contracts is the Veterans Agency.

CASE EXAMPLE 6

Joint courier contract between HM Revenue and Customs and the Department for Work and Pensions

As the two departments often have sites located within close proximity of each other and require high volumes of mail to be sent between their own and each other's sites, there was a business case for a joint procurement between HM Revenue and Customs and the Department for Work and Pensions for courier services. Their joint contract covers inter-office recorded and non-recorded next day delivery.

The key benefit of this joint contract is reduced costs for contract management and tendering and lower prices. The Department for Work and Pensions has estimated the savings at £1.8 million per year. The contract has been let in such a manner to allow additional departments to be included. In particular, the Department of Health and the NHS Purchasing and Supply Agency are both users of this contract.

Source: National Audit Office case study examination of the Department for Work and Pensions and HM Revenue and Customs

2.28 Currently, there are examples of different public sector organisations paying different prices for very similar products. For example, prices for next day courier services (with the same supplier, for a five kilogram package, but across different numbers of sites) paid by the NHS Purchasing and Supply Agency[41] in 2004-05 are more than double (£8.15) what is paid by the Department for Work and Pensions (£3.95)[42], with the Department for the Environment, Food and Rural Affairs paying an additional £1.[43]

2.29 Public sector organisations also need to work together more effectively **(Case Example 7 overleaf)**. Working together, they can take greater advantage of their position as the largest spender on post in the UK to influence and encourage the development of new products and services that better meet their and their customers' needs. For example, secure delivery is required for benefit payments. Currently, the Department for Work and Pensions considers that first class mail provides the best fit, but it still falls short of meeting the full

requirements for security and certainty of day delivery within reasonable costs. There would appear to be an opportunity for the Department to work with other public sector organisations who have similar needs to encourage the development of a better product through joint working with their suppliers. Another area for improved co-ordination is in responding to Postcomm consultation papers covering important issues such as pricing controls and quality of service. Public sector organisations need to do more to work together to champion the public sector's position in a similar fashion to the Mail Users' Association's role for its private sector members.

Management structures for postal services are often too fragmented

2.30 The management of postal services by public sector organisations falls short of leading organisations in the private sector. Responsibility for post is frequently, if not always, dispersed across the organisation. There is not a single point of contact encompassing postal supplier management, postal spend, and liaising with other parts of the business. For example, postal suppliers often have various contact persons within an organisation, making it more difficult to communicate effectively about new products and services leading to missed opportunities for improved efficiency and service. As very few public sector organisations have centralised their mail (outbound and inbound) functions, they face real difficulties in successfully implementing improvements in the efficiency with which postal services are procured and used. For example, the Department of Environment, Food and Rural Affairs is seeking to improve the efficiency with which it and its agencies use postal services, through for example: better aggregation of demand, a more consistent and integrated communication policy, and centralised single contracts for franking machines. However, progress is slow because of highly dispersed responsibilities for the management of postal services. As a first step it has brought departmental users together in an attempt to ensure all parts of the organisation are implementing good practice.

---

41   NHS Purchasing and Supply Agency contract includes packages weighing up to 10kg.
42   Source: Office of Government Commerce assessment of courier services, prices 2004-05.
43   The Department's current courier contract rate is £7.15 for a 5kg package.

CASE EXAMPLE 7

Higher Education's use of national postal agreements

Higher education institutions have grouped together into six national purchasing groups. The groups have taken the lead in setting up aggregated regional and national contracts for particular products and services such as IT, telephony, and stationery, accessible to all higher education institutions. A group for post was initiated in 1996 and has set up national framework contracts for international mail, couriers, franking machines, and the transportation of dangerous goods. The frameworks are used as a template by individual institutions from which they can agree local service level agreements with suppliers. The frameworks are let with a number of suppliers to provide choice across a broad range of products and services to match up to the range of customer requirements.

The use of the contracts has been very successful with nearly £13m spent annually via the national postal contracts, representing between 70–92 per cent of the total spend by higher education on these products and services. The benefits include:

■ Centralised price negotiation to get the best deals. For example, in the first year of the international mail framework in 1998, there was an average savings of 5.4 per cent compared with pre-framework prices. For international mail alone in the first four years of the contract the total financial savings are estimated at over £500,000. Negotiations took place during the courier contract lifecycle in 2000 to reduce prices by 2 per cent and again in 2001 and 2002 to maintain level prices, with cost avoidance in these two years totalling £231,000;

■ Reduced procurement costs and time as these are done once nationally;

■ Reduced support costs for the contract due to central communication, product and supplier support, and market intelligence;

■ Reduced risk by leveraging breadth and depth of skills and experience of the group to the benefit of all institutions;

■ Close working with suppliers helping to align products and services more closely to institution's requirements;

■ Dissemination of postal knowledge across the broad network of institutions from the central postal support team.

2.31 Financial structures, emphasising efficiency alongside the effectiveness of postal services are often not in place, creating a disjoint between commercial procurement and service delivery aims. For example, delivery cost implications are not always taken into account during the design of mail pieces and forms. In addition, where public organisations work through dispersed networks of offices, we found little evidence of local managers being made responsible for, and being held to account for reducing postal costs. In part this reflects a situation where most public sector organisations have limited information on postal services expenditure and performance. Public sector organisations do not regularly collate and analyse spend information across the organisation, rather this is done, if at all, in a piecemeal fashion and not aggregated. HM Revenue and Customs, for example, is unable to leverage their courier contract to full advantage because they are unable to track departmental spend with other courier suppliers. Furthermore, there are opportunities to improve the information which departments access and use around service quality, for example through using sample test groups.

APPENDIX
Study Methodology

Our methodology consisted of:

Data analysis

Our data gathering has been in conjunction with the Office of Government Commerce and supplemented by information provided to us by Royal Mail. The performance data principally covers postal spend, product use, and levels of 'undeliverable' mail for public and private sector organisations.

Case studies

Each of the case studies examines the performance of the organisation's management, procurement, and use of postal services, highlighting good practice examples for other organisations. The case studies are shown in the associated volume to this report:

- The Department for Work and Pensions', primarily responsible for the delivery of the UK state benefit and pension services;

- HM Revenue and Customs, responsible for collecting the bulk of central government tax and duty revenues, paying tax credits and child benefits, and safeguarding the UK's frontiers;

- The Driver and Vehicle Licensing Agency, an Executive Agency of the Department for Transport, responsible for road safety, general law enforcement by maintaining registers of drivers and vehicles, and the collection of vehicle excise duty;

- National Savings and Investments, an executive agency of the Chancellor of the Exchequer, providing a variety of savings and investment products to its 26 million customers;

- The RBS Group, a leading financial services organisation encompassing brands such as Royal Bank of Scotland, NatWest Bank, Coutts, Direct Line, and Tesco Personal Finance.

Supplier engagement

We have engaged with the licensed postal operators: AMP, DHL, DSI, DX, Express Ltd, Intercity, Nightspeed, Parcelforce, Racer Consultancy Management Consultancy Ltd, Lynx Express Ltd, Royal Mail, SMS, Speedmail International, TNT and UK Mail to understand their views on the public sector's procurement of postal services, for example, how government can be a more intelligent customer and engage with the market more effectively.

Case examples

On the basis of interviews and visits to public and private sector clients and suppliers, we identified a selection of case examples where organisations had implemented principles of good practice which had resulted in their being able to improve their postal services performance. We examined the following organisations: Airedale NHS Trust, Hull and East Yorkshire Hospitals NHS Trust, British Forces Post Office, the Cabinet Office, the Central Office of Information, the Department for Constitutional Affairs, the Department of the Environment, Food and Rural Affairs, the Electoral Commission, the Higher Education Purchasing Group for Postal Services, the Land Registry, NHS Purchasing and Supply Agency, Strathclyde Police, The Stationary Office, the UK Passport Service, Lloyds TSB Bank plc and Tesco.

Expert analysis

We have engaged with experts in the field, particularly with the OGCbuying.solutions framework agreements project team, NHS Collaborative Procurement Hubs, the Central Office of Information, Postcomm and the Postal Services Forum.

Summary of financial savings calculations

The potential financial savings are made up of four key elements:

1) Increased use of price discounted 'work share' products;

2) Reductions in the volume of 'undeliverable' mail;

3) Increased use of second class and products with longer delivery timescales; and

4) Increased use of competitive tendering leading to lower cost products for the same or improved levels of performance

We have used 2004-05 data as the baseline for the following data points: expenditure, volume, average cost per item, average cost of an undeliverable item, number of undeliverable items, and volume of mail by class. These baseline figures have come from Royal Mail and have been validated against data obtained directly from public sector organisations and collected by the Office of Government Commerce.

1) Increased use of price discounted 'work share' products

On average the use of 'work share' products provides a 15 per cent discount from standard tariff prices. The calculations assume this level of discount is held constant from 2006-07 to 2008-09. **Figure 20** shows the projected increases in the levels of workshare compared to the baseline figures in Figure 9.

The potential financial saving is calculated as:

Saving = Average Cost per Item x Percentage Saving Achieved by using 'work share' x Increase in Volume of Mail sent using 'work share' Product

2) Reductions in the volume of 'undeliverable' mail

The cost of undeliverable items is composed of the staff time required for processing and the postage costs of resending the item. **Figure 21** shows the projected decreases in the volume of undeliverable items as a percentage of the total mail volume.

The potential financial saving is calculated as:

Saving = Cost of Undeliverable Item x Reduction in Volume of Undeliverable Items

20	Projected increase in the use of 'work share'		
Case Study Organisation	**Increase in the use of 'work share'**		
	2006-07	2007-08	2008-09
Department for Work and Pensions	3%	5%	10%
HM Revenue and Customs	10%	15%	20%
National Savings and Investments	2%	2%	2%
Driver and Vehicle Licensing Agency	0	0	0

Source: National Audit Office case study examinations

21	Reduction in volume of undeliverable items		
Case Study Organisation	**Reduction in volume of undeliverable items**		
	2006-07	2007-08	2008-09
Department for Work and Pensions	0.06%	0.15%	0.19%
HM Revenue and Customs	0.00%	0.54%	0.54%
National Savings and Investments	0.00%	0.00%	0.01%
Driver and Vehicle Licensing Agency	0.01%	0.02%	0.03%

Source: National Audit Office case study examinations

3) Increased use of second class and products with longer delivery timescales

The average saving gained by sending an item of mail by second class instead of first class is calculated at 17.7 per cent based on Royal Mail standard tariff and 'work share' prices. The average saving from sending a second class item as Mailsort 3 is calculated as 9.5 per cent. All movements to Mailsort 3 are assumed to be from second mail. The increased use of lower class mail been projected in **Figure 22**.

The saving for each change in mail type is calculated as:

Saving = Additional Volume x Cost per Item x Saving from Change in Mail Type

22	Change in class of mail					
Case Study Organisation	**Percentage Movement of Mail Volume by Mail Class**					
	2006-07		2007-08		2008-09	
	First to Second	Second to Mailsort 3	First to Second	Second to Mailsort 3	First to Second	Second to Mailsort 3
Department for Work and Pensions	7%	0%	12%	0%	16%	1%
HM Revenue and Customs	-1%	0%	-1%	1%	1%	3%
National Savings and Investments	0%	3%	0%	6%	0%	8%
Driver and Vehicle Licensing Agency	0%	3%	0%	5%	0%	7%

Source: National Audit Office case study examinations

NOTE

Dispatch of 'Child Benefit' will transfer from the Department for Work and Pensions to HM Revenue and Customs in 2006. As these payments are sent using first class mail, the amount of mail sent first class by HM Revenue and Customs will increase in 2006-07, outweighing gains the department is projected to make in transferring other mail to second class and Mailsort 3.

4) Increased use of competitive tendering leading to lower cost products for the same or improved levels of performance

We have estimated the saving from moving suppliers, based on the organisations cited as case examples and industry research at 10 per cent.[44] The take up of the alternative suppliers has been projected (by expenditure) at **(Figure 23)**.

The savings are calculated as:

Saving = Total Mail Spend x Percentage of Mail Switched to Alternative Suppliers x Percentage Saving Achieved

Modelling of Financial Impacts in Health, Education, Local Government and the Rest of Central Government

For the potential savings from the increased use of 'work share', the baseline in Figure 9 is used along with the average increase in the use of 'work share' from the four case study departments to estimate the potential financial savings.

There are no available baselines for the levels of undeliverables or change in the class of mail across the public sector. The savings are calculated using the average cost of an undeliverable item, the average reductions in the volume of undeliverable items, and the average percentage of total mail spend saved due to the use of lower class mail from the four case study organisations.

23	Use of Alternative Suppliers		
Case Study Organisation	**Percentage of Total Mail Spend Moving to an Alternative Supplier**		
	2006-07	2007-08	2008-09
Department for Work and Pensions	5%	15%	25%
HM Revenue and Customs	2%	8%	8%
National Savings and Investments	5%	8%	10%
Driver and Vehicle Licensing Agency	5%	8%	10%

Source: National Audit Office case study examinations

For the savings due to a change to alternative suppliers, we have assumed that the 2004-05 baseline for take-up is nil. The savings are calculated using the average projected percentage spend with an alternative supplier from the four case study organisations.

44   Savings levels can vary, with some customers achieving significantly higher discounts.

GLOSSARY OF TERMS

Couriers	Typically cover end-to-end, high-speed and time-guaranteed deliveries of items over 100g with added security features, such as tracking and traceability.
Discounts	Suppliers, in the main, offer price discounts based on three main criteria: address correctness and presentation, volume of mail, and level of 'work share' (see below). Client organisations need to meet these criteria in order to qualify for the discount.
Downstream Access	Where postal services companies other than Royal Mail collect mail from a single customer or from multiple customers (a process refered to as 'consolidation'), before injecting the mail into Royal Mail's supply chain for final delivery.
End to End Services	A service offered by postal services companies where, as opposed to 'Downstream Access' (see above), suppliers provide a full 'end-to-end' service, from collection point to delivery destination (in other words mirroring the service provided by Royal Mail).
First and second class	Class of mail indicates the expected delivery service levels. From Royal Mail: first class is next working day including Saturday; second class is third working day after posting.
Inbound mail	Addressed to the department, a team, functional area, or an individual and must be sorted before delivery to its final addressee within the site.
Letters	Correspondence weighing under 100g with minimal thickness.
Mailsort 3	A Royal Mail product with longer delivery timescales than first or second class. This product has volume and sortation requirements.
Outbound mail	Produced within the department for delivery to an external address (business, citizen, other departmental site, other government department).
Parcels	Usually packages, weighing over 100g, with thickness greater than 610mm.
Standard tariff	This is the "stamp price" for an item, for example, 30p for a first class standard letter and 21p for a second class letter (March 2006).
Workshare	Postal 'worksharing' involves mailers performing activities such as preparing or sorting mail, often by geographic areas, before providing the mail to their suppliers for final sorting and delivery. They obtain a discounted price as a result, depending on the volumes involved.

Improving the efficiency of postal services procurement in the public sector: case studies

Improving the efficiency of postal services procurement
in the public sector: case studies

A report by the Comptroller and Auditor General

£9.25

The Stationery Office

National Audit Office

Improving the efficiency of postal services procurement in the public sector: case studies

This volume has been published alongside first and third volumes comprising of the Comptroller and Auditor General's report and A good practice guide –

Improving the efficiency of postal services procurement in the public sector: HC 946-I, Session 2005-2006

Improving the efficiency of postal services procurement in the public sector: A good practice guide, HC 946-III, Session 2005-2006

CONTENTS

INTRODUCTION

1 This volume of the report contains five case studies examining the use of postal services in five organisations: two large government departments, two executive agencies and one private sector banking institution:

■ The Department for Work and Pensions, primarily responsible for the delivery of the UK state benefit and pension services;

■ HM Revenue and Customs, responsible for collecting the bulk of central government tax and duty revenues, paying tax credits and child benefits, and safeguarding the UK's frontiers;

■ The Driver and Vehicle Licensing Agency, an Executive Agency of the Department for Transport, responsible for road safety, general law enforcement by maintaining registers of drivers and vehicles, and the collection of vehicle excise duty;

■ National Savings and Investments, an executive agency of the Chancellor of the Exchequer, providing a variety of savings and investment products to its 26 million customers;

■ The RBS Group, a leading financial services organisation encompassing brands such as Royal Bank of Scotland, NatWest Bank, Coutts, Direct Line, and Tesco Personal Finance.

2 Each of the public sector case studies examines the performance of the organisation's management, procurement, and use of postal services, highlighting good practice examples for other organisations. More specifically, each examines:

■ the action being taken to improve postal services performance and the impacts achieved to date, including examples of good practice;

■ the priority areas for improvement, including an assessment of the financial savings that are realistically achievable; and

■ a summary of key lessons of principle and practice for all public sector organisations in improving the efficiency of postal services and ultimately the quality of the services they provide.

The case study of the RBS Group illustrates a selection of good practice points from a leading private sector organisation.

3 The lessons and good practices identified fall under one of six key areas that can be improved to deliver more efficient and effective postal services:

■ Development of an integrated communication and commercial strategy;

■ Development of capable and effective management structures for postal services;

■ Use of the appropriate procurement and supplier engagement practices;

■ Improvement in the accuracy and management of customer address data;

■ Selection of the appropriate mail products, balancing business requirements with cost and quality of customer service;

■ Increase in the availability and use of management information to improve postal efficiency and service delivery.

4 In identifying the good practice lessons, quality of postal service and its effect on end-to-end service delivery received by the customer has remained a central part of our analysis. The organisations have experienced either improvements to the quality of service provided to customers alongside efficiency gains, or at least have not experienced reductions in customer service.

DWP Department for
Work and Pensions

CASE STUDY ONE
Department for Work and Pensions

The Department for Work and Pensions, the second largest user of postal services in central government, has made good progress towards improved efficiency and performance in its use of postal services, particularly through the use of its bulk output centres and implementation of mechanical 'Mailsort'. There are further opportunities to reduce costs through more appropriate use of second class and products with longer delivery timescales and greater use of discounted mail products, particularly in its field offices. Taking these together we think that savings of nearly £5 million a year could be achieved by 2008-09.

The role of postal services in the work of the Department

1   The Department for Work and Pensions (the Department) is primarily responsible for the delivery of the UK state benefit and pension services. It employs just under 130,000 staff, in around 1,600 offices, with its work organised around eight separate businesses, including Jobcentre Plus, the Pension Service, and the Child Support Agency. The Department has just under 28 million active customers and estimates that almost everyone in the UK will deal with the Department or one of its eight businesses at some point in their lifetime.

2   Whether advising customers of new benefits or changes to existing ones, sending out or receiving applications, requesting information to confirm eligibility or making payments, post plays a vital role in the Department's delivery of benefit and pension services **(Figure 1 overleaf)**. Each year the Department issues some 248 million items of correspondence (of which 35 million are payments), compared with over 70 million contacts with customers over the telephone or face to face, and pays some £70 million for postal services. As a consequence of seeking to meet customer needs, modernise and streamline its processes, and improve its efficiency and the productive time of its staff, the Department is seeking to reduce its reliance on post and develop alternative methods of communicating with its customers. These include the internet, telephone contact and the use of contact centres, and modern methods of payment such as direct debit, all of which are considered lower cost than post. Post, however, remains the Department's most important communication method, and will do for the forseeable future.

The procurement and management of postal services

3   The Department has a central postal services management team within the 'Supplier Relationship Team'. The team is responsible for advising the individual businesses about how best to meet their postal requirements, communicating product and supplier information across the Department, and managing supplier relationships and contracts **(Case Example A on page 5)**. It advises on the post-related comercial and operational implications of major projects such as payment modernisation and is the central point for management information collection and analysis. The team also supports operational teams based in:

■   The Department's two Service Delivery Centres[1] (located in Washington and Norcross) where bulk mailings are produced (representing approximately half of the Department's outbound mail). The Department's key outsourcer for IT (EDS) is responsible for printing, enveloping, sorting, and bagging the mail at the Centres.

■   Field offices such as Jobcentre Plus offices or Departmental contact centres, which generate the remaining half of the Department's outbound mail.

1   The Service Delivery Centres are print output centres with large-scale printing, enveloping, and sorting machinery.

1 The role of post within the Department's business

Customers

| Children (7 million) | People of Working age (5.5 million) | Pensioners (13.8 million) | Disabled people and their carers (4.8 million) |

Business streams

| Debt Management | The Pension Service | Child Support Agency | Job Centre Plus | Health and Safety Executive | The Rent Service | Appeals Service | Disability and Carers Service |

Offices

| 1,600 offices |

Communication methods

| Mail correspondence | Contact centres | Face-to-face | Email | Internet |

Correspondence types

| Payments | Enquiries | Proofs of benefits | Marketing and information | Application packs | Inter-office |

Mail Operations

| 2 Service Delivery Centres operated by EDS | Field offices |

Source: National Audit Office

4   The Department's three main suppliers of postal services are:

■   Royal Mail: Providing 98% of their outbound and incoming mail services;

■   Spring: A joint venture between Royal Mail, TNT, and Singapore Post, used for international mail;

■   TNT: The Department and HM Revenue and Customs have a seven-year joint contract with TNT for courier services (broken down into intra-office mail, including HM Revenue and Customs sites, and courier mail to other addresses in the UK) **(Case Example B)**.

In addition, the Department has outsourced its mail opening and sorting across five regions, with another three regions done in-house. The external providers are Haden Building Management Limited and Capita Business Services Ltd.

CASE EXAMPLE A

Active contract management

The Department's central postal services management team has adopted a robust approach to contract management. For example, the Department's international mail carrier Spring proposed a price increase of £147,000 for 2004-05 and 2005-06 based on inflation and increased rates for international destinations. The team's negotiations with the supplier resulted in an increase of just £39,000 being agreed, substantially below market rates.

Source: National Audit Office examination of the Department for Work and Pensions

---

CASE EXAMPLE B

Joint contract for courier services

The Department's joint contract with HM Revenue and Customs for courier services with TNT provides reduced contract management, tendering, and delivery costs to each department. The Department estimates savings of £1.8 million a year.

Source: National Audit Office examination of the Department for Work and Pensions

---

5   The central postal services management team has played an active and lead role in advising the Office of Government Commerce on relationships with Royal Mail and other suppliers and promoting greater coordination across the major central government users of postal services (it was a founding member of the Postal Services Forum). It has been closely involved in the setting up of the OGCbuying.solutions framework agreements for postal services.

Key indicators of performance

6   **Figure 2 overleaf** sets out the Department's performance for the financial year 2004-05 against a set of postal efficiency indicators and compares these against other major central government (the three other case study organisations) and private sector users of postal services. As data is not tracked at field offices, the split of mail across classes has been done based on the mail profile from the Service Delivery Centres.

Commentary on performance achieved

7   The key findings and commentary on Departmental performance are:

■   **On cost per item**: The key influencing factors on this metric include class of mail and volume of mail qualifying for 'work share' discount. The Department sends two-fifths of its mail first class, a significant proportion of which is payments. The Department is able to access 'work share' products for the large majority of the output from its Service Delivery Centres, but mail from the field offices (representing 50 per cent of total volume) has minimal use of 'work share' products. The Department's per item cost is the highest amongst the case study organisations due mainly to these two reasons.

■   **On percentage use of 'work share'**: The Department leverages its two bulk output centres to achieve 'work share' discounts through a set of incentives with their outsourced provider, with a target level of 95 per cent of output qualifying for 'Mailsort' discounts.[2] The output from field offices however, is much more likely to be sent via standard tariff products.

---

2   Mailsort is a Royal Mail product requiring the customer to prepare the mail to specific address data quality, formatting, and sortation requirements with minimum volumes. These requirements allow the supplier to use machinery to sort its mail. This 'machine-ability' of mail allows the supplier to pass discounts on to the customer. Mailsort discounts range from 5-46 per cent compared to standard tariff prices and vary depending on volumes, 'Customer Bar Code' or 'Optical Character Recognition' technology, and the level of pre-sortation done by the customer.

2	Departmental postal services performance Financial Year 2004-05					
Indicator	Department for Work and Pensions	Driver and Vehicle Licensing Agency	HM Revenue and Customs	National Savings & Investments	Private sector benchmark Financial Services	Utilities
Average cost per item[1]	**27.8p**	21.7p	24.1p	21.5p	22.0p	20.4p
Percentage of mail that is 'work-shared'[2]	**56%**	93%	60%	88%	73%	81%
Percentage of mail sent by[3]:						
1st class	**41%**	1%	2%	20%	not available	
2nd class	**58%**	99%	87%	49%	not available	
Mailsort 3	**1%**	0%	11%	31%	not available	
Undeliverables[4]:						
■ 000s items per year	**1, 160**	143	3,440	42	not available	
■ as a % of total volume	**0.5%**	0.1%	1.1%	0.1%	not available	
Total cost of processing undeliverables[5]	**£650,000**	£73,000	£4,000,000	£23,000	not available	

Source: National Audit Office analysis of Departmental and Royal Mail data

NOTES

1   Average cost per item is calculated using the total spend divided by the total volume.

2   'Work shared' mail includes Mailsort, Packetpost, Presstream, Cleanmail, Walksort products where the customer does some initial work, such as sorting mail by post codes, to gain discounts from suppliers.

3   Split of mail class has been done using Service Delivery Centre information only assuming a similar profile in the field. Service Delivery Centre information is broken down into classes for 'Standard Tariff' and Mailsort products. The assumption is that the Mailsort split for class of mail is representative for the other 'work share' products as defined in (2).

4   Undeliverable items represents the number of items that are returned to the Department as undeliverable mail. As undeliverable items can only include the items that are returned by customers and hence disregards all items that are sent to an incorrect address but are thrown away rather than 'returned to sender', this figure is indicative of performance, rather than a definitive figure.

5   Cost of processing undeliverables includes staff costs and re-posting costs, with an average re-posting cost of 30 pence per item.

- **On the use of first and second class mail and products with longer delivery timescales:** The Department sends a relatively high proportion of its mail first class. A significant proportion of first class mailings are benefit payments where the reasons for using first class are:

  - **Security** – the Department considers 'first class Mailsort' more secure than second class because mail is in the Royal Mail delivery network for less time and passes through fewer hands

  - **Timeliness** – many benefit payments are meeting the critical needs of recipients; therefore, prompt arrival is paramount, especially where Ministers have made public commitments on the speed of payment

  - **Certainty of delivery** – as the date of payment delivery is communicated in advance to recipients, first class mail provides greater assurance of arriving on a given day reducing the level of enquiries from customers.

- **On undeliverable items:** The Department is able to minimise the amount of undeliverable items sent out because it has a high level of data quality for its bulk output. Data quality is relatively high because customers have a clear incentive to keep their address details up-to-date. Experience from other organisations shows that a volume of undeliverable items is always to be expected due to the onus on customers to keep the organisation informed of change of details.

Key actions to improve the efficiency of postal services and their impact to date

8 The Department has implemented a number of actions to improve the efficiency and performance of postal services **(Figure 3)**. Further details on these actions and their impacts are set out below.

3	The main actions undertaken by the Department to improve the efficiency and performance of postal services

a) Implementation of mechanical sorting machines and increased use of discounted 'Mailsort' products

b) Moving Winter Fuel payments for 2005-06 from first to second class

c) Centralised printing and mail services for the Debt Management business stream

d) Piloting the use of alternative suppliers

e) Development of a pan-Departmental communication strategy

f) As part of a wider business continuity initiative, establishing an 'Alternative Distribution Channel' for mail communications

g) Central postal services management team working with the counter fraud teams to reduce mail fraud

a) Implementation of mechanical sorting machines and increased use of discounted 'Mailsort' products

9 The Department, along with its main IT supplier EDS, decided to install mechanical sorting machines in its Service Delivery Centres to increase the volume of mail gaining Royal Mail 'Mailsort' product discounts (a 17 per cent discount from standard tariff mail). The volume of mail from the Service Delivery Centres qualifying for these discounts rose from 30 per cent in April 2004 to 83 percent a year later. The Department chose mechanical machine sorting over software sorting because the latter would have involved significantly higher costs arising from the changes that would have been necessary to existing IT systems. The Department has included in its contract with EDS that 95 per cent of output qualifies for the 'work share' discount. The Department also consulted closely with its Royal Mail account manager prior to the investment decision to make sure the expected benefits would be achieved.

10 During the tendering exercise, based on its in-house expert knowledge of the postal services market, the Department identified the scope for a better deal than even indicated by the best bid. It approached one of the known market leaders as it was not involved in the initial tender exercise and asked this company to be involved in the next round of bidding. The potential supplier subsequently submitted a bid to provide higher specification sorting machines capable of handling larger volumes of mail, at a price £300,000 lower than the best initial response. Since going live the machines have enabled the Department to increase its use of Royal Mail's discounted 'Mailsort' products for centrally processed outbound mail to 85 per cent of mail. This represents a significant return on the initial investment of £3 million.

b) Moving Winter Fuel correspondence for 2005 from first to second class

11 Following a review of postal efficiency opportunities, the Department decided to issue Winter Fuel payments for 2005-06 using second (a 'within three working days delivery' product) rather than first class ('next working day delivery') and by using a 'work share' product rather than standard tariff. The Department was able to remain within end-to-end service levels because the 'window' for payments is four weeks long and could be met without next day delivery. Payments were issued in November 2005 with no adverse effect on customer service, and at a saving of 10p per item (a total saving of some £1.2 million for the year).

c) Centralised printing services for the Debt Management business stream

12 The Department's Debt Management business' ten sites used to print and dispatch mail at each individual site. In 2004, the business implemented a centralised print service. 2.5 million items of mail were printed and dispatched through this service in 2005. This shared service across ten sites has enabled the business to aggregate its print throughput and take advantage of

discounted mail products resulting in estimated postage savings of £80,000. It has also led to productive time savings as individuals no longer need to collect the printed material, envelop it, and have it collected and sent to a mail room; as well as savings in space costs as an outbound mail room was no longer required. The challenges faced by the Department were two-fold: cultural and IT. Some senders were used to personalising the mail item but had to move to a business-wide set of templates, as common templates facilitate outbound and inbound processing. This challenge was overcome by demonstrating the overall efficiency savings of the change and providing flexibility within the templates. The IT challenge of rationalising IT systems across the sites was overcome through the strong project management and experience of the implementation team.

d) Piloting the use of alternative suppliers

13 In September 2005 the Department began a six month trial of TNT and UK Mail's 'Downstream access' services, posting 20,000 items of non-urgent, non-payments mail daily. The pilot results show:

■ a saving of 10% is possible compared against the previous Royal Mail price (excluding VAT, which is reclaimable by the Department), along with

■ an improved level of postal performance of 94 per cent (compared with 90 per cent with Royal Mail) of mail arriving within two working days and improved customer service.

The latter includes the receipt from the suppliers of tracking reports covering the progress of mail from collection through to delivery to the Royal Mail Inward Mail Centres. This new management information allows the Department to identify and resolve delivery issues (such as misrouted mail bags) at an early stage. The Department is currently considering a decision to increase volumes going through 'Downstream access' services, which it estimates could lead to annual savings of £1 million.

e) Development of a pan-Departmental communication strategy

14 The Departmental Board approved in September 2005 the first draft of a Department-wide communication strategy. Besides increasing the effectiveness of communications, the strategy also seeks to address the need to:

- **Review existing processes** to promote the use of more cost-effective communication methods. The Pension Service, for example, has increased the types of transactions that occur over the telephone. Applications are now completed over the phone and then sent to the customer for confirmation. This change in process reduces the amount of inbound post received by the Department as previously applications would be sent in by applicants, processed by the Department, and then returned to the applicant.

- **Focus resources on those interactions that most add value to the customer and the business**, especially at a time when the Department is facing a reduction in frontline staff. A related piece of research into the Department's 'Channel Strategy' has been examining the willingness of the Department's customers to switch to different lower cost communication methods and the potential costs and benefits that could arise from a rationalisation of communications channels.

- **Rationalise the large number of 'products' and brands that currently exist within the Department**. For example, the Department has over 300 separate brands, linked to services or business functions, and at least 240 separate leaflets and forms, all of differing size, shape and quality. Besides improving the design of forms to focus more on customer needs, rationalisation could lead to significant savings. For example, reduced production and storage costs, reduced postal volumes and costs (through, for example, better matches to suppliers' conditions for achieving volume discounts), and reduced errors and administrative costs on the part of customers and staff.

f) As part of a wider business continuity initiative, establishing an 'Alternative Distribution Channel' for mail communications

15 The Department has set up an 'Alternative Distribution Channel' as contingency in the event that its main supplier, Royal Mail, is unable to provide mail services. The Department's courier provider TNT is contracted to deliver urgent mail (mainly payments to at-risk citizens) to local Post Office branches where claimants can collect them. This system has been successfully tested with the full involvement of the suppliers in the delivery supply chain – EDS, the Post Office, and TNT.

g) Central postal services management team working with the counter fraud teams to reduce mail fraud

16 Despite the decline in the number of payments sent by non-electronic means (some 35 million payments are still sent by post each year representing five per cent of the total number of payments issued annually), postal fraud remains a significant risk. The Department has taken various actions to combat this fraud in the use of physical payments going through a delivery supply chain. In particular, the postal management and anti-fraud teams at the Department work closely with their postal supplier Royal Mail to identify risks in the delivery chain and implement changes. The Fraud Prevention Board is a joint forum, co-chaired by the Department's Fraud Investigation Service and Royal Mail, with representation by Post Office Limited and HM Revenue and Customs. This Board seeks to influence strategy and maintain and improve payment security. This includes sharing of best practice to improve quality and speed of data availability for losses and to promote fraud prevention initiatives. The 'Corporate Method of Banking and Payment' team also holds meetings covering the range of stakeholders involved in the supply chain for payments from generation to encashment, which includes the central postal team. Anti-fraud initiatives initiated by these groups include the Post Office Reward Scheme, the increased use of disguised mail, use of envelopes without windows to mask the contents, the assessment of alternative suppliers, and investigations into the sources and risk areas for fraud. The Department is unable to quantify the reduction in fraud directly attributable to these postal initiatives.

Priority areas for improving the use of postal services

17 The Department has an objective to deliver year-on-year savings of three per cent across its procurement function, in accordance with the Office of Government Commerce benchmark for procurement efficiency. Set against this background there are four areas where the Department recognises the need to improve:

■ **Product and supplier choice and reduction in the number of undeliverable items**:

   ■ Use of alternative suppliers: The Department estimates that 25 per cent of their mail volume could go via an alternative supplier by 2008-09. Using the level of discounts generated during the trial, this would generate a savings of £1.7 million per year.

   ■ Increase the level of 'work share': Although the level of 'work share' by volume from the Service Delivery Centres is high, there is very little 'work share' used at local offices. The use of a consolidator through 'Downstream Access', manual sorting, or a 'shared services' approach to mail sorting (for example, at one of the Service Delivery Centres) could increase that amount. If the overall level of 'work share' is increased from its current level of 55 per cent to 65 per cent in 2008-09, this would produce annual savings of nearly £1 million.

   ■ Move mail volumes down from first to second and second class to products with longer delivery timescales: if by 2008-09, 25 per cent of mail goes first class, 74 per cent second class, and 1 per cent Mailsort 3 (a product with longer delivery timescales), the Department would save £2 million each year as compared to the current split. The Department will need to consider re-engineering processes to maintain existing service levels if these are affected by the difference in delivery timelines and has identified that a change in culture is required from staff to assess the potential commercial benefits alongside potential customer service implications. The Department has shown through moving

Winter Fuel correspondence (including payments) from first to second class mail in 2005-06 that it is possible to manage concerns about security of delivery and brand image involved in this move. Furthermore, although a significant proportion of first class delivery in the Department is for benefit payments, there is the scope to reduce use of first class in local offices for non-payments.

■ Reduce the volume of undeliverable items received: If this volume was to be reduced from its current level of 1.16 million items to 700,000 items by 2008-09, the annual savings would be £250,000. Improvements in customer address labelling (for example, the use of computer-generated over handwritten addresses) and use of IT systems to validate customer post codes can lead to the reduction in 'undeliverable' mail.

These four initiatives would generate savings of some £5 million per year by 2008-09 and, if they are gradually phased in over the three year period, could generate £9.5 million of savings over the three year period **(Figure 4)**.

4 Potential efficiency gains for the Department 2006-07 to 2008-09
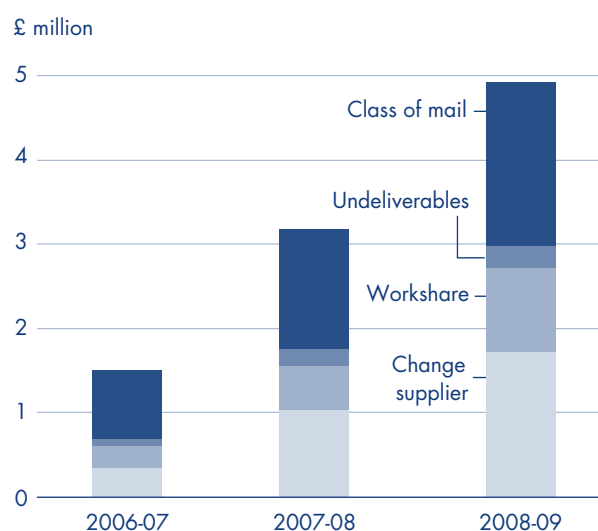
Source: National Audit Office analysis of Departmental and Royal Mail data

- **Develop effective postal services management structures**:

  a   The Department should continue to set up management and communication structures so that changes in post are implemented across their wide office network. Postal efficiency measures, be it use of second class over first, implementation of 'work share' products, or change in size and format of mails, can be given greater urgency and weight alongside customer service requirements.

  b   Opportunities exist around use of shared services for printing, fulfilment, and postal services. For example, field offices within and across business streams, such as Job Centre Plus and the Pension Service, can use joint inbound mail processing centres or output print centres. More wide-spread use of centralised output across the Department will overcome minimum volume thresholds required for 'work share' products, helping the Department achieve the potential savings from the increased use of 'work share'.

  c   Set up financial management structures to embed postal efficiency in individual business units' communication strategies. Although postal services are managed centrally, individual business units must have an incentive to implement postal efficiency initiatives encouraging them to assess the potential savings against the impacts to service delivery.

- **Develop an integrated communication strategy**: The Department must continue to develop its coherent strategy around the use of post alongside other communication channels, pro-actively managing interactions with citizens across its channels. Currently, post remains the default contact channel although it is not lowest cost. Although there remain policy and customer choice reasons behind the use of post, more interactions can be done via other channels. For example, at some Job Centre Plus sites, applications are completed over the phone with a citizen, so that when the applicant visits a site, the application is available pre-completed on-screen. Meanwhile, at other Job Centre Plus sites, the process is different and the form is sent out to the customer who then may post it back to the Department. This second scenario results in higher outbound and inbound post volumes. The Department may wish to look at rationalising and co-ordinating the communication sent from different business streams. An example of this working well currently is that Pensions Credit and Housing Benefit information is sent together in a single pack. Taking this opportunity further, the Department should consider joint communication plans with other Departments who interact with many of the same citizens. For example, HM Revenue and Customs and the Department both interact with employers and joint communications would be more efficient for both departments and provide an improved experience for customers.

- **Increase accessibility and use of management information to inform decision-making**: The Department has access to good quality data on performance of the Service Delivery Centres; however it suffers from a lack of clear information on spend at the local offices. Departments can use internal financial systems and supplier invoicing systems to collect information from local offices.

Key lessons arising from what the Department is doing well

1   Develop effective postal services skills and management structures: The Department has implemented an effective, highly skilled and experienced central postal services management team who are able to disseminate good practice throughout the Department. The Department has also been able to leverage its bulk output centres to gain productivity savings and product discounts.

2   Use the appropriate procurement and supplier engagement practices: The Department has a clear understanding of the market and its suppliers and has used this knowledge in their choice of postal products and suppliers across the value chain of postal activities. Furthermore, the Department has been instrumental in setting up OGCbuying.solutions' postal framework agreements, which it is planning on using to gain procurement and productive time savings.

3   Choose the appropriate mail products, balancing business requirements with cost: The Department is able to send the large majority of the mail from its bulk output centres using discounted mail products and has successfully increased its use of second class post.

CASE STUDY TWO
Her Majesty's Revenue and Customs

HM Revenue and Customs, the largest user of postal services in central government, achieves good value for money from its postal services, particularly through discounted mail tariffs used by the bulk output centres and the increasing use of second class mail and products with longer delivery timescales. The Department is looking to increase the efficiency and effectiveness of its communications to customers, and, to this end, has agreed a joined-up communication strategy across its business streams. The Department's main postal initiative is increasing its 'work share' capacity, but this is dependent on improving the accuracy of customer address data held in its underlying IT systems. Along with making smarter product choices, if the Department reduces the amount of undeliverable mail sent out and dispatches some of its mail using an alternative supplier, we think annual savings of £5.6 million are achievable by 2008-09.

The role of postal services in the work of the Department

1 HM Revenue and Customs (the Department) is responsible for collecting the bulk of central government tax and duty revenues, paying tax credits and child benefits, and safeguarding the UK's frontiers. It employs over 100,000 staff across its 900 offices, organised around eight process and product groups, including 'Pay As You Earn', 'Value Added Tax', and 'Benefits and Credits'. Post is a key customer contact channel for the Department's interactions with citizens and businesses, whether sending out and receiving forms and payments, handling general enquiries, or executing marketing campaigns **(Figure 5 overleaf)**. However, the Department is making policy and process changes to increase the use of alternative communication channels. For example, all businesses with over 250 employees must file end-of-year tax returns on line and this will be extended to businesses with between 50 and 250 employees in May 2006 and to all businesses in 2010. The Department spent some £77 million in 2004-05 on its postal services, dispatching 320 million outbound items.

The procurement and management of postal services

The Department has a central postal services management team within the Commercial Directorate. It is responsible for central contract and supplier management and providing advice on postal products usage throughout the Department **(Case Example C on page 15)**. Furthermore, the central postal team has been instrumental in the set-up of the postal framework agreements by OGCbuying.solutions through the secondment of staff and inclusion in the Project Board.

2 Approximately three-quarters of outbound communication is generated from the five main processing sites (Service Delivery Centres) of Shipley, Cumbernauld, Longbenton, Warrington, and Shoeburyness, with the remaining one-quarter produced from field offices. A consortium of Cap Gemini and Fujitsu manage the Department's IT systems from which bulk output mail is produced. 'Child Benefits' correspondence is printed by the Department for Work and Pensions at its Service Delivery Centre in Washington as it administered the scheme until 2004 when responsibility for the scheme was transferred to HM Revenue and Customs. The Department will take over the generation of this correspondence in August 2006.

5   Post's role in HM Revenue and Customs' business

Customers

Individuals and employees	Businesses and Corporations	Employers	Frontiers

Business streams

Pay As You Earn	Self-assessment	Lorry Road User Charges	Excise and Stamp duty	Value Added Tax	Benefits and Credits	Corporation Tax	Integrated business streams

Offices

900 Field offices	2 Departmental headquarter offices

Communication methods

Face to face	Contact centres	Mail correspondence	Email	Internet

Correspondence types

Payments	Enquiries	Forms	Inter-office	Personal documents

Mail Operations

1 Department for Work and Pensions Service Delivery Centre	5 Service Delivery Centres operated by CapGemini/Fujitsu	Field offices and contact centres

Source: National Audit Office

CASE EXAMPLE C

A centralised postal services management team

HM Revenue and Customs has set up a postal services team within their Commercial team to act as the single, central point of contact for their primary postal suppliers. The central team has led a series of postal efficiency projects, saving £2 million in the period from 2003 to 2005, with £700,000 saved from improved contract management and the remainder from smarter product use, including:

■ avoided surcharges of £340,000 over two years from the incorrect use of 'Postage Paid Impression' envelopes by purchasing a Freepost license;

■ avoided a retro-active charge on the use of 'Business Reply' services of £180,000. The Department was being charged for a lower volume than was being used. Through negotiations, the supplier agreed to change invoicing for the following period and not retro-actively;

■ deferred an increase in costs for the 'Selectapost' inbound mail product of £180,000 for one year while maintaining service standards. The proposed cost increase was due to a higher volume of mail going through this product than initially estimated by the supplier.

Source: National Audit Office examination of HM Revenue and Customs

3 The Department's key suppliers for postal services are:

■ Royal Mail for inbound and outbound domestic mail, delivering over 99 per cent of the Department's outbound mail;

■ TNT, as a joint contract with the Department for Work and Pensions, for an inter-office mail service;

■ Direct Solutions International for outbound mail sorting services;

■ Lynx, who sub-contract to postal partners including Sweden Post and Royal Mail, for outbound international mail.

Key indicators of performance

4 **Figure 6 overleaf** shows the Department's performance for the financial year 2004 against a set of postal efficiency indicators and compares these against other major central government (the three other case study organisations) and private sector users of postal services.

Commentary on performance achieved

5 The key findings and commentary on Departmental performance are:

■ **On cost per item**: The Department has a relatively high cost per item primarily because:

  ■ it currently makes limited use of 'work share' at its Service Delivery Centres;

  ■ the Department regularly provides a 'pre-paid' envelope for the return of mail by the customer, which it pays for on behalf of the customer, increasing the cost of the outbound mail item.

■ **On percentage use of 'work share'**: The Department uses its bulk output centres to take advantage of discounted mail products, but has a current capacity limitation for the sorting of mail. Capacity is being substantially increased through the implementation of software sorting technology, which began in November 2005. The Department has identified poor data quality as the main barrier to gaining greater access to discounted mail products. Field offices with sufficient volumes (over 1,000 items per day), for example the site at Shoeburyness, use the 'Cleanmail' product which offers discounts based on address formatting and correctness.

■ **On the use of first and second class mail and products with longer delivery timescales**: The Department uses very little first class mail (two per cent of total mail volume). First class is used to send payments, however these represent a significantly smaller proportion of the Department's output as compared with the Department for Work and Pensions. Second class is the default service, while Mailsort 3 (a product with longer delivery timescales) is used for non-urgent items, for example 'New Tax Credit' newsletters, helping to reduce cost per item.

■ **On volume of undeliverable items**: The volume of undeliverable items is relatively high because of the quality of the Department's customer address data. As the Department uses over 20 systems, many of which do not have address validation functionality, to generate outbound mail, customer address data cleansing is a complex area. The current level of customer address quality (as measured by the match against the Royal Mail's Post Office Address File) is 85 per cent and the Department has targeted an improvement to 95 per cent by March 2007.

6	Departmental postal services performance Financial Year 2004-05					
Indicator	Department for Work and Pensions	Driver and Vehicle Licensing Agency	HM Revenue and Customs	National Savings & Investments	Private sector benchmark Financial Services	Utilities
Average cost per item[1]	27.8p	21.7p	**24.1p**	21.5p	22.0p	20.4p
Percentage of mail that is 'work-shared'[2]	56%	93%	**60%**	88%	73%	81%
Percentage of mail sent by[3]:						
1st class	41%	1%	**2%**	20%	not available	
2nd class	58%	99%	**87%**	49%	not available	
Mailsort 3	1%	0%	**11%**	31%	not available	
Undeliverables[4]:						
■ 000s items per year	1, 160	143	**3,440**	42	not available	
■ as a % of total volume	0.5%	0.1%	**1.1%**	0.1%	not available	
Total cost of processing undeliverables[5]	£650,000	£73,000	**£4,000,000**	£23,000	not available	

Source: National Audit Office analysis of Departmental and Royal Mail data

NOTES

1 Average cost per item is calculated using the total spend divided by the total volume.

2 'Work shared' mail includes Mailsort, Packetpost, Presstream, Cleanmail, Walksort products where the customer does some initial work, such as sorting mail by post codes, to gain discounts from suppliers.

3 Split of mail class has been done using estimates of the split for the Service Delivery Centres and for local field offices compared to the total volume of mail.

4 Undeliverable items represents the number of items that are returned to the Department as undeliverable mail. As undeliverable items can only include the items that are returned by customers and hence disregards all items that are sent to an incorrect address but are thrown away rather than 'returned to sender', this figure is indicative of performance, rather than a definitive figure.

5 Cost of processing undeliverables includes staff costs and re-posting costs, with the Department's average cost per item used to calculate the re-posting cost.

Key actions to improve the efficiency of postal services and their impact to date

6   The Department has implemented a number of actions to improve the efficiency and performance of postal services **(Figure 7)**. Further details on these actions and their impacts are set out below.

7	The main actions undertaken by the Department to improve the efficiency and performance of postal services

a)   Becoming more efficient in their use of mail class and size

b)   Use of alternative communication channels

c)   Use of outsourcers to support internal capacity

d)   Improved supplier and contract management

e)   Implementation of Mailsort software

f)   Improving customer address data

a) Becoming more efficient in their use of mail class and size

7   The Department has implemented a default of second class post for all non-payments and is increasing the use of Mailsort 3 (a product with longer delivery timescales) for some items. Girocheques, however, remain first class as the benefits of increased speed, security, and brand image are considered to outweigh the cost differential. Despite initial concerns about the difference in delivery timelines, the use of second class post and Mailsort 3 have not resulted in an increase in customer complaints. For example, in 2004 the Department began using second class mail to return customer documentation such as wedding and birth certificates in lieu of special or recorded delivery products. It estimates this change resulted in savings of £150,000. Mailsort 3 is being used for 'New Tax Credit' newsletters generating savings of 25 per cent over standard tariff second class and 15 per cent savings compared with second class Mailsort (a saving of £1.3 million in 2004-05).

8   The Department is reviewing the size and weight profiles of its mail, particularly in light of the upcoming changes to Royal Mail's pricing system[3] **(Case Example D)**.

CASE EXAMPLE D

Review of New Tax Credit Flatpack size

Some 44 million 'New Tax Credit' A4 size flatpacks were dispatched in 2005. The A4 size is used because around one-fifth of the items must be scanned on their return (to achieve productive time savings) and, hence cannot be folded. The Department, however, has estimated that folding the remainder of the items (those that will not be scanned on return) to C5 size, will avoid a cost increase of nearly £3 million under the new pricing rules. The Department is reviewing whether this saving outweights the costs of the required IT changes.

Source: National Audit Office examination of HM Revenue and Customs

---

[3]   Pricing in Proportion, to be introduced in August 2006, will include size and weight of item in pricing calculations, whereas in previous pricing structures, weight was the only factor.

b) Use of alternative communication channels

9   The Department's communication strategy, underpinning its strategic emphasis on customer focus, is an integrated approach to channels, recognising the different requirements and behaviours of customers and business to offer the appropriate inbound and outbound channel to meet customers' needs and achieve compliance at the lowest cost. For example, for the tax year 2004-05, 17 per cent of tax returns were processed on-line, with the level expected to increase for the current tax year. These returns, approximately 1.5 million for 2004-05, would alternatively have been received as inbound mail; hence the Department has realised significant productive time savings on the processing of inbound mail. One of the aims of the Department's communication strategy is to reduce the volume of postal contacts by 4.8 million by 2010 through the increased use of lower-cost channels such as the internet. The Department has encouraged the move away from post to the internet, for example, by sending out a targeted mailing encouraging take-up of the internet to 50,000 citizens who have been assessed as likely to use this communication method. As of October 2005, the Department's 'Secure Portal for Individuals' for self-assessment had received 3.5 million hits to view and change customer details. Prior to the implementation of the portal, many of these customer interactions would have been received as inbound mail items to the Department. The Department has also changed its processes to reduce the volume of post. For example, 'Self-assessment' forms are no longer sent out to all citizens. In the tax year 2005-06, 1.15 million citizens (those with 'simpler' tax circumstances), were not sent the 'Self-assessment' forms, rather 450,000 of these were sent a 'Tax Review' form. Not sending out these 700,000 items avoided costs of some £170,000 for the Department.

c) Use of outsourcers to support internal capacity

10   At the Department's two biggest postal output centres (Shipley and Cumbernauld) the volume threshold for mechanical sorting is 150,000 items per day which is often well exceeded by the Department's output requirements. Therefore, the Department uses a third party supplier to sort the excess output if the volume and quality of mail make it economically advantageous and both parties share the gains from the 20 per cent reduction on the standard second class tariff.

d) Improved supplier and contract management

11   Prior to 2004, there was minimal centralised co-ordination of the Department's spending with Royal Mail. Each business unit had its own relationship with Royal Mail and concentrated solely on its individual requirements and spending. According to the Department, the specialist commercial role responsible for monitoring and managing post across the Department, set up in 2003, over the last two years has generated savings of £700,000 from specific contract management issues. For example, the team avoided surcharges (that were being incurred due to the incorrect use of 'Postage Paid Impression' envelopes) of £340,000 over two years by purchasing a Freepost license.

e) Implementation of Mailsort software

12   The Department is implementing Mailsort software to increase the savings it achieves. It currently uses 'work share' for 64 per cent of bulk output (output from the Service Delivery Centres), with 60 per cent of total outbound mail (from all offices) qualifying for discounts. Sorting at the Service Delivery Centres is currently primarily done using mechanical sorting machines with the excess handled under contract by Direct Solutions International. Direct Solutions International are also contracted to mechanically sort all the daily output from the National Insurance Contribution Office. The Department is implementing Mailsort software technology (in preference to sorting machines and the use of Direct Solutions International where it's practical to do so) as it has greater volume capacity (particularly to manage the yearly peak of work between January and March), is more cost-effective than using an external provider for sorting, and requires less manual intervention than mechanical sorting machines. Implementation began in 2003 with the first forms being processed in November 2005 (at low overall volumes), and the target benefits are £2 million per year. The primary implementation steps, all of which were tested as part of the Royal Mail accreditation process, were:

- achieving the minimum address data quality standards;

- re-designing forms and envelopes.

f) Improving customer address data

13 The four key benefits to improving customer address data quality are:

■ A reduction in postal costs through the use of 'Mailsort' products;

■ A reduction in processing time and costs for undeliverables, as the number of these will be reduced through accurate and up-to-date address information;

■ An increase in the effectiveness of compliance procedures through more accurate and up-to-date customer address information;

■ A reduction in stationery costs through producing fewer undeliverables.

14 The savings from improved customer address data are estimated by the Department at £4 million per year, (£2 million from increased use of 'work share' and a further £2 million from reductions in undeliverables) outweighing the costs, in particular:

■ IT changes: Notwithstanding the complex project management challenges, IT changes are costly, complex and seen as risky to change due to the age of legacy systems, high IT consultancy costs, the multitude of databases and systems involved, and the business-criticality of the systems;

■ Process changes: Data that is flagged as inaccurate as compared with external data files (such as the Postcode Address File) must be investigated to determine the reason for the mismatch. The mismatch can be identified at the data input stage, prior to mailing, or as part of a data cleansing exercise. The Department now runs checks on its address data every two months, whereas previously this was done twice yearly;

■ Cultural changes: Business streams are now required to share customer information, rather than each having a separate version of the data which had previously been the case, lessening the control that the individual business stream has on the data. Furthermore, achieving savings on postal costs are a relatively low corporate priority.

Priority areas for improving the use of postal services

15 The Department has an annual target to save at least £2.5 million each year on postal service procurement. The Department recognises a key risk to achieving these efficiency savings is the potential loss of experienced personnel due to the planned move of the central postal management team from Longbenton to Manchester. To achieve this target, there are three areas where the Department recognises the need to improve.

■ Product and supplier choice and reduction in number of undeliverable items:

■ Use of alternative suppliers: The Department estimates that 7.5 per cent of mail volume could go via an alternative supplier by 2008-09. Using an average level of discounts, this would generate a saving of £600,000 per year. The use of alternative suppliers will require the Department and its IT and print supplier to work with alternative mail suppliers to provide accurate daily output forecasts.

■ Increase the level of 'work share': The Department is aiming to increase its use of 'work share', enabled by its initiatives to improve address data quality and put in place Mailsort software. If the Department is able to increase 'work share' volumes from its current 60 per cent to 80 per cent by 2008-09, the financial savings will be £2.3 million per year.

- Move mail volumes down from second class to products with longer delivery timescales: If the use of Mailsort 3 is increased from 11 to 14 per cent by 2008-09, the savings are estimated at £725,000. The Department has already during 2004-05 moved a high proportion of its National Insurance mail to Mailsort 3[4] – the Department will have to move other mail streams to Mailsort 3 to achieve this target. The Department will face an increase in costs in 2006-07 because the dispatch of 'Child Tax Credits' will transfer from the Department of Work and Pensions to HM Revenue and Customs. As these payments are sent using first class mail, the amount of mail sent first class by HM Revenue and Customs will increase, outweighing gains the department is projected to make in transferring other mail to second class and Mailsort 3.

- Reduce the volume of undeliverable items received: The Department is looking to halve the volume of mail that it sends out and is returned 'undeliverable', primarily enabled by the cleansing of customer address data. This change will result in savings of £2 million per year.

These four initiatives would generate savings of £5.6 million per year by 2008-09, and if they are phased in over three years, could generate £10.6 million of savings in the same period **(Figure 8)**.

8 Potential efficiency gains for the Department 2006-07 to 2008-09
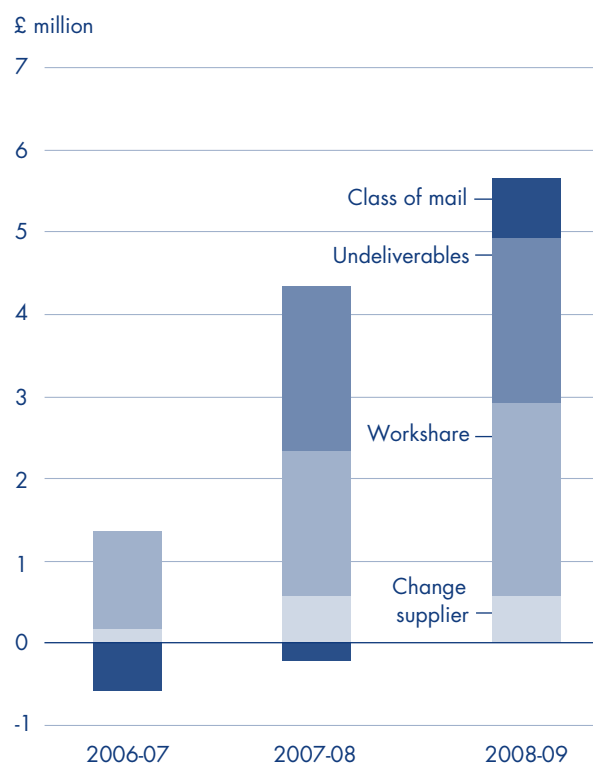
Source: National Audit Office analysis of Departmental and Royal Mail data

---

4   In 2004-05 National Insurance the backlog of outstanding deficiency notices from the past ten years was sent out. As these notices will now be sent out yearly (by third class), the volume of deficiency notices will be significantly smaller.

■ **Setting up a management accountability structure**: The Department can do more to increase the accountability of business streams and local offices for achieving postal efficiencies by putting in place the appropriate financial systems. For example, passing on postal costs to business streams will encourage postal costs and opportunities for efficiencies to be taken into account alongside service delivery considerations. The Department has planned to centralise all postal budgets within the Commercial Directorate to provide the opportunity for greater control over expenditure.

■ **Putting in place a co-ordinated communication strategy**: The Department has agreed a department-wide strategy and now needs to focus on implementation. There are cultural and IT barriers to putting this co-ordinated approach into place. Culturally, the Department needs to view relationships with customers as spanning all business streams, rather than each business stream having its own relationship with a customer. The Department is undertaking to produce a 'customer master' which will provide a single, holistic view of the customer and their relationship with the department, for example up-to-date and accurate customer address information. It is understood that with the complexity of the underlying IT architecture this is a difficult task. Within a benefit stream, there are also opportunities to co-ordinate communications with citizens. For example, currently Child Tax Credits go to both parents at a same address, which can be seen as an unnecessary mailing. Looking further forward, the Department should look to co-ordinate its communications alongside other departments particularly the Department for Work and Pensions as the relationships citizens and businesses have with the two departments are closely linked.

Key lessons arising from what the Department is doing well

1 Develop effective postal services skills and management structures. The Department has set up a central postal services team within its Commercial team to act as the single, central point of contact for their primary postal suppliers. The central team has led a series of projects, saving £2 million in the period from 2003 to 2005.

2 Use the appropriate procurement and supplier engagement practices. Internal capacity for sorting is often exceeded in the larger print runs and, therefore, mail is sent to an external provider who sorts the mail before passing on to Royal Mail. The costs of using the external provider are outweighed by the savings from Royal Mail for sorting the mail before hand-over.

3 Choose the appropriate mail products, balancing business requirements with cost. The Department has decided that the financial savings from using second class mail and products with longer delivery timescales over first class outweigh the difference in delivery timelines, particularly for those communications that are not time-critical. For example, citizens do not expect the delivery of National Insurance deficiency notices at any particular date; therefore, the Department has chosen to send these using Mailsort 3.

Driver and Vehicle Licensing Agency

CASE STUDY THREE
Driver and Vehicle Licensing Agency

The Agency is a highly efficient user of postal services, posting over 90 per cent of its mail using 'work share' products. This high use of discounted products is enabled by the technology and equipment at its print centre in Swansea, where over 95 per cent of its outbound mail is generated. The Agency should look to progress its move away from post to more efficient and customer-friendly communication methods, namely the internet and telephone. By using alternative suppliers for the delivery of a tenth of their mail, increasing the use of products with longer delivery timescales (which it is beginning to do), and reducing the volume of undeliverable items, we assess that the Agency could save £350,000 annually by 2008-09.

The role of postal services in the work of the Agency

1 The Driver and Vehicle Licensing Agency (the Agency) is an Executive Agency of the Department for Transport, responsible for road safety, general law enforcement by maintaining registers of drivers and vehicles, and the collection of vehicle excise duty. It relies chiefly on post for its interactions with citizens. Post is used to send and receive the Agency's main documentation, forms, and products, including vehicle reminders, marketing information, application documents, return of documents supporting applications, driver licences, vehicle tax discs, and tax refunds **(Figure 9 overleaf)**. Due to its high use, the performance of post is integral to customers' views on the Agency's service delivery. However, the Agency is looking to increase the levels of electronic communication with citizens and other government departments **(Case Example E on page 25)**. The Agency employs over 6,500 staff at an office campus in Swansea (where the print output centre is located) and its 40 local offices in England, Scotland and Wales.

The procurement and management of postal services

2 The Agency produces over 95 per cent of its total outbound mail from its print centre in Swansea. The Agency's IT system, which generates the data from which bulk printing is produced, is managed by IBM. Inbound mail is processed in the main office in Swansea and at the 40 field offices. A central postal contract management team, within the Procurement Services Group, is responsible for monitoring the relationships the Agency has with its key postal suppliers:

- Royal Mail: providing inbound and outbound postal services;

- Nightspeed and DHL Express: providing courier services.

Key indicators of performance

Figure 10 on page 26 shows the Agency's performance for the financial year 2004-05 against a set of postal efficiency indicators and compares these against other major central government (the three other case study organisations) and private sector users of postal services.

9 Post's role in the Agency's business

Customers

41m Drivers

33m Vehicle owners

Offices

Office Campus in Swansea

3 Continuous Registration Enforcement Centres

40 local offices

Communication methods

Contact centres

Email

Mail correspondence

Internet

Face to face

Correspondence types

Vehicle reminders

Marketing

Applications and return of documents

Driver licences

Car tax discs

Tax refunds

Mail Operations

A print centre in Swansea

40 Local offices

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency
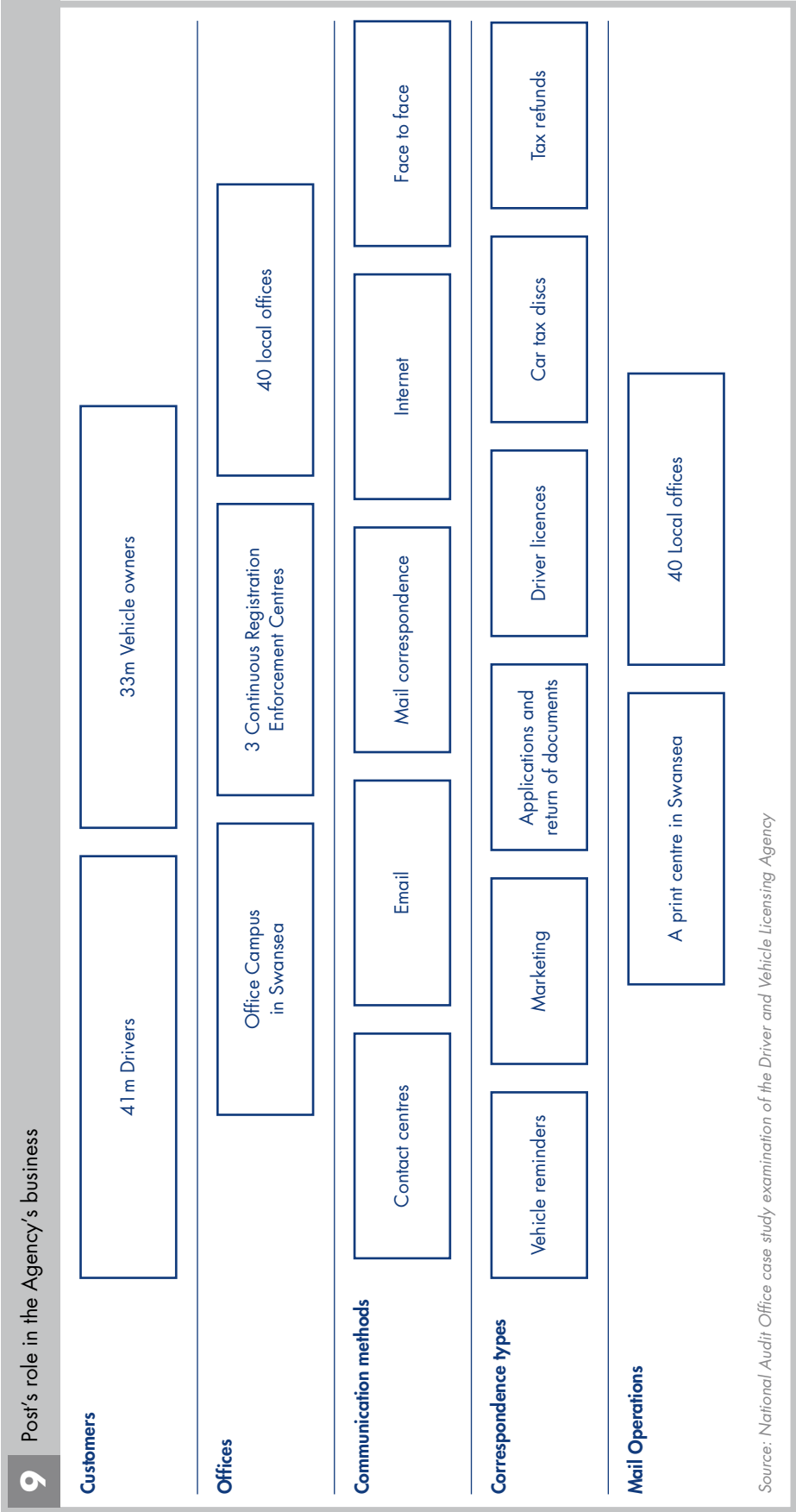
CASE EXAMPLE E

Increasing the use of electronic communications

The Agency has already in 2005-06 piloted the use of Direct Debit payment options. In addition, it is planning to increase the use of electronic communication methods through:

- working with the Home Office on a number of possible options to exchange information as part of the Identity Cards Bill. In particular, the Agency is looking to share information with the National Identity Register to simplify and increase security for the license application and issuance to avoid large volumes of inter-departmental mail.

- rolling out a second version of the European Car Information System in 2005 which is an electronic system to exchange information on stolen vehicles and driving licences amongst member countries, allowing checks to be made before a vehicle is registered and to check entitlement for a driving licence before one is issued. The Agency has planned to roll-out the second version of this system in 2006.

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency

Commentary on performance achieved

3   The key findings and commentary on Agency performance are:

- **On cost per item**: The Agency has the second lowest cost per item amongst the case study organisations due to its considerable use of 'work share' products and second class mail.

- **On percentage use of 'work share'**: The Agency achieves 93 per cent 'work share' for its outbound mail, performance that compares very favourably to leaders in the private sector. The large centralisation of its bulk output (over 95 per cent of total mail output is produced at the print centre), using a mix of Mailsort software and technology and mechanical sorting machines, and sufficient data quality contribute to this strong performance.

- **On the use of first and second class mail and products with longer delivery timescales**: The Agency uses an extremely high proportion of second class mail **(Case Example F on page 27)** and has found that the 'third working day' delivery timeline provides an adequate service, for example for its delivery of vehicle tax reminders and driving licenses. This financial year, the Agency is beginning to increasingly use Mailsort 3 (a product with longer delivery timescales), for example for the delivery of vehicle registration documents.

- **On volume of undeliverable items**: The Agency has the second lowest percentage of undeliverable items. The quality of the Agency's address data is the key influencing factor on this metric. A main reason the Agency has such good quality address data is their customer information systems' on-line validation against the Post Office Address File.

Key actions to improve the efficiency of postal services and their impact to date

4   The Agency has claimed efficiency gains across the Agency of five per cent in 2004-05.[5] Set against this context, the Agency has implemented a number of actions to improve the efficiency and performance of postal services **(Figure 11 on page 27)**. Further details on these actions and their impacts are set out below.

---

5   Driver and Vehicle Licensing Agency annual report, 2004-05.

| **10** | Agency postal services performance Financial Year 2004-05 |

Indicator	Department for Work and Pensions	Driver and Vehicle Licensing Agency	HM Revenue and Customs	National Savings & Investments	Private sector benchmark	
					Financial Services	**Utilities**
Average cost per item[1]	27.8p	**21.7p**	24.1p	21.5p	22.0p	20.4p
Percentage of mail that is 'work-shared'[2]	56%	**93%**	60%	88%	73%	81%
Percentage of mail sent by[3]:						
1st class	41%	**1%**	2%	20%	not available	
2nd class	58%	**99%**	87%	49%	not available	
Mailsort 3	1%	**0%**	11%	31%	not available	
Undeliverables[4]:						
■ 000s items per year	1, 160	**143**	3,440	42	not available	
■ as a % of total volume	0.5%	**0.1%**	1.1%	0.1%	not available	
Total cost of processing undeliverables[5]	£650,000	**£73,000**	£4,000,000	£23,000	not available	

Source: National Audit Office analysis of Departmental and Royal Mail data

NOTES

1 Average cost per item is calculated using the total spend divided by the total volume.

2 'Work shared' mail includes Mailsort, Packetpost, Presstream, Cleanmail, Walksort products where the customer does some initial work, such as sorting mail by post codes, to gain discounts from suppliers.

3 Split of mail class has been done using output from the print centre only. This output represents over 95 per cent of the Agency's outbound mail volume.

4 Undeliverable items represents the number of items that are returned to the Department as undeliverable mail. As undeliverable items can only include the items that are returned by customers and hence disregards all items that are sent to an incorrect address but are thrown away rather than 'returned to sender', this figure is indicative of performance, rather than a definitive figure.

5 Cost of processing undeliverables includes staff costs and re-posting costs using the Agency's average cost per item. The Agency re-send approximately one-third of the 'undeliverable' mail they process. Two-thirds of undeliverable mail has address information that corresponds with customer address information that the Agency holds; therefore there is no benefit in re-posting these items.

CASE EXAMPLE F

The Agency's use of second class post

The Driver and Vehicle Licensing Agency estimates it saved £1.5 million in 2003-04 from moving high volume mail such as vehicle registration documents (18 million dispatched) from first to second class post, with no evidence of any effect on customer service.

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency

11 The main actions undertaken by the Agency to improve the efficiency and performance of postal services

a) Implementation of 'work share' software

b) Electronic transfer of information

c) Using postal scheduling and products to increase organisational efficiency

d) Access to Management Information

a) Implementation of 'work share' software

5 The Agency has successfully installed Mailsort software on their in-house print system to manage the production of its bulk outputs. The Agency implemented Mailsort software technology because it provides substantial discounts (over 20 per cent) over standard tariff mail, is capable of coping with increased mail volumes, and requires less physical space than mechanical sorting machines. This software platform ensures that the output is printed in the sequence and to the format requirements to qualify for discounts from the supplier. Implementation began in early 2004 with the first mailings processed in October of that year. The Agency is gradually bringing more business streams on to the software Mailsort platform – by 2008 it expects all major mail streams output at the print centre to use this technology. The key lessons learned are:

- to involve business owners early during implementation as technology and supplier requirements can affect business decisions such as form design;

- a good relationship with the supplier is important to work through testing and implementation issues.

b) Electronic transfer of information

6 The Agency has changed various processes to reduce inbound mail and move towards to electronic exchanges of information:

- Up until 2004, Post Office Counters sent car tax information to the Agency in paper format for manual processing. This information is now transferred electronically – a reduction in 40 million inbound forms to be processed over the course of one year.

- In 2004, 790,000 applications for the 'Fleet Relicensing Scheme' (customers with over 1,000 vehicles) were received electronically rather than by post, substantially reducing the level of administrative processing needed.

- Motor dealers used to send disposal information to the Agency by post. In 1995, electronic links were installed to share this information.

c) Using postal scheduling and products to increase organisational efficiency

7 Bulk print output schedules are agreed with contact centre management to stagger the dispatch and subsequent inbound customer calls across multiple days. For example, monthly vehicle reminders are sent out in batches over the course of two weeks, so that the Agency's contact centres are able to manage the volume of inbound calls.

8 The Agency has 70 distinct inbound post codes to denote individual teams. The post codes are labelled on return envelopes that the Agency sends out to customers (as well as on a separate insert) for the customer to use on their own envelopes when sending mail to the Agency **(Figure 12 overleaf)**. The use of internal post codes enables swift internal delivery to the appropriate team, reducing processing times and providing faster service for the customer.

12 Promotion of use of inbound post codes

> **Where to send your application form**
>
> Unless you are using the Premium Checking Service through a selected Post Office® branch or DVLA local office (see page 13), send your application to DVLA, Swansea, using one of the following postcodes.
> N.B. We will be able to process your application quicker if you use the correct postcode.
>
> **DVLA, SWANSEA**
>
> First provisional licence:
> With UK issued identity document: **SA99 1AD**
>
> First provisional licence:
> With non UK issued identity document: **SA99 1AF**
>
> First full licence for cars and motorcycles: **SA99 1BJ**
>
> Exchanging a foreign licence: **SA99 1BT**
>
> Change your photograph or to tell us about a change of name or title on your photocard: **SA99 1AB**
>
> Exchange your valid paper licence for a photocard licence for no licensing reason: **SA99 1BU**
>
> Telling us about a change of name and/or address and enclosing your licence: **SA99 1BN**
>
> Other licences to drive cars and motorcycles: (e.g. duplicates) **SA99 1AB**

Source: Driver and Vehicle Licensing Agency

d) Access to Management Information

9 The Agency works with its main supplier Royal Mail to collect and analyse management information on postal performance. This information includes supplier mail pick-up and delivery performance and postal product choice, spend, and volume. Access to this information allows the Agency to work with its supplier to enhance performance, such as, making more intelligent mail product choices. For example, in 2005, the Agency began moving volumes of mail such as 'V11' vehicle registration forms to Mailsort 3.
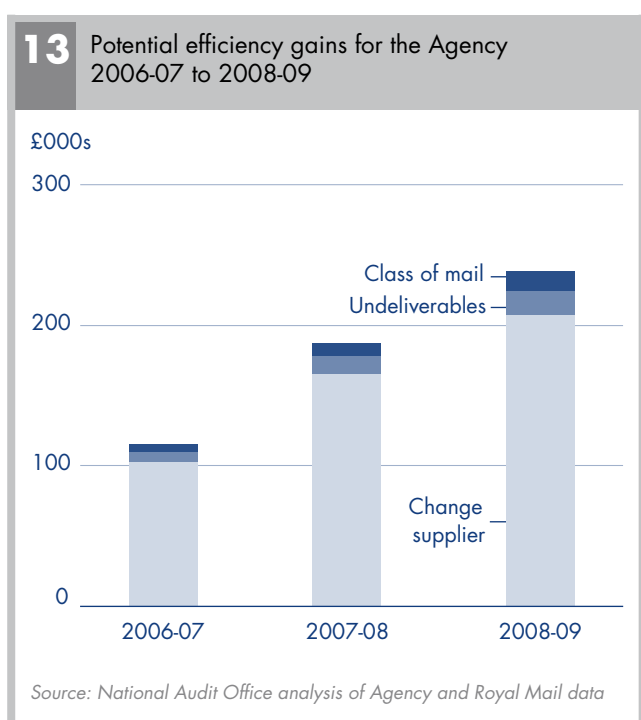
Priority areas for improving the use of postal services

10 The Agency has a target of 20 per cent efficiency savings over 2004-08 within which they aim to save five per cent on postal services. To achieve this target, there are three areas where the Department recognises the need to improve:

■ **Product and supplier choice and reduction in number of undeliverable items**

  ■ Use of alternative suppliers: The Agency should assess the use of alternative mail suppliers. If the Agency was able to move 10 per cent of outbound mail to an alternative supplier by 2008-09, postal costs could be reduced by £200,000 per year.

  ■ Maintain the level of 'work share': The Agency should look to maintain its already strong performance in the use of 'work share' products.

  ■ Move mail volumes down from second class to Mailsort 3: The Agency can look to increase its use of Mailsort 3. If it is able to send seven per cent of mail using these products, while maintaining a level of one per cent going first class and the remainder second class by 2008-09, annual savings of £140,000 are achievable.

  ■ Reduce the volume of undeliverable items received: The Agency currently processes 142,000 undeliverable items. Approximately twice that amount is sent out and cannot be delivered, but are not processed because the benefit of resending the mail, for example marketing information, is considered lower value than the cost of processing it. Of the 142,000 items that are processed by the Agency one-third are re-sent. The other two-thirds are not re-sent because the address on the mail piece is the most up-to-date held by the Agency. If the Agency reduced the volume of undeliverable mail to 110,000 items by 2008-09, savings of £15,000 are possible.

These four initiatives would generate annual savings of over £350,000 by 2008-09 and if they are phased in over three years, could generate £800,000 of savings over the three year period **(Figure 13)**.

13 Potential efficiency gains for the Agency 2006-07 to 2008-09

Source: National Audit Office analysis of Agency and Royal Mail data

- **Increase use of alternative channels to post**: The Agency has developed a communications strategy which ranks communication methods in terms of reducing cost-effectiveness:

    - Internet or email;

    - Use of 'Interactive Voice Response' phone technology;

    - Post;

    - Contact centre agent;

    - Face to face.

The Agency, however, remains some distance from dealing with customer interactions in these proportions with post remaining the highest volume. The Agency has been able to drive the take-up of electronic services for electronic vehicle licensing – of the 2.5 million vehicle reminders sent out each month for take-up of licensing, 650,000 customers are eligible[6] for electronic services, with take-up amongst this group at 25 per cent.

- **Increase use of existing infrastructure**: The Agency recognises the need to utilise spare capacity in its existing printing and sorting equipment and technology, in particular by taking on print and dispatch work from other departments. For example, the Agency currently does some low volumes of printing for the Vehicle and Operator Services Agency. It has tendered to supply driver licences and digital tachographs to the Irish Republic and is discussing the production of ID cards with the Home Office.

Key lessons arising from what the Agency is doing well

1   Use of 'work share' mail products: The Agency has an extremely high level of 'work share', comparing favourably with some of the leading sectors in the mail industry, such as financial services and utilities. The Agency produces the vast bulk of their output at their main print centre where Mailsort software technology and mechanical sorting machines are used to achieve these levels of discount.

2   Use of second class mail where appropriate: The Agency sends almost all of its mail second class, which offers nearly a 30 per cent savings compared with first class for a three day as opposed to next day service, while remaining within service delivery targets.

6   Eligibility requires the vehicle to be a 2001 or newer model or have received their Ministry of Transport (MOT) certificate from a garage with the accredited, computerised technology.

CASE STUDY FOUR
National Savings and Investments

The Agency is a highly efficient user of postal services; it sends the majority of its mail using discounted mail products as well as taking advantage of the lower-cost delivery options of second class mail and products with longer delivery timescales. The Agency needs to continue to develop its lower-cost communication methods of contact centres and the internet and reduce its reliance on post to communicate with its customers. We believe that the Agency with its key partner Siemens Business Services could potentially save some £250,000 annually from 2008-09, principally from the use of alternative suppliers and by increasing their use of products with longer delivery timescales.

The role of postal services in the work of the Agency

1   National Savings and Investments (the Agency), an executive agency of the Chancellor of the Exchequer, provides a variety of savings and investment products to its 26 million customers, including Premium Bonds, Savings Certificates, mini Individual Savings Accounts, Income Bonds and savings accounts. In April 1999, the Agency entered into a Public Private Partnership contract with Siemens Business Services. It retains responsibility for marketing its products and overall customer relationship, with Siemens Business Services responsible for the fulfillment of transactions.

2   The Agency and Siemens Business Services spend some £12 million annually on postal services, including the outbound dispatch of some 57 million items. The Agency remains heavily reliant on post to manage its customer interactions, including marketing campaigns, delivery of payments and prizes, product applications, and customer account enquiries **(Figure 14 overleaf)**. For example, in 2004, 32 million items of post were received by the Agency compared to 2.5 million inbound phone calls. The Agency is, however, starting to increase the use of the internet and telephone by its customers **(Figure 15 on page 33)**. In terms of marketing, however, direct mailings remain a critical element of the Agency's marketing strategy **(Case Example G on page 33)**.
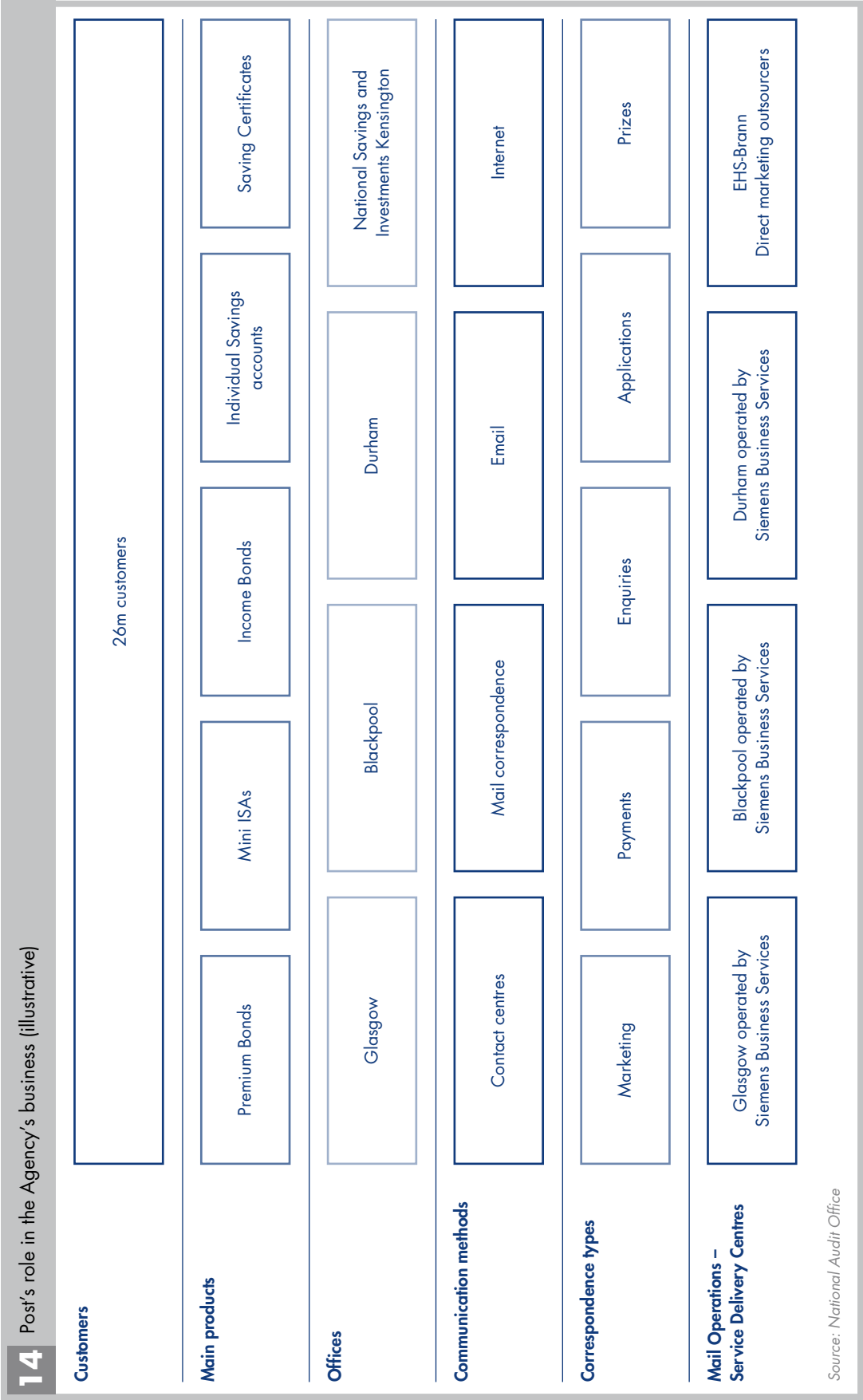
The procurement and management of postal services

3   Over 90 per cent of Agency-generated outbound mail[7] is generated at Siemens Business Services' print output centre at Durham, with inbound and outbound mail also processed at Blackpool and Glasgow. Siemens Business Services has established routes of contact with National Savings and Investments on issues related to the use of postal services and a single point of contact for the relationship with its postal suppliers, and additionally a position responsible for post at each of the three main sites. The Agency outsources its direct marketing campaigns to EHS-Brann, who sub-contract the printing and dispatch of direct mailings to specialist print houses. Royal Mail is the sole postal supplier with Parcelforce and DX providing courier services.

Key indicators of performance

4   **Figure 16 on page 34** shows the Agency's performance against a set of postal efficiency indicators compared with the other public sector case study organisations and private sector users of postal services.

---

7   'Agency-generated' mail does not include 'direct marketing' mail that is produced by its direct marketing outsource providers.

14 Post's role in the Agency's business (illustrative)

Customers

26m customers

Main products

| Premium Bonds | Mini ISAs | Income Bonds | Individual Savings accounts | Saving Certificates |

Offices

| Glasgow | Blackpool | Durham | National Savings and Investments Kensington |

Communication methods

| Contact centres | Mail correspondence | Email | Internet |

Correspondence types

| Marketing | Payments | Enquiries | Applications | Prizes |

Mail Operations – Service Delivery Centres

| Glasgow operated by Siemens Business Services | Blackpool operated by Siemens Business Services | Durham operated by Siemens Business Services | EHS-Brann Direct marketing outsourcers |

Source: National Audit Office

15 The increased use of telephone and internet sales

Communication channels

Customer spend (£ million)
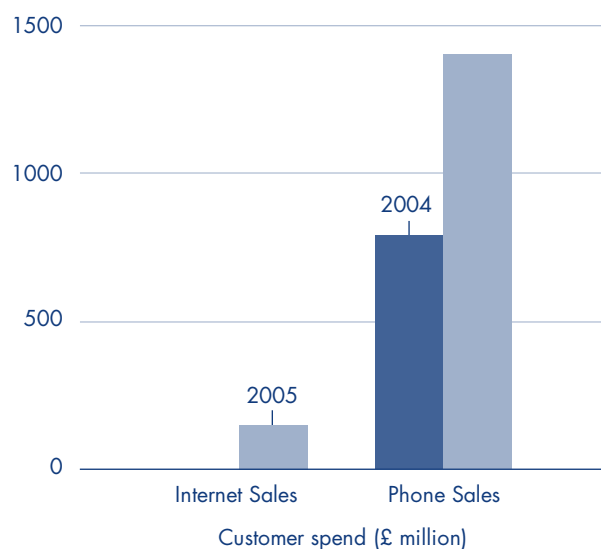
Source: National Audit Office examination of National Savings and Investments Annual Report, 2005

CASE EXAMPLE G

National Savings and Investments use of Direct Marketing

In 2004, the Agency re-established contact with Premium Bonds customers with holdings under £500 through direct mailings. By contacting this large group of existing customers with tailored letters reflecting their age and lifestyle, the Agency encouraged them to start saving with Premium Bonds again. The overall campaign, including other forms of communication resulted in sales exceeding £60 million, of which a significant proportion was due to the direct marketing campaign.

Source: National Audit Office examination of National Savings and Investments

Commentary on performance achieved

5 The key findings and commentary on the Agency and its key partner Siemens Business Sevices' performance are:

■ **On cost per item**: The Agency compares well with the other case study organisations as well as with its competitors in the financial services sector because of its relatively high proportion of 'work share' and use of second class and products with longer delivery timescales.

■ **On percentage use of 'work share'**: The Agency uses its main print centre in Durham to produce and dispatch over 90 per cent of its total mail volume. The Agency's limited number of sites (four) allows mail output to be highly centralised. The Agency uses a mix of Mailsort software technology and mechanical sorting machines to achieve its degree of 'work share'.

■ **On the use of first and second class mail and products with longer delivery timescales**: The ratio of mail sent first class is the second highest amongst the case study organisations. The Agency uses first class mail for its sales correspondence as it considers the 'brand' and timeliness benefits of this product outweigh the cost differential. The Agency uses a high proportion of Mailsort 3 (a product with longer delivery timescales) compared to the other case study organisations where this class of mail does not affect customer service and expectations.

■ **On volume of undeliverable items**: As the Agency manages its customers' finances, customers are likely to maintain up-to-date address information, resulting in the high quality of customer address data. Furthermore, the Agency executes a number of steps to reduce the number of undeliverable items in its direct marketing campaigns **(Case Example H on page 35)**.

16 Agency postal services performance Financial Year 2004-05						
Indicator	**Department for Work and Pensions**	**Driver and Vehicle Licensing Agency**	**HM Revenue and Customs**	**National Savings & Investments**	**Private sector benchmark**	
					Financial Services	**Utilities**
Average cost per item[1]	27.8p	21.7p	24.1p	**21.5p**	22.0p	20.4p
Percentage of mail that is 'work-shared'[2]	56%	93%	60%	**88%**	73%	81%
Percentage of mail sent by[3]:						
1st class	41%	1%	2%	**20%**	not available	
2nd class	58%	99%	87%	**49%**	not available	
Mailsort 3	1%	0%	11%	**31%**	not available	
Undeliverables[4]:						
■ 000s items per year	1, 160	143	3,440	**42**	not available	
■ as a % of total volume	0.5%	0.1%	1.1%	**0.1%**	not available	
Total cost of processing undeliverables[5]	£650,000	£73,000	£4,000,000	**£23,000**	not available	

Source: National Audit Office analysis of Departmental and Royal Mail data

NOTES

1 Average cost per item is calculated using the total spend divided by the total volume.

2 'Work shared' mail includes 'Mailsort', Packetpost, Presstream, Cleanmail, Walksort products where the customer does some initial work, such as sorting mail by post codes, to gain discounts from suppliers.

3 Split of mail class has been done using output from Siemens Business Services' centres only. Have assumed a similar profile for the lower volume of direct marketing mail (2).

4 Undeliverable items represents the number of items that are returned to the Department as undeliverable mail. As undeliverable items can only include the items that are returned by customers and hence disregards all items that are sent to an incorrect address but are thrown away rather than 'returned to sender', this figure is indicative of performance, rather than a definitive figure.

5 Cost of processing undeliverables includes staff costs and re-posting costs, using the Agency's average cost per item.

CASE EXAMPLE H

Data processing steps for direct mailing campaigns

The Agency's direct marketing outsourcer performs the following data processing steps as part of its direct mailing marketing campaigns:

1 Take out records with incorrect or incomplete addresses

2 Eliminate records that do not match against the Post Office Address File[8] to reduce the risk of sending mail to an 'undeliverable' address

3 Apply the Mailing Preference Service[9] to remove customers who have 'opted-out' of receiving direct mail

4 Apply 'deceased' files to eliminate customers who have passed away

5 Apply the Royal Mail Change of Address[10] file to remove customers for whom National Savings and Investments hold out-of-date address information

6 Apply 'Gone-away' and 'Suppresion' files which are generated by a private sector firm. These files list customers who are no longer at an address or who have requested not to be contacted via direct mailings.

7 Check against other Agency campaigns to prevent a customer receiving multiple mailshots

8 Run a de-duplication check within the file

The number of records removed by these steps can vary, but, for example during a 2005 campaign, over thirty per cent from the original data file of 290,000 were removed, generating postage savings of £20,000 as well as printing and processing savings. Furthermore, effectiveness is increased as customers do not receive multiple, potentially conflicting, marketing messages from the Agency.

Source: National Audit Office examination of National Savings and Investments

Key actions to improve the efficiency of postal services and their impact to date

6   The Agency and Siemens Business Services have implemented a number of actions to improve the efficiency and performance of postal services **(Figure 17)**. Further details on these actions and their impacts are set out below.

17 The main actions undertaken by the Agency to improve the efficiency and performance of postal services

a) Managing the demand of inbound and outbound postal volumes

b) Choosing the most cost-effective mail products

c) Developing a mutually beneficial relationship with delivery partners

d) Putting in place measures to combat payment fraud in the postal supply chain

a) Managing the demand of inbound and outbound postal volumes

7   Changes in the Agency's internal processes and financial products it offers have resulted in decreases in the volume of outbound post.

- Individual Savings Account statements were previously sent quarterly. To remain consistent with industry standards, however, these are now sent twice-yearly, a decrease in 500,000 outbound statements per year, a saving of some £110,000 with no significant effect on customer satisfaction.

- The 'National Savings Ordinary Account' (replaced by the 'Easy Access Savings Accounts' in 2004) required transaction information to be received by the Agency as inbound mail from Post Office Counters. The 'Easy Access Savings Accounts' replaced the daily inbound volume of 16,000 mail bags with the electronic transfer of information, resulting in considerable savings in processing time.

- The 'Easy Access Savings Account' gives customers the option to check their balances and make deposits and withdrawals over the phone. Withdrawals and balance checks can also be made using Automated Teller Machines. This has led to an estimated increase of 1,000 calls a day since January 2004, and an equivalent reduction in written mailed requests, with an increase in customer satisfaction.

---

8   The Postcode Address File, managed by Royal Mail, lists all 'official' postal addresses in the UK. It is used to facilitate delivery of mail.
9   The Mail Preference Service enables consumers to have their names and home addresses in the UK removed from or added to lists used by the direct mail industry.
10   Royal Mail's Change of Address File contains all the redirections that have been submitted by customers to Royal Mail.

b) Choosing the most cost-effective mail products

8 The Agency used to include business reply envelopes to all customers as part of all communications. Now business reply envelopes are included only in those circumstances where the Agency needs to encourage a response. There has been no increase in customer complaints as a result of this change.

9 Mailsort 3 is used where the despatch of correspondence does not impinge on customer satisfaction or the brand. Use of this product (a saving of 25 per cent over standard second class prices, and 9.5 per cent over 'Mailsort' second class prices) has produced a saving of some £160,000 for 2004-05.

10 Siemens Business Services moved from mechanical sorting machines to Mailsort software technology in 2003 to increase the capacity to 'Mailsort' large volumes of mail and to re-use the space used by the mechanical sorting machines in the print centre. It faced some initial implementation problems in presenting mail in the correct format and sequence, which were overcome through detailed testing of the system. Siemens Business Services is gradually moving mail streams onto the software sorting technology. This implementation of the software technology has enabled the Agency and Siemens Business Services to reach their high proportion of 88 per cent 'work share'.

c) Developing a mutually beneficial relationship with delivery partners

11 The Public Private Partnership contract encourages Siemens Business Services to be efficient in their use of postal services. Siemens Business Services accrues the bulk of the benefits of savings on post, as it pays for the postal services. Its contract with the Agency allows for a level of profit (to which postal efficiency gains contribute) which is retained by Siemens Business Services and if this level is exceeded, the profit is shared between the two parties. The Agency approves any changes to postal products and processes that may impact on customer satisfaction before implementing changes; for example, the use of Mailsort 3 with its longer delivery timeline over Mailsort 2 usually referred to as 'Mailsort' second class.

d) Putting in place measures to combat payment fraud in the postal supply chain

12 In 2003, the Agency suffered a net unrecovered loss of £100,000 through theft and counterfeit through the postal network. In response, specific changes have been made to postal products and anti-fraud processes. Payments are sent as disguised mail in plain, white envelopes without a logo and have an anonymous PO Box return address. In 2004 the postal and anti-fraud teams worked together to change the design of their prize warrants to make them less susceptible to manipulation and counterfeiting. The Agency tracks losses and fraudulent transactions occurring through the postal network (by reconciling details of those who cash in payments against information held by the Agency) and works with its postal suppliers and the police to investigate identified instances of fraud.

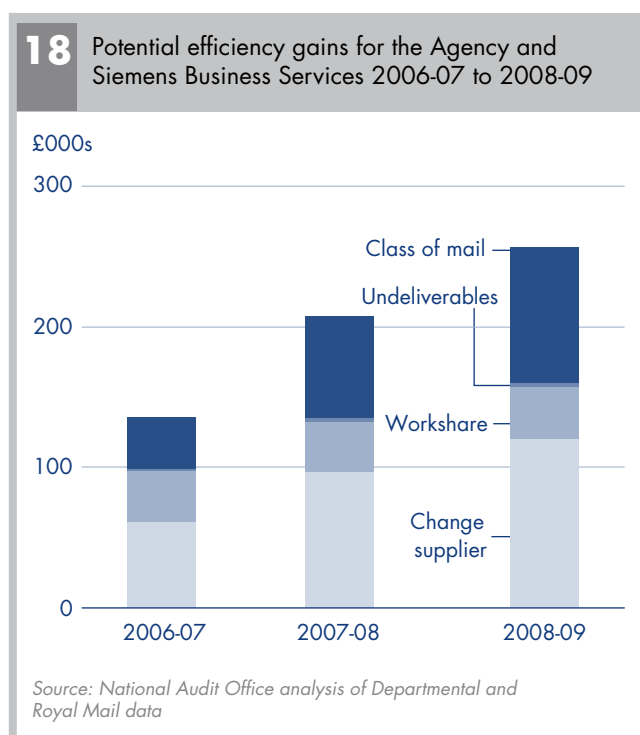## Priority areas for improving the use of postal services

13 The Agency and its key partner Siemens Business Services continually seek to increase efficiency across its procurement portfolio. The Agency and its key partner recognises the need to improve its management and use of postal services in the following two areas.

■ **Product and supplier choice and reduction in number of undeliverable items**

   ■ Use of alternative suppliers: The Agency and its partner Siemens Business Services should investigate the use of alternative mail suppliers, as this can reduce mail costs by approximately 10 per cent. If 10 per cent of outbound mail went using an alternative carrier by 2008-09, annual savings of £120,000 would be achievable.

   ■ Increase the level of 'work share': The current use of 'work share' products is already high at National Savings and Investments (88 per cent of total volume). Nonetheless, this amount could be increased by further use of discounted mail products. Options to do so include producing a greater proportion of the mail at the bulk mail centre, leveraging the 'Mailsort' capabilities at the Durham site or, alternatively, achieving 'Cleanmail' discounts from locally-produced mail by adhering to basic address requirements, with potential savings of £35,000 if the level of 'work share' was increased to 90 per cent.

■ Increase mail volumes from second class to products with longer delivery timescales: The Agency already uses Mailsort 3, but this could be reviewed for other areas where time-criticality is not an issue. Savings of £95,000 each year from 2008-09 are achievable if 40 per cent of mail was dispatched using Mailsort 3. The Agency, with its partner Siemens Business Services, investigates these potential efficiencies on an ongoing basis.

■ Reduce the volume of undeliverable items: If the volume of undeliverable items fell from its current level of 42,000 to 35,000 by 2008-09, the Agency could save £4,000 each year. As current performance in this area is strong and the potential savings minimal, it may not be cost-effective to make further changes in this area.

These four initiatives would generate annual savings of over £250,000 by 2008-09, and if they are phased in over three years, could generate £600,000 of savings over a three year period **(Figure 18)**.

18 Potential efficiency gains for the Agency and Siemens Business Services 2006-07 to 2008-09

Source: National Audit Office analysis of Departmental and Royal Mail data

■ **Putting in place a co-ordinated communication strategy**: The Agency, in line with other financial institutions, can make more services available on line and reduce its reliance on mail. These services can run the breadth of the customer experience, including account set-up, balance enquiries, change of details, and making deposits. The Agency already has plans to update its website to allow customers to interact more extensively and easily with the Agency's products on-line.

Key lessons arising from what the Agency is doing well

1   **Use of 'work share' mail products**: The Agency has a high level of 'work share', comparing favourably with some of the leading sectors in the mail industry, such as financial services and utilities. Siemens Business Services produces the vast bulk of its output at its main print centre where Mailsort software technology and mechanical sorting machines are used to achieve these levels of discount.

2   **Use of second class mail and products with longer delivery timescales where appropriate**: The Agency sends four-fifths of their mail either second class or using Mailsort 3, achieving significant savings compared with first class, while remaining within service delivery targets.

3   **Use of mail as part of an integrated communication strategy**: The Agency uses direct mailings as a key part of their communication strategy to increase sales of products and increase knowledge and awareness of their products and services.

RBS
The Royal Bank of Scotland Group

CASE STUDY FIVE
The RBS Group

The RBS Group is a leading financial services organisation encompassing brands such as Royal Bank of Scotland, NatWest Bank, Coutts, Direct Line, and Tesco Personal Finance.

The case study of the RBS Group illustrates a selection of good practice points from a leading private sector organisation.

1   The RBS Group is a leading financial services organisation. Post is of high importance to the Group's business due to the size of spend (£135 million in 2005) and its direct effect on customer satisfaction.

2   The Group has focused on several areas **(Figure 19)** to increase its postal efficiency and improve service to customers, from which lessons can be of value to public sector organisations:

19	The main actions undertaken by RBS Group to improve the efficiency and performance of postal services

a) Use of 'Downstream Access'

b) Centralised management of post

c) Management of demand to reduce reliance on post

d) Close working with suppliers to improve their performance and implement efficiency initiatives

e) Use of secure postal products

a) Use of 'Downstream Access'

The Group was the first major customer of Royal Mail to develop and implement 'Downstream Access' for its bulk mail output. The Group began using UK Mail to collect mail from the print centres and deliver to Royal Mail for final mile delivery in March 2005 and over 200 million items were processed in 2005. The required post code sortation is done through a mix of software and mechanical sorting. The implementation was phased in over three months. The risk to customer service from moving suppliers was managed through close working with suppliers and robust testing of the system before going live. The Group's implementation of 'Downstream Access' won the 'UK Mail Award for Innovation' in November 2005 and has brought about the following benefits:

■   Net cost savings of approximately seven per cent[11] for 2005 (set against RBS Group's already optimised use of 'work share' discounts);

■   greater delivery day certainty as 98 per cent of mail is delivered on 'Day 2' after posting;

■   quicker delivery as 10 per cent of customers receive their mail one day earlier compared with Royal Mail's Mailsort 2 (a second class 'work share' product) service;

11   Net savings = Gross postal savings – trunking costs.

■ a more secure network because the mail arrives to Royal Mail in sealed bags and is tracked until this point;

■ extension of the print window from 15:00 to 21:00 enabling mail for 20 per cent of customers to be dispatched (and hence delivered) a day earlier than Royal Mail's Mailsort 2 service and enabling the print infrastructure to be leveraged to a greater extent.

b) Centralised management of post

The Group has centralised both the management and operations of its post:

■ underpinning the breadth of brands, is a set of single shared services, including print to mail. This single 'back-office' has driven out significant cost from the business, making the most of the group's acquisitions and leveraging its economies of scale. For example, over 60 per cent of total outbound mail is generated from its two primary output centres at Shepshed and Livingston.

■ the Group has put in place a centralised decision-making structure enabling the rapid adoption of postal efficiency initiatives.

c) Demand management

The Group has sought to reduce the volume of outbound mail while maintaining customer service levels, for example,

■ certificates of interest were previously sent to all customers; however they are now only sent to those who request them;

■ multiple statements for a single customer at a single address are merged into a single mail piece.

d) Close working with suppliers

Close working with suppliers to encourage partnership working and deliver procurement and productive time savings for the Group include:

■ interactions with suppliers are dictated by the importance of the supplier to the Group's business and are managed within a structured system. For example, Royal Mail is a 'Tier 1' supplier and a part of their relationship includes an annual meeting of the two companies' Chief Executives plus formal, structured quarterly and monthly performance review meetings.

■ the Group has found that engaging its suppliers from an early stage of initiatives allows them to gain insights and design a more robust and useable solution. For example, the implementation of an internal delivery system across the Group's properties to ensure mail is picked up from all offices at least once daily and delivered to its destination office before 8 a.m. the next morning required close working between internal stakeholders and the supplier. This implementation has brought considerable internal and customer service benefits, including an improvement of 75 per cent in delivery timelines and the increase in time spent by Group staff at branches concentrating on customer service rather than managing inwards goods.

■ the Group uses its centralised purchasing, responsible for procurement spend of £3.8 billion, to generate savings from suppliers;

■ the Group places an emphasis on the provision of up-to-date and accurate management information from suppliers to monitor performance, for example, pick-up and delivery timings and lost items. Performance is also measured through a stakeholder survey of all those within the group who interact with the supplier. Supplier performance measurement includes 'soft' measures focusing on the relationship, attitudes, and partnership-working.

■ the Group recognises the importance of their suppliers and holds annual Supplier Excellence awards, as advertised in a national newspaper.

e) Use of secure postal products

Secure delivery of sensitive banking products such as credit cards is of high importance to the group:

■ the Group uses management information to identify hot spots and targets its use of different suppliers and products at these areas;

■ chequebooks are delivered by courier services requiring a customer signature, where appropriate;

■ the Group uses different envelope types and packaging techniques to disguise the content.

Key lessons arising from what the Group is doing well

1   Use of alternative suppliers: As the first major customer to implement 'Downstream Access' the Group, has shown that significant financial and customer service benefits are achievable using this mail delivery model.

2   Maintaining and encouraging strong supplier relationships: The Group segments its suppliers into tiers based on their strategic importance to the Group's business objectives. The Group uses this segmentation to develop strong, partnership-style ways of working which have led to innovative services and strong performance by suppliers.

3   Centralising postal management across the organisation: The Group has a suite of shared services (for example, human resource management), including post across its diverse businesses. Centralised management, inbound processing, and output production have brought considerable cost savings to the Group as well as allowing it to focus more of its resources on customer-facing activities.

National Audit Office

Improving the efficiency of postal services procurement in the public sector: A good practice guide

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Sir John Bourn, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 800 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year. At least £8 for every £1 spent running the Office.

National Audit Office

NAO

Improving the efficiency of postal services procurement in the public sector: A good practice guide

This report can be found on the National Audit Office web site at www.nao.org.uk

CONTENTS

PREFACE

The good practice guide supports the main NAO report, *Improving the Efficiency of Postal Services Procurement in the Public Sector*. In the main report we assessed:

- the progress of public sector organisations in achieving efficiency in their procurement and management of postal services; and

- what more needs to be done by public sector organisations and the Office of Government Commerce to improve performance and realise financial and quality of service benefits from their postal services.

In this report we estimate that annual savings of £31 million are achievable across the public sector by 2008-09. In addition to the main report and this guide, we have produced a leaflet, *A Guide to Better Postal Services Procurement* and a case study volume of four public and one private sector organisations. All publications are available on our website (www.nao.org.uk).

Drawing on our analysis of good practice in the public and private sectors this volume sets out six key areas in which public sector organisations can improve both the efficiency with which they use postal services and the quality of service provided to customers:

- develop an integrated communication and commercial strategy;

- develop capable and effective management structures for postal services;

- use the appropriate procurement and supplier engagement practices;

- improve the accuracy and management of customer address data;

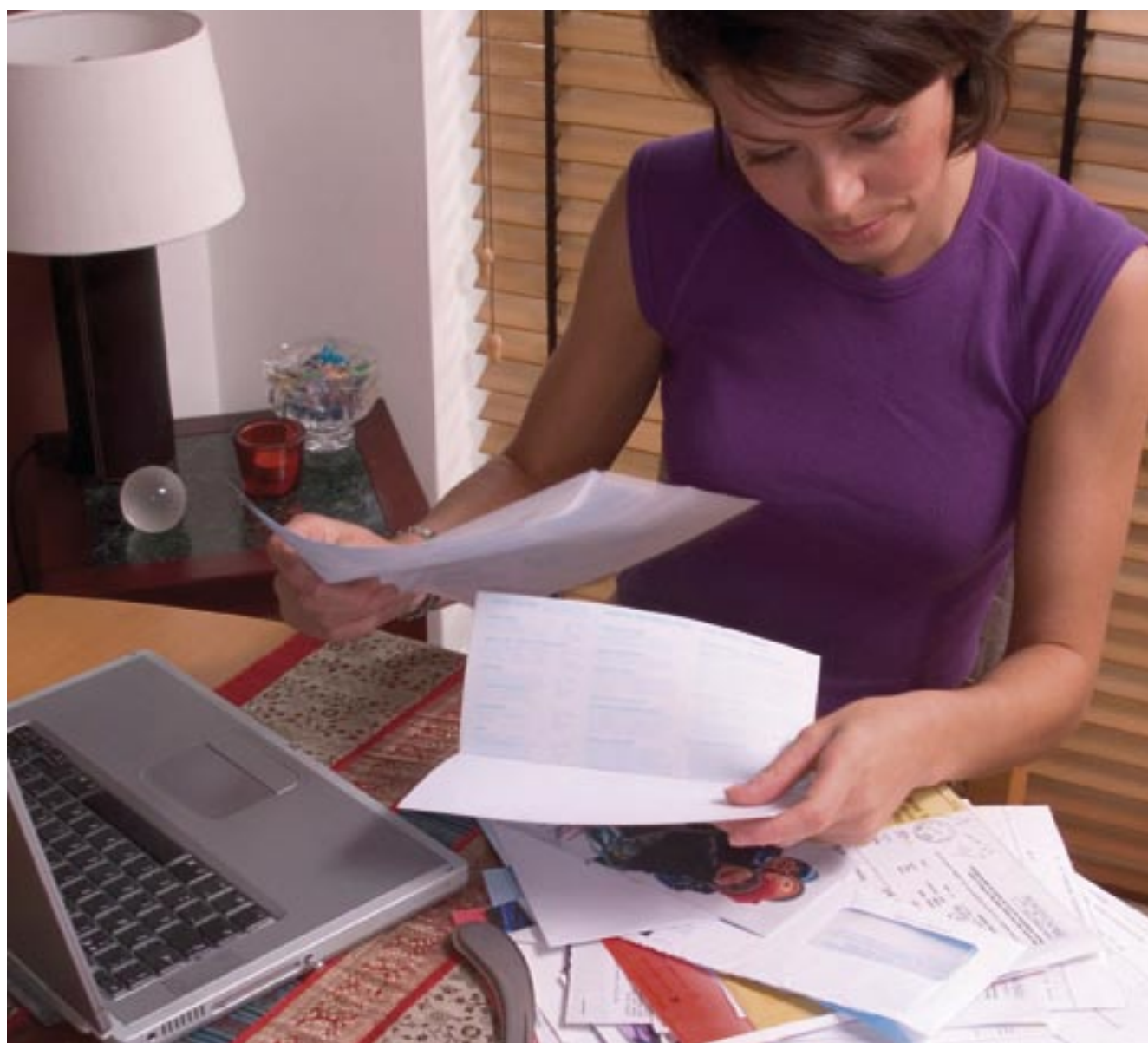- choose the appropriate mail products, balancing business requirements with cost and quality of customer service;

- increase the availability and use of management information to improve postal efficiency and service delivery.

Not all of these areas will be of equal importance to all organisations, but as a guide the areas where the greatest efficiency gains and financial savings can generally be achieved are in:

- increasing the use of 'work share' to benefit from bulk discounts;

- changing the class of mail from first class to lower cost products;

- assessing the use of competitive tendering to access lower cost and higher quality products; and

- reducing the volume of undeliverable mail.

In identifying these opportunities the service received by the customer has always been at the forefront of our thinking. The approaches we highlight in this part either encompass improvements to the quality of service provided to customers alongside efficiency gains, or at the least should not, if well managed, lead to reductions in customer service.

PART ONE
Develop an integrated communication strategy

An integrated communication strategy requires:

■ **Communications that are planned and implemented across the business as a whole – to identify the optimal mix of communication methods to best meet the needs of customers, maximise the productive time of staff and reduce procurement costs.**

■ **Joint planning by those responsible for communications and procurement – so that the commercial implications of changes in communication methods are fully understood and the opportunities for improvements in efficiency and service are fully realised.**

■ **Challenging the demand for inbound and outbound postal volumes – to avoid expenditure on unnecessary mailing activities.**

■ **Assessing post within a wider communication, production, and delivery value chain – to realise the opportunities for bigger savings by considering closely linked activities such as printing and mailing together, rather than in isolation.**

1.1 Communications that are planned and implemented across the business as a whole.
Interaction and communication with customers is a vital part of the delivery of almost all public services. To identify the full opportunities for improvements in efficiency and service delivery and to manage their resources effectively, organisations need to understand:

■ for all of their customers, the types of communication methods and interactions that customers would most prefer to use and their willingness and capacity to switch to new communication methods;

■ balanced against the types of customer interactions that the organisation judges to be most cost-efficient, maximising the productive time of often hard pressed frontline staff; and

■ which of their existing processes need to be changed to facilitate the first two points. For example, the Pension Service of the Department for Work and Pensions, based on customer research, has developed a strategy to optimise the mix of communication channels, recognising the impact on customers, while increasing internal efficiencies such as a reduced reliance on mail **(Case Example 1)**.

1.2 The opportunities for efficiency savings and improved customer satisfaction increase when the communication strategy spans the entire range of departmental activity. Departments should look to combine mailings where possible to leverage planned, routine communications to communicate marketing messages. For example, the Department for Work and Pensions' research into the scope to change contact channels for different groups of customers indicated potential for considerable savings. In early 2006 it started the implementation of a department wide communication strategy integrated across the operational functions (including marketing, sales, customer service, application processing) of all its businesses such as Job Centre Plus and the Pension Service. In taking the integrated strategy forward the Department faces a number of challenges including:

■ Increasing the awareness amongst operational staff that communication is about every interaction with customers and not simply 'marketing' type activities;

■ Rationalising the large number of brands and products that have developed over time in the benefits system. For example, the Department has a variety of forms of varying size and shape that it sends to customers. Rationalisation and improved design could, amongst other benefits, considerably reduce their mailing costs.

■ Implementing changes to existing processes and IT.

1.3 Post will often be used in conjunction with other communication methods. For example, the Driver and Vehicle Licensing Agency sends vehicle tax reminders to customers by post but the applications can be completed by customers using the internet. Each use of the internet in this case eliminates the processing of an inbound application received through the post. The agency actively encourages the take-up of the internet, with a current take-up of 25 per cent amongst eligible customers[1] for vehicle licensing, but also maintains a policy of retaining a choice of communication methods for customers. Where alternative communication methods are implemented there is a risk that customers remain unaware of the change, or unconvinced of the benefits of switching from, for example, mail to the internet. Maximising the benefits to customers

and the business, may require targeted and concerted efforts to convince customers to switch **(Case Example 2)**. In other cases post remains a very effective communication method, for example, for delivering statements and information, or strengthening marketing and communication campaigns **(Case Example 3 overleaf)**.

CASE EXAMPLE 1

Increased use of telephone-based service by the Pension Service

The Department for Work and Pension's Pension Service, in response to a survey stating that 75 per cent of customers would prefer transacting over the phone, is beginning to accept applications for State Pensions by telephone (which required, for example, the Department to review and eliminate the need for a physical signature). The change is expected to reduce the amount of applications received by inbound post by 60 per cent, from 650,000 received per year to 260,000. This decrease in inbound application processing will have significant productive time savings. The Pension Service also sends out Housing Benefit and Pension Credit information in the same pack to reduce the volume of outbound mail items.

Source: National Audit Office case study examination of the Department for Work and Pensions

---

CASE EXAMPLE 2

Promotion of the internet

HM Revenue and Customs has encouraged customers through direct marketing to communicate with them on matters related to Income Tax self assessment by the internet rather than mail. For example, a targeted mailing was sent in 2005 to 50,000 citizens assessed as likely to use the internet to highlight the availability of the internet as a communication channel to the Department. As a result of such efforts, the Department's 'Secure Portal for Individuals' (providing online self-assessment and customer information management) had, as of October 2005, received 3.5 million hits to view and change customer details. This resulted in an estimated 10 per cent reduction in inbound mail as well as unquantified improvements in staff productivity.

Source: National Audit Office case study examination of HM Customs and Revenue

---

[1] Eligibility requires the vehicle to be a 2001 or newer model or have received their Ministry of Transport (MOT) certificate from a garage with the accredited, computerised technology.

CASE EXAMPLE 3

Strathclyde Police's use of direct mailings to raise awareness of crime

In 2004, Strathclyde Police needed to supplement traditional information gathering techniques in the investigation of a serious violent crime. In consultation with Royal Mail, they targeted a specific, hard-to-reach, geographic area in Glasgow using direct mail to seek further information on the incident.
The benefits of using a direct mailing in this instance were:

■ time and cost savings as compared with officers canvassing individual households;

■ increased public reassurance, particularly given that there were many elderly residents in the area;

■ acquisition of valuable information on the circumstances of the crime.

Source: National Audit Office examination of Strathclyde Police's use of direct mailings

Strathclyde Police also used direct mail to raise awareness of 'bogus caller' crime in May 2005. The Force worked with Royal Mail and the Central Office of Information to specify and acquire a list of vulnerable people with whom it wished to communicate. The Force's corporate communications department then designed the postcard, with help from Royal Mail and Help the Aged, to effectively communicate with their audience, with particular regard to fonts and colours used within the mail piece. Anecdotal evidence collected by police officers in the area suggests that the campaign has been well received, has helped raise awareness within the targeted audience, and has contributed to the Force's on-going 'Public Reassurance' aim.

1.4   Joint planning by those responsible for communications and procurement. When large-scale communication needs arise, for example from a change in policy, it is important that the postal operations team is involved from an early stage in the design of the communication strategy. The postal team can advise on, for example, the postal specifications that will maximise the use of discounted postal products and the specific postal products that will best meet customer and business requirements **(Case Example 4)**.

**1.5   **Extending this beyond departmental boundaries, some departments are posting bulk volumes of mail to the same customers. For example, both the Department for Work and Pensions and HM Revenue and Customs send mail to employers, often on interlinked areas of business, and have recognised the potential opportunity for streamlined communications and postal operations.

1.6   Challenging the demand for inbound and outbound postal volumes. Active and continual review and challenge of existing processes and methods of communication can identify significant scope for savings in the volume and cost of postal services. For example:

■ National Savings and Investments changed their issuance of Individual Savings Account statements from quarterly to twice-yearly. This change put them on par with industry standards and was met without a change in customer satisfaction, resulting in a reduction of 500,000 outbound statements, and an annual saving of some £110,000.

■ HM Revenue and Customs, since April 2005, no longer sends yearly 'Self-Assessment' forms to certain customers (those with 'simpler' tax affairs), rather approximately one-third of these customers will receive a 'Tax Review' form. For the tax year 2005-06, the department avoided sending out 700,000 items through this change, an estimated saving of £170,000.

CASE EXAMPLE 4

Joint design of mailings

The Driver and Vehicle and Licensing Agency sends out acknowledgement letters upon receipt of customer applications. Given the high volumes involved, the agency identified an opportunity to use a discounted mail product which required the post team to help design the form. By working together with the business team from the outset they were able to:

■ ensure that the address formatting met specifications for use of 'work share' products;

■ the appropriate inbound post codes were positioned prominently on mail items for customer responses. The correct use of post codes is important since it makes the inbound processing of mail more efficient.

The agency estimates yearly savings achieved for the dispatch of the 17 million acknowledgement letters at £600,000, a 17 per cent saving from standard prices.

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency

CASE EXAMPLE 5

Electronic transfer of information to reduce the volume of mail

The Driver and Vehicle Licensing Agency has a contract with Post Office Counters to supply car tax information. Post Office Counters used to send this information to the agency in paper format, which required the agency to process it manually. This information is now transferred electronically bringing about a reduction in 40 million forms requiring manual processing from April 2004 to March 2005.

In 2004, 790,000 applications, for the 'Fleet Re-Licensing Scheme', for customers with over 1,000 vehicles, were received electronically, which prior to this scheme would have been processed by paper.

Both of these initiatives have generated productive time savings.

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency

1.7 IT offers opportunities to reduce mail volumes and costs. For example, the Driver and Vehicle Licensing Agency has successfully reduced the volumes of inbound mail it processes through the electronic transfer of information from citizens and Post Office branches **(Case Example 5)**. Another example in progress at the agency is an initiative to reduce intra-office mail through the introduction of scanning equipment which makes information available electronically, eliminating the need for it to be distributed physically across sites. The Department for Work and Pensions is looking to achieve similar efficiencies, for example in the sharing of benefit entitlement information with local authorities (some seven million items of post are passed between the Department and authorities annually). The Department has started a pilot implementation of an electronic information exchange to replace courier services with 15 Local Authorities with estimated savings of £200,000. There is potential for the Department to realise further benefits extending the use of the technology to its communications with other departments and agencies.

1.8 Changes in business process can, however, also lead to increases in postal volume. What is important in such cases is that the conscious decision to increase postal costs is more than offset by the overall cost savings to the department and increase in customer satisfaction. For example, National Savings and Investments' introduction of the 'Easy Access Savings Account' to replace the 'Ordinary Account' involved replacing hard copy bank books with electronic account management. Whereas bank books were sent infrequently, the new account statement is issued quarterly (250,000 sent each quarter). The agency considers the wider benefits of increased security and customer service outweigh the costs associated with the increased volume of outbound post.

1.9 **Assessing post within a communication, production, and delivery value chain**: To maximise the opportunities for improved efficiency and service delivery in the use of postal services, post should be viewed within a full value chain of inter-linked activities including printing, stationery management, and mail processing. **(Figure 1 overleaf)**.

1 The postal value chain

The value chain depicts the overarching activities as well as a generic process flow covering 'department-to-citizen', 'within a department' and 'department-to-department' mail.

Communication Strategy	Management	Procurement

Outbound Communications

Inbound Communications

```
Start

Need for
communications          Internally or
                        externally driven

Choose                  Contact strategy:
communications          ■ Face to face
method                  ■ Web
                        ■ Telephone/SMS/fax
                        ■ Correspondence
Generate
electronic
correspondence

Apply address  →  Choose mail or
data rules        courier product
```

```
Printing and mail        Stationery        Delivery to local
production               management        delivery office

Sorting by
post code

Pick-up of mail                    Delivery to        Undeliverable
from customer                      addressee

Supplier passes
mail through their
sorting offices
```

```
Start

Customer
communications

Mail product
choice

                Mail room
                operations

Receipt and
process
```

Management Information – collection and monitoring

Source: National Audit Office

1.10 For example, the Department of Work and Pensions' 'Payments Modernisation Programme' assessed areas across the full value chain to put in place a high quality service for customers, while gaining procurement and productive time efficiencies where possible, including:

- Development and implementation of a communication strategy: the Department used direct mail as one of the communication channels to promote the move to direct payments as well as modelling the take-up of the Programme to forecast the change in demand for inbound and outbound postal volumes;

- Management of postal services: the Department involved its postal and courier management team to develop mail items that would qualify for bulk discounts through appropriate address formatting and labelling. The postal and courier management team also liaised closely with the Department's anti-fraud teams to assess the change in the risk of postal fraud and has, for example, looked at using specialist courier delivery services for 'at-risk' areas;

- Application of procurement 'good practice': Royal Mail, as the Department's postal supplier, was involved in the design of the marketing campaign and the choice of mail products to leverage the supplier's knowledge of industry best practice;

- Cleansing of address data: the Department had to assess and improve the data in its IT systems to meet minimum address data quality standards required for bulk mailing discounts;

- Choice of cost-effective mail product: the Department worked with its supplier to choose the appropriate and most cost-effective product for the direct mailings and bulk 'transactional' mail (such as correspondence and account statements) associated with the Programme. To prepare mail to the required specifications to achieve the discounts, the Department, for example, implemented mechanical sorting equipment;

- Collection and monitoring of management information: information on outbound volumes, effectiveness of direct mailing campaigns, product choice and spend has been gathered by the department to assess the effectiveness and efficiency of the postal element of the Programme.

PART TWO
Develop capable and effective management structures for postal services

---

Developing a capable and effective postal services management structure requires:

■ **Establishing clear accountabilities and responsibilities for the initiation, implementation and monitoring of postal initiatives – to maximise the chances of success.**

■ **Developing relationships between the postal team and other areas of the business – to realise the opportunities for wider improvements in efficiency and services.**

■ **Staff with expert knowledge of procuring in the postal market – so that the most appropriate suppliers and postal products are selected.**

■ **Identifying opportunities to centralise processing of output and inbound mail – to take advantage of economies of scale.**

2.1 Establish clear accountabilities and responsibilities for the initiation, implementation, and monitoring of postal initiatives. An effective postal services management structure requires:

■ a senior manager with clear accountability for the success of postal initiatives and the appropriate decision making authority;

■ a financial management regime that provides an incentive to all business units to be efficient users of postal services; and

■ clear communication of policies for the use of postal services, for example, the use of second versus first class, which may need to be communicated across a large number of local offices and will need a central team to drive them through.

2.2 Developing relationships between postal operations and other business areas. For example, HM Revenue and Customs has set up a central postal services team within their Commercial team to act as the single, central point of contact for their primary postal suppliers. The central team has led a series of projects, saving an estimated £2 million in the period from 2003 to 2005. Similarly, the Department for Work and Pensions' central postal management team has led postal initiatives such as the increased use of 'work share' products from their large print centres. There are benefits to developing the relationships between post and business teams in other areas, for example:

■ Contact centre and post teams so that outbound postal communications scheduling can be linked to departmental call centre scheduling to maximise call centre agent usage **(Case Example 6)**;

■ Anti-fraud and post teams to reduce payment and mail-related fraud **(Case Example 7)**;

■ Changes to mail formats arising from the revised Pricing in Proportion pricing structure from Royal Mail will require co-ordination between the post and printing and publication teams.

CASE EXAMPLE 6

Co-ordination of post and contact centre scheduling

The print output team at HM Revenue and Customs informs the call centre management of the type of mailing going out, volumes of output, planned issue date and the class of post. This information allows the call centre planning team to estimate when the mailing will arrive to customers. Expected postal volumes are translated into daily caller figures which are in turn fed through a staff planner, to estimate the number of staff required to handle the call volumes shown against the anticipated numbers of advisers on the phones.

Source: National Audit Office case study examination of HM Revenue and Customs

CASE EXAMPLE 7

Postal services teams contributing to counter fraud activities

The postal management and anti-fraud teams at the Department for Work and Pensions work together to identify risks in the delivery chain and implement changes. The 'Corporate Method of Banking and Payment' team holds meetings covering the range of stakeholders involved in the supply chain for payments from generation to encashment which includes the central postal team. These meetings are supplemented by a post-specific team called the Fraud Prevention Board. The Fraud Prevention Board is a joint forum, co-chaired by the Department's Fraud Investigation Service and Royal Mail, with representation by Post Office Limited and HM Revenue and Customs. This Board seeks to influence strategy and maintain and improve payment security. This includes sharing of best practice to improve quality and speed of data availability for losses and to promote fraud prevention initiatives. Anti-fraud initiatives initiated by these groups include the Post Office Reward Scheme, the increased use of disguised mail, use of envelopes without windows to mask the contents, the assessment of alternative suppliers, and investigations into the sources and risk areas for fraud. While the Department are clear that these postal initiatives have contributed towards the reduction in benefit fraud, they are unable to quantify the amount that is directly attributable.

Source: National Audit Office case study examination of the Department for Work and Pensions

2.3   Staff with expert knowledge of procuring in the postal market. The postal industry is increasingly complex with the advent of new suppliers offering an ever wider range of products and services for different types of mail depending on size, weight, format, use of barcodes, volume, timeliness, security levels, address accuracy, and payment methods. Experience and skill in postal services are required to assess the best value and match of product to the client's circumstances and business needs. With increased competition in the market, supplier engagement skills, experience in monitoring market intelligence, and negotiation and contract management skills are increasingly important. The benefits of these skills are borne out by the savings achieved by departments who have developed expertise in postal product and supplier choice and contract management. For example, the central post team at HM Revenue and Customs identified that local staff were incurring unnecessary surcharges from Royal Mail for the incorrect use of Royal Mail's Postage Paid Impressions product. They spread this message throughout the department through existing communication channels such as the intranet and newsletters. The department estimates it has avoided a yearly cost of £390,000 through improved usage of the appropriate product (Royal Mail's Freepost Licence).

2.4   Departments have developed specific postal services skills in a variety of ways, primarily through close working with supplier account managers, visits to print output centres, and in-house training guides. For example, National Savings and Investments with its key partner Siemens Business Services encourages its postal supplier to discuss insights it has gained from working with postal customers in other industries, such as financial services and utilities, to add to the agency's knowledge of the marketplace. To be effective, postal services skills and experience need to be developed and deployed to suit the circumstances of different types of organisations, for example:

■   In larger departments: the Department for Work and Pensions post and courier management team provides support to the field office network through regular telephone and intranet contact. The team conducts site visits to spread knowledge and understand local issues. The team has also developed a 'user guide' for the department's TNT courier contract so that local staff understand how best to use the terms of the contract.

■ In smaller departments: The UK Passport Service, for example, has recruited personnel with procurement experience to lead postal services procurement and has supplemented these skills with a part-time postal consultant who was an ex-senior figure from Royal Mail.

■ In support of sectors comprising multiple, often relatively small organisations such as higher education, the NHS and local government: the Higher Education Purchasing Group for Postal Services, which provides national procurement, has a single team nominated as the contact for postal service contracts supporting all higher education institutions. The group has benefited from the skills and experience of senior procurement staff being recruited from industry; and institutions have benefited from better deals and avoided the costs associated with buying in their own expertise.

2.5   Centralise mail output and inbound processing.
Some departments have taken advantage of economies of scale by centralising output and using shared services for inbound mail processing and outbound mail production, achieving productive time, space and personnel, and mail cost efficiency savings **(Case Example 8)**.

2.6   Some volume-discounted mail products, such as 'work share', require investment in equipment or IT to meet the required specifications. Setting up this infrastructure at multiple sites, each with small volumes of mail, does not represent value for money. Rather, departments should look to take advantage of where the infrastructure, such as a mechanical sorting machine, already exists. For example, departments can look to bring unsorted outbound mail from local offices, or even other departments' offices nearby, to a site with sorting infrastructure, where mail can be prepared for volume discounts. Another option may be the use of existing delivery contracts to move more than mail, for example, uniforms or stationery, around the field office network to maximise the capacity of each journey. A more sophisticated option is to have the printing occur as close as possible to the final addressee, reducing the distance for delivery. This option has time and environmental benefits.

CASE EXAMPLE 8

Centralised printing

The Debt Management team within the Department for Work and Pensions has centralised its print output from ten sites to a single site, run by an outsourced provider. This change was part of a wider programme to standardise processes and IT systems across the Debt Management business. Some 2.5 million items are dispatched through this model each year. The benefits to the Debt Management business are:

■ productive time savings as individuals no longer need to collect the printed material, envelop it, and have it collected and sent to a mail room;

■ space and personnel savings as the outbound mail function is smaller;

■ mail product discounts of 15 per cent as the centralised location is able to use the combined volumes to take advantage of discounted mail products.

The challenges faced by the Department were two-fold: cultural and IT. Senders may be used to personalising the mail item, whereas use of a single template can facilitate outbound and inbound processing. This challenge was overcome by demonstrating the overall efficiency savings of the change. The IT challenge of rationalising IT systems across the sites was overcome through the strong project management and experience of the team.

Source: National Audit Office case study examination of the Departments for Work and Pensions

PART THREE
Use the appropriate procurement and supplier engagement practices

Using appropriate procurement and supplier engagement practices (**Figure 2**) requires:

■ A clear understanding of the business requirements and communication objectives for post – to make informed supplier and product choices.

■ Engagement with the market place to work with suppliers and survey market intelligence – to gain the most from suppliers' experience and offerings and encourage innovation.

■ Consideration of alternative suppliers – to get best value and maintain competition

■ Establishing effective incentives and actively managing contracts – to monitor and improve supplier performance.

■ Assessing whether specific in-house postal activities can be outsourced – to supplement existing capability and capacity and secure productivity savings.

■ Aggregating demand wherever possible – to streamline procurement and achieve economies of scale and increase purchasing power.

2 Good practice procurement process flow
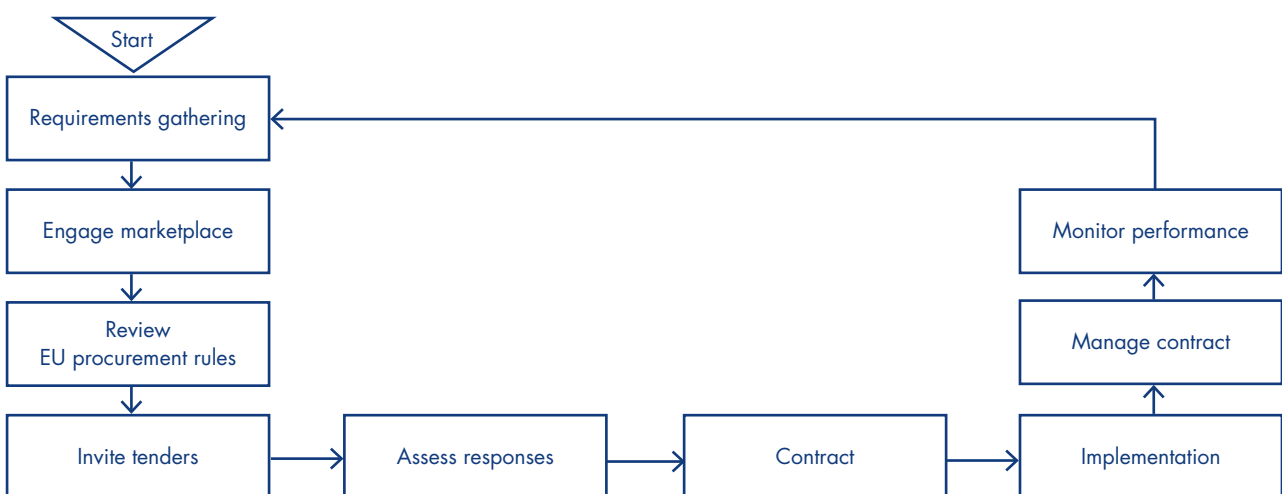
Source: National Audit Office

3.1   A clear understanding of the business requirements and communication objectives for post. In an increasingly competitive market, it is essential that organisations understand the communication requirements behind their post if they are to choose effectively between suppliers and products. This requires organisations to define clear user requirements and to work with suppliers to develop products to meet these **(Case Example 9)**. For example, departments currently align their processes and operations to Royal Mail operations, such as specific delivery and pick-up times. The RBS Group, however, has switched to a supplier that picks up mail at 9 pm, increasing the available printing time and thereby enabling the Bank to dispatch 20 per cent of customers' mail a day earlier than with the previous supplier.

CASE EXAMPLE 9

Choosing the service to meet the business requirement

The Stationery Office is the largest publisher in the UK by volume, publishing over 15,000 titles a year and providing a comprehensive range of document and publishing services for central government departments. To meet the needs of some of its customers, it requires the next day delivery of large volumes of mail, mostly within a tight geographic area.

To meet its requirements, the Stationery Office uses DHL Global Mail's 'Smartmail Citispeed', a licensed business-to-business collection and delivery service to defined postcodes in certain cities in the UK, for the delivery of some customers' mail. Examples of the benefits achieved include:

■   a decrease of postage cost per item of 30 per cent compared to the best price offered by other suppliers;

■   next day delivery, which is up to two days faster than the product previously used.

Significantly, managing the mix of suppliers has not proved to be difficult, primarily because the Stationery Office already had a long-standing relationship with DHL Global Mail prior to adoption of Citispeed, and the requirements for using Citispeed are similar to those for mail products previously used.

Source: National Audit Office examination of The Stationery Office's use of 'Smartmail Citispeed'

3.2   Engage with the market place to work with suppliers and survey market intelligence. Investing time in developing close relations with existing suppliers is a key part of staying abreast of market developments, facilitates transfer of postal product knowledge from suppliers to clients, and can help clients achieve increased benefits from their postal initiatives and savings in procurement **(Case Example 10 overleaf)**. Surveying market intelligence such as developments in new products, new suppliers, and changing pricing structures and delivery timelines, is important if organisations want to identify the best value products and support innovation. Organisations can improve how they make themselves available to suppliers. For example, the Department for Work and Pensions has a supplier management website across a range of products including postal and courier services to encourage better communications with suppliers. This website supplies an overview of existing suppliers and key contacts. Organisations that develop closer relationships with their suppliers can also benefit in other ways:

■   Where suppliers are involved in projects to improve the use of postal services client organisations often realise greater benefits from the initiatives and reduce or avoid unnecessary costs **(Case Example 11 overleaf)**.

■   Suppliers can be engaged to perform 'mail audits' to identify opportunities for efficiency gains based on the client's current requirements and usage **(Case Example 12 on page 15)**.

■   Where existing postal products do not fit business needs, organisations can work with suppliers to develop the right products **(Case Example 13 on page 15)**.

CASE EXAMPLE 10

The RBS Group's approach to postal supplier management

The RBS Group is a leading financial services organisation encompassing brands such as Royal Bank of Scotland, NatWest Bank, Coutts, Direct Line, and Tesco Personal Finance. Post is of high importance to the group's business due to the size of spend (£135 million in 2005) and its direct effect on customer satisfaction.

Close working with suppliers to encourage partnership working and deliver procurement and productive time savings for the RBS Group includes:

■ interactions with suppliers are dictated by the importance of the supplier to the Group's business and are managed within a structured system. For example, Royal Mail is a 'Tier 1' supplier and a part of their relationship includes meetings between the two companies' Chief Executives, formal monthly review meetings, and quarterly performance reviews;

■ the Group has found that engaging their suppliers from an early stage of initiatives allows them to gain insights and design a more robust and useable solution. An example of this close working is the implementation of a delivery system across the Group's properties. This system ensures mail is picked up from all offices at least once daily and delivered to its destination office before 8 a.m. the next morning;

■ the Group is able to use its centralised purchasing, responsible for procurement spend of £3.8 billion, to generate savings from suppliers;

■ the Group places an emphasis on the provision of up-to-date and accurate management information from suppliers to monitor performance. Performance is also measured through a stakeholder survey of all those within the group who interact with the supplier. Supplier performance measurement includes 'soft' measures focusing on the relationship, attitudes, and partnership-working;

■ the Group recognises the importance of their suppliers and holds annual Supplier Excellence awards, as advertised in a national newspaper.

Source: National Audit Office examination of The RBS Group

CASE EXAMPLE 11

Partnership working between Royal Mail and the public sector for postal voting

The organisations responsible for postal voting (the Department for Constitutional Affairs, the Electoral Commission, and Local Authorities) worked closely with Royal Mail to implement postal voting for the UK and European elections in 2004 and 2005. Postal voting projects are very time-pressured, often being completed in only five weeks within tightly-controlled audience, timing, and security specifications. Since policy changes implemented in 2000, postal voting is increasingly being used for local, national, and European elections. Royal Mail provided a dedicated central team who worked with the public sector to develop good practice guides covering project planning, envelope design, and pricing as well as providing support to Local Authorities across the UK. Furthermore, Royal Mail provided specific product enhancements geared to meet business requirements, in particular with election-specific post codes and sortation by electoral wards to facilitate inbound and outbound

mail processing by Local Authorities and provided a 'last-minute sweep' of all Royal Mail mail centres to ensure that all postal votes were delivered to the Local Authority returning officers by the required deadline.

The benefits achieved from the partnership working on postal voting include:

■ increased confidence in the postal voting system amongst public sector stakeholders (such as the Electoral Commission);

■ increased return of postal votes to Local Authority returning officers before voting deadlines;

■ productive time savings of 20 per cent on postal voting project management and of 10 per cent for inbound vote processing;

■ savings of 30–40 per cent compared with standard tariffs on outbound mail costs as the mail was sent out using a discounted product (Walksort).

Source: National Audit Office examination of the Electoral Commission

CASE EXAMPLE 12

Local council mail audit

A large local authority engaged their supplier, Royal Mail, in late 2005 to review whether they were getting value for money from their annual £2 million spend on postal services. Royal Mail undertook a two-day audit of the authority's largest inbound and outbound mail room and was able to recommend initiatives to increase efficiencies. The recommendations, representing a total potential annual savings of £50,000 included:

- centralisation of all large, outbound mailings to the mailroom;

- increased central control and visibility of post spending;

- centralised, bulk procurement of stationery;

- the use of more economical Royal Mail products such as Mailsort and Cleanmail;

- a review of the use of first versus second class for delivery.

Source: Royal Mail

CASE EXAMPLE 13

British Forces Post Office's development of the 'e-bluey'

The British Forces Post Office Agency provides mail and Post Office services to Forces personnel, their dependants, and authorised civilians whilst serving outside Great Britain, and a secure service for protectively marked material for the MoD, other Government departments and defence-related organisations in the UK and overseas.

The traditional contact method is air mail letters, known as 'Blueys'. As personnel can be moving and be in dangerous, volatile areas getting mail to them is an extreme logistics challenge and necessarily takes time. The Agency worked with their supplier Superletter.com to take an existing internet based product to refine it to meet the

Agency's needs and to refine marketing and pricing strategies, resulting in the 'e-bluey', a substantially quicker product, with increased security and decreased processing cost for the Agency.

The traditional and 'e-bluey' communication process flows for friends and family to Forces personnel abroad is shown below. This process flow is reversed for Forces personnel abroad communicating back home.

The 'e-bluey' has been highly successful. It is now deployed across 17 countries (including Iraq, Kosovo, and Bosnia), volumes have surpassed traditional 'blueys', and the product won the UK Mail Award for Technology (www.mailawards.com) for 2005. Furthermore, its implementation is being trialled by the Prison Service and within the National Health Service.

Traditional Bluey

| Friends or family write letter | → | Post with Royal Mail | → | Arrives at BFPO site in UK | → | Sent to operational location | → | Delivered to Forces personnel |

E-Bluey

Time savings

| Friends or family write electronic letter | → | Goes to e-bluey server computer | → | Downloaded by laptop in operational location | → | Securely printed and sealed | → | Delivered to Forces personnel |
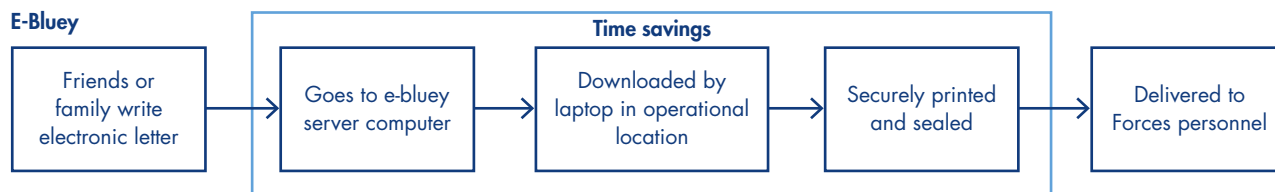
Source: National Audit Office examination of the British Forces Post Office

3.3 Consideration of alternative suppliers to get best value. With the introduction of competition in 2000 and full market opening in January 2006, there has been an increase in the number of suppliers and products and services available in the market place. Suppliers offer two models for delivery:

■ 'Downstream access' with final delivery performed by Royal Mail; and

■ 'end-to-end' service where the supplier has responsibility from collection to delivery to the final addressee.

■ There are two options within 'Downstream Access':

   ■ 'Operator Access' where a customer buys directly from a licensed supplier; and

■ 'Customer Direct Access' where the customer buys wholesale directly from Royal Mail and contracts directly with a third party logistics supplier to transport the mail.

The key differences between these two options are listed in **Figure 3**. In both of these options for 'Downstream Access', Royal Mail remains responsible for the final delivery of mail.

3.4 Some organisations who have switched suppliers have identified that alternative suppliers' products are a better fit for their business requirements and have achieved significant savings **(Case Examples 14, 15 and 16 on page 18)**.

3	**Key differences between 'Operator Access' and 'Customer Direct Access'**	
Area	**Operator Access**	**Customer Direct Access**
Relationship with Royal Mail	No direct relationship with Royal Mail, solely with licensed operator	Maintain contract with Royal Mail for postage, also have contract with logistics supplier who are responsible for delivery to Royal Mail
VAT	The strategy for reclaiming VAT which is applicable to Operator Access services must be agreed with HM Treasury	Royal Mail postal services are VAT-exempt
Access 'indicia'	Mail must have licensed operator's 'indicia'	'Indicia' can be licensed operator's or customer's own or a combination
Handover of mail to Royal Mail's Inward Mail Centre	Mail will be handed over along with mail from other postal operator customers	Mail will be handled as part of a separate consignment with separate documentation

Source: National Audit Office

CASE EXAMPLE 14

The RBS Group's use of Downstream Access with UK Mail

The RBS Group was the first major customer of Royal Mail to develop and implement 'Downstream Access' for its bulk mail output. The Group began using UK Mail to collect mail from its print centres and deliver to Royal Mail for final mile delivery in March 2005 and in this way over 200 million items were processed in 2005. The required post code sortation is done through a mix of software and mechanical sorting. The implementation was done in three months, with the key challenge being managing the risk to customer service from moving suppliers. This risk was managed through close working with suppliers, testing of the system, and communication of the strong financial and non-financial benefits of the change. The Group's implementation of 'Downstream Access' won the 'UK Mail Award for Innovation' in November 2005. The use of the 'Downstream Access' model has brought about the following benefits:

- net cost savings of approximately seven per cent[1] for 2005 (set against RBS Group's already optimised use of work share discounts);
- greater delivery day certainty as 98 per cent of mail is delivered on 'Day 2' after posting;
- quicker delivery as 10 per cent of customers receive their mail one day earlier compared with Royal Mail's 'Mailsort 2' (a second class 'work share' product) service;
- a more secure network because the mail arrives to Royal Mail in sealed bags and is tracked until this point;
- extension of the print window from 15:00 to 21:00 enabling mail for 20 per cent of customers to be dispatched (and hence delivered) a day earlier than Royal Mail's 'Mailsort 2' service and the print infrastructure to be leveraged to a greater extent.

Source: National Audit Office examination of RBS Group

NOTE

1 Net saving = Gross saving – trunking costs.

CASE EXAMPLE 15

Lloyds TSB's use of TNT Mail for Downstream Access

Lloyds TSB is a leading UK-based financial services group. Post is one of its key contact channels in conjunction with its branch network, contact centres, and websites. The five categories of output from their two main print centres are: personal statements, business statements, letters, internal reports, and 'other', totalling nearly 250 million items each year.

Lloyds TSB adopted the 'Downstream Access' model for customer personal statements in May 2005 which are now firstly handled by TNT Mail (who already handled the Group's intra-office mail delivery) and then passed on to Royal Mail for final delivery. The main implementation challenges were the IT changes, focused on integration between Lloyds TSB's and Royal Mail and TNT's systems, and in modifying the printing system to accommodate TNT's specifications. The overall project timescale was 12 months, beginning in May 2004, with the majority of work being done from September 2004 onwards.

The benefits achieved include:

- **Financial savings:** for an average of 9.67 million items per month (116 million items per year), Lloyds TSB estimates average monthly savings of £165,000 by using TNT for Mailsort 700 compared to Royal Mail's Mailsort 700 product.
- **Supplier management:** Customer Direct Access allows Lloyds TSB to achieve financial cost savings through using TNT, while maintaining their important relationship with Royal Mail.
- **Financial management:** Lloyds TSB pays the downstream access charge to Royal Mail directly and pays TNT for their delivery service from the Lloyds TSB output centres in Brighton and Crawley to Royal Mail; thus VAT is paid on the logistics portion, but as per normal, Royal Mail service remains VAT-exempt.

The benefits need to be set against one disadvantage – that Lloyds TSB now has a more complex mail operating model for personal statements since another supplier is included in the supply chain. While the benefits more than outweigh the disadvantage, where problems arise it can be a more difficult process to resolve as there are now three parties involved with differing processes.

Source: National Audit Office examination of Lloyds TSB

CASE EXAMPLE 16

The Land Registry's use of DX as an 'end-to-end' supplier

The Land Registry, a government department, an executive agency and a trading fund, registers title to land in England and Wales and records dealings, such as sales and mortgages, with registered land. It uses an 'end-to-end' supplier, DX, for business mail. DX was chosen because it offers substantial discounts compared to Royal Mail's first class service and a high service level (97 per cent next day delivery). The Land Registry has a bulk output centre based in Plymouth which processes information requests received by internet or phone. Mail that is to be delivered to businesses that are part of DX's membership scheme (85 per cent of the output from Plymouth) is delivered by DX, with the remainder going via Royal Mail. Local offices, of which there are 24 across the country, can also access DX services. At Plymouth, the mail is divided between DX and Royal Mail electronically, while the sorting is done manually at local offices.

The Land Registry has been using DX's courier services since 1990. The total mail spend in 2004-05 was £3.5 million, after a saving of £3.5 million for the same period compared to use of comparable Royal Mail products.

Source: National Audit Office examination of the Land Registry

CASE EXAMPLE 17

Active contract management

HM Revenue and Customs began closer scrutiny of their postal contracts following the set-up of their central post team in 2003. The Department has identified key impacts of the team:

■ avoided surcharges of £340,000 over two years by purchasing a Freepost license. Surcharges were being incurred due to the incorrect use of 'Postage Paid Impression' envelopes;

■ avoided a retro-active charge on the use of 'Business Reply' services of £180,000. The Department was being charged for a lower volume than was being used. Through negotiations, the supplier agreed to change invoicing for the following period and not retro-actively;

■ deferred an increase in costs for the 'Selectapost' inbound mail product of £180,000 for one year. The cost increase was due to a higher volume of mail going through this product than initially estimated by the supplier.

Source: National Audit Office case study examination of HM Revenue and Customs

3.5   Establish effective incentives and actively manage the contract. The active and close management of postal contract can result in significant benefits for departments **(Case Example 17).** Where outsourcers are involved in the value chain for postal services, for example for printing or delivery, departments can include target service levels in contracts to encourage good performance. For example:

■ The Department for Work and Pensions has set a minimum target for its external IT provider of 95 per cent of output mail meeting minimum 'Mailsort' standards on address data accuracy and formatting. Achievement against this target is part of the department's print output centre management information. Meeting this target allows the department to save money on its bulk outbound post and if the IT provider is unable to meet their target, corrective action is taken.

■ The eGovernment Unit within the Cabinet Office has a service level agreement with UK Mail covering key performance indicators for mail collection, accuracy and timeliness of delivery to Royal Mail, provision of mail materials such as mail bags, sorting software up-time, and distribution of management information reports. UK Mail is contracted to monitor against these indicators on a daily basis and this information is collected and reported to eGovernment Unit each month for monitoring purposes and by exception can be reported on daily if required, allowing the eGovernment Unit to analyse problems in performance and take the required corrective action.

3.6 Assess whether specific in-house postal activities can be outsourced. External providers can be involved at various stages of the value chain and it is important for organisations to assess whether their use would be advantageous to supplement existing departmental capabilities and capacity **(Figure 4)**. There are also opportunities where work can be taken on by another government department at lower cost than internally **(Case Example 18)**.

3.7 Aggregate demand wherever possible. Aggregating demand can reduce tendering and support costs and bring reduced prices from suppliers **(Case Example 20 on page 20)**. HM Revenue and Customs and the Department for Work and Pensions have implemented a joint contract for courier services with TNT **(Case Example 21 on page 21)**.

4	Use of external providers across the full range of postal activities

Activity	Example
Outbound campaign	The Central Office of Information developed the Department for Work and Pension's Pension Credit scheme 2003 publicity campaign. The Central Office of Information worked with the Department to develop a multi-media strategy for the campaign, including the use of targeted direct mail. The Central Office of Information leveraged its skills, experience, network of suppliers, and existing contracts to produce financial savings and increased effectiveness for the department. Some 866,000 pensioners claimed their credit and the Central Office of Information won the Silver award at the Institute of Direct Marketing's 2005 Business Performance Awards as a result of the campaign.
Data cleansing	National Savings and Investments use an external provider to run data cleansing routines on their customer list before sending out direct mailings.
Printing and fulfilment	Many departments have outsourced this element as part of an IT outsourcing contract. Airedale NHS Trust has outsourced the printing and dispatch of outpatient communications **(Case Example 19 overleaf)**.
Sorting	HM Revenue and Customs use Direct Solutions International to supplement their internal sorting capabilities to achieve 'work share' discounts on their bulk outputs. HM Revenue and Customs' internal capacity is often exceeded in their large print runs, therefore, the mail is sent to Direct Solutions International who sort the mail before passing it on to Royal Mail. The costs of using this external provider are outweighed by the savings from Royal Mail for sorting the mail before hand-over.
Undeliverable processing	The Department for Work and Pensions uses Royal Mail to do initial processing of undeliverable mail. Royal Mail opens the mail and sends it on to the appropriate departmental site for further processing.
Inbound processing	The Department for Work and Pensions put to tender its opening of inbound mail, where the outsourcer performs the initial mail opening before sending it on to the appropriate team within the department.

Source: National Audit Office

CASE EXAMPLE 18

Outsourcing from the Foreign and Commonwealth Office to the British Forces Post Office

As part of a freight services outsourcing programme, the Foreign and Commonwealth Office examined contracting out their unclassified diplomatic bag handling function.

British Forces Post Office Agency agreed to take on this work. This will be a discrete Foreign and Commonwealth Office controlled operation managed by the Agency. The diplomatic bags will be delivered to the Agency (where previously they were delivered to Foreign and Commonwealth Office's sites), where they will be security-checked, sorted, and re-bagged and then passed on to the Foreign and Commonwealth Office's freight agent for onward shipment. This has entailed the Agency changing its processes, technology, equipment, and room design to provide this service.

The Agency is able to leverage its economies of scale to be able to perform the diplomatic bag handling function with 25 staff, whereas 40 staff were required at the Foreign and Commonwealth Office. The 25 staff positions will be transferred from the Foreign and Commonwealth Office to the Agency, and implementation is planned to go live in spring 2006.

Source: National Audit Office's examination of the Foreign and Commonwealth Office

CASE EXAMPLE 19

Outsourcing of print, production, and dispatch of mail

Airedale NHS Trust, as part of an overall review of outpatient services, outsourced the print, production, and dispatch of outpatient communications to Royal Mail Electronic Services (now Optecon). Patient communications were previously printed internally from the Patient Administration System, then enveloped, franked, bagged, and dispatched. With the new system an output file is sent electronically to the external provider who performs the printing to dispatch tasks. The chief benefits realised by the Trust are:

- productive time savings equivalent to 1 FTE (hospital staff are no longer required to print, envelop, and dispatch letters);

- production and postal costs were reduced by four per cent as maintenance and stationery costs were reduced;

- the 'Did Not Attend' rate was reduced, partly due to the increased quality of the letters while patient satisfaction increased;

- physical space within the hospital was put to better use, as the space previously occupied by machinery is now used for patient treatment;

- more flexible letter templates which can be modified more quickly and easily.

The key challenges faced by the Trust were a cultural shift away from in-house production of the letters, with an accompanying loss of control, and the rationalisation of letter types from 99 to seven main types. These challenges were overcome through communication of the benefits, a pilot of the system, and support to the teams affected during the change-over of service.

Source: National Audit Office examination of Airedale NHS Trust

CASE EXAMPLE 20

Higher Education's use of national postal agreements

Higher education institutions have grouped together into six regional purchasing groups. The groups have taken the lead in setting up aggregated regional and national contracts for particular products and services such as IT, telephony, and stationery, accessible to all higher education institutions. A group for post was initiated in 1996 and has set up national framework contracts for international mail, couriers, franking machines, and the transportation of dangerous goods. The frameworks are used as a template by individual institutions from which they can agree local service level agreements with suppliers. The frameworks are let with a number of suppliers to provide choice across a broad range of products and services to match up to the range of customer requirements.

The use of the contracts has been very successful with nearly £13m spent annually via the national postal contracts, representing between 70–92 per cent of the total spend by higher education on these products and services. The benefits include:

- centralised price negotiation to get the best deals. For example, in the first year of the international mail framework in 1998, there was an average savings of 5.4 per cent compared with pre-framework prices. For international mail alone in the first four years of the contract the total financial savings are estimated at over £500,000. Negotiations took place during the courier contract lifecycle in 2000 to reduce prices by two per cent and again in 2001 and 2002 to maintain prices level, with cost avoidance in these two years totalling £231,000;

- reduced procurement costs and time as these are done once; nationally;

- reduced support costs for the contract due to central communication, product and supplier support, and market intelligence;

- reduced risk by leveraging breadth and depth of skills and experience of the group to the benefit of all institutions;

- close working with suppliers helping to align products and services more closely to institutions' requirements;

- use of secure website for communication of all postal contracts;

- dissemination of postal knowledge across the broad network of institutions from the central postal support team.

Source: National Audit Office case study examination of the Higher Education Purchasing Group for Postal Services

CASE EXAMPLE 21

Joint courier contract between HM Revenue and Customs and the Department for Work and Pensions

As the two departments often have sites located within close proximity of each other and require high volumes of mail to be sent between their own and each other's sites, there was a business case for a joint procurement between HM Revenue and Customs and the Department of Work and Pensions for courier services. Their joint contract covers inter-office recorded and non-recorded next day delivery.

The key benefit of this joint contract is reduced costs for contract management and tendering and lower prices. The Department for Work and Pensions has estimated the savings at £1.8 million per year. The contract has been let in such a manner as to allow additional departments to be included. In particular, the Department of Health and the NHS Purchasing and Supply Agency are both users of this contract.

Source: National Audit Office case study examination of HM Revenue and Customs and the Department for Work and Pensions

PART FOUR
Improve the accuracy and management of customer address data

> **Improving the accuracy and management of customer address data requires:**
>
> - **Checking outbound addresses and customer information before mail is sent – to reduce the amount of mail that is sent out but cannot be delivered;**
>
> - **Use 'undeliverable' information from suppliers and customers to update systems – to avoid undeliverable mailings in the future.**

4.1 Check outbound addresses and customer information before mailing. Departments who have redesigned their data processing rules for outbound mailings have increased the effectiveness of their outbound mailings and achieved savings on 'undeliverable mail' **(Case Example 22)**. Basic data checks on address data can be done in-house or using external suppliers, both potentially at low cost and within short timescales.

- Avoiding the cost of outbound postage for an item where the address is incomplete, unknown, or out-of-date and therefore the item cannot be delivered or the addressee has indicated they should not be contacted;

- Avoiding the cost of printing and stationery for re-posting the item;

- Avoiding the cost of tracing up-to-date address information;

- Avoiding the cost of processing mail that is returned to the department because it is 'undeliverable';

- Improving customer data has benefits that lie outside of postal procurement such as avoiding the costs of customers contacting the organisation because mail has not arrived, improved effectiveness of customer processes (for example, debt management), and better customer service. Incorrect customer data can lead to inappropriate mailings that have a disproportionately adverse effect on customer satisfaction. This emphasises the need to perform checks on the data before it is sent out (for example, a check on 'deceased persons').

The use of external, private sector data sources can provide additional address and demographic information about the customer, allowing the department to reduce costs and tailor its message or target the appropriate groups.

4.2 Use 'undeliverable' information to update systems. When an item of mail is returned to the department by Royal Mail, either because the address on the item cannot be delivered to, or if the addressee does not live at the address any longer, Royal Mail can send this information to departments to inform future correspondence. Tesco have taken advantage of this information to reduce the costs associated with sending mail to the wrong address and increase the effectiveness of its mailing activities **(Case Example 23)**. HM Revenue and Customs are doing a trial with similar technology.

CASE EXAMPLE 22

Data cleansing procedures

National Savings and Investments' direct marketing supplier performs the following data cleansing steps as part of their direct mailing marketing campaigns:

■ Take out records with incorrect or incomplete addresses;

■ Eliminate records that do not match against the Postcode Address File to reduce the risk of sending mail to an 'undeliverable' address (the Postcode Address File, managed by Royal Mail, lists all 'official' postal addresses in the UK. It is used to facilitate delivery of mail);

■ Apply the Mailing Preference Service to remove customers who have 'opted-out' of receiving direct mail (the Mail Preference Service enables consumers to have their names and home addresses in the UK removed from or added to lists used by the direct mail industry);

■ Apply 'deceased' files to eliminate customers who have passed away;

■ Apply the Royal Mail Change of Address file to remove customers for whom National Savings and Investments hold out-of-date address information (Royal Mail's Change of Address File contains all the redirections that have been submitted by customers to Royal Mail);

■ Apply 'Gone-away' and 'Suppression' files which are generated by a private sector firm. These files list customers who are no longer at an address or who have requested not to be contacted via direct mailings;

■ Check against other Agency campaigns to prevent a customer receiving multiple mailshots;

■ Run a de-duplication check within the file.

The number of records removed by these steps can vary, but for example for a September 2005 campaign, over thirty per cent from the original data file of 290,000 were removed, generating estimated postage savings of £20,000 as well as printing and processing savings. Furthermore, effectiveness is increased as customers do not receive multiple, potentially conflicting, messages from the Agency.

Source: National Audit Office case study examination of National Savings and Investments

CASE EXAMPLE 23

Using Royal Mail customer information to improve the efficiency and effectiveness of mailings

Tesco, one of the world's leading international retailers, was looking to reduce the cost of collecting information on which of its customers had potentially 'gone-away'. Tesco uses this information to update its customer databases, hence improving the effectiveness of future mailings. Tesco was able to significantly reduce its return mail costs by working with its supplier, Royal Mail, to include a barcode containing mailing and customer information on the mail piece.

When the mail piece is returned to Royal Mail, Royal Mail can scan the letter, unopened, and forward the electronic data to Tesco. This technology is used on all of Tesco's Clubcard statement mailings (of which there are nearly 50 million a year) and the required changes to Tesco's printing system were done within a month.

Source: National Audit Office examination of Tesco

PART FIVE

Choose the appropriate mail products, balancing business requirements with cost and quality of customer service

> **Choosing the appropriate mail product requires:**
>
> ■ **Better use of delivery products with alternative timings such as second class, two-day mail or Mailsort 3 – as these are more economical than first class.**
>
> ■ **Increased use of 'work share' products – which can offer up to 46 per cent cost savings over standard prices.**
>
> ■ **Changing mail formats – to take advantage of Pricing in Proportion pricing structure which favours smaller mail pieces.**
>
> ■ **Using the most appropriate payment method – to reduce transaction costs.**
>
> ■ **Making better use of high quality postal products – to improve security and service delivery.**

5.1 Better use of delivery products with alternative timings such as second class, two-day mail or Mailsort 3. Departments have achieved financial savings in moving mail from first to second and other classes of mail without experiencing any significant problems with customer satisfaction. For example:

■ The Department for Work and Pensions sends out nearly 12 million mail items as part of their annual 'Winter Fuel' campaign. In 2004, these items were all posted with Royal Mail first class (standard tariff).

In 2005-06, the Department sent the items using a second class mail 'work share' product. The move from first class standard tariff to second class 'work share' resulted in a savings of nearly 40 per cent, totalling some £1.2 million, without any adverse customer reaction (primarily because customers had no firm expectation of receiving the mail on a particular date, hence the 'three working days' delivery timeline for second class was acceptable).

■ HM Revenue and Customs is increasing their use of Royal Mail's Mailsort 3. This service has a delivery timeline of seven working days. The Department chose this service for items that it considers are non time-critical, for example 'New Tax Credits' newsletters, achieving savings of 25 per cent over standard tariff second class mail and 15 per cent over second class 'work share' product. The department is now using second class mail to return customer documentation such as birth or wedding certificates instead of recorded or special delivery, with estimated savings of £170,000 over the last two years.

■ The Driver and Vehicle Licensing Agency claimed estimated annual savings of £1.5 million by moving mail, such as vehicle registration documents, from first to second class post, in 2003-04.

5.2 **Increase the use of 'work share' products.** 'Work share' involves customers performing activities, such as sorting by post code, before passing the mail on to the supplier in exchange for a discount **(Figure 5)**. Sorting can be done through a software package which results in the items being printed and enveloped in post code order **(Case Example 24)**; or done after printing and enveloping by passing the envelopes through a sorting machine which puts the mail into post code groups **(Case Example 25 overleaf)**. The discounts obtained range from 5 to 46 per cent versus standard prices depending on the product; for example, sorting by 700 or 1400 groupings using 'Customer Bar Codes' or 'Optical Character Recognition'.[2] Along with moving from standard tariff mail to 'work share' discounted mail, organisations should assess if it is cost-effective to move from an existing 'work share' product to one that offers greater discount. Another option is to outsource the sorting, as HM Revenue and Customs has done with Direct Solutions International; or to perform a simple manual sorting as the UK Passport Service is planning on doing. The key challenges in meeting the 'Mailsort' specifications are to achieve minimum address data accuracy, changes to IT and printing systems, standardised forms with consistent address formatting, space for mechanical sorting machines, and aligning printing operations with supplier requirements, for example, mail pick-up time **(Case Example 26 overleaf)**.

CASE EXAMPLE 24

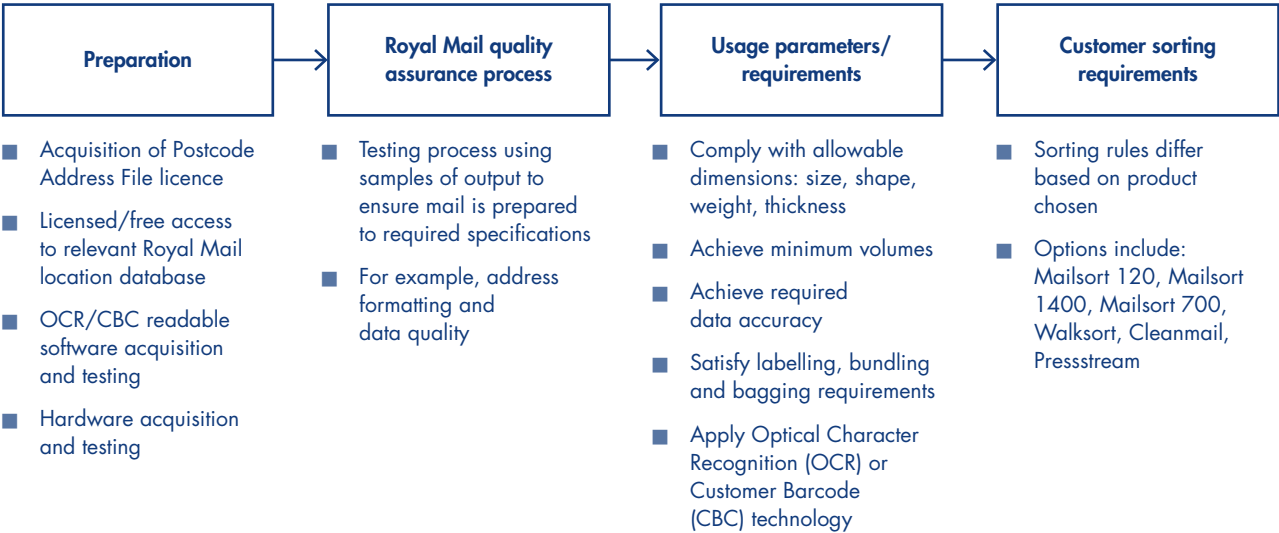#### Implementation of software Mailsort

The Driver and Vehicle Licensing Agency has successfully installed Mailsort software on their in-house print system, supplementing their existing sorting machines, to manage the production of its bulk outputs. It moved to the in-house implementation of Mailsort software because it provides substantial discounts (over 20 per cent) over standard tariff mail. The agency sorts over 90 per cent of its mail, achieving savings of £3 million per year.

The implementation began in early 2004 with the first print stream live in October of that year. The agency is steadily bringing more business streams on to the Mailsort platform over a period of four years. This software platform ensures that the output is printed in the sequence and to the format requirements to quality for Mailsort discounts from the supplier. The key lessons are:

- to involve business owners early within the implementation as the technology and supplier requirements can affect business decisions such as form design;

- a good relationship with the supplier is important to work through implementation issues.

Source: National Audit Office case study examination of the Driver and Vehicle Licensing Agency

---

5	Activities required for use of 'work share' products

Preparation	**Royal Mail quality assurance process**	**Usage parameters/ requirements**	**Customer sorting requirements**
■ Acquisition of Postcode Address File licence ■ Licensed/free access to relevant Royal Mail location database ■ OCR/CBC readable software acquisition and testing ■ Hardware acquisition and testing	■ Testing process using samples of output to ensure mail is prepared to required specifications ■ For example, address formatting and data quality	■ Comply with allowable dimensions: size, shape, weight, thickness ■ Achieve minimum volumes ■ Achieve required data accuracy ■ Satisfy labelling, bundling and bagging requirements ■ Apply Optical Character Recognition (OCR) or Customer Barcode (CBC) technology	■ Sorting rules differ based on product chosen ■ Options include: Mailsort 120, Mailsort 1400, Mailsort 700, Walksort, Cleanmail, Pressstream

Source: National Audit Office

---

2   'Customer Bar Codes' hold customer address information in a format that can be read electronically. 'Optical Character Recognition' is the functionality for alpha-numeric characters to be read by scanning equipment and transferred into electronic format.

CASE EXAMPLE 25

Implementation of mechanical Mailsort

The Department for Work and Pensions has mechanical sorting machines at their three main print centres. The department's IT provider invested £3 million to install two high-volume machines at each site. The mail output is fed into the sorting machines which read the address information and sort it into the appropriate post code group. The department sorts over 137 million items per year, saving some £6 million.

Source: National Audit Office case study examination of the Department for Work and Pensions

---

CASE EXAMPLE 26

Challenges in implementing software Mailsort technology

HM Revenue and Customs began the implementation of software Mailsort technology in 2003 with the first output being processed through the technology in autumn 2005. The department chose to put in place this technology to increase the volume of mail qualifying for mail discounts. The challenges the department faced included:

- customer address data accuracy was improved by matching addresses in existing databases against Royal Mail's official list of addresses. Where mismatches existed, the address was corrected using other existing customer information or through confirmation with the customer;

- the IT and printing systems had to be modified to adhere to address format requirements and the output had to be produced in post code sequence;

- forms had to be redesigned to maintain Royal Mail standards on address location and formatting.

Source: National Audit Office case study examination of the HM Revenue and Customs

---

5.3　Other discounted products include:

- 'Cleanmail', which offers smaller levels of discounts, but requires less work from the customer who is required to complete the address on the letter to certain specifications, so that it can be read by the supplier's sorting machines. This product can be a 'quick win' for departments as it sometimes can involve very few changes for customers. It has been implemented, for example, at HM Revenue and Customs' site at Shoeburyness, with savings of over £50,000 (6 per cent savings on total mail spend) estimated by the department for 2004-05;

- Presstream, offering significant savings for delivery of newspapers, newsletters, journals and magazines due to postcode sortation performed by the customer. The Department for Work and Pensions, for example, has used this product for the distribution of its quarterly newsletter 'Touchbase'. Touchbase is the department's newsletter for advisers, intermediaries and other professionals, containing information about benefits, pensions, the New Deals, employment issues and tax credits;

- 'Door to door' delivery is an alternative to mail products and can be used when an entire geographical area is to be targeted, for example, for the delivery of marketing information.[3] Local government, for example, has used this product for the delivery of political campaign leaflets;

- 'Packet Post' products offer savings on sending a large number of weightier items. Minimum volumes can be per posting or per year and this offers a discount of some four per cent over standard tariff products. Postcode-based sortation offers a further discount on this product.

5.4　**Change mail formats to take advantage of 'Pricing in Proportion'.** 'Pricing in Proportion' is a change in Royal Mail's pricing model, factoring in size and weight (previously only weight was included), to be introduced in autumn 2006. Existing mail formats may become more or less expensive under the new pricing structure. To take advantage of this change, organisations will need to audit the size and weights of their mail and make changes based on the new pricing scheme **(Figure 6 and Figure 7)**. Furthermore, Royal Mail is also likely at some stage to propose a geographic element to the pricing structure (zonal pricing). Organisations will again need to be alert to the potential savings and increased costs with this change in pricing structure.

5.5　**Use the most appropriate and efficient payment methods.** Franking machines are a common payment method, particularly for low-volume postal users. These machines are used to imprint payment on to mail pieces. They are used because they are simple, provide management information on spend, and credit payment can be 'topped-up' easily. However, they incur equipment and maintenance costs; HM Revenue and Customs estimates that leasing and maintenance costs are around £1,300 for each franking machine. Postage Paid Impressions are a pre-printed alternative to postage stamps or franking machines used for sending large quantities of mail. Postage

---

3　The Central Office of Information has a centralised buying agreement for 'door to door' delivery.

Paid Impressions incur minimal equipment or maintenance costs, have a yearly minimum spend threshold (£5,000), and management information on spend can be obtained from suppliers. Within a department with multiple local offices, use of Postage Paid Impressions envelopes is likely to be more efficient than using a network of franking machines.

5.6   Make better use of high quality postal products where appropriate. Higher priced products may represent better value than lower-priced ones due to differences in quality. For example, higher level security products with improved track and trace facilities may be more expensive than standard delivery, but these costs can be outweighed by reductions in fraud and theft **(Case Example 27)**. Higher cost products which offer a certainty of delivery date may prove to be more cost-effective when viewed within the department's overall process flow; they may also align with service quality expectations. For example, the Department for Work and Pensions has found that:

■   If benefits are not delivered on a specific date, claimants will enquire by telephone and face-to-face at field offices. The costs of these interactions, in particular on-site visits, can outweigh the increased price for certainty of delivery date.

■   Restricting customers to a cheaper mail product could in some cases cause significant hardship and distress for customers. For example, the Department uses the relatively more expensive 'Freepost' reply service for Winter Fuel responses as applicants may hear about the Winter Fuel program through television, radio, or poster campaigns and need to be able to respond using their own envelopes and not be restricted to the use of 'Business Reply' envelopes sent to them by the Department.

CASE EXAMPLE 27

UK Passport Service's use of secure delivery products

The UK Passport Service has to provide timely and secure delivery of passport to applicants. Security is paramount because passports are high value items and their re-issuance is costly with a highly negative effect on customer perceptions of the service. However, given the volume of passports issued each year (over 5.5 million), it cannot afford to use an excessively high-cost product. It identified the secure delivery service from Special Mail Services to provide the right balance between cost and security. Since putting in place this service in February 2004 it has seen a reduction in the number of passports 'lost in transit' justifying the use of a higher cost product. In addition, the Service and its supplier can track individual passports through Special Mail Services' 'end-to-end' network, allowing early identification of delivery problems.

Source: National Audit Office examination of the UK Passport Service

---

6   Some illustrative effects of 'Pricing in Proportion'

Format and size	Weight	Second class price pre 'Pricing in Proportion'	Second class price after 'Pricing in Proportion'	Price increase
Large letter, 225 x 160 (mm)	370g	£1.14	£0.72	-37%
Large letter, 220 x 220 (mm)	72g	£0.35	£0.35	nil
Large letter, 220 x 220 (mm)	26g	£0.21	£0.35	+67%

Source: Postcomm

---

7   Potential effects on departments' mail spend

Department	Potential effect
Department for Work and Pensions	An examination of its mail profile at six major sites indicates 'Pricing in Proportion' will increase costs by £75,000 across the six sites (a 38 per cent increase), indicating a significant potential increase in costs across the department's entire mail profile if mail formats are unchanged.
National Savings and Investments	An audit of mail formats by its key business partner Siemens Business Services indicates an increase of some £17,000 (less than one quarter of a per cent against their current £7 million annual spend) if no changes are made.
Central Office of Information	Estimated an increase of six per cent based on existing mail profile. However if changes are made to their mail profile, a decrease in postal costs of two per cent along with increased effectiveness is possible.
HM Revenue and Customs	The department is looking to change the size of New Tax Credit correspondence from A4 to C5-size, saving the department nearly £3 million per year.

Source: National Audit Office examination of Department for Work and Pensions, National Savings and Investments, Central Office of Information, and HM Revenue and Customs

PART SIX

Increase the availability and use of management information to improve postal efficiency and service delivery

Increasing the availability and use of management information to improve postal efficiency and service delivery requires:

■ **Collecting data on spend by product type and team** – to identify areas where efficiency can be improved

■ **Benchmarking of services** – to improve product and supplier choices

■ **Collecting and analysing data on quality of service indicators** – to target counter-fraud activities and improve postal delivery performance

6.1   Collect data on spend by product type and team. Spend information can be obtained through internal purchasing and finance systems, through engagement with suppliers, or through use of supplier management information tools. The Higher Education Purchasing Group for Postal Services, for example, collates data from suppliers as well as from member institutions to produce progress reports on the use of their contracts. One example of how it has used these reports to increase efficiency is by identifying the level of spend outside of the nationally-negotiated framework contracts and analysing why it is occurring. It found that institutions were able to get better prices and service quality by transferring onto the national contracts. This information was used to improve subsequent contracts resulting in between 70 and 92 per cent of spend going through the national contracts in 2004, an increase of 10 per cent from 2002.

6.2   Benchmarking of services: Organisations can benchmark their and their suppliers' performance against industry and public sector peers. Key performance indicators that may be used include: the average cost per unit, the level of discounted products used versus standard tariff, the use of first and second class mail and Mailsort 3, and the number of undeliverable items. For example, HM Revenue and Customs has used industry best practice figures to generate its targets for accuracy of data (the level of match between customer address data held by the department with the Royal Mail's Postcode Address File) and use of 'work share' products for outbound mail.

6.3   Using postal service performance information to improve delivery of public services. Management information focusing on for example, counter-fraud and delivery performance, can be used by organisations to deploy its resources to combat fraud and to assess and improve end-to-end service levels.

■ **To target counter-fraud activities**: Organisations have worked with their suppliers to generate and use management information to improve the effectiveness of their counter fraud activities. The Department for Work and Pensions (which loses £20 million annually through fraud[4] in the generation, delivery, and encashment of its physical payments), tracks all cheque losses for all of the Department's benefits. Using a centralised data repository, which covers all reported cheque losses, analysis is undertaken to identify patterns of loss at an early stage leading to intelligence-led investigations in liaison with Royal Mail and

---

4   Source: National Audit Office examination of the Department for Work and Pensions

HM Revenue and Customs. The information contains not only what cheques and order books have been reported not received, but the postal district for which they were destined and also the Post Office branch or bank used for its subsequent encashment. The Department works with Royal Mail to identify the sources of fraud and jointly use this information to deploy investigative resources.

■ **To improve the quality of service delivery**: Overall delivery performance of Royal Mail is reported on by Postcomm, while Royal Mail also produce their own reports for certain customers. For example, the Driver and Vehicle Licensing Agency is provided information by Royal Mail allowing it to compare the service quality provided for its mail specifically against national benchmarks to assess whether end-to-end service levels are being met by the agency. Some organisations, such as National Savings and Investments, do their own quality testing using 'seed mailings' to their employees to assess end-to-end service levels.

GLOSSARY

Couriers	Typically cover end-to-end, high-speed and time-guaranteed deliveries of items over 100g with added security features, such as tracking and traceability.
Discounts	Suppliers, in the main, offer price discounts based on three main criteria: address correctness and presentation, volume of mail, and level of 'work share' (see below). Client organisations need to meet these criteria in order to qualify for the discount.
Downstream Access	Where postal services companies other than Royal Mail collect mail from a single customer or from multiple customers (a process refered to as 'consolidation'), before injecting the mail into Royal Mail's supply chain for final delivery.
End to End Services	A service offered by postal services companies where, as opposed to 'Downstream Access' (see above), suppliers provide a full 'end-to-end' service, from collection point to delivery destination (in other words mirroring the service provided by Royal Mail).
First and second class	Class of mail indicates the expected delivery service levels. From Royal Mail: first class is next working day including Saturday; second class is third working day after posting.
Inbound mail	Addressed to the department, a team, functional area, or an individual and must be sorted before delivery to its final addressee within the site.
Letters	Correspondence weighing under 100g with minimal thickness.
Mailsort 3	A Royal Mail product with longer delivery timescales than first or second class. This product has volume and sortation requirements.
Outbound mail	Produced within the department for delivery to an external address (business, citizen, other departmental site, other government department).
Parcels	Usually packages, weighing over 100g, with thickness greater than 610mm.
Standard tariff	This is the "stamp price" for an item, for example, 30p for a first class standard letter and 21p for a second class letter (March 2006).
Workshare	Postal 'worksharing' involves mailers performing activities such as preparing or sorting mail, often by geographic areas, before providing the mail to their suppliers for final sorting and delivery. They obtain a discounted price as a result, depending on the volumes involved.