

POLB06(32b)OPERATIONS FUNCTIONAL REPORTApril 2006CASH SERVICESTrack and Trace

The cash-in-transit track and trace system that provides a controlled electronic receipting process and clear audit trail for the delivery and collection of notes, coin and secure stock has been successfully deployed to all depots. The system is also being used by the helpdesk in tracing missing pouches, and reports are available to monitor and support customer quality of service. The aim in the next quarter is to use the system to drive forward improvements in conformance and quality of service.

Holdings and ONCH

This has been a hugely successful year in reducing overnight cash holdings both in the retail network and, wholesale cash centre balances. The final outturn for the year for retail was £471.8m average per night for the year against a target of £504.8m. A further illustration of improvement in this area is the comparison against 2004/05 when the outturn for the year was £556m. This has been achieved through continuous and targeted cash management monitoring assisted further by stability in branch business over the counter following the completion of benefit book migration.

Overnight cash holding in cash centres has also seen excellent performance out turning at £66m against a target of £78m, this has been achieved within the Bank of England Notes Circulation Scheme rules for which no penalties have been incurred. Additionally there have been improvements in the management of wholesale coin holdings, which have been reduced consistently over the year.

Service Specification Project (SSP)

The SSP has now reached a successful conclusion based on its original remit / business case,

Over the last two years we have managed the impact of changes in cash cycle requirement within the network and aligned resources accordingly via revisions in Cash in Transit units throughout the U.K.

Success include -

- National and local agreements to major change activity - unprecedented **change within CiT units**
- Introduction of **56 Cash in Transit revisions implemented** over the two-year period.
- Over achievement of targets that has delivered a **staff reduction of 305 and a vehicle reduction of 173.**
- A net **benefit to the business of over £74M** over the 5-year plan - including ONCH impact.
- **No loss of service due to industrial action** as a result of revision activity.
- Maintenance and overall **national improvement of Q of S to POL. Network.**

Exiting the External Cash in Transit

The position currently is that following guidance from group, work is ongoing, with the CWU, to deliver a new vision for Cash Services which is as follows: -

- We will return Cash Services external Cash-in-Transit work to profit during 07/08

- We will be great cash-in-transit professionals offering good quality of service to our customers
- We will serve profitable customers to ensure we are a viable and growing player in the external cit market
- We will have a sustainable network which offers real job security and fair reward to all employees
- We will introduce a positive sea change in the Cash Services/CWU relationship

Given the strategy of 'playing these negotiations long' there was always going to be a point where pay would enter these External Market consultations. We are at that point now. One final meeting should see these agreements ratified and transferred over to the pay negotiation team.

IT

Network Resilience

The software necessary to deploy an ISDN secondary network for c 2000 larger branches and the GSM solution to limit the period of downtime for smaller branches is now ready for implementation.

S90 Release

This release, inter alia, transfers Bureau debit/ credit card transactions to the counter from the stand alone device, introduces controls to ensure debit/credit cards are applied to the correct transactions, introduces a generic out payments product that will in the first instance be used to re-engineer the Postal Order product and enhanced processes for the control of stocks of foreign currency. It also delivers a plethora of change requests across a variety of existing capabilities.

The release continues to make good progress. There have been a number of issues in pilot but these have been quickly diagnosed and resolved. The Bureau debit/credit card solution is now live in all on demand branches. Postal Orders go to full pilot next week having had a successful private pilot (employees and family).

On-Line availability

Work has been taking place to improve the availability to branches. This joint exercise between Operations Control, Fujitsu, and BT is currently delivering the best performance since Horizon was implemented.

COMMERCIAL

Horizon Next Generation

A business case for further interim cover of £4m was submitted to and approved by the Investment committee. A paper has been produced for the RM Holdings Board at the end of April requesting approval of HNG subject to a long term funding deal for POL and requesting further release of interim funding (up to £25m) to cover the period up to the end of 2006 to enable the programme to be maintained to plan.

Analysis is underway with Group Tax to establish if there is scope to sell some of POL's capital losses to Fujitsu as part of the deal. Initial indications (including advice from Slaughter & May) suggest that this will not be possible.

EDS

Formal novation of Citibank's contract with EDS to JP Morgan, together with the transfer of all the associated contracts between Citibank and card account customers occurred on 3rd March. As a result JP Morgan take on all responsibility for fulfilment that was done by Citibank.

A Request for Information (RFI) for a replacement for Card Account has been prepared and will be circulated to interested parties next week. This will provide information on what is available in the market to assist a response to a likely ITT from Government later on this year.

Ric Francis
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