

POST OFFICE LTD IN STRICTEST CONFIDENCE

POLB(05)72

August 2005

**OPERATIONS FUNCTIONAL REPORT**

**NSS**

**Service Specification Programme**

Revision One activity 04/05 – Four depots carried forward into 05/06 (two depots – London Central and Edinburgh are progressing, London East have recently voted against the duty proposals and no progress has been made in Oxford)

Revision Two activity 05/06 – Two depots have been implemented, Swansea and Peterborough, activity is being progressed on the other depots however; the delay on revision one activity is impacting on the 05/06 plan but remedial action is being taken to recover this.

Fast-track Agreement – agreement has been reached to fast-track 5 depots (i.e. perform a desk top revision) to try to recover the impact of revision 1 activity on 05/06 plan.

**Body Armour**

An ergonomic assessment was undertaken for both overt and covert body armour. It was determined that the overt vest was likely to increase the risk of injury for some tasks. The covert vest appears to be less likely to increase the risk of injury but it is highly recommended that the effects of heat stress, comfort and hygiene are assessed fully.

Securicor have been repeatedly contacted to understand the findings from their trial but they do not seem to be co-operating. The HR Director and MD are now aware of our desire for this information. A timescale of mid August will be set after which the business will need to review and decide whether to trial within POL.

**Security Industry Association (SIA) Licensing – Approved Contractor Scheme (ACS)**

A Regulatory Impact Assessment (RIA) has been produced for the government by the SIA and will shortly go out to the public for consultation. The Impact Assessment will identify a number of options regarding the introduction of an ACS and one option may not be to have a scheme at all. If such a scheme is not introduced this will increase CIT resourcing timescales further from a current 12 to 16 week lead time to 18 to 24.

**All Embracing Pay Review**

Terms of Reference for this have been agreed with the CWU. A joint PID is being produced with the project being managed by the HR Business Partner. Head of Reward and Recognition is liaising with other parts of RMG to understand the likely impact on the reward packages especially as a result of Road Transport Regulations (RTR). This will create a precedent for Cash Services, which will need to be incorporated within the business planning process.

**Road Transport Regulations (RTR)**

Progress so far:

- Comprehensive training and guidelines have been undertaken/issued to all depots. Two RTR auditors temporarily appointed and audits are being undertaken.
- Any non-compliant depots have remedial action plans put in place

**Management and Support Re-structure**

The restructure of NSS Cash's Management and Support Functions remains on plan, with appointments due to be announced week commencing the 8th August. Progress to date includes:

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- Design of new structure
- Sign-off of headcount reduction targets
- Completion of preference exercise
- Decision on all appointments to the revised template.

VR cases have been proposed to Finance and are in the progress of being cleared. None of these causes a delay to the announcement of appointments on the 8th.

Following appointments being announced, NSS will move into a 3-week period of handover with the new structure becoming formally live on the 1st September. Initial VR candidates whose cases are approved will leave the business in mid November.

Overall this strand of the Project is Green however the net cost savings (after VR costs) for 05/06 are nearly £600k below plan. This is due to a lower number of VR candidates being approved than originally assumed and the average cost of VR is likely to be significantly higher than originally assumed. The single mitigating action to bring the forecast back in line with the business case is to speed up the rate at which surplus people are placed.

**IT****Network Resilience**

The development of a backup network service continues to plan, with Horizon changes entering the testing phase. The service introduction date is planned as April 06, and is expected to make a significant impact on the problem of long-term branch outages, and nearly all outages within our largest 2,000 branches.

Overall our increased investment in a higher grade of service has led to quicker fault resolution, but more needs to be done. A telecoms service management specialist from the retail sector is helping us to continue to raise the performance of our network providers, and it is clear that we need to work better at improving BT's performance through the use of executive influencing and lobbying.

**Banking**

The summary findings of the external audit of EDS and JPM in relation to the service failure of August last year, have been reported back to DWP, and they have indicated that they are content with the actions we and the suppliers have already completed or undertaken to complete over the coming months.

We are exploring further options and opportunities to improve our service contingency plans to address the risk of similar failures in the future. Banking reliability and service continuity continues to receive an appropriate level of management attention, reflecting its importance to our customers and us.

**Impact**

The programme is progressing according to plan with a number of key milestones achieved in preparation for the implementation of the new finance system at the end of August and the rollout of branch trading throughout September-November. Over 14,000 branches have been upgraded to the branch trading software to date (9<sup>th</sup> August) and 4 cycles of E2E testing have been completed with a further cycle planned before the Release decision on the 18th August. The plan has no contingency and a number of risks remain, however it remains achievable.

Agreement has been reached with Prism Alliance to recover approx £1m including VAT for the abortive work on the new Reference Data System terminated last year by Post office Ltd for failure to meet the requirement by the due date. The recovery will be made in free of charge.

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services over the balance of this year and next year. This recovery has already been reflected in the year-end forecasts.

**Smart post**

End to end testing has been completed and Track & Trace will be implemented for Parcel force in S80 as originally planned. However due to the client being unable to accept a paperless dispatch process the Royal Mail implementation plan is under review and as such various options are being explored to hit the S90 timescales.

**Sales prompts**

The project is going well and on track, the soft launch is currently running with 154 branches with calls to the helpline at an acceptable level. Go live date is on track and planned for 15th August 2005.

**S90 Release**

Projects in S90 Horizon release are all on track. The pin pad upgrade product has been delivered and tested and accreditation plan agreed with Streamline. Work on automated out payment functionality is progressing well and additional small changes have been agreed to be included in S90 with a further three being assessed for inclusion.

**Horizon Next Generation (IT Roadmap)**

Fujitsu submitted a best and final offer, which came very close to bridging the gap between our draft business case and their previous offer (a reduction of circa £80m was achieved), but still had unacceptable restrictions and terms.

We are actively considering a revised approach of disaggregating the current supply and contracting separately for the major components (including telecoms and field services) with the aid of a systems integrator. Fujitsu were invited to submit a revised proposal based on this format. Their indicative costs show that further savings are possible and that the large up-front investment inherent in their previous offers can be avoided. Discussions with Fujitsu continue on a non-exclusive basis.

**External Supplier costs**

Savings of £3.7m have been identified in third party cost budgets and accruals and have been reflected in the latest forecasts. This includes an IVAT refund of £0.9m from EDS on Card Account.

A number of ongoing risks and issues remain relating to third party spend including £1.9m pre-paid SI which is not likely to be used but must be paid for and £2.3m unbudgeted Horizon costs if we do not proceed with HNG this year.

Ric Francis  
Operations Director  
August 2005