

POLB(09)13**April 2009****Network Functional Report****Crown Network**

- Period 12 YTD P & L for Crown Network will be c. £250k adverse to target (after adjustments for ex-budget items) despite c.£6m shortfall in Focus Product income.
- Lean pilot - now branded 'Our Best Way' - is progressing in Birmingham and Walsall. Initial scoping has identified a significant number of areas for focus which are being reviewed and analysed (Week 3 of 8 week pilot) prior to solution design and test.
- Self-measurement of waiting times has been completed for 5 week period in all Crown branches. Initial results suggest a slightly better picture than anticipated, with c. 67% of customers being served within 5 minutes over the period. But, there are significant variances in performance across the Network. Full results will be available for Crown Programme update to ET on 20th April.
- Financial Services Specialists (FSS) recruitment has recommenced. Levels of churn are now running 7% higher than expected at around 27%. An independent review of the existing FSS management structure is being undertaken focusing on what improvement could be made to structure for performance management and compliance/coaching purposes.
- CORP main programme remains on track despite some risk brought by discovery of asbestos in some locations. Performance of contractors and project management continues to be satisfactory

WH Smith

- Agreement has been reached on detailed plan for the introduction of FSS into 10 branches on a six month trial basis - funded by POL, but with no commission on sales paid to WHS. This will be accompanied by the re-introduction of Sales Effectiveness Managers to support the development of sales capability across the WHS network.
- WHS have agreed sales targets for next year which, if achieved, will remove any need for top up payments under the contribution guarantee scheme. A plan to build sales capability has been formulated.
- Discussions continue with WHS over the possibility of closing some very poor performing Bureau Kiosks and over the potential establishment of further WHS Post Office branches.

Commercial Agency Network

- Focus Product Income – performance for week 52 YTD was 91% (£10m negative variance), across entire agency network. The only products which performed well were Growth Bond £1.7m positive variance and PWW 24/48 £2.4m. Performance was impacted by Special Delivery negative variance £2.1m, E top up neg var £3.7m and Travel Products neg var £3.1m. Week 1 performance for account managed is on target.
- Primeco/Nearby Stores – Meeting took place with Primeco to discuss the re-fitting of the 16 branches but their focus is on finding a retail partner before they can determine the refit plans. They have undertaken most of the BAU improvements and are supporting the sales agenda across their network.
- Risk Assessment – The risk model used for Multiple Partner assessment is now being reviewed so that this can be adopted as an approach for the independent agents.
- STEP – Phase 1 (64 branches) has been live for 8 weeks now the average FS sales per week has moved from 3 per week prior to the programme to 8 per week which is a slight drop from week 3 performance at 9 per week. Martin McColls however continue to underperform at 1.1-1.2 sales per week – we are now reviewing how/whether multiples will be included in STEP. Phase 2 branches are being selected to start.

Network Development

- At the end of March, 2476 branches have been closed under the Network Change Programme, 433 outreach solutions implemented and 24 area plans have now concluded in full. The remaining 54 closures and 73 outreaches are planned to be implemented over the next three months. The first draft of the NCP PIR will be available by the end of April and concluded at the end of May when the financial details are available. The Programme Office is preparing the terms of reference for the current 11 strands that will be encompassed by the Network Development Programme.

- Force majeure closures stand at 261 ytd at the end March (although this number is subject to check with the number we report externally). Whilst there is a slight downturn in the last month of the year, the trend remains at 20+ per month. The field team is currently dealing with 840 live network change cases.
- The Welsh Post Office Diversification Fund (PODF) has generated 83 requests for funding since its launch on 1st January. We anticipate a further influx of applications over the next couple of weeks ahead of the end of April deadline.
- March 2009 saw a 46% increase in business as usual projects in the consultation team compared to last year due to an increase in the number of branches re-opening following a period of closure.
- The Post and Go service goes live at Ludgate Circus week beginning 20th April and the 21st Post Office essentials pilot goes live on 9th April (a replacement solution for a Network Change Outreach in Yatton Keynell, Chippenham). A further five locally funded sites are nearing completion in terms of discussions with funders / operators and look likely to go live during the first quarter (3 in Essex, New Covent Garden and Tytherington in South Gloucestershire).
- The review of the Core & Outreach models is nearing completion with the first draft of the report expected to be available at the end of April.
- There has been an upturn in FOI requests this month with a diverse range including questions on corporate hospitality spend and missing Instant Saver applications. Service issues continue to dominate flag cases closely followed by Network. We have had our 3rd request in the past few months from individual MPs on behalf of subpostmasters relating to Horizon integrity (Legal advice is that we have no reason to doubt the system's integrity and this has been tested in the courts).
- We are awaiting the redrafted report from the National Audit Office which takes account of BERR, POL and Consumer Focus feedback, it should have been released by 3rd April. We anticipate a further series of reviews of this and the formal publication date has not yet been agreed. BERR have been advised that the last Public Accounts Committee hearing is on June 29/30 and that they are still intending to discuss the report at this session.

Agents Development

- **Agents Pay Review 2009** – Following successful agreement of the 09/10 pay deal last month and endorsement by the NFSP, communications have now been finalised and were distributed to all Agents and Multiple Partners on the 2nd April. This approach appears to have worked well. Calls to the helpline have been minimal to date. Heads of BD and other internal stakeholders have been briefed on the pay changes and the major multiple partners have received face to face briefings. The pay team are also attending NFSP branch meetings to explain the changes.
- **Co-op and Restrictions Policy** – a commercial deal has now been reached between POL and CRTG regarding restrictions, and CRTG have signed a Letter of Intent.
- CRTG now require until the 15th May to be in a position to sign the Heads of Terms. We have therefore exceptionally agreed to extend their bill payment waiver until this date to provide them with the opportunity to engage with the CEOs of individual Co-ops Societies. However, if the Heads of Terms are not signed by the 15th May, we have made it clear that we will not be in a position to allow any further waiver extensions and will take appropriate steps to enforce any breaches of our restrictions policy.

Network Support

- **Losses** - March saw an increase in the number of agents contracts suspended. In total 30 agents were suspended covering 35 branches. The losses identified in these branches totalled in excess of £430k.
- **Mails segregation Compliance** - The latest cumulative results as at week ending 23 March (end of Period 12) were as follows: 1st Class Segregation 98.1%, 2nd Class Segregation 99.7%, 1st and 2nd Class Stamp Cancellation >99%. These results are very good but sampling remains inconsistent in some RM Mail Centres.
- **ONCH** - The year end cash target was achieved. Overall network ONCH has reduced by 15% over the financial year. The biggest improvement was seen in the Crown network, with a reduction of 30%, followed by the Centrally Supported network with 18.5%. The ONCH levels reduced in the Account Managed segment by 10%. Cash declaration conformance has improved over the year by 5%. The biggest improvement has been seen in the Crown network with a move from 60% to 91% conformance.

- **Network Conformance** - The standards and approach to network segmentation have been agreed along with the areas that will be subject to financial penalties and/ or corrective action. A further meeting has been held with the Institute of Financial Services to understand what it would take for them to either accredit or endorse or FSS internal accreditation scheme and also to scope what might be required to meet FSA standards in Globe branches. The MI to support the "branch view" which will inform the penalties/rewards process is almost complete. The NFSP Exec were taken through the approach on 25th March and not surprisingly whilst they accepted the need to improve conformance they are opposed to any form of charging. A further meeting is planned for 20th April. All proposals will be piloted first of all to check workability. And advanced notice and a period of grace will be given to help agents reach the required conformance standards, before any penalties/ action is taken.