

Licence Condition 4: Paragraph 8a

Licence Condition 4: Paragraphs 16 & 17

Licence Condition 5: Paragraph 6

National Report to Postcomm and Postwatch

Quarter 3 Report, Cumulative April - December 2003



NATIONAL QUARTER REPORT
April - December 2003

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DECEMBER RESULTS

PLEASE NOTE :

For Mail products and services, including the standard retail parcel, the main table in Section 1 is for the period from April to 30 November. The associated commentary in Sections 2.1 - 2.2 are for the reporting quarter 15 September – 30 November. The results for the Mails Christmas pressure period 2 December - 21 December are separately recorded at Section 7.

The Complaints Handling statistics and commentary at Section 8 are for the reporting quarter 29 September - 28 December.

Table 1.

**Royal Mail National Performance
Actual Cumulative Results (April - December 2003)**

Standard	Scheduled Standards				Tail of Mail			
	Target %	April - Dec Cum %	April - Dec Cum 95% cl	Target %	April - Dec Cum %	April - Dec Cum 95% cl		
1st Class Stamped & Meter All	92.5	90.3	0.1	99.9	99.3	0.0		
2nd Class Stamped & Meter All	98.5	97.6	0.2	99.9	99.6	0.1		
1st Class Postage Paid Impression	90.6	82.8	0.7	99.9	98.6	0.3		
2nd Class Postage Paid Impression	97.4	94.0	0.4	99.9	99.0	0.3		
1st Class Response Services	90.3	82.1	1.2	99.9	98.6	0.1		
2nd Class Response Services	97.5	91.7	0.9	99.9	98.9	0.1		
Special Delivery	99.0	98.1	#	99.9	100.0	#		
All PCAs (except 3) To Achieve 90.5 For 1 st Class Stamped And Metered Posted To UK	118	67						
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121	95						
Mailsort 1	91.0	89.3	1.7	99.9	99.3	0.1		
Mailsort 2	97.5	95.2	0.8	99.9	99.5	0.1		
Mailsort 3	97.5	97.2	0.8	99.9	99.7	0.1		
Presstream 1	90.5	88.6	0.6	99.9	99.3	0.0		
Presstream 2	97.5	94.6	1.4	99.9	99.0	0.2		
Standard Retail Parcels	90.0	88.4	0.7	99.9	99.6	0.1		

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

Target - Target is full-year cumulative

Table 2.

**Postcode Area Performance (April - December 2003)
1st Class Stamped and Metered**

Postcode Area	1st class stamped & metered				Postcode Area	1st class stamped & metered				Postcode Area	1st class stamped & metered			
	All Posted	✓☒	Intra PCA	✓☒		All Posted	✓☒	Intra PCA	✓☒		All Posted	✓☒	Intra PCA	✓☒
AB Aberdeen	93.9	✓	96.5	✓	DN Doncaster	93.6	✓	97.0	✓	L Liverpool	91.3	✓	95.2	✓
AL St Albans	89.5	☒	93.0	✓	DT Dorchester	91.7	✓	96.9	✓	LA Lancaster	91.8	✓	94.4	✓
B Birmingham	89.8	☒	93.3	✓	DY Dudley	88.3	☒	94.4	✓	LD Llandrindod Wells	90.3	☒	91.7	☒
BA Bath	89.6	☒	93.2	✓	E London E	88.9	☒	91.0	☒	LE Leicester	89.9	☒	92.9	✓
BB Blackburn & Burnley	91.5	✓	94.5	✓	EC City of London	88.0	☒	92.2	☒	LL North Wales	92.6	✓	95.3	✓
BD Bradford	94.8	✓	98.1	✓	EH Edinburgh	91.7	✓	93.3	✓	LN Lincoln	94.5	✓	95.6	✓
BH Bournemouth	91.7	✓	95.3	✓	EN Enfield	88.1	☒	92.7	✓	LS Leeds	93.0	✓	97.5	✓
BL Bolton	94.1	✓	93.7	✓	EX Exeter	92.6	✓	95.9	✓	LU Luton	89.0	☒	95.6	✓
BN Brighton	92.6	✓	95.8	✓	FK Falkirk	90.6	✓	93.8	✓	M Manchester	92.9	✓	94.7	✓
BR Bromley	89.8	☒	93.6	✓	FY Fylde	92.3	✓	95.0	✓	ME Maidstone	90.1	☒	93.8	✓
BS Bristol	90.0	☒	95.0	✓	G Glasgow	91.4	✓	95.6	✓	MK Milton Keynes	88.2	☒	91.3	☒
BT Northern Ireland	91.8	✓	93.0	✓	GL Gloucester	91.8	✓	93.8	✓	ML Motherwell	94.1	✓	96.0	✓
CA Carlisle	92.0	✓	95.3	✓	GU Guildford	91.7	✓	93.6	✓	N London N	86.3	☒	87.4	☒
CB Cambridge	89.8	☒	93.1	✓	HA Harrow	84.4	☒	83.4	☒	NE Newcastle	91.0	✓	95.1	✓
CF Cardiff	89.9	☒	94.2	✓	HD Huddersfield	95.1	✓	95.1	✓	NG Nottingham	93.3	✓	95.9	✓
CH Chester & Deeside	93.5	✓	97.6	✓	HG Harrogate	91.3	✓	95.9	✓	NN Northamptonshire	73.3	☒	72.7	☒
CM Chelmsford	84.8	☒	89.3	☒	HP Hemel Hempstead	90.2	☒	95.0	✓	NP Newport	90.3	☒	96.3	✓
CO Colchester	86.9	☒	91.7	☒	HR Hereford	92.0	✓	95.8	✓	NR Norwich	88.7	☒	92.6	✓
CR Croydon	90.5	✓	93.3	✓	HS Hebrides	83.5		89.8	☒	NW London NW	84.7	☒	85.6	☒
CT Canterbury	91.4	✓	94.9	✓	HU Hull	93.5	✓	95.2	✓	OL Oldham	92.0	✓	93.9	✓
CV Coventry & Warwickshire	89.5	☒	93.3	✓	HX Halifax	91.5	✓	93.3	✓	OX Oxford	86.9	☒	92.4	☒
CW Crewe	92.0	✓	93.6	✓	IG Ilford	87.2	☒	89.2	☒	PA Paisley	92.8	✓	95.4	✓
DA Dartford	84.3	☒	86.7	☒	IP Ipswich	90.5	✓	94.0	✓	PE Peterborough	89.2	☒	93.4	✓
DD Dundee	91.7	✓	92.7	✓	IV Inverness	92.5	✓	97.1	✓	PH Perth	91.9	✓	94.3	✓
DE Derby	93.6	✓	97.2	✓	KA Kilmarnock	93.1	✓	95.6	✓	PL Plymouth	90.4	☒	94.6	✓
DG Dumfries	93.9	✓	96.9	✓	KT Kingston upon Thames	91.8	✓	94.7	✓	PO Portsmouth	91.2	✓	92.7	✓
DH Durham	92.0	✓	96.0	✓	KW Kirkwall	87.6		91.3	☒	PR Preston	92.7	✓	94.9	✓
DL Darlington	93.2	✓	96.6	✓	KY Kirkcaldy	93.9	✓	96.7	✓	RG Reading	90.5	✓	93.0	✓

✓ = Areas meeting or exceeding target ☒ = Areas below target

Table 2. (continued)

Postcode Area Performance (April - December 2003) continued
1st Class Stamped and Metered

Postcode Area	1st class stamped & metered				Postcode Area	1st class stamped & metered				Postcode Area	1st class stamped & metered			
	All Posted	✓ <input checked="" type="checkbox"/>	Intra PCA	✓ <input checked="" type="checkbox"/>		All Posted	✓ <input checked="" type="checkbox"/>	Intra PCA	✓ <input checked="" type="checkbox"/>		All Posted	✓ <input checked="" type="checkbox"/>	Intra PCA	✓ <input checked="" type="checkbox"/>
RH Redhill	89.7	<input checked="" type="checkbox"/>	98.3	✓	SS Southend-on-Sea	87.1	<input checked="" type="checkbox"/>	92.1	<input checked="" type="checkbox"/>	W London West	84.7	<input checked="" type="checkbox"/>	86.8	<input checked="" type="checkbox"/>
RM Romford	86.7	<input checked="" type="checkbox"/>	88.1	<input checked="" type="checkbox"/>	ST Stoke-on-Trent	87.2	<input checked="" type="checkbox"/>	90.6	<input checked="" type="checkbox"/>	WA Warrington	90.6	✓	93.8	✓
S Sheffield	94.7	✓	97.3	✓	SW London SW	80.6	<input checked="" type="checkbox"/>	83.9	<input checked="" type="checkbox"/>	WC London West Central	85.6	<input checked="" type="checkbox"/>	89.9	<input checked="" type="checkbox"/>
SA Swansea	89.8	<input checked="" type="checkbox"/>	92.8	✓	SY Shrewsbury & Mid Wales	89.5	<input checked="" type="checkbox"/>	95.8	✓	WD Watford	88.4	<input checked="" type="checkbox"/>	92.2	<input checked="" type="checkbox"/>
SE London SE	83.9	<input checked="" type="checkbox"/>	88.8	<input checked="" type="checkbox"/>	TA Taunton	92.8	✓	94.8	✓	WF Wakefield	91.4	✓	95.3	✓
SG Stevenage	89.9	<input checked="" type="checkbox"/>	93.2	✓	TD Borders	93.7	✓	96.4	✓	WN Wigan	92.9	✓	93.2	✓
SK Stockport	90.4	<input checked="" type="checkbox"/>	95.6	✓	TF Telford	90.0	<input checked="" type="checkbox"/>	93.6	✓	WR Worcester	89.9	<input checked="" type="checkbox"/>	96.2	✓
SL Slough	90.6	✓	93.5	✓	TN Tonbridge	92.1	✓	93.8	✓	WS Walsall	88.5	<input checked="" type="checkbox"/>	94.3	✓
SM Sutton	90.4	<input checked="" type="checkbox"/>	92.4	<input checked="" type="checkbox"/>	TQ Torquay	89.7	<input checked="" type="checkbox"/>	93.8	✓	WV Wolverhampton	87.4	<input checked="" type="checkbox"/>	89.4	<input checked="" type="checkbox"/>
SN Swindon	91.5	✓	93.4	✓	TR Truro	92.6	✓	96.1	✓	YO York	91.3	✓	97.2	✓
SO Southampton	92.3	✓	95.8	✓	TS Teesside	91.4	✓	96.3	✓	ZE Lerwick	89.4		97.6	✓
SP Salisbury	92.0	✓	96.6	✓	TW Twickenham	91.4	✓	94.7	✓					
SR Sunderland	93.9	✓	95.7	✓	UB Uxbridge	86.7	<input checked="" type="checkbox"/>	88.6	<input checked="" type="checkbox"/>					

✓ = Areas meeting or exceeding target = Areas below target

Table 3.

**Stamped; Metered; PPI; Response Services and Special Delivery
Cumulative Results (April - December 2003)**

Standard	Scheduled Standards			
	Target %		Apr - Dec %	95% cl
1st Class Stamped & Meter All	92.5		90.3	0.1
2nd Class Stamped & Meter All	98.5		97.6	0.2
1st Class Postage Paid Impression	90.6		82.8	0.7
2nd Class Postage Paid Impression	97.4		94.0	0.4
1st Class Response Services	90.3		82.1	1.2
2nd Class Response Services	97.5		91.7	0.9
Special Delivery	99.0		98.1	#
Standard Retail Parcels	90.0		88.4	0.7

Product subject to continuous sampling (confidence limit inapplicable)
95% cl = 95% confidence limit

INCIDENTS AFFECTING QUARTER 3 AND FULL YEAR CUMULATIVE PERFORMANCE

Summary:

As indicated in the Quarter 2 Report and the 6 monthly presentation to Postcomm and Postwatch on December 11, Quarter 3 Quality of Service results have been seriously impacted by two incidents:

- extensive Industrial Action
- closure of Northampton Mail Centre following an arson attack

Both events have significantly impeded our ability to achieve our full year cumulative targets for all Scheduled Standards of Service – to the extent that all of our full year cumulative targets are likely to be failed. This is particularly disappointing given the strong performance delivered during Quarters 1 and 2 this year when:

- All products except for PPI and Response Services were on track to achieve their full year targets
- Many products had demonstrated a stronger performance than they had in some years
- In some cases, e.g. 1st Class Stamped and Meter, the performance levels were higher than ever recorded

This section provides the background to these incidents and the extensive contingency actions undertaken to minimise customer disruption. The report also focuses on the comprehensive Quarter 4 action plan which is currently being deployed to maximise Quarter 4 performance and restore customer confidence in the services Royal Mail provides. This report also aims to demonstrate to Postcomm/Postwatch that the disruption encountered throughout Quarter 3 was of a temporary and unavoidable nature and hence is not representative of underlying performance and does not reflect the commitment, scale or benefits of the improvement activity deployed throughout the rest of the year.

Firstly, a more detailed account of the incidents, their impact and the contingency arrangements deployed is provided below.

Northampton Mail Centre Fire

A deliberate arson attack in Northampton Mail Centre on Sunday 7th September (the last week of Quarter 2 2003/4) put the Mail Centre out of permanent service and caused serious disruption to services in and out of the Northampton postcode area. The fire at the Mail Centre (which also contained the Northampton Central Delivery Office) led the building and automated sorting equipment to become immediately inoperable due to the smoke, water and heat damage, lack of power and light and the building being cordoned off as a crime scene. Normal contingency plans can cater for short term operational events such as machine breakdowns or power failures but the total loss of this building resulted in the short term cessation of all collection, processing and delivery operations in Northampton.

Royal Mail deployed contingency arrangements without delay. These included:

- Relocation of the NN1-NN7 Delivery Office to an alternative site
- Diversion of all 1st Class NN Mail Centre traffic to neighbouring Mail Centres (including Leicester, Nottingham, Birmingham, North West Midlands, Chester, Bristol, Milton Keynes, Peterborough, Oxford and Coventry) for outward processing
- Diversion of all 2nd Class traffic (which is less time critical) to more distant Mail Centres such as Plymouth, Southampton, Cardiff, Leeds, Sheffield, Newcastle, Glasgow and Edinburgh for outward processing
- A change to circulation arrangements to minimise the level of sorting required locally for mail leaving or entering NN.

This allowed services to be restored on Tuesday 9th September. Although Business priority was to restore services in Northampton as quickly as possible it was clear that this should not be done at the expense of quality of service to customers in the catchment areas of those Mail Centres accepting diversions. This, in effect, put Northampton traffic to the 'back of the queue' - significantly reducing the proportion of 1st Class items that could be processed in time for next day delivery and hence achieve the service target.

Since then, after an exhaustive search, two new buildings have been found to temporarily house the NN1, NN4 and NN5 delivery operation and to set up medium term automated sorting capability - to minimise the disruption in the build up to Christmas and maximise medium term service performance. A new stand alone temporary Mail Centre was opened on 1st December with machine and manual sorting capability. However, this site does not have the full capability of the previous Mail Centre, for example:

- OCR/VCS¹ capability will not be available until the end of February – significantly reducing the capacity of the new site.
- Vehicle parking is seriously limited
- Severe space restrictions inside the building
- It is 7 miles from the previous site – resulting in longer transit times
- Duty patterns need to be reviewed to adjust to the operational changes

For these reasons, Northampton will continue to rely on diversions to neighbouring Mail Centres for 'top up' capacity and hence, is unlikely to return to pre-fire performance levels before the end of the financial year.

Throughout these difficulties the Northampton management team have taken great effort to ensure that customers are kept informed. The fire itself generated considerable local interest and there were numerous articles in the Northamptonshire newspapers. In addition, the management team took part in radio and TV interviews and ran a proactive campaign in the local press.

¹ Machine coding

A team was set up to process each individual item of mail damaged by the fire and individual letters were written to recipients of fire damaged mail. Large customers were kept fully informed of the latest situation via their account managers (whilst supporting them in making alternative access arrangements). Postwatch and Postcomm have been kept fully informed throughout and have visited both the fire damaged building and the contingency Mail Centre.

Although the new Mail Centre site was the best available at the time, it is not suitable for the long term Mail Centre operation. Hence, a revised long term infrastructure strategy for Northampton is being developed with 5 options currently under review.

The table below provides an indication of how performance has been affected in NN postcode area since the fire:

Product	Pre Fire April to August cumulative performance	Post Fire October to December average performance
1 st Class Stamped & Meter Posted	92.2%	27.8%
1 st Class Stamped & Meter Intra	94.2%	15.7%
2 nd Class Stamped & Meter	98.9%	74.8%

Note: September monthly result have been excluded from this comparison as the fire took place part way through the month.

The table shows that Northampton has fallen from a very healthy performance level, i.e:

- comfortably above Minimum Floors for 1st Class and
- exceeding national target level for 2nd Class Stamped and Meter.

As the Northampton recovery operation coincided with the industrial action described below, it is difficult to isolate the true effect of the Northampton fire or compare month on month improvements as the contingency actions took hold. Excluding all NN postcode area results would increase national Quarter 3 performance by 0.6%.

In summary:

- The arson attack was an unprecedented event
- The quality of service performance at Northampton before the fire was sound
- In response, there are no further actions which Royal Mail could reasonably have taken
- None of the actions which Royal Mail have taken could reasonably have been taken earlier

Despite these efforts, Northampton postcode area will not be able to recover full year cumulative Minimum Floor performance, nor will it achieve the run rate levels through Quarter 4 (or until such times as the Mail Centre returns to full capacity). This incident will also have a significant effect on national performance (Quarter 3, Quarter 4 and full year cumulative) across all products.

Industrial Action

The Quality of Service reporting period for Quarter 3 is 15th September to 30th November. In September, the Communication Workers Union commissioned a ballot in relation to both National and London Weighting pay offers. Employees voted in favour of the National Pay Agreement but the offer on London Weighting was rejected. This led to a series of official and unofficial strikes during Quarter 3 – starting on 1st October with an impact on service until 21st November. Although the Industrial Action was predominantly in London and the South East of England quality of service was affected nationwide.

In preparation for this industrial action, Royal Mail determined its Corporate priorities (which were shared with Postcomm, Postwatch and the Government) and hence developed and deployed robust contingency plans for all operational Areas and Business Units. The main priority for Royal Mail was to ensure it delivered all of its social responsibilities by:

- Ensuring continued supply of bank notes and key stock to Post Office counters (e.g. cash to honour Pensions/Benefits payments, winter fuel payments, etc)
- Providing continued access to mail and parcel services through Post Office outlets
- Maintaining Special Delivery services
- Maintaining incoming foreign mails operations at Airport Mails Units
- Continuing to accept postings from major customers

To minimise disruption in line with these priorities, the key principles of the contingency plan were that:

- the industrial action should be 'contained' within London, albeit there would inevitably be an impact on service nationwide
- we would continue to communicate directly with our employees – through front line managers, letters from the Chairman, poster campaigns, etc – to ensure they fully understood the pay offer, accelerate their return to work and facilitate discussion with the CWU.
- we would keep our customers informed of the latest situation through Account Managers, Customer Services Helpdesk, newspaper adverts and the Royal Mail internet site
- we would work in partnership with key customers such as the DWP to help minimise disruption to their services

A key component of the contingency plan was that striking employees should not be allowed to recover their lost income through high levels of overtime on their return to work. Previous return to work agreements had enabled the payment of overtime to clear up the backlog of mail. However, this approach offers little to discourage further industrial action and hence further disruption to our customers.

The contingency operation made use of 6,500 managerial volunteers plus further Agency Staff who were trained in advance to support Cash Distribution services, processing and delivery of Special Delivery items, local network distribution and manning automated sorting equipment in Mail Centres - as well as the provision of collection and delivery services to key business customers wherever possible.

The contingency operation was tightly managed via daily local and national conference calls that ensured the Corporate priorities were understood and that available resources were being allocated according to these priorities.

Initially, two official one day strikes were planned for the 1st and 16th of October. Almost all Collections, Mail Centre and Delivery employees (35,000 in total) in the following postcode areas took action:

Bromley (BR)
Croydon (CR)
Dartford (DA)
East Central London (EC)
East London (E)
Enfield (EN)
Harrow (HA)
Ilford (IG)
Kingston (KT)
North London (N)
North West London (NW)
Romford (RM)
South East London (SE)
South West London (SW)
St Albans (AL)
Sutton (SM)
Twickenham (TW)
Uxbridge (UB)
Watford (WD)
West Central London (WC)
West London (W)

However, the impact of the action on quality of service was not restricted to these postcode areas, i.e.:

- Mail posted in other parts of the UK that was scheduled for delivery in the strike affected areas and
- Mail posted in the affected areas that was scheduled for delivery in other parts of the UK in the days following the strikes
- Mail circulating via network units which were involved in the strike

were all subject to delay – affecting both National and Postcode Area Minimum Floor results for the entire country.

Neither was the impact restricted to the strike days alone. Losing 24 hours of operational throughput, with little reduction in the demand for our services, substantially increases the workload in the days immediately following any strike.

The need for efficiency in Royal Mail's pipeline means that it has a relatively finite capacity with which to deal with increased workload – particularly on our air and rail trunking operations. In addition flexing resource upwards is largely dependent on the co-operation of operational employees (e.g. to accept diversions from other sites or to alter or extend their normal working hours) and this level of co-operation was difficult to achieve without resolution of the strike issue and/or robust return to work agreements.

Throughout the period of official industrial action Royal Mail maintained its original position that further pay increases could not be afforded without significant improvements in Mail Centre and Delivery productivity (through deployment of Single Daily Delivery). Royal Mail also maintained its position that striking employees should not be offered overtime from which to recover their lost earnings.

Taking such a stance ensured that the strikes had limited impact in terms of driving concessions to the London Pay offer – protecting the future profitability of the company and helping to release funds for future quality of service investment - but this resulted in more widespread and prolonged unofficial industrial action throughout London and the South East.

The unofficial industrial action involved 133 different Delivery units and key network sites such as PRDC, North West, Essex, Northern Home Counties Regional Distribution Centres and Warrington rail terminal (all selected to maximise disruption to the whole of the UK). There was further CWU pressure on all Mail Centres and network hubs to 'black' handling of mail diverted from striking units and enter the dispute – resulting in Oxford, Coventry, Portsmouth and Bristol also taking action.

The contingency operation continued throughout this phase of the dispute with the following achievements:

- 4 manual sorting centres staffed by Agency employees with the capacity to sort 2 million items per day were set up
- 48 additional trunk road services and 4 additional rail services were introduced to divert mail out of London
- 8m items per day were machined sorted (manned by managerial volunteers) in the affected areas
- All Post Office branches were collected from
- Almost 4,000 pillar boxes in the affected areas were kept clear
- Over 2,000-3,000 businesses received collections and deliveries
- 45,000 Special Delivery items were processed

Although Royal Mail's firm stance on the London Pay offer and return to work agreement may have prolonged the industrial action, some clear and tangible benefits have been realised. For example, the return to work agreement supersedes any local arrangements or agreements that conflict with national agreements. In particular, this facilitates the elimination of all restrictive practices which have historically inhibited Quality of Service performance by preventing managers from effectively aligning staff to workload or deploying improvement initiatives.

At time of writing, Royal Mail and the CWU Executive have reached an agreement on pay and major change which has received a significant vote in favour of the offer. 800 (of 1400) Delivery Units have already agreed locally to make the revisions necessary to migrate to Single Daily Delivery – a major financial enabling initiative closely linked to the National and London pay offer. This ballot result overcomes the last obstacle to deployment of the major changes associated with Royal Mail's financial recovery programme and, very importantly from a quality of service perspective, removes the risk of further Industrial Action in Quarter 4.

However, despite these achievements, 76,000 working days were lost to industrial action during the Quarter and the prolonged strikes and subsequent clear up operation has had a significant detrimental effect on Quality of Service results during all of Quarter 3, i.e. the first strike took place on the 1st October and the backlog (of 100 million items) was not fully cleared until 21st November. The table below illustrates the impact of the strike on 1st Class Stamped and Meter national performance:

	Quarter 1	Quarter 2	Cumulative at end Quarter 2	Quarter 3 (3 month average)	Cumulative at end Quarter 3
Planned Performance	92.3%	92.7%	92.5%	92.3%	92.4%
Actual Performance	92.3%	93.1%	92.7%	84.9%	90.3%
Gap	On track	Ahead of flightpath	Ahead of flightpath	7.4% behind planned level	2.1% behind planned level

This table demonstrates how performance was ahead of flightpath at the end of Quarter 2 but is now 2.1% behind the planned level. The Quarter 3 impact is so acute that the full year cumulative target for this (and almost all other products) is no longer achievable². This is most disappointing given the strength of results in the first half of the year and Royal Mail has now deployed a robust Quarter 4 uplift plan from which it aims to:

- maximise Quarter 4 performance – and hence maximise full year cumulative performance
- recover from any Brand damage associated with the strikes
- restore customer confidence in the services we provide

Details of the actions contained within the Quarter 4 plan are described – against the relevant products – in the main body of this report.

² That is, unprecedented levels of performance (sometimes more than 100%) would be required in Quarter 4 to restore the cumulative position

Royal Mail firmly believes that in any consideration of our endeavours towards meeting our Licence requirements all Quarter 3 results should be excluded from our full year cumulative results. Royal Mail recognises that the strikes did not encompass the entire Quarter 3 reporting period nor the entire country but believes for clarity and simplicity the entire Quarter should be excluded as:

- The first strike took place on the 1st of October and the recovery operation was not fully completed until 21st November – with operational units joining the unofficial action at different dates throughout the period
- The End to End quality of service measurement system is not designed to measure performance down to individual Delivery Unit – so it is impossible to isolate and exclude individual samples for Delivery Units as they joined the strike
- Mail was diverted around the country which will have affected the workplan of units which were not on strike, as well as units that were
- It is not possible to accurately isolate particular End to End sample items that passed through key network units that were on strike such as PRDC – particularly because of the extent of processing and network diversions
- Some units did not fully go on strike but took ‘go-slows’ or ‘work to rules’ in sympathy with those on strike
- There was widespread movement of managers, in significant numbers, from units not on strike to support the operation at units that were on strike and this will have affected focus at the non-striking units
- Contingency management necessarily took precedence business-wide throughout the whole quarter, i.e. in anticipation of the industrial action, during the strikes and throughout the recovery period.
- The statistical confidence of the sample levels remaining after exclusion of the identified samples would be extremely wide.

Royal Mail firmly believes that:

- Quarter 3 performance is not reflective of our underlying performance or the extensive activities undertaken in recent months and years to bring our pipeline under control and maximise Quality of Service performance - which was demonstrated by the strong results in Quarters 1 and 2
- Industrial action is not within Royal Mail’s control
- Royal mail optimised service during the industrial action and the immediate recovery period with unprecedented contingency management
- The pressure on management to concede to industrial action when faced with the potential costs of millions of pounds in compensation and fines could impede our ability to tactically and strategically manage the organisation and drive improvements which will secure future, longer term Quality of Service improvements
- The efforts taken by Royal Mail to minimise customer disruption during this difficult period and recover performance during Quarter 4 are reflective of our commitment to our customers.

Therefore, Royal Mail contends that all Quarter 3 results should be disregarded from any considerations of the endeavours taken throughout the year.

1st CLASS STAMPED AND METER

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
92.7±0.2%	90.3±0.1%	84.9±0.3%

Note:

Some of the cumulative results at the end of Quarter 2 shown in this report are marginally different to those published in the Quarter 2 report. Each month a number of End to End Quality of Service test items (referred to as samples) do not make it back to the independent research agency in time to be published in that month's results. Of course, it would be statistically incorrect to simply exclude these items from the survey. Therefore, they are carried over into the results for the following month. This 'carryover' has no impact on full year cumulative results, i.e. as long as all samples are accounted for by the end of the year it does not matter which particular month they are recorded against. However, to monitor progress against quarterly flightpath plans and for Royal Mail's internal performance management purposes it is important to understand the true performance for each month and quarter. Hence, in all Quarterly results reported in this report the 'carryover' has been allocated back to the appropriate month, i.e. each sample is accounted for against the Quarter in which it was posted.

Overview

The table above demonstrates that 1st Class Stamped and Meter performance was ahead of flightpath and full year target level at the end of Quarter 2 – representing a significant improvement in performance in comparison to previous years.

However, the Industrial Action and Northampton Mail Centre fire have resulted in a drop of 7.8% in Quarter 3 performance compared to the first 6 months of the year. At the end of Quarter 3, cumulative performance for this product is 90.3% (representing a cumulative drop of 2.4%). To secure the full year cumulative target of 92.5%, Quarter 4 performance would have to reach 99.0% or above. As Royal Mail's 1st Class pipeline infrastructure is not designed to provide this level of performance, the full year target will not be reached.

Royal Mail has deployed a robust and comprehensive plan of action to maximise Quarter 4 performance and restore services to our customers. However, issues related to the deployment of the Transport Review initiative (see below for details) will impede our ability to fully maximise Quality of Service performance in Quarter 4.

National Quality of Service Action Plan - Quarter 3

The National Quality of Service Plan for Quarter 3 incorporated a number of activities and initiatives. Clearly, the disruption caused by the strikes has resulted in delays or the temporary suspension of many of these initiatives (whilst Managerial resource focussed on maintaining essential services during the disruption).

However, a brief synopsis of progress made against each initiative is provided below:

Continued Deployment and Compliance to National Standards

Despite the Industrial Action (and that fact that the auditors were seconded to help the strike contingency effort during much of the period), 66 Mail Centres, 95 collection hubs and 184 Delivery Units were audited during October and November. Note: no audits were carried out during the December Christmas period.

A summary of the audit scores for operational standards which support improvements in 1st Class Stamped and Meter performance is shown in the table below:

Specification	%age of units receiving Gold accreditation in Quarter 1	%age of units receiving Gold accreditation in Quarter 2	%age of units receiving Gold accreditation in Quarter 3
Access			
Mail Centres	31%	59%	82%
Collection Hubs	40%	82%	92%
Intra			
Mail Centres	59%	91%	89%
Delivery Units	70%	97%	88%
Neighbours (Mail Centre)	15%	62%	80%
Logistics	N/A	29%	80%

Quarter 3 has seen a slight dip in Intra scores for Delivery Offices and this is mainly related to the retiming of missort retrieval runs once a unit migrates to a single daily delivery. Overall however, the table demonstrates that significant improvements have been made in compliance audit scores in Quarter 3. This improvement has been supported by increased focus from Senior Operational Managers, in particular Territorial Heads of Operations. Previously, poor audit scores would be escalated to Heads of Operations when a unit had failed an independent audit twice in row. However, to accelerate compliance, Heads of Operations now become personally involved if a unit fails to achieve Gold accreditation on its first attempt.

Collections Improvement Activity

During Quarter 3, the units with the highest collections gap continued to analyse the root causes of service delay and develop/deploy the necessary remedial actions (supported by a Central Team of collections experts). However, activity was limited in the units affected by the strike action.

Performance Management and Ongoing support for High Impacting Units

Likewise, high impacting units – predominantly those failing the Minimum Floors – have continued to deploy their Quality of Service action plans, supported by central analytical, product experts and operational experts, leading to some noticeable improvements in results for the month of January. For example, South West London, Chelmsford, Dundee, Milton Keynes, Peterborough and Reading – units that were performing cumulatively below the 1st Class Stamped and Meter Intra Floor - have all comfortably exceeded the 92.5% Intra target level for the month of January.

Automation Sorted Doubles Detection

Some letters enter Royal Mail's pipeline stuck together and this can result in missorts as our automated sorting equipment will sort both items to the address shown on the top letter. Automated Sorting Doubles Detection (ASDD) is a new system exploiting advances in miniature digital camera technology and image capture software to detect and intercept 'doubles' on automation equipment, thereby reducing missort levels.

During Quarter 3 this solution was deployed to all Mail Centres using Letter Sorting Machines and these are now fully operational. Trials have been carried out in Southend and Swindon Mail Centre to test the solution for Integrated Mail Processors and these trials have proved successful, i.e. detecting around 9,000 doubles in every million items (0.9%) which could have been missorted or have caused a machine jam. Given the success of these trials, the Business Case for full deployment has been accelerated. Once approved, deployment to all Integrated Mail Processor sites will begin early in 2004/05.

Project Centre:

A major organisational restructuring exercise, known as Project Centre, is now coming to conclusion. This initiative reviewed the role and purpose of Business Centre and its relationship with operational Areas. This restructuring will see Royal Mail move from a command and control to an empowered organisation which pushes accountability down to Areas. This will be achieved by providing the tools and support necessary to drive performance improvements in Areas, embedding Performance Management at all levels of the organisation.

The organisation structure resulting from Project Centre has also raised the profile of Quality in its widest sense by the establishment of a unit dedicated to policy development, solution building and performance monitoring on customer service issues led at Director level. It is a significant visible sign, not only of the importance of service quality, but also of the importance of aspects of service quality which have not always been given equal treatment to traditional quality of service, e.g. overall customer satisfaction. This unit will work closely with the Heads of Operational Performance and their teams who have the accountability for service performance and robust management processes are being put in place to support and formalise these relationships, including a new monthly Quality Forum of Director-level senior managers from all Business Units which impact on Royal Mail UK service performance.

Actions for Rest of Year:

Recognising the serious implications of the Industrial Action on quality of service performance, customer perceptions and trust in Royal Mail, a plan was developed during Quarter 3 to maximise Quarter 4 performance. The details of this plan which relate to 1st Class Stamped and Meter mail and the generic Royal Mail pipeline are summarised in the table below. This plan is in addition to the activities described in the Quarter 3 actions described above which all flow through into Quarter 4.

Issue	Action	Accountability	Timescale
Bringing the pipeline quickly back under control (post Industrial Action, Christmas and Transport Review deployment)	<ul style="list-style-type: none"> • A checklist of day-to-day basics, with especially high profile on clearance to workplan deployed in all Areas • Chairman and Executive Deputy Chairman to reinforce this message at Delivery Office Managers conference • Check that correct contingencies are in place for situations where clearance to workplan is not achievable • Check that key requirements are understood and bought into and confirm that all Area Management Teams have plans in place – with all blockages identified and actioned 	<ul style="list-style-type: none"> • Heads of Operations and Area General Managers • Chairman and Executive Deputy Chairman • Heads of Operations • Heads of Operations 	<ul style="list-style-type: none"> • Issued by 31st December, deployed throughout Quarter 4 • January • January • January
Major Change Deployment	<ul style="list-style-type: none"> • Ensure all proposed pipeline changes have fully considered the pipeline quality of service impact and have appropriate concurrences 	<ul style="list-style-type: none"> • Quality Directorate 	<ul style="list-style-type: none"> • Ongoing
Ensure fully integrated approach with Royal Mail Logistics	<ul style="list-style-type: none"> • Develop integrated plan to be jointly owned with Royal Mail UK Operations and Royal Mail Logistics 	<ul style="list-style-type: none"> • Network Planning and Performance Manager (RML) 	<ul style="list-style-type: none"> • January • January
Senior Management Commitment/Intervention	<ul style="list-style-type: none"> • Manage the audit action plans for all units failing to achieve Gold accreditation at first audit 	<ul style="list-style-type: none"> • Heads of Operations 	<ul style="list-style-type: none"> • January onwards

Issue	Action	Accountability	Timescale
Manual Data Entry Centres	<ul style="list-style-type: none"> MDECs to release additional resource employed in the build up to Christmas in a phased manner to ensure sustained performance 	<ul style="list-style-type: none"> National Operational Services Manager 	<ul style="list-style-type: none"> January
Communications	<ul style="list-style-type: none"> Deploy robust integrated communications plans explaining why final quarter performance is so important – utilising Ops Daily/News Weekly/etc Ensure common messages shared across RM Logistics 	<ul style="list-style-type: none"> Internal Communications Internal Communications 	<ul style="list-style-type: none"> January January
Mitigate against risks associated with deployment of Single Daily Delivery (SDD)	<ul style="list-style-type: none"> Raise importance of Quarter 4 performance with key audiences – in particular ensuring that Best Practice guidelines are adhered to and that missort retrieval runs are retimed and reviewed to ensure their effectiveness Areas to check that SDD planners have incorporated the above guidelines in revision before migrating to SDD Avoid full scale duty resigns where-ever possible³ Ensure SDD revision meets revised workplan requirements 	<ul style="list-style-type: none"> SDD Programme Manager Area General Managers (AGMs) AGMs and Delivery Sector Managers (DSMs) AGMs and DSMs 	<ul style="list-style-type: none"> January Ongoing through Quarter 4 Ongoing through Quarter 4 Ongoing through Quarter 4
Reduce risk of delay on Air Network because of security screening	<ul style="list-style-type: none"> Ensure Areas are aware of capacity details for air routes Evaluate potential for security screening at Mail Centres to relieve pressure on East Midlands Airport Review operational processes at screening sites to minimise impact and delay 	<ul style="list-style-type: none"> Network Operations Manager Network Operations Manager Network Operations Manager 	<ul style="list-style-type: none"> January March March

³ Duty re-signs result in Delivery Offices choosing new delivery routes to cover. This can lead to service disruption while Delivery Officers familiarise themselves with the preparation, layout and geography of the new route.

Progress against this plan is being monitored in a number of ways. Each plan activity has a specific measure associated with it – some daily, some weekly, some monthly. Key performance indicators such as Mail Centre, Delivery Office or network failures are monitored on a daily basis by Area General Managers. These are summarised to Heads of Operations weekly to ensure the reasons for failure are understood and have been appropriately addressed.

Regular, often daily, conference calls are carried out between Heads of Operations and Area General Managers and many Areas replicate this approach within the Area Management Team. Again, these calls are intended to identify and rectify immediate operational issues. A full progress report on actions contained within the plan is updated on a monthly basis with upward feed issues summarised for the newly appointed Quality Director to address via the Royal Mail Executive Committee.

On the 29th of January, Royal Mail employees voted resoundingly in favour of the Pay and Major Change offer and the London Weighting Pay offer. This is a major step forward in achievement of Royal Mail's recovery programme and industrial relations for the organisation. Royal Mail continues to eliminate the restrictive practices⁴ which have had an adverse effect on Quality of Service performance, particularly across London and in units such as the South East Anglia Mail Centre. This combined with the strong performance demonstrated in the first 6 months of this year puts Royal Mail in a good position for achievement of 2004/05 targets.

Quarter 4 activity is also focussing heavily on development of robust quality of service action plans for 2004/05. Under Project Centre (described above) accountability for quality of service improvement sits firmly with operational Areas. 2004/05 postcode area targets have now been devised and signed off. Areas are now carrying out root cause analysis to understand any performance gaps/shortfalls and hence develop effective action plans to close those gaps. This approach is intended to reduce geographical variability across postcode areas (also helping secure achievement of Minimum Floor targetry) and drive day to day consistency and compliance with core operational requirements and standards.

From a national perspective, work is continuing to develop Standard Operating Procedures and improved quality of service diagnostics (e.g. a Quality Dashboard and Radio Frequency Identification technology) which will also support quality of service improvement in coming years. Full details of the 2004/05 Quality of Service plan will be provided at a later date.

Despite this activity, both bad weather and the launch of Transport Review have caused serious concern over achievement of the Quarter 4 run rate performance.

Heavy snowfall, ice and high winds on the 28th of January caused widespread disruption to our network. On this evening:

⁴ Such as sorting 'cut-offs' and not delivering Mailsort traffic on a Saturday

- Bournemouth, Bristol, Cardiff, Kinloss, Stansted and Sumburgh airports were all closed and no flights operated via Exeter or Newcastle because the required aircraft were trapped in other airports. Operations at East Midlands, Gatwick and Heathrow airports were also severely disrupted. In fact, only one of our 32 scheduled Skynet flights operated its entire route on time.
- On the roads, most outward services from Northern and Southern Home Counties and Essex Distribution Centres were cancelled and road services from the National Distribution Centre (NDC) and Princess Royal Distribution Centre (PRDC) were cancelled or severely delayed. In addition, many feeder services to/from network hubs failed to operate or were forced to turn back.
- Collections across the South East Midlands and East Anglia were severely disrupted due to blizzards and icy conditions.

This severe weather resulted in more than 16 million 1st Class items failing to meet their scheduled outlet and falling back to later services and this will undoubtedly have had an effect on quality of service for all 1st Class non presort products⁵.

The launch of Transport Review Phase 4 has encountered some significant teething problems. The Transport Review is a comprehensive review of all Royal Mail distribution networks with the aim of designing a cost-effective, robust and flexible network that is capable of meeting customer needs. The development of this new integrated distribution network is essential to replace the current complex, inefficient and duplicated arrangements. Transport Review re-engineers the Royal Mail UK-wide mails distribution network by:

- reducing the bulk mail Regional Distribution Centres to seven and using them as regional hubs
- collapsing the complex road networks into a regional hub and spoke
- using Princess Royal Distribution Centre for bulk mail as well as the rail and road hub operations
- opening a National Distribution Centre at Daventry to replace the three Midlands RDCs and to use as a regional and national hub
- changing the rail contract from a multi-stop local service to a fast long-distance bulk service
- reconfiguring the air network using jet freightliners with unitised loads flying 18 services from 12 airports

Phase (1), the closure of two South West RDCs, Phase (2), the cessation of a number of poor performing trains, and Phase (3), the opening of the Daventry Hub and closure of the 3 Midlands RDCs and the cessation of the 2c trains - were implemented well and with minimum disruption. Phase (4) was launched on 12 January and involved the cessation of all the 1C final trains plus the introduction of the new road and air networks.. This was the single biggest change in RM's distribution history. Key risks were identified before deployment with mitigating actions put in place - as summarised below.

⁵ Stamped, Meter, PPI and Response Services mail

Anticipated Risk	Mitigating Actions
Inadequacies in network design, e.g. unachievable Mail Centre arrival/ departure times	<ul style="list-style-type: none"> • Robust capability/impact assessment completed in each Mail Centre with contingency actions deployed as necessary • Temporary introduction of 5 new flights (cost £5m) • Temporary introduction of direct road services to relieve any congestion at NDC • Temporary introduction of direct relief vehicles to airport hubs to relieve bottlenecks • Extra resource in place at NDC and PRDC to cope with 'learning curve' changes
Capability of some Mail Centres to achieve direct York despatching and capability of hubs to accurately process mixed York's	<ul style="list-style-type: none"> • Problem Mail Centres identified and supported • Review of hub capability to handle mixed York's • Date verification guidelines issued • Deployment of a pre-advice system so that operational units know how much mail to expect on each vehicle and when - to support more effective alignment of staff to workload
Poor date verification leading to shortfall in capacity	<ul style="list-style-type: none"> • Area Planners double-checked requirements as part of planning processing, with shortfalls adjusted where necessary • Working closely with Communication Workers Union on people issues
Poor deployment and / or conflict with other major change initiatives	<ul style="list-style-type: none"> • Travelling Post Office (TPO) proof of concept work to identify problems / issues with TPO closures • Introduce performance measurement regime to allow rapid diagnostics and identify pinch points for remedial action • Phased deployment allowing sufficient time between phases to critique and remodel future phases
Industrial unrest	<ul style="list-style-type: none"> • National enabling agreement with CWU • Robust frontline communications • Affected staff dealt with sensitively and sympathetically • Strict adherence to Royal Mail processes and procedures for dealing with issues of redundancy
Inward Mail Centres fail to handle the additional 1.2 million items which would have been processed on TPO's	<ul style="list-style-type: none"> • Proof of concept work to identify flows and resource requirements for each Mail Centre
Non compliance to new ways of working	<ul style="list-style-type: none"> • Clear communication on new ways of working • Area Managers' concurrence • Significantly increased levels of on-the-ground resource deployed to carry out compliance checks and address issues as necessary • Enhanced day-to-day managerial controls, e.g. daily conference calls and communications • Vehicles to take meal breaks off-site to avoid congestion at NDC and ensure compliance with specified arrival / departure times • Closed door policy
Mail arrives at Delivery Offices too late to connect with deliveries	<ul style="list-style-type: none"> • Extra resource deployed in Mail Centres to ensure late arriving mail is processed in time to connect with deliveries

Anticipated Risk	Mitigating Actions
Actual vehicle running times different to planned – leading to arrival pattern disruption	<ul style="list-style-type: none"> • Processes in place to provide ongoing review and revision of: <ul style="list-style-type: none"> - vehicle utilisation - turnaround times - arrival / departure schedules

However, despite the extensive planning and contingency arrangements, the network has suffered from failures on a nightly basis through the February reporting period, particularly at NDC, and this will undoubtedly take its toll on Quarter 4 performance. Analysis is underway to understand how much of the failure should be attributed to:

- Non-compliance to new ways of working, e.g. high adherence to arrival and departure times, correct documentation and signage on vehicles, accurate bag labelling, etc
- Design issues, e.g. Mail Centre to hub driving times, loading and turnaround times at NDC
- Need to overlay requirements to screen all mail - policy change during implementation of TR
- New air network introduced in order to ensure phased move to jets
- Interim turbo prop aircraft with higher capacity did not prove fully suitable
- Additional temporary flights have caused some degree of congestion

Work continues to address the non-compliance issues and quickly address procedural problems. However, in addition a number of design issues are being addressed which will lead to further revision phases of this initiative, not least to develop long-term solutions to the temporary (but expensive) contingency arrangements, e.g. the extra flights. This work will continue through Quarter 4 and into the next financial year. Until such times we can expect Transport Review to have a negative impact on 1st class quality of service and we are unlikely to achieve the Quarter 4 run rate (that is to achieve the full year cumulative target level through three-month period January – March) as originally forecast.

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 90.5% for 1st Class Posted Stamped and Meter throughout the 12 month period ending March 2004, excluding the Christmas and New Year period. Progress against this standard is shown in the table below:

Quarterly Cumulative Results

% of Postcode Areas Averaging 90.5% or above for 1 st Class Posted Stamped and Meter		
April-September Cumulative Result (Quarters 1 and 2)	April-December Cumulative Results (Quarters 1 to 3)	Quarter 3 Actual
105 out of 118	67 out of 118	21 out of 118

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

The industrial action has also had a severe effect on 1st Class Stamped and Meter Minimum Floor performance with only 21 postcode areas achieving the 90.5% run rate during Quarter 3 (on a 3 month average basis) – depressing the cumulative position from 105 postcode areas at or above floor at the end of Quarter 2 to only 67 above floor at the end of Quarter 3.

The table below demonstrates the impact of the Industrial Action on postcode areas that were performing below the 1st Class Stamped and Meter Posted Floor at the end of Quarter 2. This table shows that 1st Class Stamped and Meter Minimum Floor performance has declined, despite the Areas efforts to improve performance, because of the impact of the Industrial Action. Cumulative performance in postcode areas that took direct strike action (shown in bold in table) has fallen by 3-7%, making it impossible for these postcode areas to recover the full year cumulative position. The other postcode areas not on strike would, of course, have their postings into the strike areas impacted, albeit to a lesser extent.

However, each of the postcode areas listed in the table below remains committed to improving their local quality of service through deploying their remedial action plans. Additionally, each postcode area remains committed to achieving the Quarter 4 performance levels that they have already promised to Postcomm and Postwatch in December presentations – although their ability to achieve these planned levels may be inhibited by Transport Review disruption (as described above).

1st Class Stamped and Meter Posted Performance – PCAs below Floor at end Quarter 2

Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2	Change in performance since end of Quarter 2
SW	80.6%	87.4%	-6.8%
CM	84.8%	88.9%	-4.1%
WV	87.4%	89.6%	-2.2%
SS	87.1%	89.8%	-2.7%
W	84.7%	90.1%	-5.4%
ST	87.2%	90.1%	-2.9%
SE	83.9%	90.2%	-6.3%
NR	88.7%	90.2%	-1.5%
DY	88.3%	90.2%	-1.9%
WS	88.5%	90.2%	-1.7%
SK	90.4%	90.3%	+0.1%
BA	89.6%	90.3%	-0.7%
TF	90.0%	90.4%	-0.4%

*Note Some Quarter 2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

The table below demonstrates that 38 additional postcode areas have fallen below the 1st Class Stamped and Meter minimum floor level in Quarter 3.

Almost all of these postcode areas were directly affected by Industrial Action, i.e. had strikes within at least one operational unit in the postcode area, hence the impact of the strike is most pronounced in their results. Other postcode areas – outside of London and the South East of England - were indirectly affected, i.e. some of their 1st Class Posted samples were due to be delivered in striking postcode areas or passed through striking network hubs.

It should be noted that all postcode areas that are performing at 87.5% or below (NN, SW, SE, DA, HA, NW, W, CM, WC, N, RM, UB, CO, OX, SS, IG, ST, WV) have now failed the full year cumulative target⁶. However, all of the postcode areas listed will endeavour to achieve a Quarter 4 performance (average across the 3 months) greater than the 90.5% minimum floor level.

⁶ As a performance of 100% or greater would be required for the rest of the financial year to recover the cumulative position

1st Class Stamped and Meter Posted Performance – PCAs above Floor at end Quarter 2

Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2 ⁷	Change in performance since end of Quarter 2	Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2	Change in performance since end of Quarter 2
NN	73.3%	91.1%	-17.8%	CV	89.5%	92.0%	-2.5%
DA	84.3%	90.8%	-6.5%	SY	89.5%	90.6%	-1.1%
HA	84.4%	92.7%	-8.3%	RH	89.7%	92.7%	-3.0%
NW	84.7%	92.5%	-7.8%	TQ	89.7%	91.9%	-2.2%
WC	85.6%	90.9%	-5.3%	B	89.8%	90.8%	-1.0%
N	86.3%	91.1%	-4.8%	BR	89.8%	93.5%	-3.7%
RM	86.7%	92.4%	-5.7%	CB	89.8%	92.3%	-2.5%
UB	86.7%	93.5%	-6.8%	SA	89.8%	90.8%	-1.0%
CO	86.9%	91.0%	-4.1%	CF	89.9%	91.5%	-1.6%
OX	86.9%	92.4%	-5.5%	LE	89.9%	92.8%	-2.9%
IG	87.2%	92.3%	-5.1%	SG	89.9%	93.2%	-3.3%
EC	88.0%	92.2%	-4.2%	WR	89.9%	91.8%	-1.9%
EN	88.1%	91.4%	-3.3%	BS	90.0%	90.9%	-0.9%
MK	88.2%	90.8%	-2.6%	ME	90.1%	93.7%	-3.6%
WD	88.4%	91.8%	-3.4%	HP	90.2%	93.1%	-2.9%
E	88.9%	92.1%	-3.2%	LD	90.3%	91.5%	-1.2%
LU	89.0%	91.5%	-2.5%	NP	90.3%	91.5%	-1.2%
PE	89.2%	92.1%	-2.9%	PL	90.4%	92.9%	-2.5%
AL	89.5%	93.8%	-4.3%	SM	90.4%	93.3%	-2.9%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

In summary, the industrial action has had a significant detrimental impact on 1st Class Stamped and Meter floor performance – particularly in those postcode areas directly affected by the strike. This has driven a large number of postcode areas below the floor, of which only a handful are likely to recover in time to achieve the full year cumulative target.

The National Quarter 4 report – showing the full year results - will provide a breakdown of which postcode areas have achieved the floors including and excluding the Quarter 3 results (highlighting those that have dipped purely as a result of the strikes).

⁷ Note, these figures may have changes slightly compared with those shown in the Quarter 2 report. This reflects our ongoing process of End to End checks.

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 2004, 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 Cumulative Result (Quarters 1 and 2)	April-December Cumulative Results (Quarters 1 to 3)	Quarter 3 Actual
113 out of 121	95 out of 121	71 out of 118

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

As explained above, the industrial action and Northampton Mail Centre fire have resulted in a number of additional postcode areas falling below the cumulative 1st Class Stamped and Meter Intra floor in Quarter 3. However, the impact is less pronounced as Intra performance for postcode areas that were not directly affected by the industrial action or the receipt of diversions from striking units was largely unaffected. At the end of Quarter 3 95 postcode areas were achieving the 1st Class Stamped and Meter Intra target of 92.5% (a decline of 18 postcode areas since the end of Quarter 2).

The table below summarises performance for those postcode areas which were below Floor, on a cumulative basis, at the end of Quarter 2.

1st Class Stamped and Meter Posted Performance – PCAs below Floor at end Quarter 2

Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2	Change in performance since end of Quarter 2
HS	89.8%	88.5%	+1.3%
SW	83.9%	89.4%	-5.5%
CM	89.3%	91.1%	-1.8%
WV	89.4%	91.7%	-2.3%
DD	92.7%	92.0%	+0.7%
MK	91.3%	92.2%	-0.9%
PE	93.4%	92.2%	+1.2%
RG	93.0%	92.3%	+0.7%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

It is encouraging to note that those postcode areas that were not directly affected by Industrial Action (HS, DD, PE and RG) have improved their cumulative performance over the last 3 months. In fact, PE, RG and DD have improved to such an extent that they are no longer performing below the floor on a cumulative basis.

However, the industrial action has now put SW, CM, WV and MK⁸ in a worse position than at the end of Quarter 2.

The table below provides a summary of postcode areas that have fallen below the Floor in Quarter 3.

1st Class Stamped and Meter Posted Performance – PCAs above Floor at end Quarter 2

Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2	Change in performance since end of Quarter 2	Postcode Area	Performance at end of Quarter 3	Performance at end of Quarter 2	Change in performance since end of Quarter 2
NN	72.7%	93.0%	-20.3%	WC	89.9%	92.9%	-3.0%
HA	83.4%	94.0%	-10.6%	ST	90.6%	92.8%	-2.2%
NW	85.6%	93.1%	-7.5%	E	91.0%	94.4%	-3.4%
DA	86.7%	92.7%	-6.0%	KW	91.3%	92.9%	-1.6%
W	86.8%	94.1%	-7.3%	CO	91.7%	95.0%	-3.3%
N	87.4%	94.1%	-6.7%	LD	91.7%	92.7%	-1.0%
RM	88.1%	95.1%	-7.0%	SS	92.1%	95.0%	-2.9%
UB	88.6%	95.0%	-6.4%	EC	92.2%	94.4%	-2.2%
SE	88.8%	93.3%	-4.5%	WD	92.2%	95.1%	-2.9%
IG	89.2%	93.4%	-4.2%	OX	92.4%	95.4%	-3.0%
				SM	92.4%	94.2%	-1.8%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

It is noticeable that the majority of these postcode areas were directly affected by the London Weighting Industrial Action.

The fall in NN performance is directly related to the Mail Centre fire.

The decline in ST intra performance was caused by a separate and unrelated incidence of unofficial industrial action in North West Midlands Mail Centre. Similarly, the decline in OX performance was caused by a separate incidence of unofficial strikes in Oxford Mail Centre and Delivery Offices. Both postcode areas have delivered a January performance above the minimum floor level, which suggests they have made a full recovery from the local disruption.

⁸ North West Midlands Mail Centre had an incident of industrial action which was unrelated to the London Weighting pay offer issue

KW's intra performance has fallen for entirely different reasons. Like HS (Hebrides), KW (Kirwall) has to transport intra mail between the northernmost point of the Scottish mainland and the islands which make up the KW grouping. As with HS, intra performance is very susceptible to weather conditions and the availability of sea/air transport links to make these transfers and intra performance can often dip in Quarters 3 and 4 when the weather is at its worst.

Analysis is underway to understand the root causes of poor performance in the LD postcode area and remedial actions will be put in place as necessary. LD will endeavour to achieve the 92.5% Intra run rate through Quarter 4.

The postcode areas with a cumulative performance below 90% (NN, HA, SW, NW, DA, W, N, RM, UB, SE, IG, CM, WV, HS, WC) have already failed the full year cumulative target⁹. However, these and all other postcode areas will endeavour to achieve the Quarter 4 run rate (i.e. achieve an average performance of 92.5% or higher through January to March). Unlike 1st Class Posted performance, 1st Class Intra should not be directly affected by the implementation of Transport Review.

In summary, the industrial action has had a detrimental impact on 1st Class Stamped and Meter Intra floor performance – but only in postcode areas directly affected by the strike. This has resulted in an additional 18 postcode areas falling below the Intra floor at the end of Quarter 3.

The National Quarter 4 report will provide a breakdown of which postcode areas have achieved the floors including and excluding the Quarter 3 results (highlighting those that have dipped purely as a result of the strikes).

⁹ A performance of over 100% would be required for the rest of the year to close the cumulative gap.

2nd CLASS STAMPED AND METER

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
98.7±0.1%	97.6±0.2%	95.1±0.4%

Overview

The table above demonstrates that 2nd Class Stamped and Meter performance was 0.1% ahead of flightpath and full year target level at the end of Quarter 2. However, a Quarter 3 performance of 95.1% - as a result of strike action and the Northampton Mail Centre fire – has reduced cumulative performance to 97.6% at the end of Quarter 3.

The full year cumulative target for this product will now be failed. However, Royal Mail will make all endeavours to ensure Quarter 4 performance returns to its healthy pre-strike levels.

National Quality of Service Action Plan - Quarter 3

No specific recovery actions were scheduled for 2nd Class Stamped and Meter mail in Quarter 3 as the product had demonstrated that it was consistently achieving target levels of performance and that there were no underlying geographical or pipeline design issues to be addressed.

Actions for Rest of Year

The actions described in the 1st Class Stamped and Meter section of this report will help support the recovery of Quarter 4 performance. Royal Mail will endeavour to deploy all necessary actions to secure achievement of the 98.5% run rate through Quarter 4.

1st CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
86.7±0.8%	82.8±0.7%	74.3±1.6%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

The table above clearly demonstrates the impact of the Industrial Action and Northampton Mail Centre fire on 1st Class PPI results. Results have been slowly but steadily improving through 2003/4, reaching a cumulative position of 86.7% at the half year point. However, the poor Quarter 3 results have caused the cumulative results to fall to 82.8% - masking the benefits of the extensive improvement activities that took place during the Quarter. The full year cumulative target will not be achieved for this product.

National Quality of Service Action Plan - Quarter 3

Deployment and ongoing compliance with refreshed operational standards for handling PPI mail forms the backbone of improvement activities for 1st and 2nd PPI mail. However, the PPI improvement plan has evolved during the year as new root causes of poor performance of service delay are identified through:

- Ongoing local quality of service diagnostic and performance analysis
- On the ground investigations at high impacting units
- Local and national Quality Test Letter exercises
- An independent study carried out by IBM Consulting

These investigations have led to the development of a comprehensive quality of service improvement plan which is being deployed during Quarters 3 and 4. Key elements of this plan are described below:

Deployment and Compliance with Refreshed PPI Standards:

Despite our continued focus on PPI operational standards, Quarter 1 and 2 audit scores remained disappointing. During Quarter 3, the Executive Deputy Chairman and territorial Heads of Operations called for a business wide focus on PPI and the personal commitment from all Area General Managers that operational specifications for PPI (and Response Services) are effectively deployed and consistently adhered to in all operational units – placing the issue firmly at the heart of Area Management accountability.

This has led to a significant improvement in audit scores in Quarter 3 and it is now recognised throughout Royal Mail that ongoing adherence to these standards forms the basic building block to delivering quality of service improvement. The table below demonstrates the improvement in compliance scores:

Accreditation	Quarter 2	Quarter 3
%age Gold	56%	92%
%age Silver	20%	6%
%age Bronze	3%	2%
%age Failed	21%	0%

This shows that all but 5 of the 66 Mail Centres audited in Quarter 3 achieved Gold accreditation. The 4 who achieved Silver and 1 who achieved Bronze accreditations have received support and advice from the compliance team and have robust plans in place (signed off by the relevant Area Manager and Head of Operations) to ensure they achieve Gold on the next audit.

Continued Customer Compliance: Whilst looking for improvements in the way we process PPI mail we must continue to address a number of customer (and panellist) compliance issues which inhibit our ability to improve quality of service performance. The PPI product is designed to offer convenient posting and payment methods to customers who post large volumes of mail on a reasonably regular basis and the PPI Mail Centre operation is designed for such flows of mail, i.e. high volume postings from a limited number of customers. Therefore, PPI mailings are subject to a number of contractual requirements such as:

- Access – customer mail must be with Royal Mail before the advertised latest acceptance time and customers must provide pre-notification of postings of over 4,000 letters (or 1,000 packets) or beyond their normal posting pattern
- Segregation – customers must segregate their mail and present it in an agreed format
- Self Billing – customers must accurately complete the self billing documentation
- Minimum Volume – customers must post a minimum of £5,000 per year to qualify for a PPI contract

Two activities in particular commenced in Quarter 3:

- An initiative to review the PPI contracts for customers whose mailing profile has changed to the extent that they no longer have the volumes of mail required to qualify for the PPI contract. Work has commenced to migrate these customers to a more suitable method of payment, e.g. traditional stamps, meter impression, SmartStamp. The activity will help smooth flows of mail through PPI processing and reduce operational complexity in outward Mail Centres.
- In the past, our approach to handling non compliant postings has been inconsistent – with different Mail Centres being more lenient or more strict than others. During Quarter 3 a more rigorous process has been developed whereby Royal Mail can address the non-compliance issues described above. The first step to deploying this process was carried out in Quarter 3 and involved writing to PPI customers to remind them of the terms and conditions specified in their contracts and giving notice that Royal Mail would be tightening up internal procedures during Quarter 4.

End to End Diagnostics:

The PPI National Loss model was refreshed during Quarter 2 and this identified some root causes of service delay which had not previously been tackled, e.g. the issue of customers posting mixed 1st and 2nd class PPI mailings. The information from the Loss Model exercise led to revised operational standards and updating of best practice guidelines. Royal Mail recognises the importance of accurate and timely diagnostic information and therefore commissioned a study during Quarter 3 where the 15 highest impacting PPI End to End panellists incorporate a Quality Test Letter (QTL) within each survey sample. This exercise was managed by Research International to ensure total panellist anonymity.

These test letters provide a graphical trace of the movement of a letter – showing periods of activity and inactivity. These traces can also be interpreted to show how an item was sorted (machined or manual), the main method of transport used (aircraft, train, van) and the number of network exchanges undertaken. By knowing the postcode area of posting and delivery, the Test Letter also provides useful information as to whether the letter arrived at/departed from Outward and Inward Mail Centres and Delivery Office at the correct time – providing a rich source of ongoing diagnostic data.

This exercise has been ongoing through Quarter 3 and provides both a national and local picture of where service delays occur. Results are shared with all operational Areas. In particular, where the trace indicates a delay which can be attributed to a specific operational unit, that unit is immediately notified to ensure appropriate action is taken.

This approach is being extended to the next tranche of high impacting PPI panellists in Quarter 4.

A Business Case has recently been authorised which will result in an increased level of PPI samples – at significant extra cost to Royal Mail. This will provide improved diagnostic information to Mail Centres and hence support quality of service improvement. Further PPI panellists will be recruited during Quarter 4 and sample sizes will increase early in the new financial year.

Continued support to high impacting units: National Product Assurance Managers (expert in all customer, operational and survey aspects of PPI) have continued to support the high impacting units during Quarter 3. The Product Assurance managers help raise the profile of PPI within an Area/operational unit, provide enhanced root cause analysis and help the Area develop and deploy remedial action plans. These action plans focus on deployment of best practice (such as maximising the volume of PPI mail on the main despatch) and bringing life to the operational standards.

This approach has proved very successful in the past – with units demonstrating performance improvements as a result of the support and focus provided. In fact, the independent review of PPI performance, carried out by IBM, recommended that the approach be replicated across the entire country. For that reason, a new post of PPI Champion was appointed in each Mail Centre during Quarter 3 (see Quarter 4 action plan below for more details).

Communications: An ongoing programme of communications continues to raise awareness of quality of service issues with managers and operational employees throughout the organisation. This campaign particularly focuses on the PPI and Response Services products and in Quarter 3 has included:

- A direct letter from the Executive Deputy Chairman to Area Managers seeking their personal commitment to addressing performance issues for PPI (and Response Services)
- Tailored Work Time Listening and Learning sessions for front line staff
- Face to Face briefings with the relevant operational managers – particularly in high impacting units
- Articles in the Courier newspaper – featuring the experiences of operational units who have delivered excellent local improvements
- We Can Fix – an internal campaign which encourages employees to offer improvement suggestions on the chosen topic
- A re-launch of the updated PPI improvement plan at the November Area Managers forum.

A series of training workshops for the newly appointed PPI Champions (plus Collection & Network, Customer Liaison, Revenue Protection and Late Shift Managers) was also completed in January.

Prospects and Actions for Rest of Year

As mentioned in the 1st Class Stamped and Meter section of this report, a rigorous plan has been developed and is now being deployed to help maximise quality of service performance and accelerate the benefits from improvement activities through Quarter 4. Many of the generic activities described in the 1st Class Stamped and Meter section of this report will help support improvements in PPI. The tables below provide a summary of the remaining activities scheduled for Quarter 4 that will uniquely support improvements in PPI performance:

Issue	Action	Accountability	Timescale
A limited number of units continue to have a disproportionately high impact on PPI performance	<ul style="list-style-type: none"> • All high impacting units to have robust improvement plans in place • Monitor progress of plan achievement through regular conference calls/meetings/etc. • Key messages around importance of PPI performance to be included in Chairman/Deputy Chairman's Delivery Office Managers event • Continue to support existing 12 highest impacting Mail Centres and 2 Barometer units plus another 7 high impacting units 	<ul style="list-style-type: none"> • Area General Managers (AGMs) • AGMs/Heads of Operations • Chairman/Executive Deputy Chairman • Product Assurance Managers 	<ul style="list-style-type: none"> • Ongoing • Ongoing • January • Ongoing
Compliance with PPI operational standards has been slow to take hold	<ul style="list-style-type: none"> • Manage Audit Action Plans for units who fail to achieve Gold accreditation on first audit • Follow up monthly area reports of PPI standards non-compliance to drive everyday compliance to standards 	<ul style="list-style-type: none"> • Heads of Operations • Heads of Operations 	<ul style="list-style-type: none"> • Ongoing • Ongoing
Best practice deployment	<ul style="list-style-type: none"> • Maximise volume of PPI mail on main despatch (through workplan changes, targeted relief collections and expedited transfers from Collection Hubs) 	<ul style="list-style-type: none"> • AGMs/Mail Centre Managers 	<ul style="list-style-type: none"> • Ongoing
Communications	<ul style="list-style-type: none"> • Sponsor Territorial PPI workshops after Christmas (with follow up workshop early in new financial year) • Deploy integrated communications plan using Ops Daily/News Weekly/Courier/etc – in particular emphasising potential financial penalties/compensation for failure to achieve PPI targets. • Develop/deploy clear internal communications to support consistent enforcement of process to address customer compliance issues • Continue 'We Can Fix' campaign to key targeted audiences • Supported communications through face to face follow ups wherever practical, including visits to 30 Mail Centres with PPI standards 'walk through' 	<ul style="list-style-type: none"> • Heads of Operations • Internal Communications • Internal Communications • Internal Comms • Product Assurance Team 	<ul style="list-style-type: none"> • Jan & April • Ongoing • January • Ongoing • January

Issue	Action	Accountability	Timescale
Customer Non-compliance	<ul style="list-style-type: none"> • Deploy new Revenue Protection new procedures for capturing and addressing customer non-compliance issues on an everyday basis • PPI Champions to work closely with Customer Liaison Managers and Sales on customer issues – ensuring effective feedback loops are in place • Identify and work with customers who continually post 1st Class PPI items with 2nd Class postings – supporting them in identifying root causes and taking remedial action • Instigate mandatory 1st Class in 2nd Class flip check in 30 highest impacting Mail Centres • PPI Product Specification Reinforcement – to assist customer compliance: Specification to be revised to clarify existing requirements, including (1) Segregation of mail, (2) Accurate documentation, (3) Adherence to Latest Acceptance Times, (4) Mail-pieces to not be stuck together & (5) Low Value Account threshold • Tackle Low Value Accounts (sub-£5,000 pa), with mail from those accounts closing transferred to other products 	<ul style="list-style-type: none"> • National Service Performance Manager • PPI Champions • PPI Champions • PPI Champions • Channel Manager (Marketing) • Channel Manager (Marketing) 	<ul style="list-style-type: none"> • January • Ongoing • Ongoing • Ongoing • December • Ongoing
Lack of PPI and expertise in Areas	<ul style="list-style-type: none"> • PPI champions appointed in each Mail Centres • Champions fully trained to ensure they have a good understanding of Product, Standards, Supporting best practices, End to End analysis, Escalation process for customer non-compliance • Name and train Champion deputies to ensure continued focus when Champion absent 	<ul style="list-style-type: none"> • Area General Managers • Product Assurance Managers and Territorial Performance Analysts • PPI Champions 	<ul style="list-style-type: none"> • December • January • January
End to End diagnostics	<ul style="list-style-type: none"> • Seek authority to increase sample levels in order to provide improved diagnostic information for Mail Centres • Panellist QTL Exercise Phase II – Continue to analyse results on a weekly basis and flag specific quality loss to operational units, ensuring they are dealt with promptly • Ensure any panellist errors identify from QTL traces are raised with Research International and resolved 	<ul style="list-style-type: none"> • National Service Performance Manager • National Service Performance Mgr/AGMs • National Service Performance Manager 	<ul style="list-style-type: none"> • January • Ongoing • Ongoing

Measures exist against each of these actions that are monitored on a regular basis via the cross functional PPI Project Board to ensure effective deployment.

Again, deployment of Phase 4 of the Transport Review is expected to have a significant impact on 1st Class PPI performance in Quarter 4 (see 1st Class Stamped and Meter section for more detail). In fact, an even greater impact can be expected with 1st Class PPI mail as PPI postings have a much wider fall to earth, i.e. the average PPI item travels further than the average Stamped and Meter item and hence is more network dependent.

2ND CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
96.3±0.4%	94.0±0.4%	89.3±1.1%

Overview

Once again, Industrial Action and the Northampton Mail Centre fire have taken their toll on 2nd Class PPI performance, masking the improvements made through the deployment of our improvement action plan. Cumulative performance has dropped by over 2% since the end of Quarter 2.

National Quality of Service Action Plan - Quarter 3

Analysis has been carried out during Quarter 3 to establish whether the root causes of service delay for 2nd Class PPI differ from those identified and being addressed for 1st Class PPI. The study took the form of detailed analysis of End to End data for the 3 highest impacting postcode areas. The analysis showed that patterns of loss for 2nd Class PPI exactly mirrored that for the 1st Class product – indicating collection or Mail Centre failures were a common root cause. This analysis did not highlight any particular loss specifically relating to the 2nd Class PPI network.

Hence, we remain confident that the actions described for 1st Class PPI will help support performance improvement for 2nd Class.

Prospects and Actions for Rest of Year

The full year cumulative target for this product is no longer achievable. However, Royal Mail will continue to deploy its Quarter 4 action plan to maximise 2nd Class PPI performance throughout Quarter 4.

1ST CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
85.0±1.4%	82.1±1.2%	75.9±2.5%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Again, the Industrial Action and fire at Northampton Mail Centre have had a detrimental effect on Response Services results. The cumulative result has dropped by almost 3.0% since the end of Quarter 2 – masking any benefits that have been achieved through deployment of the Response Services improvement plan.

National Quality of Service Action Plan - Quarter 3

The key milestones scheduled for Quarter 3 deployment in our National Quality of Service action plan related to improving compliance with the Response Services operational standards and continued development of the new product specification. However, as other causes of service delay have come to light (through national and local root cause analysis) the improvement plan has evolved to include all of the following activities:

Improved Compliance with Response Services Standards: Compliance with Response Service operational standards fell marginally short of the planned level during Quarter 2. However, the emphasis on compliance to these standards has been raised significantly during Quarter 3 – via a direct letter from the Executive Deputy Chairman to all Area General Managers and the earlier intervention of Territorial Heads of Operations where a unit fails to achieve Gold accreditation. This has led to further improvements in audit scores – as shown in the table below. Unfortunately, the benefits of this improvement can not be seen in the quality of service results which have been depressed by the incidents mentioned above:

	Quarter 2 Mail Centres	Quarter 3 Mail Centres	Quarter 2 Delivery Units	Quarter 3 Delivery Units
Gold	82%	92%	82%	86%
Silver	11%	2%	0%	2%
Bronze	2%	2%	1%	0%
Failed	5%	4%	17%	12%

Heads of Operations are now directly involved in signing off improvement plans for units that fail to achieve Gold accreditation on their first audit. This intervention is expected to drive further improvements in Quarter 4 compliance levels.

Continued Customer Compliance: We continue to work closely with our Response Services Licences holders to ensure they comply with the contractual requirements of the product, e.g. using the correct Business Reply postcode, through our 90 Day Sales Process.

A data cleansing trial has also take place in January to identify how customer records can be kept more up to date and support more effective manual and automated processing of Response Service mail.

Continued support to high impacting units: Our ongoing analysis of End to End performance highlighted 17 postcode areas having an exceptionally high impact on national performance. During Quarters 2 and 3, a team of Response Services experts – knowledgeable in all operational, technological, customer and survey issues related to the product – provided support to these units. This approach has been particularly effective in the past, driving large improvements in performance over short periods of time. However, the benefits of this activity and Quarter 3 can not be accurately quantified because of the strike action.

Maximising Automated Billing: A number of activities are underway to help maximise the volume of mail which can be automatically counted and billed – items which have been machine counted and billed have demonstrably higher quality of service than those that have gone through the manual process. These activities include:

- Ongoing use of the Business Reply Automated Processes (BRAP) Field Support Team to support local improvement activity
- Automation workshops to resolve operational bottlenecks with BRAP
- Ensuring more accurate data capture and more speedy resolution of day to day automation queries

In addition, a BRAP helpdesk is being set up and will be fully operational by mid February.

Communications: As with PPI, an ongoing programme of communications continues to raise awareness of quality of service issues with managers and operational employees throughout the organisation. This campaign ensures that focus remains on improving performance for the existing product whilst awaiting the launch of the new product and includes:

- A direct letter from the Executive Deputy Chairman to Area Managers seeking their personal commitment to addressing performance issues for PPI (and Response Services)
- Tailored Work Time Listening and Learning sessions
- Face to Face briefings with the relevant operational managers – particularly in high impacting units
- Articles in the Courier newspaper - featuring the experience of operational units who have delivered excellent local performance improvements
- We Can Fix – an internal campaign which encourages employees to offer improvement suggestions on the chosen topic

A number of further communication activities are scheduled for Quarter 4 – as described in the Quarter 4 plan below.

New Product Development: In addition to the activities described above, work continues to transform the Response Services product from that requiring a significant element of manual handling, to two independent streams. The first, capable of being automatically sorted, counted and billed, thereby improving quality of service, reducing revenue leakage and reducing operational costs. The second, requiring manual handling due to the physical characteristics of individual items.

Royal Mail is seeking to leverage a solution which utilises existing Address Interpretation architecture with a know and already contracted supplier. This solution is also capable of providing in-pipeline performance measurement through an Operational Data Interface. This solution does not rely on customers having a unique postcode (an issue which has inhibited maximisation of the BRAP solution) and therefore facilitates the return to geographic postcodes for all Response Services customers – allowing further quality of service benefits. The solution uses a new and unique type of licence number technology to automatically count Response Services items and download billing data to the customer invoicing system – avoiding the manual operation at Delivery Offices.

The outline specification for this product has been shared with customers and with Postcomm and Postwatch and an updated version of the product specification will be available by the end of March.

Royal Mail aims to provide the necessary incentives to maximise the number of customers who will migrate to this new product and the successful conclusion of contractual negotiations with Lockheed Martin (the chosen supplier of the technological solution) will allow trials of the new product to begin in April/May.

Prospects and Actions for Rest of Year

The Industrial Action and fire in Northampton have prevented achievement the full year cumulative target for this product. However, a comprehensive action plan, incorporating new and flowthrough activities, is currently being deployed to help maximise Quarter 4 performance:

Issue	Action	Accountability	Timescale
High impacting units	<ul style="list-style-type: none"> • Ensure robust improvement plans in place in high impacting units • Monitor deployment of plan achievement via regular visits/conference calls with key units • High impact support to the 20 highest impacting postcode areas 	<ul style="list-style-type: none"> • Area General Managers (AGMS) • Area General Managers • Prodt Assurance Mgrs 	<ul style="list-style-type: none"> • Ongoing • Ongoing • Ongoing

Issue	Action	Accountability	Timescale
Ongoing compliance to Response Services Standards	<ul style="list-style-type: none"> • Ensure robust audit action plans in place for all units failing to achieve Gold accreditation in first audit • Monitor progress against action plans • Follow up monthly Area reports of non-compliance to drive everyday compliance to RS standards 	<ul style="list-style-type: none"> • Heads of Operations • Heads of Operations • Mail Centre Managers 	<ul style="list-style-type: none"> • Ongoing • Ongoing • Ongoing
Operational changes related to Single Delivery	<ul style="list-style-type: none"> • Ensure clarity regarding Response Services Standards and operational specifications in unit deploying single daily delivery 	<ul style="list-style-type: none"> • Product Assurance Team/Area General Managers 	<ul style="list-style-type: none"> • Ongoing
New product	<ul style="list-style-type: none"> • Develop and trial new product solution • Migration Plan to be jointly developed by Marketing and agreed with UK Operation, including risk analysis and mitigating actions • Deploy agreed migration plan 	<ul style="list-style-type: none"> • Head of Response Services • Head of Response Services • Area General Managers 	<ul style="list-style-type: none"> • February • January • February onward
Communications	<ul style="list-style-type: none"> • Deploy integrated communications plan using Ops Daily/News Weekly/Courier/etc – in particular emphasising potential financial penalties/compensation for failure to achieve PPI targets. • Develop/deploy clear internal communications to support consistent messages for all operational employees and managers • Continue 'We Can Fix' campaign to key targeted audiences • Deploy communications to address poor perception and take up of BRAP in some Mail Centres • Develop/deploy detailed communications to ensure focus remains on improving performance for the existing product during the testing and migration to the new product • Complete a series of Response Services roadshows – jointly developed by UK Operations and Marketing – to take place in lower performing Areas, aimed at Delivery Sector Managers and managers of large delivery offices. 	<ul style="list-style-type: none"> • Internal Comms • Internal Comms • Internal Comms • Internal Comms • Internal Comms • Product Assurance Team/Head of Response Services 	<ul style="list-style-type: none"> • Jan & April • January • January • January • February • Jan to March

Issue	Action	Accountability	Timescale
Business Reply Automated Process	<ul style="list-style-type: none"> • BRAP field support team to support local improvement activity • Deploy agreed actions from automation workshops and resolve any operational bottlenecks • Set up BRAP helpdesk • Ensure accurate data capture – addressing miscounting and under billing • Ensure day to day automation queries are handled and resolved quickly • Devise and communicate a process map for Area engineering and Mail Centre automation teams 	<ul style="list-style-type: none"> • BRAP support team • BRAP support team • BRAP support team • Mail Centre Managers • BRAP support team • BRAP support team 	<ul style="list-style-type: none"> • Ongoing • January • February • Ongoing • Ongoing • January
Day to Day basics	<ul style="list-style-type: none"> • Ensure correct contingencies are in place (for when clearance to workplan is not achievable) • Mail Centre Managers to ensure robust Wave 4c clearances • Locker resourcing to be explicitly covered at weekly staffing sessions • Self audits to ensure all Response Services lockers clear every day • Ensure 2nd Delivery and Saturday retention details are up to date 	<ul style="list-style-type: none"> • Area General Managers • Mail Centre Managers • Delivery Sector Managers • Delivery Sector Managers 	<ul style="list-style-type: none"> • Ongoing • Ongoing • Ongoing • Ongoing
Customer non compliance issues	<ul style="list-style-type: none"> • Continue to address customer non compliance issues via 90 Day process – ensuring process works effectively with clear accountabilities • Data cleansing trial to identify process improvements – with wider roll out after trial • Continue to work with Research International to ensure panellist behaviours are not artificially depressing reported results 	<ul style="list-style-type: none"> • Area General Managers • Head of Response Services • National Service Performance Manager 	<ul style="list-style-type: none"> • Ongoing • Ongoing • Ongoing

The activities described above will help drive further improvements in 1st Class Response Services performance during Quarter 4. It is clear that the 90.3% target performance level could not be achieved with the existing product specification. Therefore, Royal Mail will endeavour to maximise performance in Quarter 4 with a view to achieving the 86.3% (internal) run rate through the last 3 months. However, performance for this mail stream is largely dependent on the recovery of Transport Review.

2ND CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
93.6±1.0%	91.7±0.9%	87.4±2.0%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Like all products, 2nd Class Response Services performance has been depressed by the Quarter 3 industrial action and fire in Northampton – hiding any benefits achieved from the improvement activities carried out during the Quarter. Quarter 3 cumulative performance has fallen by almost 2%.

National Quality of Service Action Plan - Quarter 3

The activity that will underpin 1st Class Response Services improvement (see above) will similarly support improvement for the 2nd Class product.

Prospects and Actions for Rest of Year

At the end of Quarter 2 it became apparent that the full year cumulative target for this product would be failed and plans were put in place to maximise performance for the remainder of the financial year. Quarter 3 has further depressed the cumulative results. However, Royal Mail is determined to maximise 2nd Class Response Services performance in Quarter 4 through deployment of the actions described in the 1st Class Response Services section of this report.

SPECIAL DELIVERY

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
99.1%	98.1%	96.1%

Overview

Cumulative performance for Special Delivery at the end of Quarter 2 was 99.1%, i.e. on track to achieve the full year cumulative target. During the Industrial Action Royal Mail endeavoured to maintain the Special Delivery service wherever possible as customers turn to this product for time critical mail during such times. However, the guaranteed next day service was not possible in every postcode area during the strike¹⁰. The average performance during Quarter 3 fell to 96.1%, reducing cumulative performance to 98.1% at the end of the Quarter 3¹¹.

National Quality of Service Action Plan - Quarter 3

As mentioned above, at the end of Quarter 2 cumulative performance was at the required flightpath level demonstrating that there are no underlying service problems for this product. Hence, the planned activity for Quarter 3 was to continue with the ongoing monitoring and performance management of this product – taking local remedial action where necessary.

However, to ensure performance levels are maintained whilst Special Delivery volumes continue to grow, we continue to upgrade the electronic equipment used to track the journey of these items. New technology will be deployed in 20 Mail Centres during Quarters 3 and 4 at a cost of nearly £3million. This new technology allows faster scanning of Special Delivery items through Radio Frequency and touch screen technology.

Prospects and Actions for Rest of Year

Under normal circumstances we would expect Special Delivery performance to quickly return to target levels, securing achievement of the Quarter 4 run rate. However, Phase 4 deployment of transport review - particularly problems which have occurred on our air network - will undoubtedly impact on Quarter 4 performance.

¹⁰ Of course, Royal Mail has honoured its obligation to pay compensation to customers who did not receive the next day guaranteed service

¹¹ The reporting period for Special Delivery does not exclude the Christmas pressure period unlike the other Licenced products. As the Special Delivery product is guaranteed all year round, performance for the product is measure all year round.

STANDARD RETAIL PARCELS

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
90.8±0.8%	88.4±0.7%	83.6±1.5%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Standard Parcels performance has declined as a result of the industrial action and fire at Northampton Mail Centre. Cumulative performance at the end of Quarter 3 has fallen to 88.4% (1.6% below the target level).

National Quality of Service Action Plan - Quarter 3

Although Standard Parcels performance was ahead of flightpath at the end of Quarter 2, the performance trend was downwards. During Quarter 3 studies were carried out in the postcode areas having the highest impact on Parcels performance and remedial activities have been deployed as necessary.

Parcels results will be closely performance managed throughout Quarter 4 to prevent any further decline in service.

Prospects and Actions for Rest of Year

As with all other products, the Industrial Action and fire at Northampton Mail Centre have prevented this product from achieving its full year cumulative performance. However, Royal Mail will endeavour to restore service to the 90.0% level in Quarter 4.

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 Industrial Action and fire in Northampton Mail Centre have also taken their toll on tail of mail performance. Cumulatively at the end of Quarter 3 only 1st Class Stamped and Meter mail was achieving the 99.9% target performance level.

Table 4..

**Pre-sort Products
Cumulative Results (April - December 2003)**

Standard	Scheduled Standards			
	Target %		Apr - Dec %	95% cl
Mailsort 1	91.0		89.3	1.7
Mailsort 2	97.5		95.2	0.8
Mailsort 3	97.5		97.2	0.8
Presstream 1	90.5		88.6	0.6
Presstream 2	97.5		94.6	1.4

95% cl = 95% confidence limit

MAILSORT 1

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
92.3±1.9%	89.3±1.7%	81.9±3.6%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Mailsort 1 performance was exceptionally strong through the first two quarters of this year – exceeding the planned flightpath level by 1.7%. However, performance has dropped in Quarter 3 as a result of the Industrial Action and fire in Northampton Mail Centre – reducing the cumulative result to 89.3% at the end of Quarter 3.

National Quality of Service Action Plan - Quarter 3

An update on progress across the key elements of the National Quality of Service plan is provided below. These activities support generic improvement across the full presort product range, (i.e. Mailsort 1, 2, 3 and Presstream 1 and 2).

Sales Transformation: As with all bulk products (e.g. PPI, Mailsort, Presstream) it is important that customers comply with the contractual terms and conditions to protect revenue and minimise any quality of service impact from customer errors. Key elements of the Mailsort and Presstream contract are designed to help protect quality of service:

Volume forecasting and pre-advice: It is important that customers provide accurate traffic volumes and notice of postings to ensure Distribution Centres can effectively align their resources to expected workload. Unadvised or under forecast postings put extreme pressure on Distribution Centres and lead to workplan failures and this can have a knock on effect other postings travelling through the Distribution Centre.

Latest Acceptance times: As always, it is critical that customers adhere to Latest Acceptance Times to ensure that mail arrives at the Distribution Centre in time to be processed and connect with network services.

Labelling and Sortation standards: For presort products, customers presort their mail to a set of segregations standards (which depend on the product, e.g. Mailsort 1400, Mailsort 120) – making up an individual bag of mail for each selection. These bags travel unopened through the Distribution Centre network until they reach the Inward Mail Centre or Delivery Office. If a customer sorts an item to the wrong selection or mislabels a bag then missorts will occur which can not be recovered by Royal Mail in time to achieve the required service standard. Accurate labelling and presortation is therefore critical to protecting quality of service for presort products.

Work has been ongoing throughout 2003/4 to address many of these customer compliance issues locally. However, this has been formalised during Quarter 3 as the Sales Transformation initiative - which ensures that a consistent approach is applied across all Distribution Centres. During Quarter 4 customers are being contacted to ensure they are fully aware of the contractual requirements and to give notice that Royal Mail will be taking a stricter approach to customer non-compliance from the start of the new financial year.

Out of Course Cages: A new standard has been deployed to monitor and reduce the number of out of course (missorted) cages.

Logistics Standards: The new Logistics Operational Standards help support performance improvement across the entire presort range. The standards were launched during Quarter 2. Quarter 3 compliance audit scores for these standards are summarised below:

%age Gold accreditation	80%
%age Silver	14%
%age Bronze	0%
%age Failed	6%

The 20% of units who failed to achieve Gold accreditation during Quarter 3 now have remedial action plans in place.

Prospects and Actions for Rest of Year

Although Mailsort 1 performance was comfortably ahead of flightpath at the end of Quarter 2, the Quarter 3 strikes have reduced the cumulative result to the extent that the full year target will not be achieved. However, plans are in place to maximise Quarter 4 performance for all presort products and restore the results to target levels.

Further detail on the specific Mailsort 2 improvement plans are provided in the following chapter.

MAILSORT 2

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
97.1±0.8%	95.2± 0.8%	91.0±1.9%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Mailsort 2 performance has declined as a result of the Industrial Action and Northampton Mail Centre fire in Quarter 3. Performance at the end of Quarter 2 was 0.5% below target level – with a plan in place to ensure recovery to the full year cumulative target. However, cumulative performance has now fallen to 95.2%. The full year cumulative target can no longer be achieved.

National Quality of Service Action Plan - Quarter 3

Most Mailsort 2 activities are common across all presort products (as described in the Mailsort 1 section of this report). However, at the end of Quarter 2, Mailsort 2 was the only presort product which was adrift of flightpath, albeit marginally. Hence, a number of improvement activities have been derived which are unique to Mailsort 2. These are summarised below:

High Impacting Units: High impacting Mail Centres, particularly those in the London and the South East that are served by Northern Home Counties Distribution Centre (NHDC), continue to deploy their local action plans and liaise closely with NHDC to drive improvements in Mailsort 2 performance. These local plans particularly focus on weekend issues as a large proportion of Mailsort 2 quality loss is attributable to weekend operations in RDCs, Mail Centres and Delivery Offices – which are often related to restrictive staffing practices which will be eliminated by the end of the financial year.

Similarly, North Western Distribution Centre (NWDC), another high impacting unit, is in the process of deploying its local quality action plan which has been jointly reviewed with the new management team at the Centre, Operations Programme Managers, Royal Mail Logistics and the Mailsort Product Assurance Manager. Good progress has been made with deployment of the agreed actions (more details are provided in the RDC Quarterly Reports to Postwatch).

Mailsort 2 on A Wave: Work has continued to maximise the volume of Mailsort 2 (and Presstream 2) traffic which travels on the 1st Class 'A Wave' from Distribution Centres. Acceleration of this mail on the A Wave reduces the risk of quality of service failure. Performance against this measure continues to improve from 35% in October, to 36% in November, to 39% in December against an end of year target of 45%.

Migration of Mailsort 1400 to Mailsort 120: Marketing led activity continues to support the migration of customers from the manual Mailsort 1400 to the machinable Mailsort 120 product. This initiative not only reduces the complexity of prework for our customers but concentrates Mailsort 2 traffic into inward Mail Centres where it can benefit from automated walk sortation.

Prospects and Actions for Rest of Year

Mailsort 2 performance had fallen marginally short of flightpath in the first half of the year. Recognising this, Royal Mail had developed a comprehensive improvement plan to supplement the activities described above. This is summarised in the table below:

Issue	Action	Accountability	Timescale
High Impacting units	<ul style="list-style-type: none"> • Ensure robust local improvement plans are in place and being delivered effectively in high impacting Distribution Centres and Mail Centres • Actively work with Northern Home Counties and London Mail Centres to develop a model for an effective working relationship • Follow up on issues derived from analysis of network links between NDC and Belfast • Ongoing quality of service analysis to identify further issues or high impactors 	<ul style="list-style-type: none"> • Area Distribution Managers/Product Assurance Manager • Head of Network/Area General Managers • Network Performance Manager • Product Assurance Manager 	<ul style="list-style-type: none"> • Ongoing • Ongoing • March • Ongoing
Weekend Effect	<ul style="list-style-type: none"> • Identify and tackle any Saturday delivery issues (restrictive practices) • Follow up on finding from QTL study 	<ul style="list-style-type: none"> • Area General Managers • Area General Managers 	<ul style="list-style-type: none"> • Ongoing • Ongoing
M2 on time Delivery Project	<ul style="list-style-type: none"> • Complete trials at SEAMAC, Guildford, Cardiff, Bournemouth and Greenford to maximise volume of Mailsort 2 available for delivery on Day C • Implement in 80% of units 	<ul style="list-style-type: none"> • Project Team • Project Team/Area General Managers 	<ul style="list-style-type: none"> • End March • End March

Issue	Action	Accountability	Timescale
Day to Day basics	<ul style="list-style-type: none"> • Issue best practice checklist of day-to-day basics with particular focus on clearance to workplan – including <ul style="list-style-type: none"> ○ Enforce closed door policy in RDCs ○ Improve Mail Verification checks (with key focus on Mailsort 2) ○ Continue to minimise number of out of course cages through compliance to Mailsort Database changes ○ Ensure clearance to workplan ○ Ensure robust service level agreements in place between Mail Centres and Distribution Centres – with effective performance management ○ Maximise volume of Mailsort/Presstream 2 on A Wave ○ Maximise use of electronic monitoring system ○ Ensure vehicles arrive and depart at scheduled time ○ Ensure correct segregation and containerisation of mail ○ Continue with self audit to check everyday compliance with standards • Deploy checklist of day to day basics and monitor progress • Ensure key requirements understood by Area Distribution Teams and that plans are in place to maximise Quarter 4 performance • Continue programme of audits against Logistics standards and provide support where necessary – with focus on NWDC and NHCDC 	<ul style="list-style-type: none"> • RM Logistics • Area Distribution Managers/Area General Managers • Area Distribution Managers • Area Distribution Managers • Audit team 	<ul style="list-style-type: none"> • December • Ongong • December • Ongoing • Ongong • Ongoing

Issue	Action	Accountability	Timescale
Sales Transformation/Customer Compliance	<ul style="list-style-type: none"> • Maintain clear focus on the Mails Verification processes in Distribution Centres • Ensure that customer comply with missort rates • Tackle and eliminate cases of non-compliance on Concept database • Identify poor posting profiles and undertake remedial action to correct collection or customer addressing problems • Drive improved forecasting and improve collection profiles from workshare customers through partnership approach • Deploy process to enhance verification of continuous posting seeds • Check and return weekly posting sheets to Research International to agreed timescales • Ensure smooth operation of system used by Research International to monitor all units upon the completion and submission of their electronic monitoring forms to verify postings • Continue to raise challenges where customer non compliance is impacting on quality of service • Ensure that Sales Transformation improves the links between Operations and customers 	<ul style="list-style-type: none"> • Area Distribution Managers/Customer Liaison Managers 	<ul style="list-style-type: none"> • Ongoing

Royal Mail will endeavour to maximise Quarter 4 performance for Mailsort 2 through deployment of the actions described above.

MAILSORT 3

Review of Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
98.3±0.8%	97.2±0.8%	94.7±2.1%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Mailsort 3 performance was comfortably ahead of the planned flightpath level at the end of Quarter 2 but Quarter 3 performance has dipped as a result of the Industrial Action and fire at Northampton Mail Centre. This has resulted in cumulative performance dropping to 97.2% at the end of Quarter 3.

National Quality of Service Action Plan - Quarter 3

Performance at the end of Quarter 2 clearly demonstrates that Mailsort 3 is capable of performing at the required performance level and that there are no underlying, systemic problems with processing of this product. Hence, no specific Mailsort 3 improvement activities were scheduled for Quarter 3, other than the generic activities described in the Mailsort 1 section of this report.

Prospects and Actions for Rest of Year

As before, a summary of the key actions which support Mailsort 3 improvement are described in the Mailsort 1 and Mailsort 2 sections of this report. However, the dip in Quarter 3 performance puts achievement of the full year cumulative target at serious risk. Royal Mail is confident of returning Mailsort 3 to pre-strike performance levels during Quarter 4 thus maximising Quarter 4 performance.

PRESSTREAM 1

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
92.5±0.7%	88.6±0.6%	80.0±1.5%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Presstream 1 performance has suffered more than most products as a result of the Industrial Action in Quarter 3. This is because around half of all Presstream postings are generated in the South East of England (posted via Northern Home Counties Distribution Centre) where the Industrial Action was prevalent.

At the half year point, performance was exceeding flightpath by 1.7%. However, this margin has been eroded by the industrial action – bringing cumulative performance at the end of Quarter 3 to 88.6% - meaning the full year cumulative target can no longer be achieved.

National Quality of Service Action Plan - Quarter 3

No unique Presstream 1 actions were scheduled for Quarter 3 as the product was exceeding the required performance level. However, the activities described in the Mailsort 1 section of this report support achievement of the Presstream 1 target.

Prospects and Actions for Rest of Year – created headroom, should achieve target

The over achievement at the end of Quarter 2 would normally give great confidence that the full year target would be achieved. However, the decline in Quarter 3 performance means that the full year cumulative target will be failed. However, Royal Mail will endeavour to return to target performance levels during Quarter 4.

PRESSTREAM 2

Review of Results

Quarterly Results

April-September (Quarter 1 & 2) Cumulative Result	April-December (Quarters 1-3) Cumulative Result	October-December (Quarter 3) Result (3-month rolling average)
97.6±0.8%	94.6±1.4%	88.1±3.7%

*Note Quarter 1/2 Cumulative results have changed slightly since publication of the Quarter 2 Report. This reflects the correct allocation of carryover (see 1st Class Stamped and Meter section for more detail)

Overview

Like its 1st Class equivalent, Presstream 2 performance has suffered badly as a result of the Industrial Action in Quarter 3 – reducing cumulative performance to 94.6% at the end of Quarter 3. The full year cumulative target for this product can no longer be achieved.

National Quality of Service Action Plan - Quarter 3

The majority of Presstream 2 improvement activities are common across all presort products and are described in the Mailsort 1 and 2 sections of this report.

Prospects and Actions for Rest of Year

Presstream 2 will not recover cumulative performance in time to achieve the full year target. However, Royal Mail will endeavour to recover Presstream 2 performance and secure achievement of the 97.5% target performance level during Quarter 4.

Table 5.

**Scheduled Service Standards National Products
Actual Quarter 3 Results (October - December 2003)**

Standard	Scheduled Standards			Tail of Mail		
	Target %	Oct - Dec Cum %	Oct - Dec Cum 95% cl	Target %	Oct - Dec Cum %	Oct - Dec Cum 95% cl
1st Class Stamped & Meter All	92.5	84.9	0.3	99.9	99.9	0.1
2nd Class Stamped & Meter All	98.5	95.1	0.4	99.9	98.8	0.3
1st Class Postage Paid Impression	90.6	74.3	1.5	99.9	96.6	0.8
2nd Class Postage Paid Impression	97.4	89.3	1.0	99.9	97.5	0.8
1st Class Response Services	90.3	75.9	2.5	99.9	97.1	0.3
2nd Class Response Services	97.5	87.4	1.9	99.9	97.7	0.2
Special Delivery	99.0	96.1	#	99.9	100.0	#
All PCAs (except 3) To Achieve 90.5 For 1 st Class Stamped And Metered Posted To UK	118	20				
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121	71				
Mailsort 1	91.0	81.9	3.6	99.9	97.8	0.3
Mailsort 2	97.5	91.0	2.0	99.9	98.9	0.2
Mailsort 3	97.5	94.7	2.1	99.9	99.4	0.2
Presstream 1	90.5	80.0	1.5	99.9	97.7	0.1
Presstream 2	97.5	88.1	3.7	99.9	98.0	0.8
Standard Retail Parcels	90.0	83.6	1.5	99.9	99.4	0.3

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

Target – Target is full-year cumulative

Table 6.

Month Performance December 2003

Standard	December Period 1 Letters %	December Period 2 Letters %	Tail of Mail		
			Target %	Actual %	95% cl
1st Class Stamped & Meter All	86.6	62.9	99.9	99.9	0.2
2nd Class Stamped & Meter All	96.6	93.0	99.9	98.0	0.7
1st Class Postage Paid Impression	72.2	56.9	99.9	94.5	2.4
2nd Class Postage Paid Impression	89.4	85.3	99.9	95.5	2.4
1st Class Response Services	78.2	44.3	99.9	98.2	0.5
2nd Class Response Services	88.0	80.8	99.9	97.6	0.4
Special Delivery	96.7	96.8	99.9	100.0	#
Mailsort 1	79.5	64.6	99.9	98.6	0.5
Mailsort 2	90.4	91.3	99.9	98.8	0.5
Mailsort 3	94.1	98.8	99.9	98.4	0.7
Presstream 1	83.3	78.9	99.9	99.4	0.1
Presstream 2	92.2	95.5	99.9	99.3	0.1
Standard Retail Parcel	87.0	83.4	99.9	99.5	0.7

Note : December Period 1 = 17 November – 30 November

December Period 2 = 1 December - 22 December

The figures for Tail of Mail reflect results : December 1 for Letters and December for Parcels

Table 7.

**Licence Condition 4,16 + 4.17 – Complaint Resolution
Q3 Report**

Royal Mail

Royal Mail	Unresolved at Start	Received in Quarter	Resolved in Quarter	Unresolved at End	Recompense £
Royal Mail Total	37,680	390,459	395,215	32,924	4,591,666
Lost	20,027	155,862	158,043	17,846	2,522,749
Delay	2,306	47,906	47,731	2,481	253,574
Redirection Failure	2,669	29,794	30,622	1,841	85,764
Damage	1,818	15,144	15,366	1,596	803,208
Unconfirmed Delay/Loss	33	13,158	12,061	1,130	91,363
Mis-Delivery	2,084	22,215	23,285	1,014	41,744
Other	8,743	106,380	108,107	7,016	793,264

Complaint resolution action plan update

All actions detailed in the Condition 8 Loss Action plan and Condition 4.14 Complaints Action Plan have been progressed in accordance with milestones.

In terms of Loss, the actions detailed against each of the 24 Contributory causes are being tracked and monitored by the Loss Prevention Board on a monthly basis. Contributory causes of Loss include each of the 5 key Complaints categories of; Loss, Damage, Delay, Mis-delivery and Re-directions. Customer Complaints remain a Primary Scorecard measure and therefore these issues are central to Performance Management at Unit, Area and Territorial level on a monthly basis.

Mis-delivery improvement activity continues to be the main focus for the Loss plan. The “Mis-delivery best practice” improvement pack has now been deployed to 333 Delivery Units since it’s launch. Internal communications campaigns have continued to highlight Mis-delivery as a key issue for Royal Mail with articles published in our staff newspaper and our managerial magazine. Further focus has been provided by an updated Work Time Learning module, this allows managers and frontline staff to work through the issues together and to develop the best response to issues for their office.

Investment in equipment, buildings and staff training continues in support Special Delivery - our guaranteed secure product. Security initiatives on “mail in transit” have been deployed to enhance the integrity of our secure distribution network. Loss complaints have reduced further in Qtr 3 year on year and focus on this area will remain.

To counter Substantial Delay, Royal Mail continued the roll out of the Quality of Service Action Plan, with ongoing focus on key operational standards. Unfortunately the unofficial Industrial action at the beginning of Qtr 3 has adversely affected performance and an increase in the Substantial Delay of items is anticipated for the year. Postcomm receive quarterly updates on the Quality plan and these should be referenced regarding the Quality recovery plan.

Measures aimed at reducing damage to mails items continue to be rolled out. The programme of sorting frame refreshment continues with the deployment of vertical slot fittings replacing the more traditional box fittings. Extended traying of mail continues and Royal Mail has continued the trial of Flat Sorting equipment and the traying of Flat mail, both aimed at reducing damage to items as well as speeding the transfer of the mail. Improvements to delivery equipment also continue with improved mails pouches being made available, along with improved trolleys, both with the benefit of maintaining the integrity of the mail.

The cross business review of the Re-directions product continues. The whole supply chain and the operational specification will be subject to review. Qtr 3 improvements have focussed at the front end of the value chain with the re-design of application forms to improve the accuracy of the data recorded. Third party suppliers have also been engaged to improve the accuracy of the services they provide (labels to Delivery Offices) An internal Communications campaign under the series of "We Can Fix It" has targeted operational staff to highlight performance issues and re-enforce key standards and good practice.

Training for new staff, refresher training for existing staff, and training packages for casuals has been fully rolled out. The new training package provides more support for the new entrant on the handling of key products. Specific modules consider Re-directions standards, the handling of Special Delivery and Recorded items, and best practice guidelines on the preparation and delivery of mail aimed at reducing Mis-delivery rates. The training follows up classroom activity with on the job support and ensures new entrants are supported by more experienced colleagues during the early part of their career.

Post Office Ltd

	Unresolved at Start	Received in Quarter 3	Resolved in Quarter 3	Unresolved at End	Recompense £
Total	640	6,498	6,417	716	20,125
Customer Service at Transaction	221	1,529	1,539	208	2,953
Network Transformation	44	1,300	1,284	60	33
Advice Provision	70	754	728	96	5,825
Branch Facilities	61	628	610	78	1,703
Service Failure	63	555	548	70	3,276
Change Discrepancies	46	404	390	59	2,264
Waiting Times	19	187	188	18	44
Transaction Procedures	17	176	174	19	953
Opening Hours	23	156	158	21	35
Other	76	809	798	87	3,037

Complaint resolution action plan update

The February Siebel update will now include production of a new report analysing complaints by Post Office branch. This will enable identification of poorly performing branches so that appropriate remedial action can be taken.

In the meantime the review of complaint categorisation has been completed and the changes should also be implemented in the February update. This will result in improvements to the accuracy of complaint data capture. In turn this will enable more meaningful root cause analysis of complaints.

The authorisation of complaint handlers to settle more cases on a goodwill basis has seen compensation payments in Q3 rise to £20,125 compared to £18,780 for Q2 and £11,497 for Q1.

Some increase in complaint levels in the period up to Christmas is expected, given the seasonal increase in demand for Post Office services. Specifically:

- Advice provision complaints have doubled between Q2 & Q3, from 423 to 754. Previously Post Office Ltd only reported advice provision complaints on Royal Mail Inland products. They are now following the same convention as Royal Mail and report on all mails products.
- Network Reinvention complaints have doubled from 607 to 1300. Complaints will inevitably increase as the closure programme gathers pace, especially with the acceleration / once over the ground approach.

Against an internal target of 65% customer satisfaction with complaint handling during Q3 was 74%. Analysis is being carried out but this is thought to be due to improved first time resolution.

Table 8.

**Licence Condition 5.6 - Complaints Handling
Q3 Report**

	% Calls answered to quality standard aim – Royal Mail 85% in 15 seconds, Post Office Limited 80% in 20 seconds	% Cases closed to quality standard aim - 100% (inland) in 10 working days
Royal Mail	67%	75 %
Post Office Limited	76%	71%
Total	70%	75%

Commentary on performance

Data Capture

Speed to answer

Customer Management telephony systems do not allow a record of performance against USO-related complaint handling work only.

Case turnaround

For the cases closed to the ten working days measure, the performance refers to inland products for Royal Mail. Post Office Network performance is for USO products.

International turnaround times are agreed and set by the Universal Postal Union (UPU) and are substantially longer than 10 days so have been excluded. The complaints data includes both operational complaints and complaints about policy and specification; enquiries are excluded.

Complaint Handling

The system upgrade relaunch took place at the end of September and although this went much better than the original launch back in May there was still some agent learning curve impact on performance. The IT team is working very hard to resolve the technical issues of this release and performance is becoming more consistent and reliable. The single biggest issue, which had a major impact on the Network over the reporting period was the industrial action, initially in London offices but quickly spreading to other areas affecting the collection and delivery of all streams of mail across the network.

The main focus at this time was to keep key priority services going as far as possible, such as delivering cash to Post Office Counters and delivery of high priority items. To help maintain these core services resource was diverted from support areas around the country into key hot spot Delivery Offices.

The industrial action significantly increased the levels of calls, correspondence and e-mails into Contact Centres, at times normal volumes were doubled, but in view of the circumstance performance was good.

The drop in the overall Grade of Service speed to answer measure from 76% to 70% was mainly due to Royal Mail Customer Service performance falling from 79% to 67% as a direct result of the industrial action. Performance for Post Office Limited showed improvement in the quarter from 72% to 76%. Casework performance only dipped slightly, from 78% to 75%, despite an increased level of complaints and claims following the industrial action.

A number of emergency initiatives were introduced during the industrial action period, including a complete overhaul of call routing plans, to enhance the customer experience. A number of these have been left in place as they have improved overall call handling and case closure procedures. Customers were kept fully up to date through front end IVR messages and tailored communications during the period of Industrial action and Postwatch were informed of these actions.

Postwatch and Postcomm were informed that the quality standard for closing cases would be changed from 10 days to 30 days and that reporting against this standard would commence from quarter 3. The system change request has not been implemented and it is possible only to report against the 10 day standard. It is expected that the technical work will be undertaken so that the Quarter 4 report shows performance against the 30 day standard.