

Licence Condition 4: Paragraph 8a

Licence Condition 4: Paragraphs 16 & 17

Licence Condition 5: Paragraph 6

National Report to Postcomm and Postwatch

Quarter 4 Cumulative Report, April 2003 - March 2004



NATIONAL QUARTER REPORT
April 2003 – March 2004

=	CONTENT	PAGE
=		
Table 1	Scheduled Service Standards National Products	1
=	Actual Cumulative Results (April 2003 – March 2004)	=
=	=	
Table 2	Postcode Area (PCA) First Class Stamped and Metered	2 - 3
=	Actual Cumulative Results (April 2003 – March 2004)	=
=	=	
Table 3	Stamped and Metered, PPI, Response Services, Special Delivery and Standard Retail Parcels	4 - 37
=	Actual Cumulative Results (April 2003 – March 2004)	=
=	+ Commentary on Performance	=
=	=	
Table 4	Pre-Sort Products	38 - 54
=	Actual Cumulative Results (April 2003 – March 2004)	=
=	+ Commentary on Performance	=
=	+ Annex A=	=
=	=	
Table 5	Scheduled Service Standards National Products	55
=	Actual Quarter 4 Results (January 2004 - March 2004)	=
=	=	
Table 6	Scheduled Service Standards National Products	56
=	Month Results (March 2004)	=
=	=	
Table 7	Licence Condition 4.16 + 4.17 – Complaints Resolution – Q4 Report	57 - 61
=	=	
Table 8	Licence Condition 5.6 – Complaints Handling – Q4 Report	62 - 63

Table 1.

**Scheduled Service Standards National Products
Actual Cumulative Results (April 2003 – March 2004)**

Standard	Scheduled Standards			Tail of Mail		
	Target %	April - Mar Cum %	April - Mar 95% cl	Target %	April - Mar Cum %	April - Mar 95% cl
1st Class Stamped & Meter All	92.5	90.1	0.1	99.9	99.9	0.0
2nd Class Stamped & Meter All	98.5	97.8	0.1	99.9	99.7	0.1
1st Class Postage Paid Impression	90.6	83.5	0.7	99.9	98.9	0.3
2nd Class Postage Paid Impression	97.4	94.6	0.4	99.9	99.2	0.2
1st Class Response Services	90.3	81.7	1.1	99.9	98.8	0.1
2nd Class Response Services	97.5	92.2	0.8	99.9	99.1	0.1
Special Delivery	99.0	97.9	#	99.9	100.0	#
All PCAs (except 3) To Achieve 90.5 For 1 st Class Stamped And Metered Posted To UK	118	66				
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121	97				
Mailsort 1	91.0	89.2	1.6	99.9	99.3	0.1
Mailsort 2	97.5	95.7	0.7	99.9	99.7	0.1
Mailsort 3	97.5	97.4	0.7	99.9	99.8	0.1
Presstream 1	90.5	88.1	0.6	99.9	99.4	0.0
Presstream 2	97.5	95.1	1.2	99.9	99.5	0.2
Standard Retail Parcels	90.0	88.9	0.6	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 (PCA) First Class Stamped and Metered
Actual Cumulative Results (April 2003 – March 2004)**

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	92.4	✓	96.2	✓	DN Doncaster	93.3	✓	96.0	✓	L Liverpool	91.5	✓	95.2	✓
AL St Albans	90.2	☒	93.8	✓	DT Dorchester	90.5	✓	96.7	✓	LA Lancaster	91.9	✓	94.8	✓
B Birmingham	89.5	☒	92.8	✓	DY Dudley	88.4	☒	94.2	✓	LD Llandrindod Wells	90.2	☒	92.2	☒
BA Bath	88.8	☒	93.5	✓	E London E	87.5	☒	88.7	☒	LE Leicester	89.6	☒	92.9	✓
BB Blackburn & Burnley	91.5	✓	95.3	✓	EC City of London	88.8	☒	93.1	✓	LL North Wales	91.7	✓	95.6	✓
BD Bradford	93.2	✓	97.4	✓	EH Edinburgh	90.9	✓	93.5	✓	LN Lincoln	94.3	✓	95.8	✓
BH Bournemouth	91.6	✓	95.0	✓	EN Enfield	88.6	☒	93.9	✓	LS Leeds	92.2	✓	97.0	✓
BL Bolton	93.9	✓	93.9	✓	EX Exeter	90.8	✓	96.0	✓	LU Luton	89.3	☒	95.1	✓
BN Brighton	92.3	✓	95.6	✓	FK Falkirk	90.6	✓	93.5	✓	M Manchester	91.8	✓	94.6	✓
BR Bromley	89.4	☒	93.2	✓	FY Fylde	92.0	✓	94.0	✓	ME Maidstone	90.6	✓	93.8	✓
BS Bristol	90.3	☒	95.0	✓	G Glasgow	90.8	✓	95.7	✓	MK Milton Keynes	88.9	☒	92.4	☒
BT Northern Ireland	92.7	✓	94.5	✓	GL Gloucester	91.8	✓	94.3	✓	ML Motherwell	93.0	✓	95.2	✓
CA Carlisle	91.5	✓	95.6	✓	GU Guildford	91.9	✓	94.0	✓	N London N	86.4	☒	88.4	☒
CB Cambridge	90.1	☒	93.4	✓	HA Harrow	84.8	☒	86.7	☒	NE Newcastle	90.5	✓	95.2	✓
CF Cardiff	89.1	☒	95.0	✓	HD Huddersfield	94.8	✓	96.0	✓	NG Nottingham	92.8	✓	94.6	✓
CH Chester & Deeside	92.7	✓	97.1	✓	HG Harrogate	91.8	✓	96.4	✓	NN Northamptonshire	74.3	☒	76.0	☒
CM Chelmsford	85.8	☒	89.1	☒	HP Hemel Hempstead	90.3	☒	96.1	✓	NP Newport	89.7	☒	96.2	✓
CO Colchester	87.8	☒	91.9	☒	HR Hereford	91.6	✓	94.8	✓	NR Norwich	87.1	☒	91.9	☒
CR Croydon	89.8	☒	92.9	✓	HS Hebrides	82.2		87.9	☒	NW London NW	85.6	☒	86.4	☒
CT Canterbury	92.3	✓	95.3	✓	HU Hull	92.5	✓	95.4	✓	OL Oldham	91.8	✓	94.0	✓
CV Coventry & Warwickshire	88.7	☒	93.2	✓	HX Halifax	91.0	✓	94.5	✓	OX Oxford	87.5	☒	92.8	✓

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

=

Table 2.

**Postcode Area (PCA) First Class Stamped and Metered
Actual Cumulative Results (April 2003 – March 2004)**

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	✓☒
CW Crewe	91.4	✓	94.1	✓	IG Ilford	86.4	☒	89.2	☒	PA Paisley	91.9	✓	94.6	✓
DA Dartford	85.3	☒	88.7	☒	IP Ipswich	90.6	✓	94.1	✓	PE Peterborough	89.6	☒	93.5	✓
DD Dundee	91.5	✓	93.7	✓	IV Inverness	90.6	✓	96.4	✓	PH Perth	91.8	✓	94.3	✓
DE Derby	92.6	✓	96.8	✓	KA Kilmarnock	92.7	✓	95.4	✓	PL Plymouth	88.2	☒	94.9	✓
DG Dumfries	93.6	✓	96.7	✓	KT Kingston upon Thames	91.7	✓	94.3	✓	PO Portsmouth	90.7	✓	92.7	✓
DH Durham	92.0	✓	95.3	✓	KW Kirkwall	85.8		91.5	☒	PR Preston	92.5	✓	94.8	✓
DL Darlington	91.6	✓	96.4	✓	KY Kirkcaldy	92.7	✓	95.9	✓	RG Reading	90.4	☒	93.5	✓
RH Redhill	89.1	☒	97.1	✓	SS Southend-on-Sea	87.9	☒	92.2	☒	W London West	84.6	☒	88.7	☒
RM Romford	87.1	☒	89.3	☒	ST Stoke-on-Trent	87.5	☒	90.9	☒	WA Warrington	90.6	✓	93.8	✓
S Sheffield	94.2	✓	97.1	✓	SW London SW	82.1	☒	86.5	☒	WC London West Central	85.6	☒	90.3	☒
SA Swansea	89.3	☒	93.2	✓	SY Shrewsbury & Mid Wales	88.5	☒	95.2	✓	WD Watford	89.0	☒	92.9	✓
SE London SE	84.4	☒	88.8	☒	TA Taunton	91.9	✓	94.6	✓	WF Wakefield	91.8	✓	95.4	✓
SG Stevenage	89.8	☒	92.4	☒	TD Borders	93.4	✓	96.3	✓	WN Wigan	92.3	✓	93.2	✓
SK Stockport	90.3	☒	95.2	✓	TF Telford	89.0	☒	93.3	✓	WR Worcester	89.7	☒	95.7	✓
SL Slough	90.7	✓	94.1	✓	TN Tonbridge	91.9	✓	94.1	✓	WS Walsall	89.0	☒	94.7	✓
SM Sutton	91.0	✓	92.6	✓	TQ Torquay	88.0	☒	94.1	✓	WV Wolverhampton	89.0	☒	92.2	☒
SN Swindon	91.5	✓	93.8	✓	TR Truro	91.3	✓	95.5	✓	YO York	90.3	☒	97.2	✓
SO Southampton	91.7	✓	95.6	✓	TS Teesside	91.3	✓	96.9	✓	ZE Lerwick	87.7		97.4	✓
SP Salisbury	91.7	✓	96.2	✓	TW Twickenham	91.5	✓	96.2	✓					
SR Sunderland	93.9	✓	96.3	✓	UB Uxbridge	87.3	☒	89.6	☒					

=

Table 3.

**Stamped; Metered; PPI; Response Services and Special Delivery
Actual Cumulative Results (April 2003 - March 2004)**

Standard	Scheduled Standards			
	Year End Target %		Apr - Mar %	95% cl
1st Class Stamped & Meter All	92.5		90.1	0.1
2nd Class Stamped & Meter All	98.5		97.8	0.1
1st Class Postage Paid Impression	92.5		83.5	0.7
2nd Class Postage Paid Impression	98.5		94.6	0.4
1st Class Response Services	92.5		81.7	1.1
2nd Class Response Services	98.5		92.2	0.8
Special Delivery	99.0		97.9	#

***Target is full-year cumulative**

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

1st CLASS STAMPED AND METER

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
92.4±0.2%	93.1±0.2%	85.0±0.3%	89.4±0.3%	90.1±0.1%

Overview

1st Class Stamped and Meter full year cumulative performance for 2003/04 was 90.1%, 2.4% below target level. This result is particularly disappointing given the strong start to the year where:

- Quarter 1 performance was 0.5% better than at the same time the year before
- Quarter 2 performance was 1.1% better than at the same time the year before and was 0.6% ahead of the target performance level

Both results suggested that the full year cumulative target of 92.5% would be achieved. However, Quarter 3 performance was affected by Industrial Action and a fire at Northampton Mail Centre and Quarter 4 performance has been affected by the deployment of the major change activities vital to achieve the organisation's Renewal Plan. The factors affecting Quarter 3 and 4 performance are described in some detail in the following section. However, the table below summarises the impact of the Industrial Action¹ and Northampton fire on full year performance, showing that underlying performance for 2003/04 was 91.7%.

Full year cumulative performance	90.1%
Full year cumulative performance with impact of Northampton fire and Industrial Action removed	91.7%
Impact	-1.6%

National Quality of Service Action Plan - Issues Impacting on Full Year Performance

During the first 6 months of 2003/04 Quality of Service results confirmed that the underlying performance for the two core operational pipelines (i.e. Stamped/Meter and Presort) was good. These results demonstrated that Royal Mail's approach to customer service and Quality of Service improvement, i.e. performance management focus and driving consistency across the operation through the development and deployment of operation standards which are tested through programmes of self and independent audit, were effective.

¹ Removing the affected period from 1st October (the date of the first official Industrial Action) to 21st November (when the recovery operation was completed)

After the first 6 months all products except PPI and Response Services (which have very unique characteristics and problems) were on course to achieve their full year cumulative Licence targets. In fact, many products were demonstrating a stronger level of performance than ever encountered before and this was underpinned by an operation which was more standardised and controlled than in the past.

However, Royal Mail is currently undergoing unprecedented levels of change as part of its 3 year financial renewal programme. This change programme provides the foundation for delivering the final leg of the Renewal Plan; a plan critical to securing the immediate future of the company. Achieving the Renewal Plan secures an efficient and effective USO postal service across the UK and generates the necessary funds to invest in improved customer service in the future. However, these changes have had an impact on Quarter 4 performance, as described below.

Major Change Activity

Royal Mail needed to fundamentally change the way it operates to secure its future in the UK postal market. Royal Mail is currently changing the fundamentals of the way mail is sorted, transported and delivered. These changes represent one of the largest corporate restructurings in any UK industry in the last 20 years.

The current Industrial Relations climate has provided a window of opportunity in which to deploy these changes and the quicker the changes are deployed, the quicker customer service can be restored to target level. However, despite contingency planning undertaken to minimise disruption (see later), the scale and pace of change have resulted in some temporary interruption to customer service. This is visible in the Quarter 4 Quality of Service results. The key changes deployed in Quarter 4 were:

Transport Review: Transport Review was the first total and integrated review of all Royal Mail's networks for the conveyance of mail – both presort and non-presort. It covered road, rail and air operations, hub locations and the Travelling Post Office network. The aim of Transport Review is to produce a simpler, more robust network with greater visibility and controls. The initiative simplified the Royal Mail network from one which had nearly 9,000 point to point movements each night to approximately 3,000 alongside the opening of a national distribution hub at Daventry in the Midlands (referred to as NDC). It moved from using unreliable and inefficient rail services for the movement of 1st Class mail (but keeping the long distance bulk trains for 2nd Class traffic) and the cessation of the Travelling Post Office service. The initiative has also modernised the air network by moving from older turbo prop aircraft to containerised jet aircraft which have greater capacity and the capability to fly in all weather.

This initiative represented the single biggest change in Royal Mail's distribution history and was planned in 4 manageable phases spread over the course of the year. 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 1st Class final trains plus the introduction of the new road and air networks. The Phase (4) changes have had an impact on Quality of Service performance – particularly for neighbouring² and distant³ traffic – despite the fact that key risks were identified before deployment with a comprehensive risk mitigation plan in place. The risk plan addressed issues such as:

- Preventing inadequacies in the network design capacity
- Double checking planning assumptions
- Ensuring all Mail Centres had the capability to achieve direct York despatching
- Ensure Distribution Hubs had the capability to accurately process mixed York containers
- Preventing any industrial unrest/action associated with job reductions and/or new ways of working

Additionally, Royal Mail invested over £5m in the temporary introduction of contingency flights, direct road services and relief vehicles to help secure service. It is also worth noting that problems encountered have been exacerbated by the Security Policy changes, imposed on Royal Mail at the last moment, which require us to screen all mail bags prior to loading onto aircraft. This not only adds an additional time consuming process to the pipeline at a very critical point in time but also puts further space constraints onto airport hubs.

From the introduction of the Phase 4 Transport Review changes in January 2004, we have identified the shortcomings in design and deployment and developed solutions to put these right. Many of these solutions were deployed in Quarter 4 and the remainder will take effect in the first Quarter of the new year. The key issues being addressed include:

- Restoration of pipeline disciplines to ensure all aircraft and vehicles move to time (e.g. vehicles will no longer be held after their scheduled departure time waiting for the last few items to be loaded as this puts service for all items contained on the vehicle at risk of failing to make its next connection).
- Maximising the volume of mail on the main despatch (circa 2000 hours) to smooth workload peaks at network hubs and ‘de-risk’ the network
- The introduction of further direct flights where appropriate
- The introduction of direct routes and/or mini-hubs for neighbouring traffic where appropriate - to reduce the transit time and relieve pressure on the National Distribution Centre and Princess Royal Distribution Centre.

The activities described above represent a substantial investment in network services and will ensure that network reliability and punctuality are restored early in Quarter 2 2004/05. Full details of these initiatives are provided in the 2004/05 Quality of Service Action Plan.

² Mail posted in one postcode area for delivery in another postcode area which is less than 100 miles away.

³ Mail posted in one postcode area for delivery in another postcode area which is more than 100 miles away.

Single Daily Delivery: Royal Mail has improved its processing and network operations considerably over the last 10 years and this has greatly diminished the requirement for a second delivery. In fact, less than 4% of mail is now delivered on second delivery. However, the second delivery operation represents 20% of all delivery costs. Moving to a single daily delivery where Business customers receive their mail by 0930 and residential customers receive their mail by lunchtime is a key part of Royal Mail's 3 year recovery programme.

Converting to Single Delivery requires changes to the indoor sortation and preparation of mail (where mail is sorted into the order in which it will be delivered), as well as changes to the timing and sequence of the actual delivery itself. To support successful transition to the single delivery structure, Royal Mail has invested over £30m in provision of approximately 5,000 new pieces of indoor sorting equipment, 7,000 new mail trolleys, 3,500 new bicycles and 2,000 new pouch boxes.

However, as with any change of this nature, we can expect some minor disruption while delivery employees become familiar with the new sorting arrangements and delivery routes. This, in the short term, can lead to an increased level of Quality of Service failures. For example, delivery employees on new, unfamiliar routes are more likely to misdeliver items, and there is an understandable learning curve in adjusting to the new sorting task.

With effective Union consultation and after the induction training and communications we would normally expect a revision to 'bed in' completely and performance to return to normal levels within 6-8 weeks at the most. This has been seen in the vast majority of revisions. However, a very small number of revisions, around 25 out of over 1500 so far, have been very problematic – resulting in more significant Quality of Service problems. We continue to work closely with the Communication Workers Union to unblock the key issues which are affecting the successful transition to a single delivery and believe these issues will be resolved by the end of Quarter 1 2004/05.

Mail Centre Efficiency Review: Following the successful ballot on the National and London Weighting pay award (in January), Mail Centres have been implementing the productivity improvement measures which underpin the pay increase. These have, unfortunately, had an initial impact on quality of service as staffing changes are introduced and bedded in and restrictive working practices challenged. The impact is relatively small and has been addressed in the National Quality of Service plan for 2004/05.

In addition to this major change activity described above, results for the last 6 months have been affected by Industrial Action and an arson attack in Northampton Mail Centre. The impact of both is described in summary below. For a more detailed account of the incidents, the contingency plans and recovery operations please refer to Annex A.

Northampton Mail Centre:

A deliberate arson attack in Northampton Mail Centre on Sunday 7th September put the Mail Centre out of permanent service and caused serious disruption to services in the Northampton postcode area. The fire at the Mail Centre (which also contained Northampton Central Delivery Office) led to the building and automated sorting equipment becoming inoperable. Normal contingency plans can cater for short term operational events such as machine breakdowns or power failures but the total loss of one of 71 Mail Centres, resulted in considerable disruption to services into and out of Northampton.

Since the fire Royal Mail has deployed a number of recovery arrangements (See Annex A for details) at considerable pace. The primary activity involved finding and equipping two new buildings to house the NN1, NN4 and NN5 delivery operation and a stand alone temporary Mail Centre. As of 31st March, Northampton Mail Centre had repatriated all 1st and 2nd Class traffic so that it no longer had to be diverted to other Mail Centres for processing.

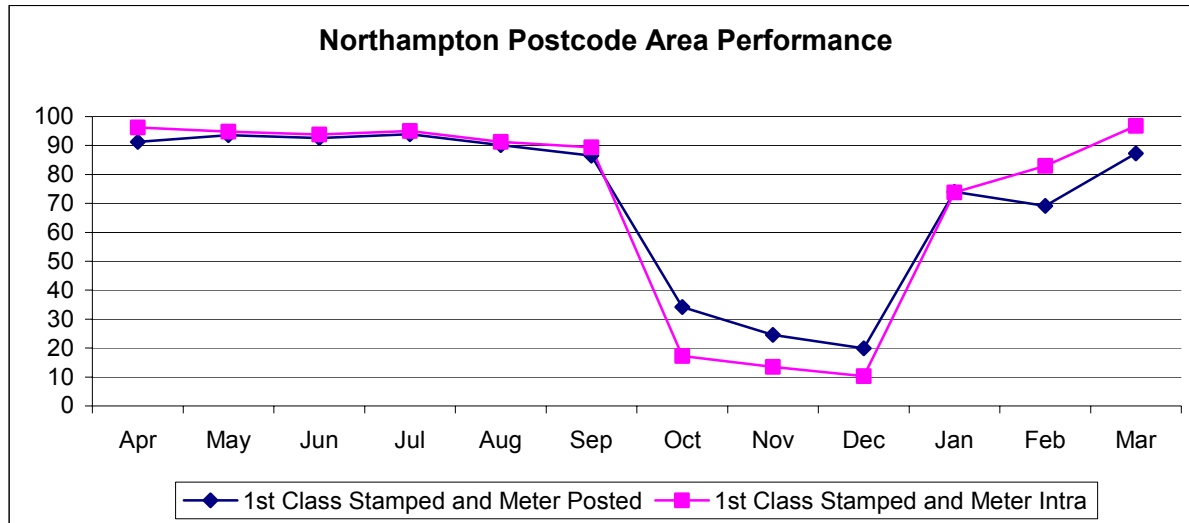
Northampton's Quality of Service results have steadily recovered over the last Quarter. The table below demonstrates the impact of the Northampton fire on full year cumulative results for all Regulated products (i.e. the results with all End to End samples posted or delivered in Northampton from 7th September to end of financial year removed):

=

Product	Full Year Result Unadjusted	Impact of Northampton	Full Year Result with Northampton Removed
1 st Class Stamped and Meter	90.1%	-0.3%	90.4%
2 nd Class Stamped and Meter	97.8%	-0.1%	97.9%
1 st Class PPI	83.5%	-1.0%	84.5%
2 nd Class PPI	94.6%	-0.3%	94.9%
1 st Class Response Services	81.7%	-0.6%	82.3%
2 nd Class Response Services	92.2%	-0.3%	92.5%
Mailsort 1	89.2%	-0.2%	89.4%
Mailsort 2	95.7%	-0.1%	95.8%
Mailsort 3	97.4%	-0.1%	97.5%
Presstream 1	88.1%	-0.2%	88.3%
Presstream 2	95.1%	-0.1%	95.2%
Special Delivery	97.9%	N/A	N/A
Standard Parcels	88.9%	-0.1%	89.0%

Note:

- With Northampton removed, Mailsort 3 achieves its full year cumulative target of 97.5%.
- End to End samples from the Northampton postcode area represent 4% of all 1st Class PPI samples (compared to 1% weighting for Northampton on 1st Class Stamped and Meter mail). Hence, the drop in service in Northampton has had a greater impact on national 1st Class PPI performance.



The chart above demonstrates how 1st Class Stamped and Meter Posted and Intra performance for Northampton was performing consistently above the Licence minimum level before the fire⁴, fell in October as a result of the fire⁴, continued to decline in November and December as Northampton struggled to find the contingency capacity to cope with the increased Christmas traffic volumes but has steadily improved through January, February and March.

Quarter 3 Industrial Action

In September, the Communication Workers Union commissioned a ballot in relation to both the National and London Weighting pay offer – an offer which was funded through efficiency savings achieved through deployment of the 3 major change activities, namely Transport Review, Single Daily Delivery and Mail Centre Efficiency Review. 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 and impacting through until 21st November.

A full account of the preparation and contingency planning arrangements, postcode areas involved and return to work arrangements was provided in the National Quarter 3 Report and is shown again at Annex A. The key points to note are:

⁴ Industrial Action in London and the South East of England would also have contributed to this downturn in performance.

- the level of consultation and contingency planning in the build up to the strikes was unprecedented for Royal Mail
- The impact of the substantive dispute has resulted in the cessation of a series of restrictive staffing practices which had been having a direct negative impact on our ability to deliver Quality of Service (e.g. ‘cutting off’ sorting in Delivery Office at a certain time despite the fact that some mail is waiting to be sorted and delivered)
- The strict terms of the return to work agreement (i.e. diversion of mail to non-striking units so that striking employees could not recover lost income in overtime payments to ‘clear up’ the backlog of mail) meant that individuals on strike suffered financially – acting as a disincentive to further Industrial Action – as evidenced by the January vote in favour of the pay offer and major change.
- The strategy for managing both the Industrial Action and recovery arrangements has meant that there is a much reduced likelihood of interruption to quality of service and Universal Service provision in the future.

The table below demonstrates the impact of the Quarter 3 Industrial Action on full year cumulative results (by removing End to End Samples for the period 1st October to 21st November – when the recovery operation was completed). The table also shows the combined effect of the Northampton fire and Industrial Action – giving a more accurate representation of underlying performance for 2003/04:

Product	Full Year Result Unadjusted	Impact of Industrial Action	Full Year Result with Industrial Action Period Removed
1 st Class Stamped and Meter	90.1%	-1.4%	91.5%
2 nd Class Stamped and Meter	97.8%	-0.8%	98.6%
1 st Class PPI	83.5%	-2.0%	85.5%
2 nd Class PPI	94.6%	-1.4%	96.0%
1 st Class Response Services	81.7%	-1.6%	83.3%
2 nd Class Response Services	92.2%	-1.2%	93.4%
Mailsort 1	89.2%	-1.9%	91.1%
Mailsort 2	95.7%	-1.2%	96.9%
Mailsort 3	97.4%	-0.8%	98.2%
Presstream 1	88.1%	-2.2%	90.3%
Presstream 2	95.1%	-2.0%	97.1%
Special Delivery	97.9%	N/A	N/A
Standard Parcels	88.9%	-1.3%	90.2%

The table clearly indicates the impact that the Industrial Action has had on national full year performance. The table below shows the combined effect of the Industrial Action and the Northampton Mail Centre fire:

=

Product	Full Year Result Unadjusted	Impact of Industrial Action and Northampton Fire	Full Year Result with Industrial Action Period and Northampton Fire Removed
1 st Class Stamped and Meter	90.1%	-1.6%	91.7%
2 nd Class Stamped and Meter	97.8%	-0.8%	98.6%
1 st Class PPI	83.5%	-2.6%	86.1%
2 nd Class PPI	94.6%	-1.6%	96.2%
1 st Class Response Services	81.7%	-2.0%	83.7%
2 nd Class Response Services	92.2%	-1.4%	93.6%
Mailsort 1	89.2%	-2.0%	91.2%
Mailsort 2	95.7%	-1.4%	97.1%
Mailsort 3	97.4%	-0.8%	98.2%
Presstream 1	88.1%	-2.3%	90.4%
Presstream 2	95.1%	-2.0%	97.1%
Special Delivery	97.9%	N/A	N/A
Standard Parcels	88.9%	-1.3%	90.2%

This table demonstrates that:

- Full year 1st Class performance has fallen between 1.6% and 2.6% as a result of the Industrial Action and fire.
- 2nd Class performance has been less affected (in the range of 0.8% to 2.0%) due to the longer delivery schedule
- Underlying performance for 2nd Class Stamped and Meter, Mailsort 1, Mailsort 3 and Standard Parcels was at or above the Licence target level.
- In addition, underlying performance for 1st Class PPI, 1st Class Response Services, Mailsort 1, Mailsort 2, Mailsort 3, Presstream 2 and Standard Parcels has shown improvements on the previous year.

National Quality of Service Action Plan - Full Year

The following section provides a summary of the key activities carried out during 2003/04 to sustain and drive further improvements in 1st Class Stamped and Meter Quality of Service. These activities have a positive impact on many other products which share common processes through the pipeline:

Enhanced audit approach: The fundamental building block of Royal Mail's Quality of Service improvement plan was the deployment and consistent adherence to operational standards supported by ongoing performance management focus. This approach had already driven improvements in performance in the previous year and these were sustained in Quarters 1 and 2. Early in 2003/04 an enhanced audit approach, to ensure ongoing adherence to operational standards, was launched which incorporated:

- A significant increase in the level of independent audit resource – allowing more frequent audits and more tailored support
- The launch of an integrated audit approach whereby all standards were audited on the same series of visits
- Improvements to the consistency of auditing and reporting standards – with better supporting literature
- Improvements to the approach for developing and launching new standards
- The introduction of Gold, Silver and Bronze accreditation – allowing positive recognition for those units who consistently apply the key national standards and determining the frequency of re-audit for those who are not fully compliant.
- Simplification of standards to more concisely capture the key requirements
- More formalised Head of Territory intervention when a unit consistently fails to comply

During Quarter 1 a set of new standards was also launched to drive up compliance at key Mail Centre to ‘network’ handover points. These are referred to as ‘Logistics’ standards. These standards ensure:

- Vehicles arrive and depart from Mail Centres and network hubs at the allocated time
- Correct segregation and containerisation of mail between Mail Centres, Distribution Centres and Network Hubs
- An agreed Service Level Agreement and management process is in place between Mail Centres, Distribution Centres and Network Hubs to ensure the above standards and other locally agreed handover procedures are consistently complied with.

Throughout 2003/04 we have seen steady and continued improvement in compliance as demonstrated by independent audit scores. The table below summarises the proportion of audited units that received Gold accreditation (i.e. an overall audit score of over 90% plus 100% achievement of any ‘gateway’ specifications contained within the overall audit). Results are shown for the specifications which drive improved 1st Class Stamped and Meter performance; more specific results for PPI and Response Services are shown in the appropriate sections of this report:

Percentage Gold Accreditation

Operational Standards	Quarter 1	Quarter 2	Quarter 3 (note Q3 audits were limited due to Industrial Action)	Quarter 4
Access – Mail Centres	31%	59%	82%	100%
Access – Collection Hubs	40%	82%	92%	100%
Intra – Mail Centres	59%	91%	89%	100%
Intra – Delivery Units	70%	97%	88%	99%
Neighbours	15%	62%	80%	Audit suspended due to redefinition of ‘neighbours’
Generic – Mail Centre	N/A	N/A	N/A	100%
Generic – Delivery Office	N/A	N/A	N/A	100%
Logistics	N/A	29%	80%	100%

Although the Quality of Service benefits of this approach were visible in Quarter 1 and 2 results, they have been masked in Quarters 3 and 4 by the incidents and activities described in the section above. Regardless of this, compliance to these standards has improved to reach almost '100%' across the board in Quarter 4.

Quality Diagnostics: As part of our continuing programme of Quality of Service diagnostics a major study of 1st Class Stamped and Meter service loss was completed in Quarter 2. This study involved a total of over 1800 Quality Test Letters supplemented by End to End diagnostic analysis for the 23 highest impacting postcode areas. The results of this study confirmed that our existing operational standards were focussed on the key root causes and helped develop best practice ways of working to reduce service delay.

Leadership Refresh: During Quarter 4 2002/03 Royal Mail underwent a significant programme of restructuring which resulted in the creation of 31 operational Areas and a leadership refresh which saw the appointment of many new Area Management Team members to these Areas. During Quarter 1, the new Area Management Teams were focussed on understanding the root causes of performance loss (across the customer, employee and financial scorecard) in their Areas and refreshing the existing operational plans. This activity supported much of the improvement seen in the Quarter 1 and 2 results.

Simplified Sort: This initiative involved a review of sortation arrangements to simplify outward sorting and help speed mail through the outward stage of its journey. This involved a two year programme of activity which was completed as planned in Quarter 1 2003/04.

Automation Doubles Detection: Automation Doubles– which exploits advances in miniature digital camera technology and image capture software to detect letters that have become stuck together as they pass through our automated sorting equipment – was trialled in Quarter 2. The trial results were very encouraging and led to national deployment on all first generation Letter Sorting Machines in 2003/04. A solution for second generation Integrated Mail Processing equipment has been developed for deployment early in 2004/05.

Network Improvements: A number of activities were completed in Quarter 1 to improve network performance. This involved investing in making the Monday night Skynet operation more robust⁵ and improving controls so as to ensure 1st Class traffic takes priority on the air network and is not 'bulked out' by less time critical mail. 24 new Network Improvement Managers were also recruited and trained in 2003/04 with the remit of driving timely network improvements and adherence to core network standards.

High Impact Collections Support: During 2003/04 the Mail Centres with the highest 'collections gap'⁶ have been given expert support to help understand the root causes of service delay and deploy appropriate remedial actions.

⁵ This activity has now been superseded by Transport Review

⁶ Where the date of posting recorded for an End to End sample differs from the postmark date (suggesting that the item has been delayed during the collection operation)

Address Interpretation Improvements: The Address Interpretation initiative has radically re-engineered Royal Mail's capability to interpret addresses and helps improve customer service by reducing the level of missorts (through better use of address databases and Optical Character Reading technology) and by increasing automation capacity. As part of the ongoing improvement programme a number of activities have been carried out to improve the performance (accuracy and throughput) of the Manual Data Entry (MDEC) process and to address a technical issue to prevent 1st Class Meter items (28p) being mistakenly read as 2nd Class (20p), i.e. where poor quality meter impressions have led the equipment to confuse the '8' and the '0' in the payment indicia and thereby mis-segregate mail.

Research and Development for future QoS improvements: During 2003/04 a number of initiatives have been researched for potential deployment in 2004/05 and beyond. These include:

Integrated Quality Approach: Royal Mail is developing an Integrated Quality Approach which will provide a real time, robust and accurate model of where service delays occur across. More details of this approach will be provided in the National Quality of Service Action Plan.

Radio Frequency Identification Technology: Throughout 2003/04 Royal Mail has been investigating the use of Radio Frequency Identification technology to track items of mail or containers as they leave and enter key operational units – providing excellent diagnostic information. This initiative currently remains in the Research and Development stage but scoping will continue with a view to exploiting this technology in the future.

Organisational Restructuring: A major organisational restructuring exercise was completed in 2003/04 which reviewed the role and purpose of Business Centre and its relationship with operational Areas. This restructuring saw Royal Mail move from a command and control to an empowered organisation which pushes accountability down to Areas. 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. 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.

Early in 2004/05, this restructuring saw the creation of a single Letters Business Unit led by Adam Crozier, Royal Mail Chief Executive Officer - incorporating the Letters Business in total including Logistics. This change ensures commonality of objectives and drives synergies between the two Business Units with the Chief Executive Officer taking personal accountability for customer service performance and delivery of the 2004/05 Quality of Service improvement plan.

Equipment and Materials Handling: As stated previously, Royal Mail has invested over £30m in new equipment to support the transition to Single Delivery. An additional £2m has been invested in improved materials handling equipment in Mail Centres and the transport network.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

MINIMUM POSTCODE AREA TARGETS

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-June (Quarter 1) Cumulative Result	April-September (Quarter 1-2) Cumulative Results	April-December (Quarter 1-3) Cumulative Result	April-March (Full Year) Cumulative Result
96 out of 118	105 out of 118	67 out of 118	66 out of 118

In 2003/04, a total of 66 postcode areas achieved the 1st Class Stamped and Meter Posted level of 90.5%. The table above clearly demonstrates the impact of Industrial Action, the Northampton Mail Centre and major change activity on Quarters 3 and 4 where performance fell from a relatively strong position after the first 6 months of the year.

At the end of Quarter 2, 105 postcode areas were on track to achieve the full year cumulative 'Floor' target – an improvement of 2 postcode areas on the same period the year before. Those performing below the floor had robust improvement plans in place to help close much, if not all, of the cumulative gap. However, the incidents and activities which impacted on Quarter 3 and 4 national performance have also taken their toll on Minimum Floor performance.

It should be noted that Northampton postcode area is one of the 52 postcode areas that failed to achieve the full year floor target. In fact, removing all End to End samples posted out of or into Northampton from the date the fire occurred until the end of the financial year would improve Posted Floor achievement from 66 to 72 postcode areas.

Similarly, if we remove the period affected by Industrial Action in Quarter 3, Posted floor performance would improve from 66 to 88 postcode areas achieving target. In fact, the combined impact of removing Northampton and the specified period of Industrial Action improves Posted Floor achievement from 66 to 91 postcode areas.

The table below provides a summary of those postcode areas that performed below the cumulative floor - illustrating whether those postcode areas have fallen below the floor as a result of the Northampton fire and/or Quarter 3 industrial action. It also shows whether the postcode area was performing above or below the floor at the end of Quarter 2 (before the combined impact of the various incidents and activities).

Postcode Area	Full Year Cumulative Performance Unadjusted	Full Year Cumulative Performance adjusted to take account of Northampton Mail Centre Fire	Full Year Cumulative Performance adjusted to take account of Quarter 3 Industrial Action	Full Year Cumulative Performance adjusted to take account of NN Fire and Q3 Industrial Action	Cumulative Performance at the end of Quarter 2
NN	74.3%	91.6% ☒	82.5% ☒	92.0% ☒	92.0% ☒
SW	82.1%	82.1% ☒	86.5% ☒	86.6% ☒	87.4% ☒
SE	84.4%	84.4% ☒	88.7% ☒	88.7% ☒	90.2% ☒
W	84.6%	84.6% ☒	87.8% ☒	87.8% ☒	90.3% ☒
HA	84.8%	85.0% ☒	89.9% ☒	90.0% ☒	92.7% ☒
DA	85.3%	85.4% ☒	90.2% ☒	90.3% ☒	90.8% ☒
WC	85.6%	85.6% ☒	88.9% ☒	88.9% ☒	91.0% ☒
NW	85.6%	85.7% ☒	91.3% ☒	91.2% ☒	92.5% ☒
CM	85.8%	85.9% ☒	88.1% ☒	88.4% ☒	89.2% ☒
IG	86.4%	86.5% ☒	89.5% ☒	89.5% ☒	92.3% ☒
N	86.4%	86.5% ☒	89.6% ☒	89.8% ☒	91.1% ☒
RM	87.1%	87.1% ☒	90.7% ☒	90.7% ☒	92.4% ☒
NR	87.1%	87.3% ☒	88.0% ☒	88.1% ☒	90.3% ☒
UB	87.3%	87.6% ☒	91.9% ☒	92.1% ☒	93.5% ☒
ST	87.5%	87.6% ☒	89.3% ☒	89.2% ☒	90.1% ☒
OX	87.5%	87.5% ☒	89.9% ☒	89.9% ☒	92.4% ☒
E	87.5%	87.5% ☒	89.5% ☒	89.4% ☒	92.1% ☒
CO	87.8%	87.9% ☒	90.8% ☒	90.8% ☒	91.0% ☒
SS	87.9%	88.1% ☒	90.1% ☒	90.2% ☒	89.8% ☒
TQ	88.0%	88.2% ☒	89.1% ☒	89.3% ☒	91.9% ☒
PL	88.2%	88.3% ☒	88.8% ☒	88.8% ☒	92.9% ☒
DY	88.4%	88.5% ☒	89.9% ☒	90.0% ☒	90.2% ☒
SY	88.5%	88.6% ☒	88.6% ☒	88.8% ☒	90.6% ☒
EN	88.6%	88.8% ☒	91.5% ☒	91.5% ☒	91.4% ☒
CV	88.7%	89.1% ☒	90.4% ☒	90.6% ☒	92.1% ☒
BA	88.8%	89.0% ☒	89.0% ☒	89.0% ☒	90.3% ☒
EC	88.8%	88.9% ☒	91.6% ☒	91.7% ☒	92.2% ☒
MK	88.9%	89.2% ☒	90.7% ☒	90.8% ☒	90.8% ☒

Continued...

Postcode Area	Full Year Cumulative Performance Unadjusted	Full Year Cumulative Performance adjusted to take account of Northampton Mail Centre Fire	Full Year Cumulative Performance adjusted to take account of Quarter 3 Industrial Action	Full Year Cumulative Performance adjusted to take account of NN Fire and Q3 Industrial Action	Cumulative Performance at the end of Quarter 2
TF	89.0%	89.1% <input checked="" type="checkbox"/>	89.0% <input checked="" type="checkbox"/>	89.1% <input checked="" type="checkbox"/>	90.4% <input checked="" type="checkbox"/>
WV	89.0%	89.3% <input checked="" type="checkbox"/>	90.4% <input checked="" type="checkbox"/>	90.6% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>
WS	89.0%	89.1% <input checked="" type="checkbox"/>	90.0% <input checked="" type="checkbox"/>	90.0% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>
WD	89.0%	89.1% <input checked="" type="checkbox"/>	91.3% <input checked="" type="checkbox"/>	91.4% <input checked="" type="checkbox"/>	91.8% <input checked="" type="checkbox"/>
CF	89.1%	89.3% <input checked="" type="checkbox"/>	89.9% <input checked="" type="checkbox"/>	90.0% <input checked="" type="checkbox"/>	91.6% <input checked="" type="checkbox"/>
RH	89.1%	89.1% <input checked="" type="checkbox"/>	91.0% <input checked="" type="checkbox"/>	91.0% <input checked="" type="checkbox"/>	92.7% <input checked="" type="checkbox"/>
LU	89.3%	89.7% <input checked="" type="checkbox"/>	91.0% <input checked="" type="checkbox"/>	91.1% <input checked="" type="checkbox"/>	91.4% <input checked="" type="checkbox"/>
SA	89.3%	89.4% <input checked="" type="checkbox"/>	89.8% <input checked="" type="checkbox"/>	89.8% <input checked="" type="checkbox"/>	90.8% <input checked="" type="checkbox"/>
BR	89.4%	89.5% <input checked="" type="checkbox"/>	91.6% <input checked="" type="checkbox"/>	91.7% <input checked="" type="checkbox"/>	93.5% <input checked="" type="checkbox"/>
B	89.5%	89.6% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>	90.8% <input checked="" type="checkbox"/>
PE	89.6%	90.0% <input checked="" type="checkbox"/>	91.0% <input checked="" type="checkbox"/>	91.3% <input checked="" type="checkbox"/>	92.3% <input checked="" type="checkbox"/>
LE	89.6%	89.8% <input checked="" type="checkbox"/>	91.1% <input checked="" type="checkbox"/>	91.2% <input checked="" type="checkbox"/>	92.8% <input checked="" type="checkbox"/>
WR	89.7%	90.0% <input checked="" type="checkbox"/>	90.9% <input checked="" type="checkbox"/>	91.1% <input checked="" type="checkbox"/>	91.8% <input checked="" type="checkbox"/>
NP	89.7%	89.8% <input checked="" type="checkbox"/>	90.4% <input checked="" type="checkbox"/>	90.4% <input checked="" type="checkbox"/>	91.6% <input checked="" type="checkbox"/>
CR	89.8%	89.9% <input checked="" type="checkbox"/>	92.4% <input checked="" type="checkbox"/>	92.5% <input checked="" type="checkbox"/>	95.3% <input checked="" type="checkbox"/>
SG	89.8%	90.0% <input checked="" type="checkbox"/>	91.8% <input checked="" type="checkbox"/>	91.9% <input checked="" type="checkbox"/>	93.2% <input checked="" type="checkbox"/>
CB	90.1%	90.5% <input checked="" type="checkbox"/>	91.3% <input checked="" type="checkbox"/>	91.3% <input checked="" type="checkbox"/>	92.3% <input checked="" type="checkbox"/>
LD	90.2%	90.2% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>	92.0% <input checked="" type="checkbox"/>
AL	90.2%	90.5% <input checked="" type="checkbox"/>	93.3% <input checked="" type="checkbox"/>	93.4% <input checked="" type="checkbox"/>	93.8% <input checked="" type="checkbox"/>
YO	90.3%	90.4% <input checked="" type="checkbox"/>	91.5% <input checked="" type="checkbox"/>	91.5% <input checked="" type="checkbox"/>	93.2% <input checked="" type="checkbox"/>
HP	90.3%	90.5% <input checked="" type="checkbox"/>	92.1% <input checked="" type="checkbox"/>	92.2% <input checked="" type="checkbox"/>	93.1% <input checked="" type="checkbox"/>
SK	90.3%	90.5% <input checked="" type="checkbox"/>	90.1% <input checked="" type="checkbox"/>	90.2% <input checked="" type="checkbox"/>	90.3% <input checked="" type="checkbox"/>
BS	90.3%	90.4% <input checked="" type="checkbox"/>	90.9% <input checked="" type="checkbox"/>	90.9% <input checked="" type="checkbox"/>	90.9% <input checked="" type="checkbox"/>
RG	90.4%	90.5% <input checked="" type="checkbox"/>	91.7% <input checked="" type="checkbox"/>	91.8% <input checked="" type="checkbox"/>	92.5% <input checked="" type="checkbox"/>

Note: Postcode area confidence limits vary. The average full year Posted confidence limit is $\pm 1.4\%$. The average half year Posted confidence limit is $\pm 1.7\%$.

The postcode areas shown in the shaded boxes failed to achieve the 1st Class Stamped and Meter Posted floor both at the end of Quarter 2 and also the full year cumulative once adjusted for Northampton and Industrial Action – indicating that underlying performance in these postcode areas was below the required level during the year. These postcode areas are SW and SE (South London Area Manager), W (West London Area Manager), CM, SS (Essex Area Manager), NR (East Anglia Area Manager), ST, DY, TF, WS and SK (North West Midlands Area Manager) and BA (West of England Area Manager).

Each presented a report (and in some cases personal presentation by the Area General Manager) on their key root causes of quality of service delay and associated remedial action plans to Postcomm and Postwatch in December 2003. During Quarter 4, these postcode areas have continued to deploy their action plans and closely monitor performance. However, their ability to recover Quarter 4 performance has been affected, like all other postcode areas, by the major change activities described in the 1st Class Stamped and Meter section of this report.

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-June (Quarter 1) Cumulative Result	April-September (Quarter 1-2) Cumulative Results	April-December (Quarter 1-3) Cumulative Result	April-March (Full Year) Cumulative Result
109 out of 121	114 out of 121	95 out of 121	97 out of 121

In 2003/04, a total of 97 postcode areas achieved the 1st Class Stamped and Meter Intra level of 92.5%. The table above demonstrates the decline in Quarter 3 and 4 performance as a result of the Industrial Action, Northampton Mail Centre and major change activities that are vital to the Royal Mail recovery programme.

At the end of Quarter 2, 114 postcode areas were on track to achieve the full year cumulative 'Floor' target – a significant improvement of 12 postcode areas on the same period the year before. Those performing below the floor had robust improvement plans in place to help close much, if not all, of the cumulative gap. However, the incidents and activities which impacted on Quarter 3 and 4 national performance have also taken their toll on Minimum Floor performance.

It should be noted that Northampton postcode area is one of the 24 postcode areas that failed to achieve the full year floor target, so adjustment for the Northampton fire would take full year achievement to 98 postcode areas.

Similarly, if we remove the period affected by Industrial Action in Quarter 3, Intra floor performance would improve from 97 to 108 postcode areas achieving target.

The table below provides a summary of those postcode areas that performed below the full year cumulative floor - illustrating whether those postcode areas have fallen below the floor as a result of the Quarter 3 industrial action⁷. It also shows whether the postcode area was performing above or below the floor at the end of Quarter 2 (before the combined impact of the various incidents and activities).

⁷ Note, the fire in Northampton Mail Centre only affects NN postcode area Intra performance – so adjustment for NN is not required for any other postcode area.

Postcode Area	Full Year Cumulative Performance Unadjusted	Full Year Cumulative Performance adjusted to take account of Q3 Industrial Action	Cumulative Performance at the end of Quarter 2
NN	76.0%	94.1% <input checked="" type="checkbox"/> <i>(also adjusted for Mail Centre fire)</i>	94.1% <input checked="" type="checkbox"/> <i>(with adjustment for Mail Centre fire which occurred in last week of Quarter 2)</i>
NW	86.4%	92.3% <input checked="" type="checkbox"/>	93.1% <input checked="" type="checkbox"/>
SW	86.5%	90.8% <input checked="" type="checkbox"/>	89.4% <input checked="" type="checkbox"/>
HA	86.7%	94.5% <input checked="" type="checkbox"/>	94.0% <input checked="" type="checkbox"/>
HS	87.9%	86.8% <input checked="" type="checkbox"/>	88.5% <input checked="" type="checkbox"/>
N	88.4%	93.8% <input checked="" type="checkbox"/>	94.1% <input checked="" type="checkbox"/>
DA	88.7%	93.7% <input checked="" type="checkbox"/>	92.7% <input checked="" type="checkbox"/>
E	88.7%	90.6% <input checked="" type="checkbox"/>	94.4% <input checked="" type="checkbox"/>
W	88.7%	93.6% <input checked="" type="checkbox"/>	94.1% <input checked="" type="checkbox"/>
SE	88.8%	91.9% <input checked="" type="checkbox"/>	93.3% <input checked="" type="checkbox"/>
CM	89.1%	89.9% <input checked="" type="checkbox"/>	91.2% <input checked="" type="checkbox"/>
IG	89.2%	92.1% <input checked="" type="checkbox"/>	93.2% <input checked="" type="checkbox"/>
RM	89.3%	93.5% <input checked="" type="checkbox"/>	95.1% <input checked="" type="checkbox"/>
UB	89.6%	94.3% <input checked="" type="checkbox"/>	95.0% <input checked="" type="checkbox"/>
WC	90.3%	92.0% <input checked="" type="checkbox"/>	92.9% <input checked="" type="checkbox"/>
ST	90.9%	91.9% <input checked="" type="checkbox"/>	92.8% <input checked="" type="checkbox"/>
KW	91.5%	92.3% <input checked="" type="checkbox"/>	92.9% <input checked="" type="checkbox"/>
NR	91.9%	92.0% <input checked="" type="checkbox"/>	93.5% <input checked="" type="checkbox"/>
CO	91.9%	94.2% <input checked="" type="checkbox"/>	94.6% <input checked="" type="checkbox"/>
WV	92.2%	93.4% <input checked="" type="checkbox"/>	92.7% <input checked="" type="checkbox"/>
LD	92.2%	92.3% <input checked="" type="checkbox"/>	92.9% <input checked="" type="checkbox"/>
SS	92.2%	94.4% <input checked="" type="checkbox"/>	95.0% <input checked="" type="checkbox"/>
SG	92.4%	92.7% <input checked="" type="checkbox"/>	93.8% <input checked="" type="checkbox"/>
MK	92.4%	93.5% <input checked="" type="checkbox"/>	92.2% <input checked="" type="checkbox"/>

Note: Postcode area confidence limits vary. The average full year Intra confidence limit is $\pm 2.0\%$. The average half year Intra confidence limit is $\pm 2.6\%$.

The postcode areas shown in the shaded boxes failed to achieve both the 1st Class Stamped and Meter Intra floor at the end of Quarter 2 and the full year cumulative once adjusted for Industrial Action – indicating that underlying performance in these postcode areas was below the required level during the year. These postcode areas are SW (South London Area Manager), HS (North of Scotland Area Manager) and CM (Essex Area Manager).

A report was presented to Postcomm and Postwatch in December 2003 on each of these postcode areas (and in some cases personal presentation by the Area General Manager) – sharing the key root causes of quality of service delay and associated remedial action plans. During Quarter 4, these postcode areas have continued to deploy their action plans and closely monitor performance. However, their ability to recover Quarter 4 performance has been affected, like all other postcode areas, by the major change activities described in the 1st Class Stamped and Meter section of this report. Again, it is encouraging to note that South West London have demonstrated improvements in their underlying Intra performance between Quarter 2 (89.4%) and Quarter 4 (adjusted 90.8%).

2nd CLASS STAMPED AND METER

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
98.7±0.2%	98.7±0.2%	95.1±0.4%	98.4±0.2%	97.8±0.1%

Overview

2nd Class Stamped and Meter performance achieved a full year cumulative result of 97.8%. The impact of the Quarter 3 Industrial Action is clearly visible in the Quarter 3 results which dropped to 95.1% from a strong 98.7% in the first 2 quarters. The fire in Northampton Mail Centre has also depressed the Quarter 3 and 4 results. The table below provides a summary of the combined impacts:

2nd Class Stamped and Meter Full Year Cumulative Result

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
97.8%	97.9%	98.6%	98.6%

This table clearly illustrates that underlying performance for 2nd Class Stamped and Meter, i.e. without the impact of the fire or Industrial Action was 98.6% (0.1% ahead of target level).

It is important to note that the major change activities described in the 1st Class Stamped and Meter section of this report – Transport Review, Single Delivery and Mail Centre Efficiency Review – have had less impact on the way 2nd Class Stamped and Meter mail is processed/trunked and, hence, a much smaller impact on Quarter 4 performance. In fact, removing Northampton from Quarter 4 returns Quarter 4 performance to 98.5% (the target level).

National Quality of Service Action Plan - Full Year

During 2003/04 and in recent years, 2nd Class Stamped and Meter has demonstrated that there are no underlying or systemic problems in the way it is processed or transported that have a negative impact on Quality of Service performance. Royal Mail's performance management approach ensures that performance is closely monitored for all Licence targets with corrective action taken where and when necessary on a local and national basis. However, over recent years there has been no requirement for such corrective action as this product – excluding force Majeure or industrial action – has performed consistently at or above target level.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

1st CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
87.2±1.2%	87.5±1.1%	74.7±1.6%	83.6±1.3%	83.5±0.7%

Overview

At 83.5%, 1st Class PPI mail has failed to achieve the full year cumulative target of 90.6%. Like 1st Class Stamped and Meter, 1st Class PPI has been affected by the fire in Northampton Mail Centre, the Quarter 3 Industrial Action and the major change activities deployed in Quarter 4. 1st Class PPI mail has a different fall to earth profile from 1st Class Stamped and Meter mail, i.e. the average PPI items travels a much longer distance than the average Stamped and Meter item. 62% of 1st Class PPI postings are for distant delivery. Therefore, 1st Class PPI performance is more susceptible to changes or incidents affecting the network.

1st Class PPI Full Year Cumulative Result

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
83.5%	84.5%	85.5%	86.1%

This table demonstrates that underlying full year performance, adjusted for the fire and industrial action, was 86.1%. This represents an improvement of 2.2% on the previous year. This demonstrates, despite the major change activities which had a detrimental effect on Quarter 4 performance, that the range of activities undertaken have driven an underlying improvement in 1st Class PPI performance. In fact, Quarter 1 and Quarter 2 performance (both unaffected by any incidents) were 5.7% and 4.2%, respectively, higher than the previous year.

National Quality of Service Action Plan - Full Year

Enormous focus has been placed on improving 1st Class PPI performance at all levels of the organisation. The key activities deployed are summarised below:

Refreshed Root Cause Analysis: During Quarter 1 2003/04 an extensive diagnostic exercise, using Electronic Quality Test Letters inserted in End to End samples, was completed to refresh our understanding of where service delays occur in the pipeline. The results of this exercise confirmed our understanding that delays were most likely to happen during the first stages of processing, particularly at the revenue protection stage. This led to refreshing of operational standards (see below) and updating of best practice guidelines.

PPI Operational Standards: The standards based approach has been demonstrated to give a strong and sustainable base of performance across most products and this approach has undoubtedly helped support the improvements in PPI performance in 2003/04. The diagnostic exercise carried out in Quarter 1 led to enhancement of the earlier PPI standards – to ensure that the key activities that drive quality of service improvement are consistently adhered to – and the introduction of two ‘gateway’ standards.

The ‘gateway’ standards were identified as the most critical to driving up PPI performance and Gold accreditation could not be achieved without 100% compliance with these two standards. The table below provides a summary of how PPI compliance has improved through 2003/04. Independent audit scores for Access standards have also been repeated here as they are also key drivers of improved PPI quality of service.

	Quarter 1	Quarter 2	Quarter 3 (note Q3 audits were limited due to Industrial Action)	Quarter 4
Access – Mail Centres	31%	59%	82%	100%
Access – Collection Hubs	40%	82%	92%	100%
PPI – Mail Centres	60%	56%*	92%	99%

Note: The dip in Quarter 2 Gold accreditation reflects the introduction of the enhanced standards which were more difficult to achieve.

Independent Review of PPI Performance: Despite the extensive activity being undertaken to address PPI performance issues, Royal Mail was concerned at the lack of ‘step change’ in the actual results. Hence, in Quarter 2, Royal Mail commissioned an independent study on PPI performance with IBM Consulting. This study confirmed that, in general, our approach and targeted focus on specific pipeline and geographic areas was correct. However, the review did provide recommendations for further action which were deployed during the latter half of the year. These included:

- the introduction of PPI Champions to replicate the High Impact support approach (see below)
- more robust customer compliance checks and improved feedback loops to customers who present non-compliant mailings (see below)
- clearer, single point accountabilities for PPI performance (see below)
- clearer, less ambiguous operational standards (see above)

PPI Champions and Single Point Accountability: In Quarter 3, a PPI Champion was appointed in each Mail Centre and a series of workshops were carried out early in Quarter 4 to ensure these Champions were fully conversant with all operational, customer, compliance, commercial and Regulatory requirements of the PPI product – as well as how to use diagnostic information such as End to End results to identify causes of delay. This approach provided single point accountability and focus for PPI performance in each of our 71 Mail Centres. This approach is continuing into 2004/05 with PPI responsibility transferring to the recently created and appointed Customer Operational Managers.

Customer Compliance Issues: Throughout 2003/04 we have continued to address a number of the customer non-compliance issues – such as handover of mail after the Latest Acceptance Time, poor forecasting of bulk posting volumes, no pre-advice of bulk volumes, poor self-docketing information, poor segregation and presentation of mail – which inhibit our ability to process PPI mail in a timely and effective manner.

In March 2004, new customer contracts were issued which have much tighter conditions on these key issues and more robust internal compliance checks were introduced. Customer Operational Managers now have accountability for liaising with customers over issues of non-compliance.

High Impact Support: The diagnostic exercise carried out in Quarter 1 illustrated that a small number of postcode areas were having a disproportionately large negative impact on PPI performance. During 2003/04 teams of PPI experts have provided support to these high impact units – helping them drive up compliance with PPI operational standards, identify and address customer non-compliance issues, improve internal handover procedures/checks and providing advice on how to best interpret PPI diagnostic information.

Ongoing Diagnostics: To drive continuous and timely improvement in PPI performance, Royal Mail introduced Electronic Quality Test Letters into End to End samples for larger PPI panellists in Quarter 3. This approach has now been extended to all End to End panellists. The traces provided by the Electronic Test Letters provides more detailed diagnostic information than can normally be achieved from End to End results alone. These traces are continually monitored to provide both local and national direction on where PPI delays are occurring.

Royal Mail is also investing £1m in increasing PPI End to End sample levels to give parity with Stamped and Meter sample levels. This will improve the confidence limits and hence reduce the ‘noise’ associated with PPI measurement – providing clearer focus on both geographical and pipeline areas for improvement.

Communications/Awareness Campaign: On ongoing communications campaign was used to raise and maintain awareness of the commercial importance of the PPI product and the key issues to be addressed to drive improved performance. This campaign incorporated:

- Direct communications from the Executive Deputy Chairman to Area Managers
- Tailored Work Time Learning and Listening sessions in Work Area Teams
- Face to face briefings with the relevant operational managers – particularly in high impacting units
- Courier⁸ articles
- We Can Fix – an internal campaign which invites all employees to provide ideas on how performance can be improved
- Briefings at Area Managers and Mail Centre Managers forums
- Workshops for PPI Champions and Customer Operational Managers (as described above)

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

⁸ The monthly newspaper for all Royal Mail Group employees

2ND CLASS POSTAGE PAID IMPRESSION

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
96.2±0.6%	96.5±0.6%	89.2±1.1%	96.0±0.7%	94.6±0.4%

Overview

At 94.6%, 2nd Class PPI has ended the year 2.8% short of the full year cumulative target (97.4%). Again, the table above provides clear indication of how Quarter 3 Industrial Action and the fire in Northampton Mail Centre impacted on results.

The table below gives a more accurate picture of underlying performance by showing how the full year cumulative result has been affected by these incidents:

2nd Class PPI Full Year Cumulative Result

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
94.6%	94.9%	96.0%	96.2%

This table demonstrates that underlying performance was 96.2% (1.2% short of target).

Again, we can see that the major change activities deployed in Quarter 4 have had a limited impact on 2nd Class PPI performance (which effectively returned to Quarter 1-2 performance levels).

National Quality of Service Action Plan - Full Year

The National Quality of Service plan for 2003/04 did not include any activities which were unique to 2nd Class PPI performance. Early analysis had suggested that the root causes of 2nd Class performance delay were common with those for 1st Class PPI. Hence, 1st Class PPI improvement activities were also key to driving up 2nd Class performance.

However, during Quarter 3 additional analysis was carried out to re-establish whether the root causes of service delay for 2nd Class PPI differed 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 and that no new activities, unique to 2nd Class, were necessary.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

1ST CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
84.2±2.1%	86.4±2.0%	76.7±2.5%	79.1±2.5%	81.7±1.1%

Overview

At 81.7%, 1st Class Response Services results are very disappointing, particularly as this product had shown significant performance improvements in Quarters 1 and 2 (Quarter 1 performance was 13.9% higher and Quarter 2 was 10.2% higher than at the same periods in the previous year). However, despite the impact of the Northampton fire, Quarter 3 Industrial Action and Quarter 4 change activity, full year performance has improved by 1.4% on the previous year.

The effects of the Northampton fire and Industrial Action are clearly visible in the Quarter 3 results – which fell by almost 10% on the previous Quarter. The table below illustrates how full year performance has been depressed by the fire and strikes:

1st Class Response Services Full Year Cumulative Result

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
81.7%	82.3%	83.3%	83.7%

The adjusted result, which more accurately reflects underlying performance for the year, is 83.7% - representing an improvement of 3.4% on the previous year.

However, the major change activities deployed in Quarter 4 have had a particularly adverse impact on 1st Class Response Services performance. The combined impact of Transport Review (temporarily resulting in mail arriving later in Delivery Offices) and Single Delivery (removal of the 2nd Delivery outlet) has hit Response Services performance more than others. This is because the time available to complete the manual billing procedures in Delivery Offices became insufficient to connect Response Services with the scheduled delivery, resulting in some items rolling over to the next day's delivery.

Clearly, actions are now in place as part of the 2004/05 National Quality of Service Plan to address these issues but Royal Mail has stated that the current customer and operational specification for Response Services will prevent it from ever achieving the current Licence target. To address this issue, Royal Mail has developed a new Response Services product which is capable of achieving customer requirements (see below).

National Quality of Service Action Plan - Full Year

During 2003/04 a large number of activities were deployed to drive improvements in Response Service performance. These are summarised below:

Response Services Operational Standards: The standards based approach has been demonstrated to give a strong and sustainable base of performance across most products and this approach has undoubtedly helped support the improvements in Response Services performance in 2003/04. The table below demonstrates how compliance to Response Services standards in Mail Centres and Delivery Offices has improved during 2003/04.

Percentage Gold Accreditation

	Quarter 1	Quarter 2	Quarter 3 (note Q3 audits were limited due to Industrial Action)	Quarter 4
Response Services – Mail Centres	72%	82%	92%	100%
Response Services – Delivery Units	43%	82%	86%	100%

It should also be noted that the Access, Intra, Neighbours and Generic specification audits – results shown in 1st Class Stamped and Meter section of this report – also support improvement in Response Services performance.

Refreshed Root Cause Analysis: During Quarter 2 the Response Services ‘Loss Model’ was updated – using Electronic Test Letters and detailed End to End diagnostics. This analysis reconfirmed our understanding that the main causes of service delay were during the ‘inward’ element of processing in inward Mail Centres and Delivery Offices and that these problems were mainly related to the unique revenue collection procedures necessary for this product.

High Impact Support: The root cause analysis described above identified issues and drove action in a number of high impacting units that were having a disproportionately large negative impact on performance. Performance improvement in these units was supported by teams of Response Services experts.

Automated Billing: A number of activities have been carried out to help maximise the volume of Response Services mail which can be automatically counted and billed. These include:

- Data cleansing exercise to ensure mail pieces can be successfully linked to a customer account
- Introduction of a field support team, introduction of an automation helpdesk and automation workshops to ensure automatic sorting machines are set up with the correct configuration to maximising billing opportunities

Customer Compliance Checks: Throughout 2003/04 we have endeavoured to address the complex customer issues – particularly relating to stationary and billing details – which impede our ability to process Response Services mail in a timely and efficient manner. Often mail is delayed at the Delivery end of the pipeline whilst checking the validity of customer account details or because the barcode/postcode/class indicia on the envelope are incorrect. A process was introduced whereby the customer would be notified of problems with their stationary and given 90 days to address the issue.

But issues such as this add to the complexity (and cost) of handling this relatively low volume mail stream which then require a disproportionate amount of time and attention to correct. It is partly for this reason that Royal Mail has recognised the 90.3% target for 1st Class Services can not be achieved and has commenced with development of a new product.

Response Services New Product: Royal Mail has developed (in consultation with Postcomm, Postwatch and key customers) a new Response Services product which uses barcoding technology to automatically count Response Services items and download billing data to the customer invoicing system – avoiding the manual operation at Delivery Offices. This solution is not dependent on having a unique Business Reply postcode – an issue which is inhibiting the planned migration of customers to the current barcoded product.

This new product:

- Removes (as much as possible) the current high levels of manual intervention in terms of the sorting process
- Requires customers to comply with product specification by contract (rather than the current set of guidelines)
- Delivers a product proposition which would be perceived by customers as being good value, easy to access, and with the required Quality of Service, whilst also satisfying Royal Mails commercial requirements.

Royal Mail has worked closely with our existing Address Interpretation supplier to develop the technological solution that will deliver this new product. This has been a necessarily lengthy and intensive process because of the technological complexities and the vital importance of ensuring the technological solution is fail-safe. High level Business support has been given to this process and live customer trials with the new product will commence in Quarter 1 2004/05.

Communications/Awareness Campaign: On ongoing communications campaign was used to raise and maintain awareness of the performance issues for the Response Service product. This campaign incorporated:

- Direct communications from the Executive Deputy Chairman to Area Managers
- Tailored Work Time Learning and Listening sessions in Work Area Teams
- Face to face briefings with the relevant operational managers – particularly in high impacting units
- Courier⁹ articles
- We Can Fix – an internal campaign which invites all employees to provide ideas on how performance can be improved

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

⁹ The monthly newspaper for all Royal Mail Group employees

2ND CLASS RESPONSE SERVICES

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
92.8±1.4%	94.3±1.3%	87.5±2.0%	93.6±1.5%	92.2±0.8%

Overview

At 92.2%, 2nd Class Response Services has failed to achieve its full year target of 97.5%. The table below demonstrates the impact of the Northampton Mail Centre fire and Quarter 3 Industrial Action on full year cumulative performance:

2nd Class Response Services Full Year Cumulative Result

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
92.2%	92.5%	93.4%	93.6%

The combined effect of the Transport Review and Single Delivery initiatives have also had some impact on Quarter 4 performance. These are being addressed in the 2004/05 National Quality of Service plan. However, Royal Mail recognises that the manual billing requirements that are unique to the Response Service product will prevent it from ever totally reaching the 97.5% target for this product.

National Quality of Service Action Plan - Full Year

As with most 2nd Class products, the National Quality of Service plan contains no actions which are unique to 2nd Class Response Services.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

SPECIAL DELIVERY

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
99.2%	99.1%	96.1%	97.0%	97.9%

Overview

The full year result of 97.9% for Special Delivery is most disappointing after such a strong start to the year – where both Quarter 1 and Quarter 2 performance was above target level. Clearly, the Industrial Action encountered in Quarter 4 took its toll on quality of service performance – with Royal Mail paying increased levels of Compensation to customers for failure to deliver on time.

Like most 1st Class products, the Quarter 4 changes, particularly Transport Review, have also had a negative impact on Special Delivery performance. These are being addressed.

National Quality of Service Action Plan - Full Year

Up until the end of Quarter 2 Special Delivery performance was on track to achieve its full year target. Hence, the improvement activities were limited to:

Priority Loading: Special Delivery ‘green’ bags were introduced into the pipeline so that Special Delivery items could be easily identified for priority loading onto aircraft.

Upgrading Track Trace Equipment: As Special Delivery volumes continue to grow Royal Mail has invested £3m in upgrading the electronic Track and Trace equipment used to track the journey of these items. This new technology allows faster scanning of Special Delivery items through Radio Frequency and touch screen technology.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail’s Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

Table 4.

**Pre-sort Products
Actual Cumulative Results (April 2003 - March 2004)**

Standard	Scheduled Standards			
	Year End Target %		Apr - Mar %	95% cl
Mailsort 1	93.0		89.2	1.6
Mailsort 2	98.5		95.7	0.7
Mailsort 3	98.5		97.4	0.7
Presstream 1	92.5		88.1	0.6
Presstream 2	98.5		95.1	1.2

95% cl = 95% confidence limit

MAILSORT 1

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
92.8±2.8%	91.9±2.7%	81.9±3.6%	88.7±3.5%	89.2±1.6%

Overview

At 89.2%, Mailsort 1 has disappointingly failed to achieve its full year cumulative target of 91.0%. After an exceptionally strong start to the year – with Quarter 1 performance 1.8% ahead of target level and Quarter 2 0.9% ahead (both significantly higher than the previous year) – results fell dramatically in Quarter 3 as a result of the Industrial Action in London and the South East.

The table below illustrates how the strikes, and the Northampton Mail Centre fire, have impacted on performance:

Mailsort 1

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
89.2%	89.4%	91.1%	91.2%

This shows that underlying performance for Mailsort 1, once adjusted, was 91.2% - 0.2% above target level and higher than the previous year.

Quarter 4 results have also been affected by the major changes to the Transport Network.

National Quality of Service Action Plan - Full Year

The activities that helped drive the improved underlying performance in Mailsort are summarised below:

Customer Compliance: As with most products, customer compliance with contractual and presentational arrangements is key to improving quality of service performance. During 2003/04 we have worked closely with customers to improve traffic forecasting, reduce customer pre-sortation missorts, drive adherence to Latest Acceptance times and improve labelling and sortation standards. The introduction of 75 Customer Operational Managers in Regional Distribution Centres and hubs, alongside improved Mail Verification procedures, has helped drive improvements.

Mail Verification on Site: Trials have been carried out where Mail Verification procedures are carried out by Royal Mail employees on customer premises – allowing us to address any customer problems, e.g. compliance issues, at source. These have proved very successful and the approach is being extended in 2004/05.

Out of Course Cages: Missortation of a container of mail whilst in transit is a key area of quality of service delay that has been tackled during 2003/04 and will continue as a key performance measure in future years.

Container Management: Container Equipment Managers have also been introduced to manage the control and provision of containers in key hubs and distribution centres. This also allows more effective supply of containers through to customers.

High Impact: During Quarter 3 high impacting units – Distribution Centres and Mail Centres – were given support by a team of Mailsort/Presstream experts to help drive local performance improvements. These local improvement plans often focus on weekend issues. A large proportion of presort quality loss is attributable to weekend operations in RDCs, Mail Centres and Delivery Offices – where restrictive staffing practices prevent mail from being processed according to workplan. These working practices were eliminated during Quarter 4.

Logistics Standards: Quarter 1 saw the introduction of Logistics standards for key handover points to the network – see 1st Class Stamped and Meter for more information. These have also supported improvements in presort performance.

Electronic Daily Reports: An electronic daily reporting process has been introduced in some areas which provides improved controls and diagnostic information over key handover measures between Distribution Centres and Mail Centres.

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

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

MAILSORT 2

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
96.7±1.2%	97.9±0.9%	91.2±1.9%	96.6±1.2%	95.7±0.7%

Overview

At 95.7%, Mailsort 2 has failed to achieve its full year cumulative target. This is particularly disappointing after the strong improvements seen in Quarter 2 performance which reached 97.9% (0.4% above target level). However, Quarter 3 results have been depressed by the Northampton fire and Industrial action – see table below for impact:

Mailsort 2

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
95.7%	95.8%	96.9%	97.1%

This table demonstrates that underlying performance for 2003/04 was 97.1% (only 0.4% short of target and an improvement of 0.6% on the previous year).

National Quality of Service Action Plan - Full Year

A number of activities have been deployed during 2003/04 to drive continuous improvements in Mailsort 2 performance. In addition to those described in the Mailsort 1 section of this report, which support improvements across all Mailsort and Presstream products, Mailsort 2 has benefited from:

Maximising volume on A Wave: Mailsort and Presstream 1 products travel on the 'A' wave between Regional Distribution Centres and Mail Centres. Mailsort 2/3 and Presstream 2 travel on the later 'B' wave but are infill spare capacity on the A wave wherever possible – thus accelerating them through the pipeline. Work has continued during 2003/04 to drive up the volume of Mailsort 2 and Presstream 2 traffic used as infill on the 'A' wave by accelerating outward processing of these streams to maximise the volumes available for the earlier A wave despatch.

High Impact Support: The high impact support described in the Mailsort 1 section is particularly pertinent to Mailsort 2 and 3 mail – where restrictive working practices prevented mail being processed according to workplan in some units.

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

Mailsort 2 On Day C performance: The current Mailsort 2 workplan allows for Mailsort 2 traffic to be delivered on Day C in most parts of the country. However, delivery of Mailsort 2 often falls back to the Day D specification. Trials have been completed in South East of England, Guildford, Cardiff, Bournemouth and Greenford Mail Centres to maximise the volume of Mailsort 2 which is delivered by Day C – by applying a variety of disciplines to help Mail Centres adhere to the Mailsort 2 workplan. Local plans for Mailsort 2 Day C delivery have now been developed in every postcode area and are currently being deployed.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

MAILSORT 3

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
97.9±1.3%	98.6±1.1%	94.7±2.1%	98.0±1.3%	97.4±0.7%

Overview

At 97.4%, Mailsort 3 has failed to achieve its full year cumulative target by only 0.1%. However, adjusting for the impact of the fire in Northampton and/or the Quarter 3 Industrial Action takes the product back to target level, as shown in the table below:

Mailsort 3

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
97.4%	97.5%	98.2%	98.2%

National Quality of Service Action Plan - Full Year

Under normal circumstances Mailsort 3 performs consistently at or above the 97.5% target level – demonstrating that there are no underlying or systemic problems with handling of this product. Therefore, there were no unique Mailsort 3 improvement activities over and above those described in the Mailsort 1 and 2 sections of this report.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

PRESSTREAM 1

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
92.4±1.0%	92.5±0.9%	80.1±1.5%	86.4±1.2%	88.1±0.6%

Overview

At 88.1% the full year cumulative result for Presstream 1 is very disappointing. After an exceptionally strong start to the year where Quarter 1 and Quarter 2 performance were both around 2% above target level, performance has fallen dramatically in Quarters 3 and 4. Quarter 3 performance has fallen predominantly as a result of Industrial Action. Quarter 4 performance has fallen due to the Northampton Mail Centre fire, bad weather and deployment of major change activity (mainly Transport Review).

The table below demonstrates how the Northampton Mail Centre fire and Industrial Action have impacted on full year performance:

Presstream 1

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
88.1%	88.3%	90.3%	90.4%

Underlying performance for 2003/04, once adjusted for these incidents, is 90.4% (a mere 0.1% below target level).

It is also worth noting that bad weather on 28th/29th January had a noticeable impact on Presstream 1 performance. Snow and freezing weather conditions resulted in disruption to collection and network services in various parts of the country – but particularly in London and the South East. The impact of the bad weather on this night had a negligible effect on full year cumulative performance for most products. Unfortunately the bad weather not only hit in the part of the country where most Presstream items are generated from, but also hit on the weeknight when Presstream mailings are at their highest. Hence, Presstream 1 saw a disproportionate impact and full year cumulative results have been depressed by approximately 0.4% as a result of this single incident.

National Quality of Service Action Plan - Full Year

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

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

PRESSTREAM 2

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
97.1±1.8%	98.0±1.5%	88.2±3.7%	96.6±2.1%	95.1±1.2%

Overview

Like Presstream 1, Presstream 2 was generally on track to achieve the full year cumulative target at the end of Quarter 2. However, the incidents which occurred in Quarter 3 have significantly depressed the full year cumulative result – to 95.1%.

Results adjusted for the Northampton fire and Industrial Action are shown in the table below:

Presstream 2

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
95.1%	95.2%	97.1%	97.1%

Adjusted figures, which are more indicative of underlying performance, show a full year result of 97.1% for Presstream 2. Although this figure remains below target level, it does represent an improvement of 0.3% on the previous year.

National Quality of Service Action Plan - Full Year

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

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

STANDARD RETAIL PARCELS

Review of Results

Quarterly Results

April-June (Quarter 1) Result	July-September (Quarter 2) Results	September-December (Quarter 3) Result	January-March (Quarter 4) Result	Full Year Cumulative Result
91.4%	90.2%	83.6%	90.2%	88.9%

Overview

At 88.9%, Standard Parcels has failed to achieve its full year cumulative target by 1.1%. Clearly, the full year result has been failed as a result of the Northampton fire and Quarter 3 Industrial Action. Adjusted figures, giving a more accurate reflection of underlying performance, are shown in the table below:

Standard Parcels

Unadjusted	Adjusted for Northampton Mail Centre Fire	Adjusted for Quarter 3 Industrial Action	Adjusted for Northampton Fire and Industrial Action
88.9%	89.0%	90.2%	90.2%

With adjustment, Standard Parcels would have achieved the full year target of 90.0% and demonstrated an improvement of 1.7% on last years cumulative performance.

National Quality of Service Action Plan - Full Year

Since transferring from Parcelforce to Royal Mail, Standard Parcels has generally performed at or above the target level. Hence, no specific improvement activities – other than close performance monitoring – were scheduled for this product. However, a downward trend in performance in Quarter 2 led to more detailed root cause analysis and improvement planning in high impacting units which has since has restored monthly performance to the required levels.

Quarter 1 2004/05:

In accordance with Condition 4, Paragraph 8b of Royal Mail's Licence a statement of the actions Royal Mail intends to take in 2004/5 to meet the Scheduled Standard of Service Targets (i.e. Flightpath Plan) has been produced in a separate document.

TAIL OF MAIL

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

The table below summarises cumulative tail of mail performance for 2003/04. Clearly these figures have been impacted by the fire in Northampton Mail Centre, Quarter 3 Industrial Action and major change activities deployed in Quarter 4.

1 st Class Stamped and Meter	99.9%
2 nd Class Stamped and Meter	99.7%
1 st Class PPI	98.9%
2 nd Class PPI	99.2%
1 st Class Response Services	98.8%
2 nd Class Response Services	99.1%
Mailsort 1	99.3%
Mailsort 2	99.7%
Mailsort 3	99.8%
Presstream 1	99.4%
Presstream 2	99.5%
Special Delivery	100%

ANNEX A : NORTHAMPTON MAIL CENTRE FIRE AND QUARTER 4 INDUSTRIAL ACTION

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. However, this event was unprecedented – Royal Mail has never had an entire operational unit taken permanently out of service in this way.

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 were found to temporarily house the NN1, NN4 and NN5 delivery operation (24th November) and to set up medium term automated sorting capability - minimising the disruption in the build up to Christmas and maximising medium term service performance. A new stand alone temporary Mail Centre was opened on 1st December with machine and manual sorting capability. However, this unit could not be fully equipped with the Optical Character Reading equipment until 20th February due to supplier lead times, commissioning and testing requirements. A revision of duty patterns was then also completed to ensure staff were aligned to new working patterns.

On 24th March all remaining 2nd Class diversions were repatriated and concentrated back into the new Northampton Mail Centre. By 31st March, Northampton had withdrawn all 1st Class diversions also. However, the current situation does not provide a long term workable solution for Northampton and 5 long term options are currently being evaluated.

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.

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.

In summary:

- The fire was an unprecedented event, the scale of which Royal Mail had never encountered before
- Northampton postcode area was comfortably ahead of the 1st Class Stamped and Meter Minimum Floor targets before the fire
- In an extremely short time, compared to the normal planning cycle, a new Mail Centre has been found and equipped and staffing revisions have been completed to ensure that the Mail Centre was fully operational, with no diversions, by the end of March 2004.
- Royal Mail's response was immediate and there were no further actions which Northampton could have reasonably taken or have been included in a contingency plan

Industrial Action

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

In January Royal Mail and the CWU Executive reached an agreement on pay and major change which received a significant vote in favour of the offer. To date, over 1500 Delivery Units have migrated 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, reduces the risk of further Industrial Action in the future.

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, 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 3	Quarter 3 with Strike Impact removed	Full Year Cumulative Performance	Full Year Cumulative Performance with strike impact removed
1 st Class Stamped and Meter	85.0%	90.1% (6.1% impact)	90.1%	91.5% (1.4% impact)

Royal Mail firmly believes that in any consideration of our endeavours towards meeting our Licence requirements the period from 1st October to 21st November should be excluded from our full year cumulative results. Royal Mail recognises that the strikes did not affect the entire country but believes for clarity and simplicity the entire country should be excluded as:

- 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.

In summary, 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

Table 5.

**Scheduled Service Standards National Products
Actual Quarter 4 Results (January 2004 – March 2004)**

Standard	Scheduled Standards				Tail of Mail			
	Target %		Jan - Mar Actual %	Jan - Mar 95% cl	Target %		Jan - Mar Actual %	Jan - Mar 95% cl
1st Class Stamped & Meter All	92.5		89.4	0.3	99.9		99.9	0.0
2nd Class Stamped & Meter All	98.5		98.4	0.2	99.9		99.9	0.1
1st Class Postage Paid Impression	90.6		83.6	1.3	99.9		99.5	0.5
2nd Class Postage Paid Impression	97.4		96.0	0.7	99.9		99.6	0.7
1st Class Response Services	90.3		79.1	2.5	99.9		98.9	0.2
2nd Class Response Services	97.5		93.6	1.5	99.9		99.4	0.2
Special Delivery	99.0		97.0	#	99.9		100.0	#
All PCAs (except 3) To Achieve 90.5 For 1 st Class Stamped And Metered Posted To UK	118		50					
All PCAs To Achieve 92.5 For 1 st Class Stamped And Metered Intra Postcode Area	121		98					
Mailsort 1	91.0		88.7	3.5	99.9		100.0	0.2
Mailsort 2	97.5		96.6	1.2	99.9		100.0	0.1
Mailsort 3	97.5		98.0	1.3	99.9		99.9	0.2
Presstream 1	90.5		86.4	1.2	99.9		100.0	0.0
Presstream 2	97.5		96.6	2.1	99.9		100.0	0.1
Standard Retail Parcels	90.0		90.2	1.1	99.9		99.6	0.2

Product subject to continuous sampling (confidence limit inapplicable)

95% cl = 95% confidence limit

Target – Target is full-year cumulative

Table 6**Month Performance March 2004**

Standard	March Actual %	March c/I %
1st Class Stamped & Meter All	90.3	0.4
2nd Class Stamped & Meter All	98.4	0.3
1st Class Postage Paid Impression	84.0	1.9
2nd Class Postage Paid Impression	95.6	1.0
1st Class Response Services	81.2	3.7
2nd Class Response Services	93.0	2.3
Special Delivery	98.1	#
Mailsort 1	87.3	5.8
Mailsort 2	96.4	1.8
Mailsort 3	97.4	2.2
Presstream 1	86.6	1.8
Presstream 2	96.8	3.0
Standard Retail Parcel	91.2	1.7

Product subject to continuous sampling (confidence limit inapplicable)

Table 7.**Licence Condition 4.16 + 4.17 - Complaint Resolution****Quarter 4 03/04**

Royal Mail	Unresolved at Start	Received in Quarter	Resolved in Quarter	Unresolved at End	Recompense £
Royal Mail Total	41,068	469,137	468,546	41,659	5,413,638
Lost	22,853	209,246	211,464	20,635	3,817,388
Delay	2,935	48,180	48,434	2,681	368,671
Redirection Failure	2,120	31,996	31,453	2,663	96,428
Mis-Delivery	1,156	32,799	31,284	2,671	62,448
Damage	2,144	18,557	19,083	1,618	361,999
Other	9,860	128,359	126,828	11,391	706,704

Complaint resolution action plan update

Recent months have seen the roll out of three major initiatives within the mails pipeline; Single Daily Delivery, Transport Review and the Mail Centre efficiency review. This change programme provides the foundation for delivering the final leg of the company's three year Renewal Plan. The plan is probably the largest corporate change activity within the last 20 years and is critical in securing the immediate future of the company.

Although each initiative was planned to minimise service disruption, the concurrent deployment of such major initiatives has not been without its difficulties and the quality of service provided to our customers within the quarter has been below the levels we wish consistently to provide.

Delay

The problems encountered with Renewal Plan deployment have put pressure on the Delay Complaints category and on the levels of loss attributable to substantial delay. An analysis of the Quarter 4 operational issues and details of the Royal Mail response are provided earlier in this report and in the 2004/05 Q of S Plan.

Loss/Mis-delivery

To accommodate the high level of change activity planned for Quarter 4, the Condition 8 Loss Action plan and Condition 4.14 Complaints Action Plan programmed most activity for deployment in the first three quarters of the year. Operational units have focussed predominantly upon renewal plan activity within Quarter 4; however key elements of the Loss and Complaints plan were further rolled out within the period.

In terms of Loss, the actions detailed against each of the 21 contributory causes continue to be tracked and monitored by the Loss Prevention Board on a monthly basis. Contributory causes of Loss include each of the 5 key Complaints categories ie; Loss, Damage, Delay, Mis-delivery and Re-directions. As such there is a great deal of overlap between the Loss and Complaints plan.

Mis-delivery improvement activity continued to be the main focus for the Loss plan in Quarter 4. The "Mis-delivery best practice" improvement pack was rolled out to a further 27 units within the quarter, bringing the total to 360 Delivery Units since its launch. A further internal communications campaign in March again highlighted Mis-delivery as a key issue in terms of both Loss and Complaints and this was supported by the deployment of information posters to our Delivery Offices.

A central element of Unit level planning ahead of Single Daily Delivery deployment has been the updating of walk-logs for all revised walks. The walk-log details each delivery and provides the postperson with added value information on the walk in terms of sequencing, individual address issues and generic hints and tips. This baseline information supports the individual undertaking new or revised walks and helps to increase the efficiency of the delivery and eradicate mistakes, most notably Mis-delivery.

Further focus has been provided by an updated Work Time Learning module which allows managers and frontline staff to work through the issues together and to develop the best response to issues for their office.

Mis-delivery will continue to be a key feature in the 2004/05 Loss and Complaints Action plans.

The deployment of Single Daily Delivery has also provided a platform for the review and re-communication of our delivery specification. We have re-affirmed the business policy on the doorstepping of packets and parcels and again this will continue to be a feature of the loss plan going into 2004/05.

Damage

Measures aimed at reducing damage to mails items continue to be rolled out. Again, in line with deployment of Single Daily Delivery, the programme of sorting frame refreshment continues with the deployment of vertical slot fittings replacing the more traditional box fittings. Improvements to delivery equipment also continue with improved mails pouches being made available, along with improved High Capacity Trolleys, both with the benefit of maintaining the integrity of the mail.

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.

Re-directions

The cross business review of the Re-directions product continues. The supply chain and operational specification have both been subject to review. Planned Quarter 4 focus on service execution in Delivery Offices has been rolled over into 2004/05 in order to accommodate Single Daily Delivery deployment. An internal Communications campaign under the series of “We Can Fix It” has continued to target operational staff to highlight performance issues and re-enforce key standards and good practice ahead of the 2004/05 activity.

Quarter 4 03/04

Post Office Ltd	Unresolved at Start	Received in Quarter	Resolved in Quarter	Unresolved at End	Recompense £
Total	687	6202	6467	422	£24,514.62
Customer Service at Transaction	230	1,644	1,769	105	£5,442.71
Network Transformation	64	1,580	1,495	149	£10.08
Advice Provision	100	627	698	29	£6,146.43
Branch Facilities	77	558	594	41	£1,843.54
Change Discrepancies	48	291	321	18	£3,174.58
Service Failure	35	276	300	11	£1,560.09
Transaction Procedures	20	159	170	9	£1,581.19
Waiting Times	15	174	160	29	£147.48
Opening Hours	15	120	124	11	£82.10
Other	83	773	836	20	£4,526.42

Complaint resolution action plan update

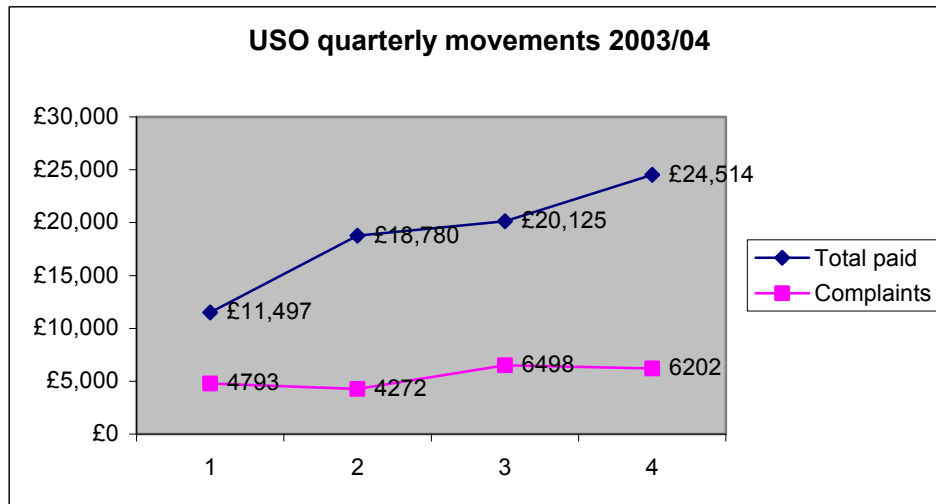
Production of a new report analysing complaints by Post Office branch has slipped to at least July. The cost of producing the original proposed report proved prohibitively expensive. An alternative solution has been found but there have been difficulties with implementation, leading to further delay.

The new complaint categorisation has been implemented. Further training of complaint handling staff has been arranged to ensure correct categorisation.

The authorisation of complaint handlers to settle more cases on a goodwill basis has seen a steady rise in payments throughout 2003 / 04.

As regards movement in complaint volumes:

- Advice provision complaints have fallen between Q3 & Q4.



- Customer service complaints show a slight increase between Q3 & Q4. The complaint report by branch will enable meaningful root cause analysis to be undertaken.
- Branch facilities complaints have fallen back.
- As anticipated, with the closure program gathering pace Network reinvention complaints have increase throughout the year.

Against an internal target of 65% customer satisfaction with complaint handling during Q4 was 68%. This is a fall from the Q3 figure of 74%, mainly due to a poor performance by Glasgow CCU. This office has now closed.

To improve efficiency and control costs, the Customer Complaint sites at Glasgow and Leeds have been closed. With the exception of a small site at Bangor to handle customers who wish to correspond in the Welsh, all complaint handling has now been concentrated into two large sites at Dearne Valley & Doxford. General improvements in both quality of service and customer satisfaction are anticipated as a result of these changes.

Table 8.

**Licence Condition 5.6 – Complaints Handling
Q4 Report**

	% Calls answered to quality standard aim – 80% in 20 seconds	% Cases closed to quality standard aim - 100% (inland) in 30 calendar days
Royal Mail	80%	79%
Post Office Limited	62%	68%
Total	72%	79%

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 30 calendar 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

Performance in the Grade of Service speed to answer measure improved overall across the brands from 70% to 72%, with calls into Royal Mail Customer Service hitting the target of 80%. The performance for Post Office Ltd was slightly poorer as calls continued to exceed forecast, mainly due to high numbers of card account enquiries.

Single Daily Delivery continues to be implemented across the whole country, resulting in increased volumes of calls from areas when this is introduced. To minimise problems, however, maximum telephone and casework handling resource is being made available when major areas such as London and Birmingham are affected.

The level of contacts coming in by e-mail continues to increase and performance has also improved for each brand.

Initiatives put in place to maximise the efficiency of call routing and plans, by providing information to customers at the front end of a call, have been maintained and will continue to be used.