

Licence Condition 4: Paragraph 8a

Licence Condition 4: Paragraphs 16 & 17

Licence Condition 5: Paragraph 6

National Report to Postcomm and Postwatch

Quarter 2 Cumulative Report, Period 1 – Period 6



NATIONAL QUARTER REPORT
Period 1 2004 – Period 6 2004

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Table 1.

**Scheduled Service Standards National Products
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Standard	Scheduled Standards				Tail of Mail			
	Target %		Period 1-6 Cum %	Period 1-6 95% cl	Target %		Period 1-6 Cum %	Period 1-6 95% cl
1st Class Stamped & Meter All	92.5		90.4	0.2	99.9		99.7	0.0
2nd Class Stamped & Meter All	98.5		98.3	0.2	99.9		99.8	0.0
1st Class Postage Paid Impression	90.6		85.4	0.4	99.9		99.4	0.0
2nd Class Postage Paid Impression	97.4		95.7	0.4	99.9		99.5	0.1
1st Class Response Services	90.3		78.2	1.9	99.9		98.9	0.1
2nd Class Response Services	97.5		94.0	1.1	99.9		99.3	0.1
Special Delivery	99.0		98.1	#	99.9		100.0	#
All PCAs (except 3) To Achieve 91.0 For 1 st Class Stamped And Metered Posted To UK	118		54					
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121		89					
Mailsort 1	91.0		89.5	2.6	99.9		100.0	0.1
Mailsort 2	97.5		96.8	0.8	99.9		100.0	0.0
Mailsort 3	97.5		97.9	1.0	99.9		99.8	0.1
Presstream 1	90.5		88.6	0.8	99.9		99.9	0.0
Presstream 2	97.5		97.4	1.3	99.9		100.0	0.1
Standard Retail Parcels	90.0		89.0	0.8	99.9		97.8	0.4

Product subject to continuous sampling (confidence limit inapplicable), 95% cl = 95% confidence limit, Target – Target is full-year cumulative

Table 2

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Postcode Area	1st class stamped & metered				1st class stamped & metered			
	Q1 All Posted	Q2 All Posted	Q2 Cum All Posted	✓☒	Q1 Intra Posted	Q2 Intra Posted	Q2 Cum Intra Posted	✓☒
AB Aberdeen	89.5	93.0	91.4	✓	97.0	96.2	96.5	✓
AL St Albans	92.7	93.5	93.2	✓	95.8	98.0	97.1	✓
B Birmingham	89.0	93.2	91.3	✓	90.9	93.9	92.5	✓
BA Bath	86.2	90.9	88.8	☒	91.8	94.3	93.2	✓
BB Blackburn & Burnley	86.4	93.3	90.0	☒	93.6	94.0	93.8	✓
BD Bradford	88.9	91.0	90.0	☒	94.0	97.7	96.1	✓
BH Bournemouth	90.6	91.4	91.0	✓	95.7	94.5	95.1	✓
BL Bolton	90.8	91.8	91.3	✓	90.7	93.5	92.3	☒
BN Brighton	87.3	92.8	90.7	☒	93.6	95.3	95.0	✓
BR Bromley	89.7	92.0	90.9	☒	98.2	96.7	97.5	✓
BS Bristol	88.3	92.2	90.4	☒	96.7	94.2	95.3	✓
BT Northern Ireland	84.9	90.8	88.1	☒	89.9	91.5	90.7	☒
CA Carlisle	90.1	92.9	91.6	✓	93.0	94.9	94.0	✓
CB Cambridge	84.3	91.7	88.4	☒	91.4	92.5	92.0	☒
CF Cardiff	86.4	91.9	89.5	☒	96.0	93.7	94.7	✓
CH Chester & Deeside	87.3	92.1	89.9	☒	95.3	94.1	94.6	✓
CM Chelmsford	86.7	91.5	89.1	☒	94.0	91.5	92.6	✓
CO Colchester	89.8	91.9	91.2	✓	94.7	95.0	95.1	✓
CR Croydon	88.7	90.1	89.5	☒	94.6	94.3	94.5	✓
CT Canterbury	92.0	94.6	93.3	✓	93.9	96.0	94.9	✓
CV Coventry & Warwickshire	85.0	89.8	87.6	☒	89.1	91.5	90.4	☒
CW Crewe	92.3	92.4	92.4	✓	96.1	91.1	93.4	✓
DA Dartford	85.3	93.2	89.6	☒	89.3	95.3	92.3	☒
DD Dundee	90.6	94.3	92.7	✓	92.8	96.5	94.9	✓
DE Derby	88.2	93.6	91.1	✓	95.7	97.1	96.5	✓
DG Dumfries	92.9	92.1	92.4	✓	96.5	94.4	95.4	✓
DH Durham	92.0	91.3	91.6	✓	94.4	94.3	94.4	✓
DL Darlington	87.6	92.9	90.4	☒	94.6	98.5	96.6	✓

✓ = Areas meeting or exceeding full-year target ☒ = Areas below full-year target

Table 2 (Cont).

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Postcode Area	1st class stamped & metered				1st class stamped & metered			
	Q1 All Posted	Q2 All Posted	Q2 Cum All Posted	✓☒	Q1 Intra Posted	Q2 Intra Posted	Q2 Cum Intra Posted	✓☒
DN Doncaster	88.6	90.4	89.5	☒	91.7	92.4	92.1	☒
DT Dorchester	92.3	93.4	92.9	✓	97.9	97.0	97.4	✓
DY Dudley	87.9	93.3	91.0	✓	95.7	95.6	95.6	✓
E London E	82.7	90.1	86.7	☒	75.7	94.9	85.8	☒
EC City of London	90.9	91.9	91.5	✓	91.8	94.5	93.3	✓
EH Edinburgh	87.8	93.2	90.8	☒	93.9	95.3	94.7	✓
EN Enfield	88.6	93.7	91.3	✓	92.0	95.6	94.1	✓
EX Exeter	83.3	93.1	88.7	☒	93.4	97.7	95.6	✓
FK Falkirk	87.9	89.4	88.8	☒	92.2	88.9	90.9	☒
FY Fylde	86.1	93.1	89.9	☒	83.4	95.3	89.5	☒
G Glasgow	88.2	87.9	88.0	☒	88.3	88.3	88.3	☒
GL Gloucester	88.4	93.8	91.5	✓	94.7	95.8	95.3	✓
GU Guildford	88.7	90.3	89.6	☒	90.3	93.0	91.7	☒
HA Harrow	86.5	93.2	90.2	☒	93.9	91.6	92.6	✓
HD Huddersfield	87.2	94.4	91.1	✓	95.6	94.1	94.9	✓
HG Harrogate	91.1	91.2	91.2	✓	92.2	89.8	91.0	☒
HP Hemel Hempstead	89.6	92.3	91.0	✓	96.2	96.8	96.5	✓
HR Hereford	92.5	92.9	92.7	✓	94.9	92.7	93.7	✓
HS Hebrides	79.6	88.9	84.9	☒	94.0	94.6	94.3	✓
HU Hull	91.7	91.3	91.5	✓	95.2	95.5	95.4	✓
HX Halifax	83.1	94.2	89.6	☒	88.9	96.9	93.3	✓
IG Ilford	89.5	90.9	90.3	☒	95.0	93.5	94.1	✓
IP Ipswich	89.7	92.5	91.3	✓	92.8	94.8	93.8	✓
IV Inverness	86.4	90.7	88.7	☒	95.5	94.9	95.2	✓
KA Kilmarnock	88.1	92.7	90.6	☒	92.4	92.7	92.5	✓
KT Kingston upon Thames	90.2	94.9	92.8	✓	95.0	95.9	95.5	✓
KW Kirkwall	81.0	89.1	85.6	☒	97.7	95.5	96.5	✓
KY Kirkcaldy	90.9	95.2	93.2	✓	96.7	96.5	96.6	✓

✓ = Areas meeting or exceeding full-year target ☒ = Areas below full-year target

Table 2 (Cont).

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Postcode Area	1st class stamped & metered				1st class stamped & metered			
	Q1 All Posted	Q2 All Posted	Q2 Cum All Posted	✓☒	Q1 Intra Posted	Q2 Intra Posted	Q2 Cum Intra Posted	✓☒
L Liverpool	87.8	88.3	88.1	☒	96.0	89.6	92.4	☒
LA Lancaster	89.2	94.3	91.8	✓	95.0	97.0	96.0	✓
LD Llandrindod Wells	87.7	94.4	91.1	✓	91.7	95.4	93.6	✓
LE Leicester	89.2	91.8	90.7	☒	92.6	90.8	91.6	☒
LL North Wales	89.3	93.9	91.9	✓	94.9	96.0	95.5	✓
LN Lincoln	92.2	93.6	92.9	✓	95.9	96.2	96.0	✓
LS Leeds	88.0	93.9	91.2	✓	97.9	94.6	96.2	✓
LU Luton	85.8	93.0	89.8	☒	86.3	96.2	91.7	☒
M Manchester	87.3	92.6	90.2	☒	91.6	95.7	93.8	✓
ME Maidstone	89.7	93.4	91.7	✓	93.8	96.7	95.3	✓
MK Milton Keynes	89.1	94.3	91.9	✓	95.4	96.5	96.0	✓
ML Motherwell	91.6	93.8	92.8	✓	94.2	99.5	97.0	✓
N London N	88.5	87.9	88.2	☒	90.5	91.9	91.2	☒
NE Newcastle	87.4	93.0	90.2	☒	94.3	96.1	95.2	✓
NG Nottingham	91.7	93.9	93.0	✓	95.9	94.0	94.8	✓
NN Northamptonshire	84.3	91.9	88.4	☒	95.9	96.6	96.2	✓
NP Newport	84.2	91.4	88.0	☒	93.6	94.5	94.1	✓
NR Norwich	86.7	90.1	88.5	☒	87.8	94.4	91.3	☒
NW London NW	86.1	92.4	89.6	☒	94.2	89.4	91.6	☒
OL Oldham	87.7	89.5	88.7	☒	88.4	90.0	89.3	☒
OX Oxford	68.0	90.8	80.6	☒	71.0	92.2	82.6	☒
PA Paisley	88.1	95.1	92.0	✓	91.6	93.4	92.5	✓
PE Peterborough	85.0	90.4	87.9	☒	93.6	90.9	92.2	☒
PH Perth	90.3	94.6	92.7	✓	94.8	97.9	96.5	✓
PL Plymouth	91.1	90.0	90.5	☒	96.8	93.1	94.9	✓
PO Portsmouth	89.3	93.3	91.6	✓	94.9	95.6	95.7	✓
PR Preston	90.7	93.0	91.9	✓	89.7	92.3	91.0	☒
RG Reading	89.7	92.7	91.4	✓	96.1	97.8	97.1	✓

✓ = Areas meeting or exceeding full-year target ☒ = Areas below full-year target

Table 2 (Cont).

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Postcode Area	1st class stamped & metered				1st class stamped & metered			
	Q1 All Posted	Q2 All Posted	Q2 Cum All Posted	✓☒	Q1 Intra Posted	Q2 Intra Posted	Q2 Cum Intra Posted	✓☒
RH Redhill	89.5	94.2	92.2	✓	95.8	98.5	97.4	✓
RM Romford	90.5	90.6	90.6	☒	94.1	93.8	93.9	✓
S Sheffield	93.3	93.9	93.6	✓	96.5	95.5	95.9	✓
SA Swansea	88.7	88.7	88.7	☒	91.0	92.0	91.6	☒
SE London SE	90.7	88.8	89.7	☒	95.5	88.8	91.7	☒
SG Stevenage	87.4	91.8	89.8	☒	92.5	92.2	92.3	☒
SK Stockport	86.8	91.3	89.3	☒	88.6	95.6	92.4	☒
SL Slough	87.6	91.8	89.9	☒	95.7	93.6	94.6	✓
SM Sutton	88.3	94.0	91.5	✓	87.7	95.5	91.8	☒
SN Swindon	89.3	91.7	90.6	☒	95.5	94.1	94.8	✓
SO Southampton	89.0	93.2	91.3	✓	92.7	97.1	95.2	✓
SP Salisbury	89.3	93.3	91.7	✓	95.4	98.1	96.8	✓
SR Sunderland	90.3	95.6	93.3	✓	91.7	95.2	93.8	✓
SS Southend-on-Sea	88.9	92.9	91.0	✓	92.3	94.0	93.1	✓
ST Stoke-on-Trent	84.4	90.7	87.6	☒	87.9	92.4	90.1	☒
SW London SW	87.2	92.5	90.1	☒	93.1	94.2	93.7	✓
SY Shrewsbury & Mid Wales	86.4	93.2	90.1	☒	90.4	95.3	93.0	✓
TA Taunton	87.5	91.5	89.6	☒	93.8	93.3	93.9	✓
TD Borders	90.4	92.8	91.8	✓	92.7	95.2	94.1	✓
TF Telford	83.2	90.9	87.4	☒	92.8	94.3	93.6	✓
TN Tonbridge	89.3	91.2	90.4	☒	95.1	95.9	95.6	✓
TQ Torquay	86.1	91.1	88.8	☒	96.4	94.9	95.6	✓
TR Truro	92.1	92.4	92.3	✓	96.3	96.2	96.2	✓
TS Teesside	84.9	91.1	89.2	☒	93.1	95.6	95.6	✓
TW Twickenham	89.6	93.2	91.5	✓	94.6	96.7	95.7	✓
UB Uxbridge	86.1	90.7	88.5	☒	93.1	88.4	90.5	☒
W London West	87.1	89.4	88.3	☒	88.6	91.1	89.9	☒
WA Warrington	89.2	92.9	91.3	✓	94.8	95.3	95.0	✓

✓ = Areas meeting or exceeding full-year target ☒ = Areas below full-year target

Table 2 (Cont).

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (Period 1 2004 – Period 6 2004)**

Postcode Area	1st class stamped & metered				1st class stamped & metered			
	Q1 All Posted	Q2 All Posted	Q2 Cum All Posted	✓☒	Q1 Intra Posted	Q2 Intra Posted	Q2 Cum Intra Posted	✓☒
WC London West Central	84.9	88.9	87.0	☒	90.3	95.4	92.8	✓
WD Watford	93.3	92.9	93.1	✓	96.8	94.9	95.9	✓
WF Wakefield	88.5	90.6	89.7	☒	88.1	93.6	91.1	☒
WN Wigan	93.7	93.4	93.8	✓	94.4	96.7	96.4	✓
WR Worcester	86.7	91.9	89.5	☒	96.3	94.1	95.1	✓
WS Walsall	85.9	93.0	90.1	☒	87.6	92.9	90.8	☒
WV Wolverhampton	88.4	91.2	90.0	☒	94.7	93.6	94.0	✓
YO York	89.8	93.4	91.8	✓	94.6	97.1	96.0	✓
ZE Lerwick	80.4	91.6	86.2	☒	93.1	96.8	94.9	✓

✓ = Areas meeting or exceeding full-year target ☒ = Areas below full-year target

Table 3.

**Stamped; Metered; PPI; Response Services and Special Delivery
Actual Cumulative Results (Period 1 – Period 6)**

Standard	Scheduled Standards			
	Year End Target %		Period 1-6 %	95% cl
1st Class Stamped & Meter All	92.5		90.4	0.2
2nd Class Stamped & Meter All	98.5		98.3	0.2
1st Class Postage Paid Impression	90.6		85.4	0.4
2nd Class Postage Paid Impression	97.4		95.7	0.4
1st Class Response Services	90.3		78.2	1.9
2nd Class Response Services	97.5		94.0	1.1
Special Delivery	99.0		98.1	#

***Target is full-year cumulative**

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

Quality of Service Action Plan Summary

Performance Management of all customer, employee and shareholder measures is an ongoing, iterative and dynamic process within Royal Mail that involves a combination of daily, weekly, monthly and quarterly reviews at all levels of the organisation. This approach allows:

- continuous refinement of our understanding of the root causes of Quality of Service delay,
- monitoring and review of the effectiveness of our previously deployed improvement activities
- reprioritisation of improvement activities in response to shortfalls in performance and/or organisational capability to effectively deploy change.

The Quality of Service Action Plan published at the start of each financial year represents our best understanding, at a snapshot in time, of the required improvement activities, their deployment timescales and expected benefits. Table 1 below provides a summary progress report on the improvement activities set out in the original Quality of Service Action plan.

By the end of Quarter 1 a number of new activities had been identified and deployed or scheduled for deployment. Table 2 therefore provides an update on the new improvement activities that were introduced in Quarter 1. Similarly, new activities that commenced during Quarter 2 are summarised in Table 3.

In some cases, initiatives have not been completed as originally planned – this is generally because a better solution has been identified or because the original terms of reference have been extended. Where an activity has not been completed as planned, a full explanation is provided in the main body of this report (and these are annotated for ease of reference).

Table 1: Update on Quarter 1 Activities as scheduled in National Quality of Service Plan

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Integrated Quality Approach:</u> <ul style="list-style-type: none"> • Quality Dashboard Software Developed • Standard Operating Procedures Fully Developed and Tested • Employee Engagement Approach Developed • Trial of Integrated Quality Approach commenced • Evaluate Integrated Quality Approach trials • National Deployment of Quality Dashboard and Standard Operating procedures 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 2 • Quarter 2 	<ul style="list-style-type: none"> • Complete • Complete • Postponed – Note 1 • Postponed – Note 1 • Postponed – Note 1 • Postponed – Note 1
<u>Diagnostic Activity:</u> <ul style="list-style-type: none"> • RFID Proof of Concept Trial • Ongoing QTL studies • RFID Pilot Commences 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 onwards • Quarter 2 	<ul style="list-style-type: none"> • Not complete – Note 2 • Deployed and ongoing • Not complete – Note 2

Table 1: Continued

Activity	Deployment schedule	Status
<p><u>Workplan Clearance Monitoring and Control (Enhanced Performance Management)</u></p> <ul style="list-style-type: none"> • Introduce failure reporting at source • Introduce Daily Conference Calls to review workplan performance • Introduce weekly performance review with Chief Executive and Operations Executive 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 	<ul style="list-style-type: none"> • Deployed and ongoing • Deployed and ongoing • Deployed and ongoing
<p><u>Operational Standards and Audit:</u></p> <ul style="list-style-type: none"> • Develop operational standards to maximise proportion of Mailsort 2 delivered on Day C • Formalise audit programme and procedures for Logistics • Develop standard self audit procedures for Operational Managers • Scope formal reporting process and information system for centrally capturing self audit results • Devise Q2-4 audit programme with greater emphasis on high impacting units • Ongoing programme of independent audit of Mail Centres, Collection Hubs and Delivery Units • Commence Logistics audit programme • Commence refreshed self audit programme 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 onwards • Quarter 2 onwards • Quarter 2 	<ul style="list-style-type: none"> • Complete • Complete • Complete • Complete • Complete • Deployed and ongoing • Deployed and ongoing • Postponed – Note 3
<p><u>Employee Engagement and Communications:</u></p> <ul style="list-style-type: none"> • Quality, Pride and Success conference • Personal letter from Chairman to all employees • Area General Manager communications • Courier/Today articles • Publish monthly, quarterly QoS results and league tables • Increased utilisation of WTL&L sessions 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 onwards • Quarter 1 onwards • Quarter 1 onwards 	<ul style="list-style-type: none"> • Complete • Complete • Complete • Deployed and ongoing • Deployed and ongoing • Deployed and ongoing
<p><u>Access:</u></p> <ul style="list-style-type: none"> • Upgrade Access Barcoding Equipment in high impacting units • Collections Routing Tool deployed • Fully deploy ABC in all Postcode Areas 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1-4 	<ul style="list-style-type: none"> • Complete • Delayed • On schedule
<p><u>Mail Centre Processing:</u></p> <ul style="list-style-type: none"> • Deploy Mail Centre mandatory standards for traffic forecasting and contingency staffing • Introduce temporary contingency night staffing and vehicles until network arrival pattern stabilised • Review local inward workplans to maximise volume of mail machine walksorted for high impacting delivery offices • Review of despatch times to ensure full clear down to despatch, maximising volume on main despatch • Review of potential to carry out air screening in Mail Centres • Carry out packet containerisation trial • Deploy Automation Doubles Detection in Integrated Mails Processor units • Receive and evaluate supplier proposal for software upgrade to improve Flats read accuracy • Flat sorting machines installed in Phase 2 units • Review and deploy generic inward workplan • Robust risk assessment of further changes associated with Mail Centre Efficiency Review • Solve known Address Interpretation resolution problems 	<ul style="list-style-type: none"> • Quarter 1 onwards • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1-2 • Quarter 1-2 • Quarter 1-2 • Quarter 1-2 • Quarter 1-2 • Quarter 1-2 • Quarter 1-2 • Quarter 1-4 	<ul style="list-style-type: none"> • Deployed and ongoing • Complete • Complete • Complete • Complete • Complete • Delayed • Complete • Complete • Complete • Complete • Complete • On schedule

Table 1: Continued

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Distribution Centre Processing:</u> <ul style="list-style-type: none"> • Refresher Mails Verification training • Complete Mails Verification on site trials • Ongoing Mails Verification checks and customer feedback on non-compliant mailings • Mailsort Database change • Also see Operational Standards and Audit actions relating to Logistics 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 onwards • Quarter 2 	<ul style="list-style-type: none"> • Deployed and ongoing • Complete • Deployed and ongoing • Complete
<u>Pipeline Optimisation:</u> <ul style="list-style-type: none"> • Pipeline Optimisation workshop • Detailed scoping and deployment planning of workshop ideas 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 2 	<ul style="list-style-type: none"> • Complete • Ongoing
<u>Mailsort 2 Improvement Activities:</u> <ul style="list-style-type: none"> • Customer Operational Managers working with customers to encourage earlier posting • Agree and deploy local 'Day C' action plans • Increase volume of Mailsort 2 on A Wave • Communications on commercial importance of Mailsort 2 • Also see Operational Standards and Audit actions relating to Logistics 	<ul style="list-style-type: none"> • Quarter 1 onwards • Quarter 1 • Quarter 1 onwards • Quarter 1 onwards 	<ul style="list-style-type: none"> • Deployed and ongoing • Deployed and ongoing • Deployed and ongoing • Deployed and ongoing
<u>PPI Improvement Activities</u> <ul style="list-style-type: none"> • Deploy more robust compliance checks and feedback mechanisms for non compliant PPI mailings • Customer Operational Manager Training Workshops held • Evaluate requirement for follow up workshops • QTL testing • Changes to survey to increase PPI sample sized and provide greater panellist coverage • Adherence to PPI Operational Standards • High impact support 	<ul style="list-style-type: none"> • Quarter 1 onwards • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1-2 • Quarter 1 onwards • Quarter 1 onwards 	<ul style="list-style-type: none"> • Deployed and ongoing • Complete • Complete • Complete • Complete • Deployed and ongoing • Plan reviewed – Note 5
<u>Response Services Improvement Activities</u> <ul style="list-style-type: none"> • Recruit customers to trial new product • Complete lab tests on automated solution for new product • Complete field tests on automated solution for new product • Maximise automation of existing product • Adherence to Response Services operational standards • Customer stationery checks • Complete Phase 2 customer trials of new product • Launch new product 	<ul style="list-style-type: none"> • Quarter 1 • Quarter 1 • Quarter 1 • Quarter 1 onwards • Quarter 1 onwards • Quarter 1 onwards • Quarter 2 • Quarter 2 	<ul style="list-style-type: none"> • Complete • Complete • Complete • Deployed and ongoing • Deployed and ongoing • Deployed and ongoing • Complete • Complete

See later commentary:

Note 1: 1st Class Stamped and Meter – Integrated Quality Approach

Note 2: 1st Class Stamped and Meter – RFID

Note 3: 1st Class Stamped and Meter – Operational Standards and Audit

Note 4: 1st Class Stamped and Meter – Human Resourcing

Note 5: 1st Class Stamped and Meter – Quality Excellence Task Force

Table 2: Update on new activities introduced in Quarter 1 (but not included in the original Quality of Service Action Plan)

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Organisational Restructuring:</u> <ul style="list-style-type: none"> Letters and Logistics arms of business both reporting to Chief Executive New Operations Director appointed Single point accountability for Quality of Service at Board Level Realignment of Central Quality Team 	<ul style="list-style-type: none"> Quarter 1 Quarter 1 Quarter 1 Quarter 1 	<ul style="list-style-type: none"> Complete Complete Complete Complete
<u>Integrated Quality Approach:</u> <ul style="list-style-type: none"> Introduction of Quality Diagnostic measures into Pipeline Productivity Measurement System Review and integration of overall deployment plan Quality Dashboard trials Full scoping of people strand 	<ul style="list-style-type: none"> Quarter 2 Quarter 2 Quarter 2 Quarter 2 	<ul style="list-style-type: none"> Complete Complete Delayed to Q3- Note 1 Delayed to Q3- Note 1
<u>Diagnostic Activity:</u> <ul style="list-style-type: none"> Complete review of RFID deployment strategy 	<ul style="list-style-type: none"> Quarter 2 	<ul style="list-style-type: none"> Ongoing – See Note 2
<u>Letting Managers Manage:</u> <ul style="list-style-type: none"> Introduction of one daily e-mail and Infopoint 	<ul style="list-style-type: none"> Quarter 1 onwards 	<ul style="list-style-type: none"> Deployed and ongoing
<u>Resetting Behavioural Standards</u> <ul style="list-style-type: none"> Behavioural standards launched 	<ul style="list-style-type: none"> Quarter 1 	<ul style="list-style-type: none"> Complete
<u>Operational Standards and Audit:</u> <ul style="list-style-type: none"> Review of all audit questions Design of new self audit procedures Realignment of independent audit resource Design work to move to more impact drive audit approach 	<ul style="list-style-type: none"> Quarter 1 Quarter 2 Quarter 2 Quarter 2 	<ul style="list-style-type: none"> Complete Complete Complete Complete
<u>Quality Excellence Task Force:</u> <ul style="list-style-type: none"> Introduce Quality Excellence Task Force approach 	<ul style="list-style-type: none"> Quarter q onwards 	<ul style="list-style-type: none"> Deployed and ongoing
<u>Mail Centre Processing:</u> <ul style="list-style-type: none"> Reinforced compliance to national sortation standards as set out by Simplified Sort Initiative Systematic elimination of restrictive operating practices (also applies to Collections, Distribution Centres and Delivery) Peak Pressure Planning for August Bank Holiday (plus Distribution Centres and Delivery Offices) Independent review of deployment of Mail Centre Mandatory Standards Comprehensive review and testing of entire integrated national workplan (also applies to Distribution Centres and Delivery) 	<ul style="list-style-type: none"> Quarter 1 Quarter 1-4 Quarter 2 Quarter 2-3 Quarter 2 	<ul style="list-style-type: none"> Complete On schedule Complete Complete Complete
<u>Network:</u> <ul style="list-style-type: none"> New layouts, yard management and van identification systems at National Distribution Centre Positioning contingency drivers and vehicles at key network points Airport feeder routes and 1st Class routes given priority status Introduction of early relief road despatches to units at risk of bulking out 	<ul style="list-style-type: none"> Quarter 1 Quarter 2 onwards Quarter 2 onwards Quarter 2 onwards 	<ul style="list-style-type: none"> Complete Deployed and ongoing Deployed and ongoing Deployed and ongoing

Table 2: Continued

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Human Resourcing Strategy:</u> <ul style="list-style-type: none"> Resourcing policy – converting temporary to permanent contracts Changes to overall recruitment process Improved induction training Improving the provision and quality of Agency staff Reducing unauthorised absence levels 	<ul style="list-style-type: none"> Quarter 2-4 Quarter 2 onwards Quarter 2 onwards Quarter 2 Quarter 2-4 	<ul style="list-style-type: none"> On schedule Deployed and ongoing Deployed and ongoing Complete Deployed and Ongoing
<u>PPI Improvement Activities:</u> <ul style="list-style-type: none"> Migration of low value accounts New PPI Indicia 	<ul style="list-style-type: none"> Quarter 1-4 Quarter 2 	<ul style="list-style-type: none"> Ongoing Complete
<u>Special Delivery Improvement Activities:</u> Deployment of Special Delivery Analysis Tool	<ul style="list-style-type: none"> Quarter 2 onwards 	<ul style="list-style-type: none"> Deployed and ongoing

Table 3: Summary of new activities introduced in Quarter 2 (and early in Quarter 3)

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Organisational Restructuring:</u> <ul style="list-style-type: none"> Logistics and Letters to become single business from start of next financial year 	<ul style="list-style-type: none"> 2005/06 	<ul style="list-style-type: none"> Planning commenced
<u>Integrated Quality Approach:</u> <ul style="list-style-type: none"> Launch primary communication of planned approach through Area General Manager and Area Commercial Manager planning forums 	<ul style="list-style-type: none"> Quarter 3 	<ul style="list-style-type: none"> Complete
<u>Diagnostic Activity:</u> <ul style="list-style-type: none"> Complete RFID deployment planning and secure funding Commence RFID deployment (subject to funding authority) 	<ul style="list-style-type: none"> Quarter 3 Quarter 4 	<ul style="list-style-type: none"> On schedule On schedule
<u>Enhanced Performance Management</u> <ul style="list-style-type: none"> Launch of National Quality Forum Head of Quality Programmes post created Quality Project Office set up 	<ul style="list-style-type: none"> Quarter 3 Quarter 3 Quarter 3 	<ul style="list-style-type: none"> Complete Complete Complete
<u>Operational Standards and Audit:</u> <ul style="list-style-type: none"> Launch of self audit and new audit questions via a series of training workshops Deployment of new self audit procedures and new audit questions 	<ul style="list-style-type: none"> Quarter 3 Quarter 4 	<ul style="list-style-type: none"> On schedule On schedule
<u>PPI Improvement Activities:</u> <ul style="list-style-type: none"> Improved diagnostics via PPI Quality Test Letters 	<ul style="list-style-type: none"> Quarter 3 onwards 	<ul style="list-style-type: none"> On schedule
<u>Planning Process</u> <ul style="list-style-type: none"> Commence development and communication of 2005/06 Quality of Service improvement plan 	<ul style="list-style-type: none"> Quarter 3 onward 	<ul style="list-style-type: none"> On schedule

Table 3: Continued

<u>Activity</u>	<u>Deployment schedule</u>	<u>Status</u>
<u>Mail Centre Processing:</u> <ul style="list-style-type: none"> • Re-launch of Mail Centre mandatory standards via training workshops – incorporating recommendations from independent review • Peak pressure planning for pre and post Christmas (also applies to Collections, Distribution Centres and Delivery) • New national generic workplan signed off and communicated (also applies to Distribution Centres and Delivery) • Automation capacity study carried out • New national generic workplan launched and deployed (also applies to Distribution Centres and Delivery) • Redesign and mandatory deployment of unit based tools for manpower planning 	<ul style="list-style-type: none"> • Quarter 3 • Quarter 3 • Quarter 3 • Quarter 3 • Quarter 4 • Quarter 3-4 	<ul style="list-style-type: none"> • On schedule • Complete • Complete • On schedule • On schedule • On schedule
<u>Network:</u> <ul style="list-style-type: none"> • Complete independent review of compliance to Move To Time policy • Develop and deploy action plan based on findings of review of Move To Time policy • York container audit and best practice repatriation guidelines deployed 	<ul style="list-style-type: none"> • Quarter 3 • Quarter 3-4 • Quarter 3 	<ul style="list-style-type: none"> • Complete • On schedule • On schedule
<u>Distribution Centre Processing</u> <ul style="list-style-type: none"> • Trial of trayed Mailsort 700 customer mailing • Review of Mailsort/Presstream 1 performance through PRDC – using QTLs 	<ul style="list-style-type: none"> • Quarter 3 • Quarter 2-3 	<ul style="list-style-type: none"> • Complete • On schedule

1st CLASS STAMPED AND METER

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
88.3±0.3%	92.1±0.2%	90.4±0.2%	91.6%	92.5%

Overview

1st Class Stamped and Meter cumulative performance continues to fall behind flightpath, largely because Quarter 1 performance was lower than forecast in the original plan. The reasons for this shortfall were explained in the Quarter 1 Report. In summary:

- We underestimated the full impact of the neighbouring network changes that were completed in April 2004
- On a cumulative basis, more delivery units were in the transitional stages of Single Delivery deployment and were getting to grips with the associated learning curve issues.
- Royal Mail's operational pipeline is complex and there is a lag between deploying improvement activity and realising the benefits. For example, it was only once the network changes had been completed and bedded in that Inward Mail Centres could accurately understand their new arrival pattern and hence robustly re-align their manpower plans.
- Further root causes of service delay were being identified and systematically addressed.
- Changes to the monthly reporting calendar resulted in Quarter 1 being shorter than planned – giving less time for activities to take hold and benefits to flow through in measured results.
- Unofficial industrial action in Oxford depressed national results.

However, it should be noted that Quarterly flightpath figures are indicative of how Royal Mail expects to perform through the year. They are not absolute targets and are not a requirement of the Licence and should not be interpreted as further targets which are to be judged against a stark pass or fail criterion.

Some of the issues described above have also led to a slight shortfall in Quarter 2 performance because of the knock on effect into Period 4, but despite this shortfall some significant achievements have been made over the last few months. For example, we have seen a month on month improvement in performance since Period 2 – as shown in the table below – resulting in Quarter 2 performance 3.8% better than Quarter 1. In Periods 5 and 6 we achieved the 92.5% target performance level – in fact, in Period 6 we exceeded 93.0% (the target level for next year).

Period 1	88.6%
Period 2	87.3%
Period 3	89.2%
Period 4	91.1%
Period 5	92.5%
Period 6	93.1%

Note: Average monthly confidence limits equate to $\pm 0.4\%$

The 'Stabilising The Pipeline' improvement activities (as outlined in our Quality of Service Action Plan) have been deployed with energy and vigour and we firmly believe that our Quality of Service renewal plan has been successfully deployed. The excellent results achieved in Periods 5 and 6 have restored confidence within the company and further strengthened our resolve to maintain strong performance through the second half of the year.

National Quality of Service Action Plan- Quarter 2 Update

The National Quality of Service Action plan is presented in two phases:

Stabilising the Pipeline: Major change activities, namely Transport Review and Single Daily Delivery, deployed as part of Royal Mail's 3 year renewal plan impacted on customer service performance. Stabilising the Pipeline activities were designed to rapidly address the key problem areas, restore focus on customer service issues within the organisation and drive improvements in Quality of Service performance. The Stabilising the Pipeline phase of the plan has now been successfully completed – as demonstrated by the strong performance in Period 5 and 6 for almost all product streams. Key activities deployed during this phase of the plan are summarised in the tables at the start of this report. These clearly demonstrate the extent of Royal Mail's commitment to restoring customer service – both in the comprehensiveness of the plan and the pace at which it was deployed.

Delivering on Our Promises: This phase of the plan firmly re-establishes customer service issues at the heart of all we do through rigorous adherence to the principles of Performance Management, i.e. regularly reviewing performance, identify shortfalls against plan, understanding the root causes of these shortfalls and developing/deploying the necessary fixes. This phase of the plan also focuses on the deployment of key enabling activity such as the Integrated Quality Approach.

As previously stated, our Quality of Service improvement plan tactically and strategically evolves throughout the year in response to shortfalls in performance, review of previously deployed activities and organisational capability to deploy the planned changes. The remainder of this report provides an update on activities which:

- Started in Quarter 1 and flowed through into Quarter 2 for completion or ongoing deployment
- Were introduced to the Quality Plan in Quarter 2 (and some which were introduced early in Quarter 3)

This report, therefore, does not refer to activities which were fully deployed during Quarter 1. However, full details of these activities can be found in the Quarter 1 Report. It is important to note that although these activities are described under the 1st Class Stamped and Meter section of this report, they reflect generic improvements across our entire pipeline which support improvements in all other products.

Performance Management and Tracking of Quality of Service Plan:

A number of new performance management activities were introduced during Quarter 1, namely the introduction of daily conference calls and a weekly meeting of the Operations Executive chaired by the Chief Executive. These activities are ongoing and constantly refined. For example, in Quarter 2 the 'rules' for accurate reporting of workplan failures were redefined and communicated.

The weekly Chief Executive's meeting has tactically managed the Stabilising the Pipeline Phase of our plan – providing almost immediate focus on geographical or generic issues in particular parts of the pipeline. Now that we are entering the Delivering on Our Promises phase a new forum – called the National Quality Forum – has been introduced. This senior management forum will take a longer term view of customer service issues (e.g. Quality of Service, USO service provision, customer complaints, etc), monitor deployment of the key programmes contained within the current Quality Plan and drive development of future Quality Plans.

A new post, Head of Quality Programmes, reporting to the Quality Director, has been created to programme manage these key initiatives and report progress to the National Quality Forum. These initiatives (listed below) are described in more detail later in this report:

- Resourcing/Manpower Planning
- Traffic Forecasting/White Book Staffing
- Integrated Quality Approach (IOA)
- Radio Frequency Identification Technology (RFID)

In addition, a Quality Project Office has been established to monitor and track the deployment of all the other Quality of Service initiatives in the Plan. Analytical support to the National Quality Forum will be provided by members of the Quality Directorate.

Resourcing/Manpower Planning:

This activity focuses on the redesign and mandatory deployment of unit based tools for manpower planning and resource management, starting from November 2004 through to March 2005. The revised tool will ensure standard and robust methods of manpower planning take place at all operational units, giving a rolling 13 week forecast of manpower at Unit/Sector/Area/Territory/Company level. The tool will help ensure robust recruitment/surplus management takes place and will allow upward aggregation. This will also support achievement of the two mandatory standards relating to Traffic Forecasting and White Book Staffing (see below). Design and planning activity to support the October launch has been completed during Quarter 2/3.

Mandatory Standards for Traffic Forecasting and White Book Staffing:

Earlier this year 3 Mail Centre Mandatory Standards were set out by the Quality Director and Operations Director for national deployment. These were:

- Contingency resource (known as White Book Staffing within Royal Mail) to be deployed
- Traffic/staffing forecasting process to be in place
- Daily Root Cause Analysis, i.e. managed by the daily conference calls mentioned earlier

Deployment of these standards has driven some notable improvements in Mail Centre clearance to workplan performance during Quarters 1 and 2. However, an independent review of deployment of these standards (completed during Quarter 2) concluded that the mandatory standards were not being fully complied with nationally, identified the barriers to compliance and provided a number of recommendations. The key barriers and improvement activities (endorsed by the Operations Executive) are summarised in the table below:

Barrier	Improvement Activities
Lack of understanding of how the manpower planning process should work	<ul style="list-style-type: none">• Update resourcing and white book staffing guidelines• Review and revise the 13 week traffic/workload forecasting process• Review skills and training requirements and agree new approach with personnel to resolve any issues• Develop clear process maps for key activities which support deployment of the standards
Fragmented supporting documentation and best practice guidelines	<ul style="list-style-type: none">• Update the Mandatory Standards section of the Royal Mail Intranet site with revised resourcing, white book staffing and traffic/workload forecasting procedures• Re-communicate the standards to the Operations Processing function through a series of re-launch workshops
Opportunities for improvement in the MIST software	<ul style="list-style-type: none">• Update the MIST software to incorporate user feedback• Produce Work Time Learning and Listening sessions for MIST operators• Produce Standard Operating Procedure for MIST operators• Refresh MIST training courses• Develop user friendly MIST software guide

During Quarter 2 and early Quarter 3, design and review work has been completed in preparation for a comprehensive re-launch of these mandatory standards. This re-launch will involve a series of training workshops for Mail Centre and Production Control Managers, commencing in October 2004.

Integrated Quality Approach:

The Integrated Quality Approach (IQA) is designed to: Support the capture of accurate 'defect' data to ensure we understand the real root causes of service delay and do not waste time and energy looking at the wrong things

- Involve the deployment of Standard Operating Procedures to provide clear guidance on how to complete tasks and why they should be completed in a certain way. It supports compliance to national standards through a programme of self and independent audit – thus ensuring we work to a common set of standards and procedures across all operational units.
- Provide the data capture and diagnostic tools and techniques (e.g. Radio Frequency Identification Technology, Access Barcoding, Quality Dashboards) necessary to ensure decisions are based on facts.

The programme of activity has been split into 3 distinct strands: Systems, People (including training and communications) and Revised Audit Approach. Our original Quality of Service Plan assumed 'big bang' deployment of these strands in Quarter 2. However, the original Terms of Reference for the programme have been extended to cover deployment across the entire Royal Mail Letters pipeline (including Logistics units) and in order to get the basic building blocks right from the start this has meant re-defining the systems architecture, IT infrastructure, IQA training and audit approaches.

Key activities which have been completed during Quarter 2 include:

- The national Pipeline Performance Measurement System was re-launched in August. This re-launch included a review of the measures to be taken (ensuring the remaining measures were relevant to today's operation and linking these measures to the new operational process map and Standard Operating Procedures) and the introduction of mandatory in-process Quality Diagnostic measures tagged to individual work areas. The system was also updated to provide a set of useful Quality Diagnostic Reports (including daily quality 'leaky pipeline' results) and incorporate a Collections Daily Performance Report (to mirror the Mail Centre and Delivery Office Daily Performance Reports which have existed for some years) and a Logistics Daily Performance Report. The re-launch involved a series of training workshops for Mail Centre 'champions' who were then responsible for communicating the changes back to their local Mail Centre and ensuring the new measures were being taken correctly and consistently.
- Standard Operating Procedures setting out the steps to be taken to complete each element of work and, where appropriate, containing additional information - including examples of best practice - have been developed, tested and made available on the Royal Mail Intranet site. These Standard Operating Procedures also underpin the new Self Audit questions being launched in Quarter 3 (see Operational Standards and Audit). Deployment of Standard Operating Procedures will become mandatory during Quarter 4.

- Development of the “Quality Universe” database which connects multiple information systems to a single data source that can then connect to and produce Quality Dashboards and interactive reports was completed during Quarter 2. However, contractual issues with the software supplier and extension of the scope to include RM Logistics has resulted in some delay to user trials. A technical trial throughout the Thames Valley Area commenced in November. Additional user pilots will commence in January 2005 at West London, Edinburgh and Milton Keynes. These pilots will confirm that the information provided by the system assists root cause analysis as well as testing ease of use, data integrity and system performance. Initially, four systems will be connected to the Quality Universe, covering Mail Centre Processing, Network Distribution and Delivery Performance. Additional systems covering Collections, Logistics and End to End performance will be implemented early in 2005. National deployment is planned to commence from February 2005.
- People: The objective of this strand is to develop a programme of employee involvement to engage all front line employees in the continuous management and improvement of customer service in their respective work areas. Planning activity has commenced during Quarter 2 to define the impact of the necessary changes on individual roles and identify which current activities can be ‘switched off’ to create the headroom required to successfully implement the change. Full scoping of this initiative will be completed and signed off by the Operations Executive during Quarter 3.

Full national launch of all strands of the Integrated Quality Approach is scheduled for March 2005. In the meantime, a number of activities are being completed in preparation for that launch. These include developing and testing Pipeline Reports for Mail Centres, Delivery Offices, Logistics Hubs and Collections Hubs and developing the national training plan, workshops and integrated communications campaign. Changes to the national self and independent audit programmes are also being deployed – see below.

Operational Standards and Audit:

Ongoing compliance to a set of national operational standards has been fundamental to Royal Mail’s Quality Plans for some years. This approach is key to delivering the day to day disciplines necessary to ensure consistency and integration across the Royal Mail pipeline. Our approach to self and independent audit continues to evolve. Quarter 2 has seen a number of developments:

- the independent audit team has been re-organised to create 3 Regional based teams (and renamed Compliance Audit and Specification)
- the audit programme has been extended to incorporate all Logistics units – with an associated increase in team resource
- plans have been developed to move to a more ‘impact driven’ approach which will focus on the poorer performing units, i.e. those having the largest detrimental impact on Quality of Service, USO service provision, customer complaints, etc (scheduled for deployment in Quarter 4). A further change will be to move the main focus from products to generic pipeline activities and other processes which are critical to Quality of Service achievement such as manpower planning and traffic forecasting (see above).

- the Gold/Silver/Bronze accreditation model has been reviewed and plans developed to move to a Pass/Fail model with tighter deadlines for addressing non-compliance (also scheduled for deployment in Quarter 4)
- a new self-audit approach has been developed and tested with Areas. Live testing and training for the new approach commences in Quarter 3 (with 17 additional managers deployed to support roll out) for 'go-live' in Quarter 4. Once deployed operational managers will carry out daily, weekly, monthly and quarterly reviews of their performance against specification within their own area of accountability and develop action plans to recover non-compliance. Area Management Teams are committed to carrying out audits themselves in their units to further enforce the approach. We will be able to monitor non-compliance centrally – via PPMS and the Quality Dashboard - to identify themes and/or common problems and initiate remedial action. However, responsibility for day to day fixes sits firmly in the operational line. Self audit becomes a key strand of the Integrated Quality Approach (above). However, it will not replace centrally driven independent audit which will continue to provide a robust health check. A formal presentation on the above development is being made to Postcomm and Postwatch during November.

During Quarter 2 a full programme of independent audits was completed as planned.

Quality Diagnostics: Radio Frequency Identification and Electronic Quality Test Letters

The End to End measurement of Quality of Service is reliable and accurate. However, when End to End measured quality is lost all that is known with certainty is the date and time of posting and the date and time of receipt. We know very little about where E2E quality is lost.

Electronic Quality Test Letters (QTLs) have been used within Royal Mail for many years. These QTLs provide an electronic trace of the journey of a letter – showing periods of activity and inactivity – and with specialist knowledge and training can be translated to provide information on where Quality of Service delays have occurred. The use of QTLs to support local root cause analysis has continued during Quarter 2 and a national exercise has been carried out to establish how much mail is being processed on the main despatch. In recognition of its commercial importance and to reduce the remaining performance gap, all QTL stocks will be diverted for use on 1st Class PPI from Quarter 3 onwards (See PPI Section for more details).

However, the QTL approach is now being overtaken by new technology. Royal Mail has developed plans to use the new and developing Radio Frequency Identification (RFID) technology. The proposal is to enable all the entrances/exits in key operational buildings with RFID aerials/readers. Research International, the company who independently manages our End to End survey, will then be asked to place an RFID tag in each sample that is posted by a panellist. As these tagged items enter and leave our buildings they will be recognised and the event will be recorded¹. It will then be possible to understand the route and the timings for every sample, making diagnosis of Quality of Service failure much more timely and fact based and focussing attention on fix activity rather than debate about where quality is lost.

¹ Note: End to End samples will still travel anonymously through the pipeline, i.e. the system will not provide any real time information to indicate that a sample has just passed through.

Royal Mail plans to deploy a system that has been tried and tested in many other postal administrations and funding is being sought for full roll out of an off the shelf RFID quality management system in all Mail Centres, Regional Distribution Centres and Air Hubs plus up to 200 of our most influential Delivery Offices. First installations of the system, subject to financial authority to proceed, should begin in major units in Quarter 4. This initiative represents a significant investment for Royal Mail and is a key supporting enabler to the overall Integrated Quality Approach. A formal presentation on RFID will be made to Postcomm and Postwatch at a later date.

Revised National Workplan:

During Quarter 2 a complete review of the generic national workplan – across Mail Centres, Regional Distribution Centres and Delivery Units – was carried out. This review took into account changes to the pipeline as a result of Transport Review, Mail Centre Efficiency Review and Single Delivery deployment and improves integration between the Mail Centre and Distribution Centre pipelines.

A number of workshops were held in August to communicate the proposed changes and obtain feedback on any issues/barriers to deployment. As a result, the workplan has been updated. Key changes to the national workplan include:

- compliance to the national workplan will be mandatory and any unit that can not adhere to it will require authorised exemptions
- an extension of the Mailsort 2 and Mailsort 3 Mail Centre arrival window – to relieve pressure on inward Distribution Centres
- Mailsort 2 will be processed in the Inward Mail Centre by 1700 on Day B – to maximise Day C delivery
- Mailsort 2 and 3 to be streamed, processed and despatched separately to maintain the integrity of each product and prevent Mailsort 2 being mis-streamed into Mailsort 3
- A retiming of Delivery Office feeder waves and missort retrieval runs to ensure all due mail arrives before deliveries are scheduled to go out

The new finalised workplan is being communicated during Quarter 3 and national deployment will be phased in and completed by March 2005

Quality Excellence Task Force

The Quality Excellence Task Force approach was launched in Quarter 1 in response to a shortfall in performance against flightpath. The Task Force approach is now a formalised part of the management process and focuses on driving improvements in units with the lowest performance and/or the highest impact on national performance (with each tranche of visits being endorsed by the Operations Executive).

The Task Forces are led by core resource from the Compliance Audit and Specification team (which are now an integral part of the Compliance Audit and Specification team in addition to the independent audit resource) and supported by secondary resource from business wide experts or leaders, e.g. Personnel specialists.

Typically, the process involves pre-analysis of End to End and in-process measurement data to understand the likely root causes of service delay followed by a one week (minimum) visit to observe the operation and make recommendations on how to fix problems. These visits typically span Saturdays and Sundays to capture any specific issues relating to the weekend operation. The recommended actions are passed to the Area General Manager for deployment and management of the plan is then fixed in the line of accountability between the Area General Manager and Territory Director – with the Operations Executive monitoring progress (by exception) on a weekly basis.

The Quality Excellence approach has proven to be effective with the majority of 11 units supported so far improving their performance and reducing/eliminating their (negative) impact on national performance. A separate update report has been provided to Postcomm and Postwatch. The approach will therefore continue into Quarter 3 and beyond.

Engagement/Communications

Royal Mail has an ongoing communications campaign designed to raise and maintain awareness of customer service issues, including Quality of Service. This campaign relies on regular monthly articles in in-house publications such as the Courier and Today, as well as poster campaigns, quality updates in Operations Daily² and direct letters/e-mails from the Chairman, Chief Executive and Operations Director. Other examples of communications activity include:

- Quarterly Leadership meetings – setting out Business priorities to senior operational managers
- Area General Manager forums
- Area Commercial Manager forums
- Use of the Royal Mail Intranet to share and cascade information

And these channels will continue to be used to cascade key Quality of Service messages. In Quarter 3, a special edition of Today (the in house magazine for Royal Mail managers) will be dedicated entirely to customer service issues. This will include articles on:

- How to improve quality
- Deployment of the National Quality of Service plan
- Key customer needs and Licence requirements
- Quality Excellence Task Force and Self Audit procedures
- The revised national workplan
- Deployment of the Integrated Quality Approach
- Best practice advice on manpower planning
- PPI performance – how and why we must deliver further improvements

² A daily e-mail sent to all Operational Managers which sets out key messages and priorities for the Organisation

Pipeline Specific Improvements: Collections

The deployment of Access Barcoding (ABC) is a key enabler to driving improved Quality of Service performance by providing a measure of punctuality and reliability of collections performance. Deployment of ABC is a key component of the Integrated Quality Approach and ultimately ABC performance data will be networked and fed into the 'Quality Universe' (described earlier).

The ABC deployment programme is currently on schedule to be completed by mid January 2005. To date approximately 4,000 new scanning devices have been installed in 180 collection hubs across 35 postcode areas. This includes the whole of London, which now has the upgraded ABC equipment fully operational in all sites.

Delays have occurred in the purchase of the Collections Routing Tool software – which supports the revision of collection duties to enhance the punctuality and reliability of collections performance. However, we are currently in the process of purchasing the software Licence ready to commence deployment in Quarter 4. The full benefits of roll out of this system will be realised in 2005/06.

Pipeline Specific Improvements: Mail Centre

A number of Mail Centre improvement initiatives – in addition to those mentioned above (manpower planning, mandatory standards, operational standards and audit, etc) – have helped drive Quality of Service improvements through Quarter 2. These include:

- **Flat Sorting Technology:** New Flat Sorting Machines were deployed in Gatwick, Edinburgh, Bristol, Peterborough and Manchester Mail Centres in Quarter 1. These machines continue to run well with increasing volumes of mail handled through them. The new equipment is now managed, maintained and operated by local staff – central project support is no longer required. In addition to the mail in the 6 equipped Areas more work is now provided by permanent transfer of mail from neighbouring Areas to each machine – doubling the utilisation of the equipment and relieving pressure in other Mail Centres. A proposal to progress to a second phase of deployment, of the same type of machine, is being considered.
- **Address Interpretation – Automated Sorting Accuracy:** We continue to maximise the effectiveness of our automated processing facilities by addressing a number of known issues associated with our Address Interpretation technology. Lockheed Martin, our technology supplier, has now fixed 91 of the 166 known missort problems. A further 32 will be fixed in November while the remainder will be fixed by the end of the financial year. A software upgrade for International mail is still on course for delivery in November. This software will reduce the number of items mistakenly misread and sorted to an international address. A methodology for reducing the number of missorted items on Flat Sorting Machines has also been accepted by Royal Mail and will be implemented by the end of the financial year. Finally, a software solution to reduce the number of meter items which are mistakenly sorted to the return address (when the customer prints their return address on the front of the envelope) has been implemented to plan. The performance of this solution will be further enhanced by the implementation of new standards for printing return addresses on envelopes.

- Mail Centre Efficiency Review: Deployment of the Mail Centre Efficiency Review continues with no disruption to customer service. To date 46 Mail Centres have consolidated the efficiency payments into their pensionable pay.
- Automation Doubles: The Automation Doubles Detection Project for the Integrated Mails Processor has suffered deployment delays as our supplier has experienced difficulties in providing the kit. However, installation commenced on 1st November and we aim to complete installation in the remaining units before Christmas.
- Future Automation Capacity Study: A study has commenced to evaluate the utilisation and distribution of automation equipment to ensure all automation equipment is being used to its maximum potential and that any surplus equipment is distributed to a location where it will have the most significant effect. The results of the study – due in Quarter 3 - will be used by Territory Directors and the Automation Strategy Team to make decisions on what short term changes are required to our current use of automation and how these changes will assist in achieving customer and financial targets.
- Packet Containerisation: The trials of Packet Containerisation at Watford Mail Centre have proven successful particularly in support clearance to workplan. The wider implications of further deployment – particularly on the national network – are now being considered as part of the longer term deployment strategy.

Pipeline Specific Improvements: Network

A large number of network improvements were deployed in Quarter 1 – a detailed description of each was provided in the Quarter 1 Report and they are summarised in the table at the start of this report. During Quarter 2 many other activities have been completed as part of our routine Performance Management, these include:

- A review of road links into National and Princess Royal Distribution Centres to reduce the number of tight connections and thus improve the reliability of the service
- Introduction of a new local network to deal with the requirements of a major customer locating to Gourock in the West of Scotland
- Review of the network connections to West London Delivery Office and Paddington Mail Centre (from the National Distribution Centre) – improving both efficiency and service reliability
- Continuing investment in materials handling equipment at Mail Centres and airports to expedite loading and unloading at these units
- A review of all road connections into and out of East Midlands Airport to reduce congestion and smooth the flow of mail.

- Daily Root Cause Analysis: Continuation of daily conference calls for all key Logistics Operational Managers has helped drive the network improvements seen in Quarter 2. This conference call is followed each day when a Logistics representative joins the Royal Mail Letters (Mail Centre) conference calls to ensure effective communication between key operational managers across the two Business Units.
- Operational Standards and Audit: As previously mentioned, a set of operational standards have been developed for Logistics units and independent audit of these Logistics units commenced in Quarter 2.
- Contingency Planning: A number of contingency drivers and vehicles have been positioned at key network points such as the National Distribution Centre so that prompt recovery action can be taken in the event of a vehicle breakdown or sudden increase in volume that causes scheduled services to bulk out.
- Priority Services: Airport road services and other road services carrying first class traffic have been classed as 'priority services' and as such they are always covered by an experienced driver using the most modern vehicles. In the event of a breakdown to a 'priority' service a fast reaction process is deployed to ensure that the mail is kept moving to its intended destination.
- Relief road services: Early relief road services have been introduced to Mail Centres and Distribution Centres where there is a risk of a volume bulk out on the scheduled main despatch. This happens mostly on Thursday/Friday evenings and at the end of the month when traffic volumes are at their highest. Many more relief services will be deployed in the build up to Christmas.
- Move to Time policy and Pre-advice system: The pre-advice system designed to monitor the performance of our linehaul services was re-energised at the end of Quarter 1. During Quarter 2 work has continued to ensure the routing schedules contained in the database are completely up to date. Similarly, the Move To Time policy was relaunched in Quarter 1 as a mandatory standard. As with the Mail Centre mandatory standards, an independent review of deployment has recently been carried out. Results of this study will be shared with the Operations Executive in Quarter 3 with resulting recommendations acted upon.

In addition to the above we have invested in additional RDC capacity and the associated network requirements by re-opening to Distribution Centres. Middlesex and East Midlands Distribution Centres were opened early in Quarter 3 to support processing of increase Autumn traffic levels. These units will provide much needed additional capacity for Northern Home Counties, Princess Royal and the National Distribution Centre. The extra units will be in operation for the duration of Quarter 3 – and we are currently scoping the requirement for ongoing additional Distribution Centre capacity.

In addition to the purchase of new York containers, work is also underway to improve the flow and repatriation of York containers – with best practice guidelines shared with all operational units – preventing customers and contractors from using York containers for anything other than transportation of mail, ensuring all damaged Yorks are repaired quickly at Vehicle Services workshops, encouraging drivers to report an examples of Yorks being used by non-authorized customers or competitors and ensuring that Delivery Offices return empty Yorks to the Mail Centre each day.

It has also been announced that the Letters and Logistics wings of the operation will be merged into a single business unit, reporting to the Chief Executive from the start of next financial year. Planning for this merger has commenced.

Pipeline Specific Improvements: Delivery

Since the Quality of Service Recovery Plan was implemented Royal Mail's unequivocal approach has been to deploy Single Daily Delivery only when there is assurance that there will be no adverse Quality of Service impact. During Quarter 2 robust risk assessments, signed off by the Territory Director, have been carried out before a Delivery Unit migrates to the single delivery – thus minimising the risk of disruption to customer service.

In addition, a number of other Delivery specific improvement activities have been carried out. These include:

- Restrictive practices: Royal Mail continues to systematically address and eliminate the restrictive practices that have interrupted Quality of Service achievement in the past – the majority of which occur in the Delivery Operation.
- Best Practice Guidelines: Work has continued to tie up all Business policies, processes and procedures into a single data source which will allow easy access to best practice information and toolkits for Operational Managers. In Quarter 2, this has included the development of guidelines relating to 'pouching off'³ and updating A-Plus⁴.
- Tools for the Job: Tools for the job equipment provision has continued through Quarter 2 with 3,000 RM2000 sorting frames and 13,000 Wing Prep Fittings being supplied to support inward sortation and preparation in Delivery Offices. In addition, over 1,400 delivery trolleys and 3,000 pouch boxes have been supplied.
- Misdelivery: Misdelivery is a key contributor to Loss and Quality of Service delay. During Quarter 2 a misdelivery reduction campaign was launched which targeted frontline employees and managers. This involved the update and issue of a Misdelivery Good Practice Guide and a dedicated Intranet site on Loss Root Cause and Mitigation. Face to face briefings were held with Area Management Teams and a Work Time Listening & Learning module was deployed for use with front line employees. Misdelivery has also been addressed in the newly deployed Standard Operating Procedures and changes to personnel policy (see Human Resourcing) and the drive towards permanent contracts of employment will further assist.

³ Pouching off is when a Delivery Office finishes his daily duty at the end of his delivery round without returning to the Delivery Office.

⁴ A-plus is the information system which holds all data specific to individual delivery points and delivery rounds

- Doorstepping: Similarly, doorstepping⁵ is also a key contributor to Loss and Quality of Service delay. This practice has also been tackled via an integrated communications campaign as described for misdelivery.
- Human Resourcing: Resourcing issues have been a key driver of many of the problems encountered when migrating to the new Single Delivery. A full review of Human Resourcing issues has been carried out and is described below.

Human Resourcing

The way in which Royal Mail recruits, trains and manages its employees is integral to improving performance across all customer measures and a joint working group made up of senior people from Royal Mail, the Communication Workers Union and Amicus Communication Managers Association has been set up to examine exactly how the business recruits, vets and trains its people. This group will oversee and co-ordinate all work being done including:

- What attracts new recruits to Royal Mail and how they are trained
- Working to develop a modern apprenticeship scheme for younger employees
- Reviewing the training and learning currently provided for employees and managers.

Findings and recommendations from this newly appointed group will be built into future Quality of Service improvement plans. In the meantime, Royal Mail has continued with initiatives to improve its:

- Resourcing Policy
- Recruitment procedures
- Induction training and support
- Agency staffing
- Absence Management

These changes are described, in turn, below:

Resourcing Policy: Over the last 18 months we have been managing the manpower reduction from our change programmes by routinely offering temporary rather than permanent contracts of employment. Now our revision programmes are bedding in we can change this approach. Permanent contracts of employment will now be our normal offer to people. This will reduce the number of people who leave the company, boost skills and increase commitment to service. Royal Mail is moving to a model of recruiting onto permanent contracts of employment (full and part time) against robust manning levels which reflect expected workload and employee turnover – with fixed term contracts only being used to meet planned fluctuations in manning levels, e.g. to cover maternity leave.

⁵ Leaving items on the customers doorstep when there is no-one at home to receive an item which will not fit through the letterbox

At the end of Quarter 2, almost 6,000 new permanent contracts had been issued and work is underway to drive further conversions during Quarter 3. Any further recruitment of individuals to temporary contracts has effectively been banned within Royal Mail.

At the end of Quarter 2 a further initiative was launched to reduce the number of 'acting' managers by converting them to temporary or substantive managerial positions – with the aim of improving moral and personal security of tenure.

Recruitment Procedures: As part of the campaign to restore pride and improve Quality of Service Royal Mail has accelerated the way in which it recruits people so as to reduce the cycle time between advertising a vacancy and filling the post. The organisation is also concentrating on reducing the number of operational vacancies across the UK and reducing attrition levels (which is especially high for employees who have been with the organisation for less than 6 months). During Quarter 2, Areas have been developing their rolling 13 week resourcing plans and working closely with Personnel to recruit to known vacancies. Over 2,500 vacancies have been filled during Quarter 2 as a result of this planning and liaison. Other improvements include:

- All vacancies are now being advertised concurrently
- The number of candidates being invited to assessment has increased by 25%
- Dedicated weekly medical referral clinics have been set up in each Area
- Conditional offers of employment are being made in advance of medical referral
- Family and friends initiative being piloted to help our existing employees encourage others to apply to Royal Mail
- Move to singleton interviewing where appropriate to reduce 'bottleneck' caused by lack of interviewers
- National vetting centre up and running in Chesterfield
- Discussions with Reed Agency regarding the conversion of Agency employees to permanent contracts within Royal Mail

Induction Training and Support: The attrition rate for new starters within Royal Mail is too high. Such a high staff turnover erodes the pool of knowledge and experience within the organisation and results in high vacancy levels. Learning curve issues associated with a high turnover of new staff also affect Quality of Service performance. A number of initiatives have been deployed to address this. These include:

- A special two day classroom induction consisting of a Welcome Day (which replaces Starting Post) and a second session covering technical skill and knowledge.
- This approach is migrating to a one day Induction Course followed by workplace training supported by coaches. This approach was piloted during Quarter 2 and those taking part stated that it provides a better welcome to recruits and encourages them to stay in the business by creating a sense of trust between management and postmen/women, helping new entrants learn the ropes more quickly and giving recognition to the skills and achievements of more established employees selected to carry out the coaching role.

Agency Staffing: We continue to work closely with our Agency staffing suppliers to improve the reliability of provision and quality of staff provided. Examples of improvement activities include:

- Reed Agency have extended their opening hours to accommodate Delivery Office Managers
- Key Agency suppliers are looking to pool resource from other Agencies
- Deployment of an accreditation scheme for Agency employees who have a regularly worked for Royal Mail in the past – with standardised pre-assessment and induction for Agency staff
- Reviewing Agency pay rates
- Employees provided by Reed will wear ID badges

Absence Management: A new attendance procedure was launched early in Quarter 2 which is helping managers to manage absence more effectively. This procedure ensures managers are kept up to date with the status of employees sick absence to assist with manpower planning. The first phase of this new approach saw the launch of the much publicised “Win a car” campaign – a prize draw where employees who have not taken any sick leave between 2nd August and 31st January will be eligible for entry. The effectiveness of this campaign will be reviewed in February and could be extended if proven successful.

Peak Pressure Planning:

During Quarter 2 extensive planning was carried out to ensure robust manpower and resource plans were in place to cope with increased traffic levels in the build up to Christmas and, in particular, the period immediately following the August Bank Holiday when performance to workplan has been poor in the past. The Bank Holiday planning proved particularly successful with Mail Centre, Network and Delivery failure levels significantly lower than in previous years and a Period 6 result of 93.1% for 1st Class Stamped and Meter mail. Learning from this approach has now been incorporated into Christmas planning which has been carried out early in Quarter 3.

2005/06 Quality of Service Plan Development:

Development of the 2005/06 Quality of Service plan commenced during Quarter 2. The process starts with ‘upward feed’ from Operational Managers – to understand the challenges they face in improving customer service and the enablers they feel are necessary to achieve the higher target levels in 2005/06. The process also involves a series of planning workshops with Area General Managers and Area Commercial Managers and the setting of postcode area targets (driven by National Licence requirements). These activities have all been completed during Quarter 3.

Actions and Outlook for Rest of Year:

Cumulative performance for 1st Class Stamped and Meter mail is currently running 2.1% below the full year target level – largely due to the expected shortfall in performance during Quarter 1. To achieve the 92.5% full year cumulative target, performance for the remaining 6 months of the year would have to be at least 94.7%. As this level of performance is beyond what our current pipeline is designed to deliver, the cumulative target will not be achieved.

Despite this, we are confident that we have restored Quality of Service and brought much needed stability back to the pipeline. We remain determined to maximise performance during Quarters 3 and 4 – encouraged by the strong results in Periods 5 and 6. Some benefits from the activities deployed in Quarter 2 are still to flow through into Quarter 3 results (due to the lag effect mentioned previously) and a number of new activities are scheduled for deployed in the last two Quarters – Integrated Quality Approach, RFID commencement, Self-audit and the relaunch of Mail Centre mandatory standards - which are designed to support rigorous Performance Management and timely fix activity that will drive medium and long term sustainable performance improvements.

However, weather conditions deteriorate and traffic volumes increase in Quarters 3 and 4 and this historically has resulted in a seasonal decline in performance. A number of activities are being deployed to mitigate this seasonal dip, for example:

- The Transport Review programme introduced all-weather aircraft which have greater capability to land in foggy conditions
- As part of our Christmas planning:
 - We have set out clear instructions for the use and repatriation of materials handling equipment (as described above)
 - Units are developing robust manpower plans with increased levels of staffing to cope with increased traffic volumes.
 - A 'masterclass concurrence' process has been deployed to ensure that all Logistics units have the resources in place for the run up to Christmas.
 - 4 new rail services will be temporarily introduced to and from Princess Royal Distribution Centre, Warrington and Wishaw to support the Christmas Distribution Network
 - Non-operational managers will provide 'extra pairs of hands' in Mail Centres, Distribution Centres and Delivery Units to support robust clearances
- We have commenced communications and planning to ensure strong performance is maintained immediately after the Christmas and New Year Holidays (when sick and annual leave is historically high)

Royal Mail will endeavour to maximise performance for the rest of the year and has set itself the challenge of performing at 93.0% in Quarter 4 – to ensure we start 2005/06 in a strong position to achieve the full year target.

MINIMUM POSTCODE AREA TARGETS

Review of Results

1st Class Stamped and Meter Posted

The schedule of minimum service standards requires all Postcode Areas (excluding HS, KW and ZE) to achieve an average performance of at least 91.0% for 1st Class Stamped and Meter Posted to the UK throughout the 12 month period ending March 2005, excluding the Christmas and New Year period. Progress against this standard is shown in the table below:

Quarterly Cumulative Results

% of Postcode Areas Averaging 91.0% or above for 1 st Class Posted Stamped and Meter		
April-September (Quarter 1-2) Result	April-September (Quarter 1-2) Flightpath	Full Year Cumulative Target
54 of 118	77 of 118	118 of 118

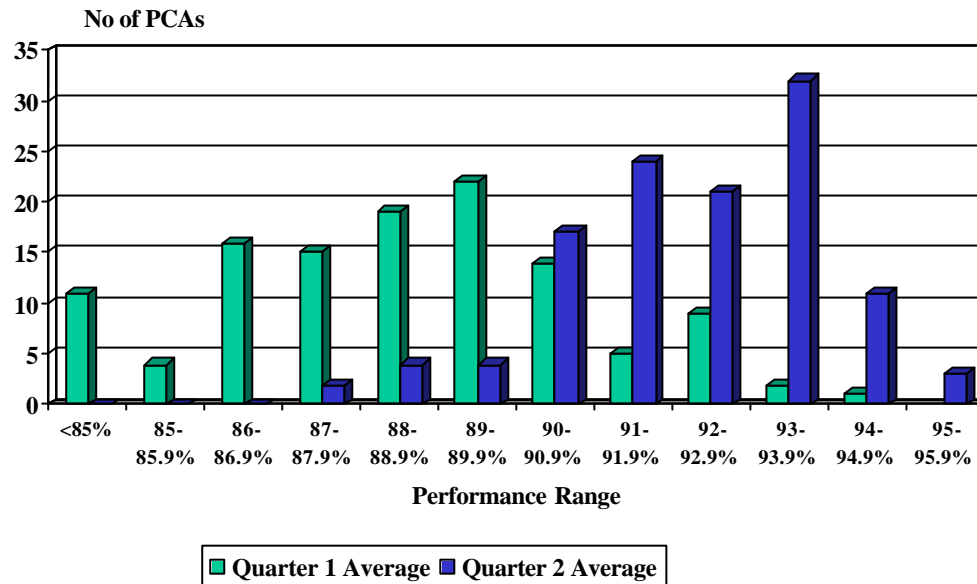
There is a statistical relationship between national 1st Class Stamped and Meter performance and performance for the 118 postcode areas that make up the national total. The factors that have affected 1st Class Stamped and Meter national performance in Quarter 1 and the activities that have driven the significant improvements in Quarter 2 results have equally affected 1st Class Stamped and Meter Minimum Floor performance.

At the end of Quarter 2, performance remains cumulatively behind flightpath. However, some significant improvements have been made over the last Quarter. For example, 91 of the 118 postcode areas performed at or above the 91.0% on average during Quarter 2 – 74 more postcode areas than in Quarter 1. This has improved the cumulative position from 17 postcode areas achieving target in Quarter 1 to 54 postcode areas achieving target in Quarter 2.

In addition, all but 4 of the postcode areas that performed below the 91.0% target level in Quarter 1 have improved their performance in Quarter 2.

The chart below compares the overall distribution of 1st Class Stamped and Meter Posted performance for Quarters 1 and 2. This shows that not only have the worst performers from Quarter 1 improved considerably but that the entire distribution of performance across all postcode areas has improved – with the majority of postcode areas performing between 93-94% in Quarter 2, compared with 89-90% in Quarter 1.

1st Class Stamped and Meter Posted Floor Distribution



It is worth noting, however, that even in Period 6 when national performance was 93.1% only 99 of 118 postcode areas performed at or above the 91.0% level. This is due to general ‘noise’ in performance results, not least of which is related to the sizeable confidence limits associated with performance at postcode area level. The average statistical confidence level of the postcode area results for the half year is $\pm 2.0\%$ for 1st Class Stamped and Meter Posted performance – with some individual postcode areas as wide as $\pm 2.9\%$ ⁶.

All of the activities described in the 1st Class Stamped and Meter section of this report will support further performance improvements in Minimum Floor performance. The Quality Excellence Task Force activity will provide specific help to those performing at the lower end of the spectrum.

⁶ As confidence limits are a function of sample size and variability in performance you generally find that the poorest performing postcode areas have the widest confidence limits.

However, accountability for driving further improvements at postcode area level sits firmly in the operational line. Routine Performance Management, root cause analysis and fix actions at Unit, Area and Territory level will drive further improvements. To support this, each Territory has now appointed a Territorial Quality Analyst specialist in analysing End to End and in-process data to further support the identification of root causes of service delay.

Overall the latest forecasts are:

- Individual postcode area cumulative performance will continue to improve through the remainder of the year as the poor Quarter 1 results are 'diluted' by improved performance in Quarters 2, 3 and 4 - i.e. nationally we will not fall back to the performance levels witnessed in Quarter 1, so cumulative performance will improve.
- The localised unofficial industrial action encountered in Oxford in Quarter 1 means they cannot arithmetically achieve the full year target.
- The following postcodes are also at serious risk of failing the full year cumulative target – BA, BT, CB, CH, CM, CR, CV, DA, E, EX, FK, G, HX, IV, L, N, NN, NP, NR, NW, OL, PE, SA, SG, SL, ST, TF, TQ, TS, UB, W, WC, WF. However, it is worth noting that 13 of these postcode areas (CB, CH, CM, DA, EX, HX, NN, NP, NW, SG, SL, TQ and TS) have performed at or above the 91.0% target level during the July-August period. It is also worth noting that the average improvement in performance across these 33 postcode areas between Quarters 1 and 2 was 4.6%.

Many of the remaining 64 postcode areas that are performing cumulatively below the Posted Floor will recover their position and achieve the full year cumulative target. However, we anticipate that at best 85 postcode areas will achieve the 1st Class Stamped and Meter Minimum Floor on a cumulative basis this year.

1st Class Stamped and Meter Intra

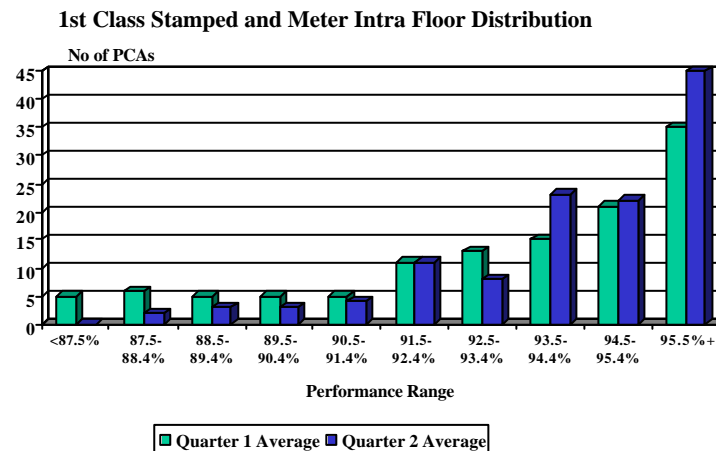
The schedule of minimum service standards requires all Postcode Areas to achieve an average performance of at least 92.5% for 1st Class Intra Stamped and Meter throughout the 12 month period ending March 2005, excluding the Christmas and New Year period. Progress against this standard is shown in the table below:

Quarterly Cumulative Results

% of Postcode Areas Averaging 92.5% or above for 1 st Class Intra Stamped and Meter		
April-September (Quarter 1-2) Result	April-September (Quarter 1-2) Flightpath	Full Year Cumulative Target
89 of 121	85 of 121	121 of 121

At the end of Quarter 2, 1st Class Stamped and Meter Intra Minimum Floor cumulative performance has improved and is ahead of the planned flightpath level - with 89 postcode areas on track to achieve the full year target of 92.5%.

98 postcode areas performed at 92.5% or above on average during Quarter 2 – compared with 84 postcode areas in Quarter 1. These improvements have been driven by improved Mail Centre and Delivery Office clearances. The chart below demonstrates how the distribution of 1st Class Stamped and Meter Intra Floor performance has improved for postcode areas – showing that fewer postcode areas are performing at the lower end of the spectrum and more postcode areas are performing at the higher (95% and above) end.



It is worth noting, however, that even in Period 6 when national performance was 93.1% only 101 of 121 postcode areas performed at or above the 92.5% level due to general 'noise' in performance results, not least of which is related to the sizeable confidence limits associated with performance at postcode area level. The average statistical confidence level of the postcode area results for the half year is $\pm 3.0\%$ for 1st Class Stamped and Meter Intra performance – with some individual postcode areas as wide as $\pm 6.9\%$.

As stated above, all of the activities described in the 1st Class Stamped and Meter section of this report will support further performance improvements in Minimum Floor performance. The Quality Excellence Task Force activity will provide specific help to those performing at the lower end of the spectrum. Accountability for driving further improvements at postcode area level sits firmly in the operational line through robust Performance Management.

Overall:

- Nationally, 1st Class Stamped and Meter Intra performance has improved by 1.5% between Quarters 1 and 2. Cumulative minimum floor performance will continue to improve throughout the year.
- The localised unofficial industrial action encountered in Oxford in Quarter 1 means they cannot arithmetically achieve the full year target.
- The following postcodes are also at serious risk of failing the full year cumulative target – CV, E, FK, FY, G, N, OL, PE, PR, SE, ST, UB, W, WF and WS. However, it is worth noting that 4 of these postcode areas (E, FY, WF and WS) have performed at or above the 92.5% target level during the July-August period. It is also worth noting that the average improvement in performance across these 5 postcode areas between Quarters 1 and 2 was 2.6%.

Some of the remaining 32 offices that are cumulatively performing below the Intra Floor will recover their position and achieve the full year target. However, we anticipate that at best 106 postcode areas will achieve the 1st Class Stamped and Meter Minimum Floor on a cumulative basis this year.

2nd CLASS STAMPED AND METER

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
98.0±0.3%	98.6±0.2%	98.3±0.2%	98.6%	98.5

Overview

At the end of Quarter 2, 2nd Class Stamped and Meter cumulative performance is marginally behind flightpath and full year target level. However, average performance during Quarter 2 was 98.6%, just ahead of the 98.5% target level and 0.6% higher than the previous Quarter.

Monthly performance is summarised in the table below – once again, demonstrating month on month improvements since Period 2 and performance ahead of target level in Periods 5 and 6. In fact, both Periods 5 and 6 performance were better than at the same period last year, confirming that our Quality of Service renewal plan has been successful for 2nd Class Stamped and Meter mail.

Period 1	98.3%
Period 2	97.9%
Period 3	97.9%
Period 4	98.1%
Period 5	99.1%
Period 6	98.7%

Note: Average monthly confidence limits equate to ±0.4%

National Quality of Service Action Plan – Quarter 2 Update

There are no activities in the Quality of Service plan which are unique to 2nd Class Stamped and Meter mail. However, this product has clearly benefited from the Stabilising The Pipeline and general improvement activities described in the 1st Class Stamped and Meter section of this report.

Actions and Outlook for Rest of Year:

2nd Class Stamped and Meter performance is currently performing 0.2% behind the national target level. This means the product has to perform at 98.7% or above for the remainder of the financial year to close the cumulative performance gap. The product has demonstrated that it can perform at this level. We will therefore endeavour to close the cumulative gap and achieve the full year cumulative target.

1st CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
82.1±0.9%	88.1±0.4%	85.4±0.4%	86.5%	90.6%

Overview

1st Class PPI performance remains cumulatively behind flightpath and full year target level. However, Quarter 2 has seen some substantial improvements in performance for this mail stream. At 88.1%, the average Quarter 2 performance was 6% better than in Quarter 1.

Although this product has yet to perform at the 90.6% target level (on a monthly, quarterly or cumulative basis) it is encouraging to note that in Periods 5 and 6 it performed at its highest level for many years and that the Quarter 2 average performance was higher than at the same period last year.

Period 1	82.4%
Period 2	78.7%
Period 3	85.0%
Period 4	86.7%
Period 5	88.8%
Period 6	88.9%

Note: Average monthly confidence limits now equate to ±0.5% (confidence limits have narrowed during the year due to a planned increase in sample sizes and improved performance)

It is also worth noting that the gap between 1st Class PPI and 1st Class Stamped and Meter performance has reduced – the gap was 6.3% in Quarter 1 compared to 4.0% in Quarter 2 – proving that the unique PPI improvement activities deployed this year are taking effect.

1st Class PPI remains a commercially important mail stream for Royal Mail. Now that we have gained greater stability across our pipeline operation we can focus more on the specific root causes of delay for this product using Electronic Quality Test Letters – see below.

National Quality of Service Action Plan - Quarter 2 Update

Firstly, it is worth noting that all of the activities described in the 1st Class Stamped and Meter section of this report have supported improvements for PPI mail. In fact, the only areas in which the handling of PPI mail differs from Stamped and Meter are:

- In the revenue protection and compliance checking procedures at the start of the pipeline – where mailings are checked to ensure they are compliant with the contractual standards for the product and that self billing docket information has been correctly completed by the customer
- PPI letters, on average, travel further than Stamped and Meter mail – PPI mail is posted from businesses mainly to residential customers and tends to have a wider fall to earth. This means that PPI mail is more dependent on the performance of the national trunking network – and, hence, has benefited more from the improvements made on the network over the last few months.

The unique improvement activities for 1st Class PPI mail have all been described in detail in the Quarter 1 report. These include:

Customer Compliance Checks: We continue to check for customer non-compliance and rigorously enforce the terms and conditions as set out in the PPI contract. These checks are carried out immediately after mail arrives at the outward Mail Centre – any incidence of non-compliance (e.g. if the docket has been incorrectly completed, if the customer has not segregated 1st and 2nd class mail correctly or if the customer has brought the mailing to the Mail Centre after the latest posting time) results in the mailing being held overnight until the problem is resolved or a way forward is agreed with the customer.

Customer Operational Managers play a lead role in liaising with customers over non-compliance and providing guidance and support as to how the situation can be avoided in the future. For example, they may ensure the customer has an appropriate supply of containers so that they can segregate their 1st and 2nd Class mail more effectively.

Currently, over 1,000 mailings are recorded as non-compliant each month. Details of the non-compliant mailings are recorded and passed to Research International so that any End to End samples contained within the non-compliant mailings are removed from the published results.

This approach was deployed in Quarter 1 and has been ongoing through Quarter 2.

Migration of Low Value Accounts: Royal Mail is in the process of migrating a number of low value accounts, i.e. customers who do not actually generate the posted traffic volume necessary to justify a PPI account, to more appropriate methods of payment such as Stamp, Meter or SmartStamp. This will reduce the complexity associated with carrying out revenue protection checks on a large number of small volume postings and ensure smoother flows of mail into the processing area. To date, 1200 accounts have been closed, 500 accounts are waiting to be closed (i.e. once the notice period given to customers expires) and another 1700 are under review.

We have also introduced a checking system to ensure that we do not re-open accounts that have been closed. To date, activities have focussed on single site customers but we are also looking to rationalise accounts for larger, multi site customers.

PPI Sample Sizes: The PPI End to End survey traditionally had a lower number of panellists and samples than the Stamped and Meter survey – leading to wider confidence limits at postcode area and national level and to some postcode areas being ‘unmeasured’. To remove the ‘noise’ associated with the survey and hence provide clearer accountabilities and more robust diagnostics, Royal Mail has invested £1m in increasing PPI samples sizes.

The table below compares survey size:

	Number of samples	Panel Size	Number of unmeasured postcode areas	National Confidence Limit	Average Postcode Area Accuracy
April-September 2003/04	13,500	129	40 of 121	±0.9%	±9.5%
April-September 2004/05	104,000	669	4 of 121 (HS, KW, ZE, PA)	±0.3%	±4.3%

Operational Standards and Audit: The 1st Class Stamped and Meter section of this report describes the changes being made to operational standards and audit, namely restructuring of the independent Compliance Audit and Specification team, revision of audit questions and the launch of self-audit. These changes equally apply to the PPI specific operations standards.

Independent audit of compliance against PPI operational standards has continued through Quarter 2 and during this time 95% of Mail Centres audited have received Gold accreditation.

New PPI Indicia: Last August Royal Mail introduced standardised PPI indicia, replacing the hundreds of designs that our customers have used over the years. Standardising indicia allows Royal Mail greater opportunity to automate the processing of PPI mail – hence improving Quality of Service performance. Customers have been migrating to these new indicia over the past year as they replace their stationery stocks but between August 1st and 31st October the new standardised indicia become mandatory. Customer compliance is now being monitored by revenue protection teams and Customer Operational Managers so that customers can be informed if they use non compliant indicia.

To support this activity the database of valid PPI Licence Numbers has been updated and re-issued – making it easier to cross reference and check stationery against live contract numbers.

Actions and Outlook for Rest of Year:

We have seen some significant and encouraging improvements in PPI performance during Quarter 2. As with 1st Class Stamped and Meter mail, benefits of the generic and PPI specific improvement activities described above will continue to deliver improvements in PPI performance through Quarters 3 and 4. However, in recognition of the commercial importance of this product and in response to the continued shortfall of performance against target the Operations Executive have decided that further action is required.

It has been decided that all 1600 QTLs⁷ available within Royal Mail will be diverted onto understanding the remaining root causes of service delay for this product. In addition, a further 2,000 QTLs are being purchased for the same purpose. Note: these QTLs will be supplied over a period of 6 months.

These QTLs will be inserted in End to End samples to ensure we understand the shortfall in our published results and drive the right remedial actions. The purchase of these new QTL stocks and management of the survey by Research International represents an investment of over £1 million for the remainder of this financial year. This initiative will continue until such times as:

- a) PPI performance is consistently achieving the target performance level, or
- b) Radio Frequency Identification replaces QTLs as the main source of in-process diagnostic information

During October/November planning and preparation work is being undertaken to ensure maximum value is obtained from this exercise, i.e. ensuring the first supply of QTLs is placed in samples from the highest impacting End to End panellists and designing the format and processes for cascading the QTL analysis to postcode areas to ensure timely and effective fixes are deployed.

It is worth noting that the root cause analysis gained from these QTLs will also be used to drive generic improvements to the national pipeline for all products. For example, the QTLs may highlight problems on a particular network route and fixing this will benefit all products which travel on that particular route.

1st Class PPI would need to perform at over 96% to achieve the 90.6% full year cumulative target. This level of performance is unachievable. Hence, the full year cumulative target will not be achieved. However, Royal Mail remains determined to drive improvements for this product and aims to achieve the 90.6% target level in Quarter 4 – thus starting 2005/06 in a strong position for achievement of next year's target,

⁷ Electronic Quality Test Letters

2ND CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
94.3±0.9%	96.8±0.4%	95.7±0.4%	97.1%	97.4%

Overview

At 95.7%, 2nd Class PPI cumulative performance is behind flightpath. However, like most other products, performance has improved considerably in the last 3 months with Quarter 2 performance 2.5% higher than Quarter 1 (and marginally better than at the same time last year).

Period 1	95.0%
Period 2	93.1%
Period 3	95.0%
Period 4	96.2%
Period 5	97.1%
Period 6	97.2%

Note: Average monthly confidence limits equate to ±0.7%

The table above demonstrates the month on month improvements for this product since Period 2 and shows that the Period 5 and 6 results were only marginally behind target level.

National Quality of Service Action Plan - Quarter 2 Update

The National Quality of Service plan does not contain any unique activities specific to 2nd Class PPI performance. However, the Stabilising the Pipeline activities described in the 1st Class Stamped and Meter section of this report and the PPI improvement activities in the 1st Class PPI section have all contributed to the steady increase in 2nd Class PPI results.

Actions and Outlook for Rest of Year:

Once again, there are no specific activities in place to drive improvements for 2nd Class PPI mail. However, the product will benefit from all activities described previously – especially the QTL analysis.

1ST CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
74.2±3.1%	81.5±2.4%	78.2±1.9%	83.1%	90.3%

At 78.2% cumulatively, 1st Class Response Services results are most disappointing. The average Quarter 2 performance was 7.3% higher than Quarter 1 but despite this considerable improvement the product remains behind target level.

Period 1	77.5%
Period 2	71.2%
Period 3	74.9%
Period 4	81.8%
Period 5	83.4%
Period 6	79.1%

Note: Average monthly confidence limits equate to ±4.8%

National Quality of Service Action Plan - Quarter 2 Update

Like PPI, Response Services items share the generic non-presort pipeline with Stamped and Meter mail and the differences only occur in the revenue collection stages when items are billed and counted. It is these billing procedures (which are largely manual and extremely time and labour intensive) that prevent the current 1st Class Response Services target of 90.3% from being achieved. Royal Mail has already indicated that the target can not be achieved with the current service specification and indicated that a performance level of around 84.5% is the best that we can expect to achieve in a stable state.

Consequently, Royal Mail has developed a new Response Service product (Response Services Plus) that is capable of achieving all customer requirements for this media. This new product has been developed in consultation with major customers and Postcomm/Postwatch.

The product design has been finalised and a technical solution which uses Address Interpretation technology to carry out the counting and billing procedures has been deployed. This product has now been launched and the technological solution is now live in 68 Mail Centres (with the remainder coming on line in November).

Customers are now migrating to the new product. Approximately 1450 customer have signed up for the new product – although migration takes times as they run down their existing stationery stocks before printing the Response Plus envelopes.

It is important to note that the existing product has a mix of manual and machinable items. The main reason for the Quality of Service shortfall is the additional handling processes for the manual element which causes delay in the pipeline. A large proportion of machinable mail in the existing product mix will migrate to the new Response Services Plus product. Therefore, the mix of manual and machinable items in the residual product will change – with a higher proportion of manual traffic. Therefore, the Quality of Service for the residual product could fall.

However, Royal Mail is determined to do all it can to raise the Quality of Service performance of the residual product (1st and 2nd Class) through the following activities:

Ongoing Automation: Royal Mail will machine sort, count and bill the machinable items which do not migrate to the new product wherever practical. However, some problems have been encountered during the transitional move to the new Response Services Plus solution, i.e. during the transition more items than usual were rejected to the 'LSM suspect' box and hence required manual sorting at the Mail Centre and manual counting and billing at the Delivery Office. The complexity of reconciling the old and new product Licence details at the Delivery Offices – at the most time critical time of day - has undoubtedly impacted on Quarter 2 performance. However, as installation of the new software is completed, this issue will disappear.

Increased focus has also been placed on updating customer/account data held on the CA26 Web Browser to cleanse records and improve both automated and billing processes.

Operational Standards and Audit: Operational specification and audit remains as a key component of the 2004/05 Quality of Service plan. Independent audit activity and the Gold/Silver/Bronze accreditation approach has flowed through into 2004/05. During Quarter 1, 100% of Mail Centres audited received Gold accreditation; 80% of Delivery Units audited received Gold accreditation, 8% received Silver, 7% received Bronze and 5% failed the audit.

The introduction of self audit and revised standards will help support further improvements in this stream from Quarter 4 onwards.

Customer Compliance: We continue to check for customer non-compliance issues – particularly with regard to stationery issues and address these through our 90-Day process in which customers are asked to reprint their stationery.

Actions and Outlook for Rest of Year:

1st Class Response Services items effectively travel through the pipeline as 1st Class Stamped and Meter items until the point where they require counting and billing. Therefore, the product will benefit from all of the activities described previously in this report.

In recognition of the continued shortfall in performance we commissioned further root cause analysis. The initial high level analysis has been shared with Territorial Quality Analysts so that they can focus on a more detailed study of performance in the highest impacting units and support Areas in developing improvement plans. At the same time, we continue to focus on:

- Ensuring best practice solutions are developed and deployed across the country
- Maintaining the focus on cleansing and continually update customer records
- Working collaboratively with Marketing to ensure effective deployment of the new Response Services Plus product

The Quarter 1 shortfall means that the full year target will not be achieved but we will continue to drive the necessary actions to help close the gap.

2ND CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
94.2±1.5%	93.8±1.5%	94.0±1.1%	94.7%	97.5%

Overview

2nd Class Response Services is the only product which has shown a decline in Quarterly performance since Quarter 1 – albeit a small one and within the statistical accuracy level of the measure.

Period 1	95.0%
Period 2	93.0%
Period 3	94.8%
Period 4	93.5%
Period 5	95.4%
Period 6	92.4%

Note: Average monthly confidence limits equate to ±2.9%

National Quality of Service Action Plan - Quarter 2 Update

As with 1st Class Response Service, the National Quality of Service plan recognises that the 97.5% cumulative target level is not achievable with the existing product and service specification and indicates that a performance level of 95.0% is more realistic. The reasons for this are described in the 1st Class Response Services section of this report.

The National Quality of Service plan does not contain any unique activities specific to 2nd Class Response Services performance. However, the activities described in the 1st Class Stamped and Meter section of this report and the Response Services improvement activities described above support further improvements for this product.

Actions and Outlook for Rest of Year:

2nd Class Response Services will not achieve the 97.5% full year cumulative target and is unlikely to achieve the lower 95% target indicated in the National Quality of Service plan. However, the product has demonstrated that it can perform at the 95% level and we will endeavour to achieve this level of performance through Quarters 3 and 4.

SPECIAL DELIVERY

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
97.8%	98.3%	98.1%	98.8%	99.0%

Overview

At 98.1%, Special Delivery performance has demonstrated significant recovery since Quarter 1 – with Quarter 2 performance 0.5% higher than the previous Quarter. However, cumulative and quarterly performance remains short of the planned flightpath and full year target level.

Period 1	97.5%
Period 2	97.9%
Period 3	98.1%
Period 4	98.4%
Period 5	98.6%
Period 6	97.9%

National Quality of Service Action Plan - Quarter 2 Update

Special Delivery performance has not achieved the planned performance level through Quarter 2. However, the significant improvements that have been made to national network performance have helped support the improvements seen in the Quarter. A number of activities have been deployed during Quarter 2 to help close the remaining performance gap.

These include a weekly analysis of Special Delivery performance which is reviewed by the Operations Executive – particularly for Territorial Directors who can address under the roof problems in Mail Centres and Delivery Offices and the Head of Network who can review performance on particularly high impacting routes. This analysis utilises the detailed tracking information and highlights the worst 10 performing routes - indicating whether the failures occurred in the Outward Mail Centre (either failure to despatch or missortation), network, Inward Mail Centre or Delivery Unit.

This analysis has highlighted the impact that business customers posting large volumes of Special Delivery can have on our performance. On a number of occasions this year, business customers have posted large volumes of Special Delivery items on a single night without notice – effectively bulking out the secure network operation in the receiving Mail Centre and causing Quality of Service failures⁸. Incidents of this type are responsible for much of the performance decline seen in Period 6.

Royal Mail anticipates that the introduction of Chip and Pin credit cards will lead to an increasing number of high volume Special Delivery postings and, consequently, is considering changes to the Business Special Delivery contract that will require the customer to provide pre-advice of mailings over a certain volume – thus allowing Royal Mail to resource upwards (through diversions to another Mail Centre if necessary) to meet this demand.

Actions and Outlook for Rest of Year:

The Special Delivery product will not achieve its 99.0% full year cumulative target. However, our enhanced Performance Management of this product, combined with network improvement activities described previously in this report, will help drive further improvements through Quarters 3 and 4.

⁸ Interestingly, some of these customers say that the security given to Special Delivery is their principle reason for using this product and that they accept that there may be some negative impact on Quality of Service as a result of their posting in bulk.

STANDARD RETAIL PARCELS

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
87.8±1.3%	90.1±1.1%	89.0±0.8%	89.7%	90.0%

Overview

At 89.0%, Standard Parcels cumulative performance is 1.0% behind full year target level but has shown considerable recovery in Quarter 2. The Quarter 2 result was 90.1% - 0.1% above the full year target level and 2.3% higher than the previous Quarter. The individual monthly results for this product are shown in the table below:

Period 1	88.5%
Period 2	86.8%
Period 3	88.2%
Period 4	89.9%
Period 5	89.7%
Period 6	90.7%

Note: Average monthly confidence limits equate to ±1.9%

This demonstrates a gradual recovery since Period 2 to exceed the target level by 0.7% in Period 6. In fact, Period 5 and 6 performance this year exceeded the monthly results for the same periods last year.

National Quality of Service Action Plan - Quarter 2 Update

Standard Parcels benefit from all the activities described in the 1st Class Stamped and Meter section of this report and we believe it is now capable of performing at the 90.0% target level.

Actions and Outlook for Rest of Year:

We will continue to drive improvements in Standard Parcels performance through the activities described previously in this report. We are confident that we can perform at the 90% target level on a consistent basis through Quarters 3 to 4. However, the poor start to the year is likely to prevent achievement of the target on a full year cumulative basis.

Table 4.

Pre-sort Products
Actual Cumulative Results (Period 1 2004 – Period 6 2004)

Standard	Scheduled Standards			
	Year End Target %		Period 1-6 %	95% cl
Mailsort 1	91.0		89.5	2.6
Mailsort 2	97.5		96.8	0.8
Mailsort 3	97.5		97.9	1.0
Presstream 1	90.5		88.6	0.8
Presstream 2	97.5		97.4	1.3

95% cl = 95% confidence limit

MAILSORT 1

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
86.7±3.8%	91.9±3.4%	89.5±2.6%	90.9%	91.0%

Overview

Mailsort 1 cumulative performance is behind flightpath and target level due to the poor performance encountered in Quarter 1. However, we have seen a significant recovery in Quarter 2 performance which averaged 91.9% (0.9% above the target level for this product and 5.1% higher than the previous Quarter). The monthly results are shown in the table below:

Period 1	89.6%
Period 2	84.2%
Period 3	87.0%
Period 4	89.7%
Period 5	92.0%
Period 6	94.9%

Note: Average monthly confidence limits equate to ±5.2%

These results show a significant month on month improvement since Quarter 2 and highlight Period 5 and Period 6 performance above the target level – confirming that Stabilising the Pipeline improvement activity has been successful for this product.

National Quality of Service Action Plan - Quarter 2 Update

The National Quality of Service Action Plan sets out a number of generic improvement activities which support improvements across the entire presort product range (i.e. Mailsort 1, 2, 3 and Presstream 1 and 2). An update on Quarter 2 activities is provided below:

Operational Standards and Audit: Mandatory operational standards for under the roof activities at Regional Distribution Centres have been developed and deployed. Independent audit of these standards commenced in Quarter 2.

Revised National Workplan: Changes are being made to the national workplan which allow more processing time for presort mail in the Regional Distribution Centre network – by allowing later access to inward Mail Centres for Mailsort 2/3 and Presstream 2 products. One of the changes contained within this initiative is the use of a colour coded labelling regime to control the handling of presort products throughout the pipeline. This came into effect on 1st November.

National deployment of the new workplan is scheduled for Quarter 4 – with planning and preparation taking place in Quarter 3. A lead Distribution Centre will be used to develop and pilot the best practice deployment model before Christmas, which will be cascaded to other units in January/February.

Integrated Quality Approach: The Integrated Quality Approach, as described previously, has been extended to incorporate all Logistics units. This involves the development of Standard Operating Procedures for Logistics operations, the introduction of daily reporting standards, deployment of RFID, etc.

Traffic and Workload Forecasting: A review of daily Distribution Centre outward forecasts has been carried out to identify improvements in this key operational production planning measure. Accurate outward forecasting is critical as it drives the inward Distribution Centre forecasts and network planning – as well as the local manpower plan. Forecasting is a significant role for Customer Operations Managers, who are now focussing on driving more accurate forecasts with their Top 20 customers.

Customer compliance checks: Customer Operational Managers (COMs) are now firmly established in all Regional Distribution Centres and continue to check customer compliance with presort contractual terms and conditions such as adherence to latest acceptance times, proper segregation of mail, etc.

Mail Verification on site: Mail Verification on site can, subject to qualifying criteria, improve Quality of Service by facilitating speed of access into the Regional Distribution Centre network and presenting mail in the optimum segregation order for processing. Trials in 3 sites took place during Quarter 2 and many other customers have registered an interest in this facility. A policy statement and Terms and Conditions are currently being developed which will ensure we can deploy this product consistently and fairly to qualifying customers.

Mail Verification Audits and Training: Audits to ensure the integrity and consistency of the Mail Verification processes have commenced nationally and a process for self audit with follow up remedial actions has been deployed. Alongside this, a review of the customer risk model and Concept software tool – which determines the level of compliance checking required on each customer mailing – is being carried out. Once complete, the staffing templates will be revised to reflect any changes to the frequency of sampling and associated workload.

A series of Mail Verification refresher training courses were also completed during Quarters 1 and 2 and the training programme is now ongoing for all new appointees to the Mail Verification role.

Mailsort Database Change: The Mailsort sortation database was changed in July. During that period additional checks were carried out on customer mailings and additional resource was on hand to process mailings that had not successfully transferred to the new sortation requirements.

Network Improvements: The network improvements described previous reports have supported improvements in performance for presort products. Examples include:

- Specific QTL analysis is being carried out during Quarter 2/3 to understand and correct problems with Mailsort and Presstream 1 performance through Princess Royal Distribution Centre
- Positioning contingency drivers and vehicles at key network points and Distribution Centres to ensure prompt recovery action in the event of vehicle breakdowns or unanticipated increases in volume
- Giving airport feeder services and routes carrying 1st Class traffic priority status
- Introduction of early relief road services to some units where there is a risk of volume bulk outs on the scheduled main despatch

Mailsort 120 & Mailsort 700: We continue to encourage customers to use the Mailsort 120 and Mailsort 700 products, which allow automated walksorting, instead of the manual Mailsort 1400 product. To further develop this product, a trial posting of Mailsort 700 in trays, involving 150k items, was made through North West Distribution Centre at the end of October. Evaluation of the trial results (from a quality and cost perspective) will determine whether trayed Mailsort 700 can be rolled out further.

Peak Pressure Planning: Data shows that Mailsort 2 and Mailsort 3 traffic volumes increase considerably in the Autumn – resulting in increased workload in Distribution Centres, Inward Mail Centres and Delivery Offices. Robust plans were developed and deployed to support the August Bank Holiday operation – resulting in better ‘clearance’ performance than has been seen in recent years. This approach is now being extended to Christmas planning and a ‘masterclass concurrence’ process has been deployed to ensure all units have the necessary resources in place in the run up to Christmas.

In addition, 4 new rail services will be introduced to support the Christmas Distribution Network from late November until the end of December. However, we have retained an option to extend the rail contract for a further 3 months to help us test whether rail can add value to the network and improve 2nd Class performance.

Local Improvement Activities: Throughout Quarter 2, Distribution Centres have been reviewing performance and deploying local remedial actions where necessary. These actions are described in detail in the Distribution Centre Reports to Postwatch Regional Committees.

Actions and Outlook for Rest of Year:

Mailsort 1 performance is too far behind flightpath to close the remaining cumulative performance gap. However, encouraging improvements have been seen in recent months and we intend to maintain these improvements through Quarters 3 and 4 – so as to exit the year on target.

MAILSORT 2

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
95.8±1.3%	97.7±1.0%	96.8±0.8%	97.5%	97.5%

Overview

At 96.8%, Mailsort 2 cumulative performance remains behind flightpath and full year target level. However, at 97.7% the Quarter 2 result for this product was above target level – representing a 1.9% improvement on the previous Quarter. Monthly results are shown in the table below:

Period 1	96.5%
Period 2	94.3%
Period 3	96.7%
Period 4	96.9%
Period 5	97.9%
Period 6	98.5%

Note: Average monthly confidence limits equate to ±1.5%

These demonstrate the month on month improvement for this product – culminating in Period 5 and Period 6 results comfortably above the full year target level. In fact, the Period 6 result is the highest recorded since Royal Mail's Licence was issued.

National Quality of Service Action Plan - Quarter 2 Update:

Mailsort 2 improvement activities have been largely described in the Mailsort 1 section of this report. However, we continue to focus on driving up Day C performance for this product through closer liaison between Distribution and Mail Centre managers and changes to the national workplan will further support this activity.

Actions and Outlook for Rest of Year:

Mailsort 2 is unlikely to fully close the remaining performance gap and achieve the full year cumulative target. However, the product has demonstrated over the last two months that it is capable of performing at the 97.5% target level. We therefore aim to maintain performance at this level for the remainder of the year – closing as much of the cumulative gap as possible.

MAILSORT 3

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
97.1±1.6%	98.6±1.2%	97.9±1.0%	97.7%	97.5%

Overview

Despite a relatively poor start to the year for this product, Quarter 2 performance is ahead of flightpath and full year target on both a quarterly and cumulative basis. The average Quarter 2 result was 98.6% - a full 1.1% above the target level and 1.4% higher than the previous Quarter.

The table below shows that Period 5 and Period 6 performance were both above 99% (and higher than at the same period last year) - clear confirmation that this product is back on track and capable of performing at the required 97.5% level.

Period 1	97.3%
Period 2	97.2%
Period 3	96.9%
Period 4	97.0%
Period 5	99.8%
Period 6	99.3%

Note: Average monthly confidence limits equate to ±1.6%

National Quality of Service Action Plan - Quarter 2 Update:

Once again, Mailsort 3 improvement activities have been largely described in the Mailsort 1 section of this report. The National Quality of Service plan did not specify any improvement activities unique to Mailsort 3 and the product is now clearly performing at the required level.

Actions and Outlook for Rest of Year:

Having recovered performance considerably over the last 3 months we are determined to maintain Mailsort 3 performance at the target level and achieve the full year cumulative target.

PRESSTREAM 1

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
85.8±1.3%	91.2±1.0%	88.6±0.8%	89.8%	90.5%

Overview

At 88.6%, Presstream 1 remains cumulatively behind flightpath and full year target level but this is solely due to the poor performance in Quarter 1. At 91.2%, the average Quarter 2 performance was over 5% higher than the previous Quarter and 0.7% higher than the target level.

Period 1	83.3%
Period 2	84.6%
Period 3	89.6%
Period 4	90.3%
Period 5	92.6%
Period 6	91.0%

Note: Average monthly confidence limits equate to ±2.0%

The monthly results shown in the table above confirm that this product is now capable of performing at the 90.5% target level.

National Quality of Service Action Plan - Quarter 2 Update

The key activities that support improvements in Presstream 1 performance are described in the Mailsort 1 section of this report. The produce has now demonstrated that it is capable of performing at or above the target performance level.

Actions and Outlook for Rest of Year:

Cumulative performance for this product is too far behind flightpath to achieve the full year cumulative target. However, we are determined to sustain the improvements seen in Quarter 2 and achieve the 90.5% on average across the next 6 months.

PRESSTREAM 2

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Result	April-September (Cumulative Result)	April-September Cumulative Flightpath	Full Year Cumulative Target
96.3±2.3%	98.4±1.5%	97.4±1.3%	97.6%	97.5%

Overview

At 90.3%, Presstream 2 performance is cumulatively only 0.1% below the 97.5% full year target level (a figure well within the statistical confidence limits of the survey). This is largely due to a Quarter 2 performance that averaged 0.9% higher than the target level (over 2.0% higher than the previous Quarter and 0.4% better than the same period last year).

Period 1	95.8%
Period 2	97.2%
Period 3	95.8%
Period 4	98.1%
Period 5	97.9%
Period 6	99.4%

Note: Average monthly confidence limits equate to ±2.0%

The table above demonstrates that Presstream 2 has performed consistently above target level in each month during Quarter 2.

National Quality of Service Action Plan - Quarter 2 Update:

Once again, the key activities which support improvements in Presstream 2 performance are described in the Mailsort 1 section of this report.

Actions and Outlook for Rest of Year:

At the end of Quarter 2, Presstream 2 performance is only 0.2% behind target level. If the product can perform at 97.7% or above – a performance level that was exceeded in Periods 4 and 5 – then the full year cumulative target will be achieved.

TAIL OF MAIL

The tail of mail measure quantifies the percentage of mail delivered within 3 days of the due service for each of the letter mail services covered in the report.

The table below summarises Quarter 2 cumulative tail of mail performance by product:

1 st Class Stamped and Meter	99.7%
2 nd Class Stamped and Meter	99.8%
1 st Class PPI	99.4%
2 nd Class PPI	99.5%
1 st Class Response Services	98.9%
2 nd Class Response Services	99.3%
Mailsort 1	100%
Mailsort 2	100%
Mailsort 3	99.8%
Presstream 1	99.9%
Presstream 2	100%
Standard Parcels	97.8%

Table 5.

**Scheduled Service Standards National Products
Actual Quarter 2 Results (Period 4 2004 – Period 6 2004)**

Standard	Scheduled Standards			Tail of Mail		
	Target %	Period 4-6 Actual %	Period 4-6 95% cl	Target %	Period 4-6 Actual %	Period 4-6 95% cl
1st Class Stamped & Meter All	92.5	92.1	0.2	99.9	99.8	0.0
2nd Class Stamped & Meter All	98.5	98.6	0.2	99.9	99.9	0.0
1st Class Postage Paid Impression	90.6	88.1	0.4	99.9	99.4	0.0
2nd Class Postage Paid Impression	97.4	96.8	0.4	99.9	99.5	0.1
1st Class Response Services	90.3	81.5	2.4	99.9	98.9	0.1
2nd Class Response Services	97.5	93.8	1.5	99.9	99.3	0.1
Special Delivery	99.0	98.3	#	99.9	100.0	#
All PCAs (except 3) To Achieve 91.0 For 1 st Class Stamped And Metered Posted To UK	118	91				
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121	98				
Mailsort 1	91.0	91.9	3.4	99.9	100.0	0.1
Mailsort 2	97.5	97.7	1.0	99.9	100.0	0.0
Mailsort 3	97.5	98.6	1.3	99.9	99.9	0.1
Presstream 1	90.5	91.2	1.0	99.9	100.0	0.0
Presstream 2	97.5	98.4	1.4	99.9	100.0	0.1
Standard Retail Parcels	90.0	90.1	1.1	99.9	97.6	0.5

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

Target – Target is full-year cumulative

Table 6

Period 6 Performance

Standard	Actual %	c/I %
1st Class Stamped & Meter All	93.1	0.4
2nd Class Stamped & Meter All	98.7	0.3
1st Class Postage Paid Impression	88.9	0.7
2nd Class Postage Paid Impression	97.2	0.7
1st Class Response Services	79.1	4.8
2nd Class Response Services	92.4	2.9
Special Delivery	97.9	#
Mailsort 1	94.9	4.8
Mailsort 2	98.5	1.5
Mailsort 3	99.3	1.5
Presstream 1	91.0	2.0
Presstream 2	99.4	1.7
Standard Retail Parcel	90.7	1.9

Product subject to continuous sampling (confidence limit inapplicable)

Table 7.

Licence Condition 4.16 + 4.17 - Complaint Resolution

Quarter 2

Royal Mail	Unresolved at Start	Received in Quarter	Resolved in Quarter	Unresolved at End	Recompense £
Royal Mail Total	45,260	460,994	473,883	32,371	4,598,690
Lost	26,538	175,279	174,180	27,637	3,055,077
Delay	2,935	51,345	53,829	451	78,742
Mis-Delivery	3,727	47,732	49,403	2,056	159,620
Redirection Failure	2,469	43,748	45,649	568	275,632
Delivery Procedures	1,225	21,749	22,949	25	40,847
Other	8,366	121,141	127,873	1,634	988,772

The Complaints Action Plan submitted in May heavily referenced the Quality of Service Plan as the means to underpin improved complaints performance. Stabilising the pipeline and improving Quality of Service is the number one priority within Royal Mail and is the key to reducing complaints levels. Quarter 2 activity therefore has continued to focus on the fundamentals of the operation to drive QoS. The Complaints Plan also referenced the activities being driven by on recruitment, retention and selection of staff. Both plans have been progressed as intended and are dealt with separately in this Report. Complaint specific activities have been deployed to build upon the generic improvements and these are summarised below.

Delay

See previous parts of this Report.

Loss

The integrated communications campaign to raise awareness of the root causes of loss has been progressed. Briefings on the key actions required have been delivered to all 31 Area Management teams. Supplementary communications have also been deployed via our Ops Daily communication vehicle and "Today", our monthly managers' magazine. The key messages have focussed on what each employee can do to drive down loss levels and have emphasised the operational accuracy issues in Delivery, notably Mis-delivery, Re-directions, Doorstepping and adherence to operational standards for Special Delivery and Recorded Items. All operational specifications are undergoing review and refresh and a series of Standard Operating Procedures (SOPs) are being developed to support our front-line staff in their roles. These SOPs are being accompanied by reviews of frontline training and adherence to standards and SOPs are subject to review via daily self audits within the units and through periodic external reviews.

We continue to target frontline staff with monthly articles on loss and loss related issues, the most recent featuring security issues. The articles continue to be well received and have been followed by the deployment of Loss, Mis-delivery and a generic Customer Complaints modules for front-line learning sessions – a development of our Work Time Learning and Listening approach. The aim is to further enhance awareness and understanding of Loss and Mis-delivery root causes so that solutions can be teamworked at delivery office level.

Enhanced complaints management information has been made available to the Operations directorate and to Area and Sector Managers. Complaints continues to be central to the Operations scorecard and is subject to Performance Management on a monthly basis.

The specialist Security teams are continuing with their audits of high risk units and remedial action plans are being deployed in units where appropriate. The team have recently refreshed all Security policies and standards and collated all support documentation onto the Intranet central site. Security self audit packs have been developed and a security awareness matrix has been developed to highlight the levels of knowledge and understanding required at the various levels of the business. Comms have been issued to all Operational Managers advising them of the Intranet facility and the security element of training for new managers and staff has been refreshed. Intelligence led investigations continue around the country and Security resource continues to be deployed according to risk and need.

Activity to reduce our reliance on agency casuals and to improve the effectiveness of the casuals we employ continues. In addition we continue to review the content and effectiveness of our “Starting Post” training package and the follow up actions required of our front-line managers. All new starters will now remain on the same walk for a minimum period so they can develop their skills in a stable environment.

Mis-delivery

The “Mis-delivery Best Practice” improvement pack has been updated and is available for all Delivery Offices to employ as a “How to Fix” guide. In addition to this package we have also updated the Operational Standards and SOPs appropriate to the preparation and delivery of mail. These specifications and SOPs are subject to daily self audit review by the Delivery Office Manager using complaints data. We continue with integrated communications on Mis-delivery and another intensive campaign is planned for Q4

Damage

Action aimed at reducing damage to mail items continue to be rolled out.

In line with deployment of Single Daily Delivery, the programme of sorting frame refreshment continues with the deployment of vertical slot fittings replacing the more traditional box fittings. Improvements to delivery equipment also continue with improved mails pouches being made available, along with improved high capacity trolleys, both with the benefit of maintaining the integrity of the mail. Traying of flats mail is also being extended and the deployment of flats sorting machinery continues to remove flats mail from the manual sortation stream, reducing the risk of damage

The programme to deploy anti-jam solutions to our sorting equipment is now complete. Machine damage of mail is expected to reduce accordingly and this will be monitored.

Root Cause analysis undertaken in Q1 suggests that final delivery may be the main root cause of much of the reported damage. Further analysis is being undertaken. In the meantime P739 standards are being refreshed.

Re-directions

Formal performance management of the Re-directions supply chain continues and remedial action plans are being deployed to address performance issues.

An internal communications campaign under the series of "We Can Fix It" has continued to target operational staff and reinforce key standards and good practice. Re-directions performance is subject to Operations Directorate review and a fundamental review project has been initiated to review all elements of the product and operational specification. Further information on this activity will be provided in future quarterly updates

Table 8.

**Licence Condition 5.6 – Complaints Handling
Q Report**

	% Calls answered in quality standard aim – 80% in 20 seconds	% Cases closed to quality standard aim – 100% (inland) in 30 calendar days
Royal Mail	82%	92%

Commentary on performance

Data Capture

Quarter 2 shows a significant improvement on call handling, and consistent performance on cases closed in target (CCIT).

On call handling for Royal Mail, we have seen an increase in Grade of Service from 72% to 82%, exceeding target for the quarter. This has been achieved through a combination of factors including increased productivity from our advisors, improved handling times and the implementation of a new Customer Handling Requirement Guide (CHRG). Additional benefits of CHRG include greater consistency of customer response and even closer compliance to standards, policies & processes

We are confident the controls we now have in place will allow us to maintain this level of performance, providing we have no major system issues or Royal Mail Industrial Action. We are continuing to work hard with systems and operational colleagues to ensure these risks are minimised.

On our cases closed in target measure, for Royal Mail the figures show a small decrease in performance this quarter. This is partly due to increased volumes, but also some new quality initiatives, designed to further improve the standard of our responses to customers. The performance for this quarter has gone from 94% to 92%, although in month 6 we achieved 96%, as the changes begin to be bedded in.

Overall, we are continuing the improvement on call handling and are now seeing consistency in CCIT, combined with ongoing improvements to our quality standards.