

**POLB(09)04**

**January 2009**

**Network Functional Report**

**Crown Network**

- FSS project remains on track. Current pipeline will deliver c 420 FSS into the network by early November. Agreed moratorium will allow Performance Management team to have impact and to embed Training and Development Framework. NS & I training to be delivered by end-March 2009 subject to final agreement on relevant product range.
- Following ET discussion on Crown Programme, work is being done to verify 2010/11 assumptions and to identify flightpath to break even as part of wider 2001/16 plan.
- Final training is being completed of those FSS in recruitment pipeline when moratorium was agreed. Allowing for some further attrition, we anticipate c 420 FSS in post at end of January. Recruitment is planned to re-start in April.
- Exploratory discussions continue with potential 'lean' partners.
- Q4 focus is on Life products, Travel and Savings although it is being emphasised to FSS in particular that general insurance and credit card volumes must be maintained.
- All branches in CORP Phase 1 are involved in workshops during January with focus on planning to maintain customer and colleague support through refurbishment.

**WH Smith**

- Following meeting with WHS Senior Management in December, analysis is being undertaken to understand better performance issues ahead of a joint workshop in late Jan/early Feb.
- Although there were one or two 'hot spots' during Christmas period, WHS branches look to have maintained service levels well during peak periods.

**Commercial Agency Network**

- Focus Product Income – as at week 40 achieving 94% of target (£5.4m negative variance), across entire agency network. The only products which are performing well are GB with £1.5m positive variance and PWW 24/48 338% £1.8m, performance of SD and Moneygram have fallen over the last month. Working on a revised forecast but more likely to be around £7m negative variance.
- High Level Sales Plan –Travel and Life Insurance Workshops have been organised for Jan/early Feb early indications are that Travel Workshops have been well received but still having difficulty getting people to the events due to resourcing issues. Life Insurance Workshops are yet to start.
- Primeco/Nearby Stores – Primeco have taken over the operation of 16 former Crown Offices that were run under a Tripartite Agreement with Primeco/Nearby Stores due to Nearby Stores going into administration. Nearby Stores also operated 3 further branches, two of which are being transferred to Southern Co-op the 3rd branch remains closed. Primeco are required to provide an update next week regarding the works performed to date under the 60 Day improvement notice so that we secure improvements to both the environment in these branches for our customers and the service provided.
- CML – CML ran 3 former Crown Offices and they went into administration this week, their administrator has allowed a temp spmr to take occupation of all branches
- Risk Assessment – an exercise to assess the risk of any of our Multiple Partners going into administration will be undertaken shortly

**Network Change**

- As at the end of December, 2248 branches have been closed and a further 283 outreach solutions implemented.
- 13 area plans have now concluded in full with all closures, outreaches and replacement activities implemented.
- National Audit Office meeting on 7th January was constructive with no indication of any significant negative issues. Draft report expected by 16th January.

- Post Office Essentials trial sites are progressing positively with 19 of the 20 locations now operational, the 20th site in Cambourne (Cambridgeshire) expected to go live on 12th January.
- The fourth locally funded branch opened at Henham in Essex on 11th December. Expressions of interest regarding local funding have been received in respect of approximately 450 branches, non-disclosure agreements entered into with 80 parties and almost 70 of which have been provided with financial information.
- The business as usual field team structure has been realigned and currently handling 600 live cases with monthly averages of 20 closures, 12 reopenings, 9 refurbishments and 10 relocations.
- The Network Change Programme remains on track to deliver savings of £45 million, migration of 86%, 2530 closures (90 of which are uncompensated) and 500 outreaches.

### **Agents Development**

#### **Agents Pay**

- Good progress being made. Meetings planned with NFSP on 9th/13th/14th to finalise negotiations. Our proposal allows us to meet the cost target and continue to further our strategic aim of moving towards fully variable pay. There is a high risk that we will need to implement the deal without NFSP agreement.
- When we move pay from fixed to variable, this appears to adversely affect profitability at a product level, even though in reality it doesn't. This has led to delays in finalising the offer to the NFSP. Finance are working with Marketing to ensure that the cost allocation process and product P&Ls are clarified to resolve this.

#### **Co-op and Restrictions**

- Letters have been sent and meetings held with all the main Co-op Societies. This tactic has proved effective as following the meetings, the Societies have applied pressure on CRTG to re-engage with us and come to an agreement. This meeting takes place on 13 Jan. However, judging from the letter received from Tim Hurrell (Chair - CRTG), there doesn't appear to be much common ground between us.

**Losses** - there was an increase in suspension cases in December with 18 suspension cases involving 15 subpostmasters. Losses identified at these branches totalled in excess of £250k.

**Agents in administration** - two subpostmasters and one franchisee have gone into administration in the past four weeks. In previous years we would expect this level of activity to reflect the full year rather than one month. In addition, Nearby Stores who operated three of those branches also operated 17 branches on behalf of Primeco which meant that w/c 15th December we had to audit 20 large branches at very short notice to assure Primeco of assets. These audits will be charged to Primeco.

**Mails segregation** - RML have not provided info on the level of mails segregation during the December period.

### **Network Efficiency Programme**

- The workstreams for the Managing Network Cash and the Achieving Network Conformance projects have been identified following concurrence from the Project Sponsors and are being progressed with workstream leaders
- ONCH performance continues to improve as a result of the programme raising the profile of this key area. Cash holdings for Period 9 were £13.6m below target. This is a really good result considering that branches had been supplied with additional cash to pay winter fuel payments and double payments over Christmas. The area which continues to undermine this performance is ATM cash holdings which are still significantly higher than required to meet withdrawals.
- Operation Hogmany is underway and targeting branches identified as holding too much cash. Letters have been sent to agents instructing them to return excess cash and advising them of the amount to be returned. Plans are in place to visit branches that don't comply w/c 26th January and, based on the outcome of similar activity in 2008, there will likely be a number of suspensions as a result of this activity.

**Sub Post Office Delivery Offices (SPDOs)** - The majority of risk assessments have been completed and a meeting is scheduled for next week with RML to begin to review the outputs and assess the implications for RML, POL and subpostmasters.

**paystation™** - of the 4500 additional terminals rolled out in September and November around 600 have still to be installed by agents. Work continues on progress chasing installation together with activity to re-connect **paystation™** in branches that have not used the kit for months/ years. The first 2700 branches had Quantum removed from Horizon week commencing 6 January. All branches received a letter in December advising them of this and in the days immediately prior to Quantum being removed branches will receive a follow up memo view as a reminder. We still have around 350 branches where we have yet to supply a **paystation™** terminal because of supply issues (terminal and connectivity). We've cross checked these with the Network Planning team to ensure none breach the access criteria and we've identified over 130 agency branches which do not currently have a terminal but where Quantum has been transacted on Horizon. The aim will be to supply these branches with terminals before the end of January and to supply the remainder in May/ June once the upgrade activity is completed and spare kit is available. The upgrade activity is progressing and the completion date is June 2009.