



Gayle A Laverick
06/11/2007 21:22

To: Lynn Hobbs/e/POSTOFFICE
cc: John Breeden/e/POSTOFFICE
Subject: Network Efficiencies

GRO

GRO

Hi Lynn

I've had a look at the Network Efficiencies paper and had a think about what we talked about. As John points out in his e-mail, these observations/suggestions would need to be fully looked into before being implemented. I am also sure that someone has probably thought about some of these before, so apologies if I'm reinventing the wheel or stating the obvious.

1. Visibility of Performance and Efficiency Opportunities within the Network

Until we get to a point where we can see the full cost of a branch in P+L terms, we will only be scratching the surface in terms of what efficiencies can be made. At the moment, we have different teams holding accountability for how a branch operates within their remit and on their scorecard. For example, P&BA are measured against debt management, all support costs get allocated to Operations, whilst Heads of BD see very little other than sales, agents pay, ONCH, FONCH and compliance. The finance team may see this, but it doesn't filter down to the line or branch level.

The branch P&L would need to be split into income, controllable and non-controllable costs. The granularity of the information would depend on the requirements, but you would need to include things like NBSC allocated costs, costs for Stores and Stock delivery, and if you wanted true costs, you would also need to build in costs for non-conformance. At the moment we have different teams such as Product Support, P&BA, Product Managers, NBSC, Inventory Team etc all making interventions to branches and we have no idea of what this costs. For example, we have just undertaken an exercise of writing out to community branches who have still failed to do the test. We have asked them to submit their training receipts to us for checking. My calculation for this is that this is going to cost us £1200, and this cost never gets allocated anywhere but gets absorbed.

The branch scorecard would create ownership and provide incentive to identify and resolve the issues, rather than just passing it on.

2. One team analysing information coming into a central point

If you created a branch scorecard, you would also need a central team to pro-actively manage non-conformance and spot problems before the case becomes a bigger issue and the branch poses a bigger financial risk. The teams within the different directorates work in silos and don't talk to each other when they have suspicions about a branch. Even within our own team, the tools that we have don't help us do this. For example, I had a quick look at the EFC to understand what went wrong at Bolinbrook, where there was an £85k shortage following audit.

- It took me about an hour to trawl through the documentation and understand all of the different interventions
- A concern had been raised by the Training team in 2006 when the postmaster was appointed, but nobody took ownership of this
- Branch performance was poor and there were various indicators - rolling losses, lax security procedures resulting in warnings, compliance workbook not being completed, accumulation of Transaction Corrections resulting in debt of over £4.5k, warnings being issued for people being behind counter, non-completion of Horizon roll-over, unauthorised closures, cash declaration non-conformance and BT bad debt.
- It is only when people start "having a look" that they uncover something more sinister going on, and this is often too late.

What would be the ideal solution would be the development of a central database that pulls information from a variety of sources and allocates the branch a performance score and raises flags when intervention is required, and the severity of the non-conformance levels. This would work in a similar way to the performance database that is used to support the Core and Outreach assessment process. This system would also enable you to identify on you "worst" 15% and either improve them or manage them out.

The risk is that if we can spot things sooner, we may have a higher suspension/termination rate that

we can't cope with. This would be especially difficult to manage if the business don't try and make the proposition of running a post office an attractive idea.

3. Review of the audit risk model and who controls it

The proposal would be that the central point who analyse the information would also take control of the audit risk model, and prioritise visits. The current model is operated by a team who engage very little with Network, and previous findings submitted demonstrate that the line submitting special audit requests, often results in a greater loss being identified. Looking back over previous special audit requests submitted for large scale losses, there seems to be a common factor between them.

- The spmr is often vague regarding what has caused the problem
- When tackled regarding non-conformance, the spmr says they are aware of it but have actually done nothing to rectify the problem - i.e not reported faults to NBSC
- The spmr cannot be contacted or is always "unavailable"
- The person who has submitted the audit request has done a bit of digging and communicated with other people, and often found that other teams are having problems with the same branch but for different reasons.

Therefore, whilst a model may highlight poor performance, it often takes a personal interaction or knowledge about the branch that confirms whether the branch is a risk to us as a business.

In the case of Bolinbrook, an initial special audit request was submitted in April 2006 due to concerns when the branch was having losses at £4k. If that audit had taken place at that point, the loss to the business would have been far less than the £85k it had escalated to in just over a year. However, for whatever reason, the request was sidelined and never took place. When Pat submitted the request again on the 8th May following the 42-day process report, the branch was visited within 2 days. Only then was it deemed serious enough to warrant a visit.

In terms of the risk model the following has been identified from the information supplied:

- There are 25 data feeds that flow into the audit risk model
- None of the data feeds are given a priority basis, and nothing is classed as more high risk than the other
- The risk model has not been constructed around where the opportunity is for fraud and the methods that the spmr would use to take money - i.e, creating a gain to take the cash, having high cheque figures but remitting out a lesser figure (i.e keeping a personal cheque in the drawer to cover their cash and carry fund!)
- The data feeds are not very sophisticated to take into account where there may be a problem. For example, they only look at the value of TCs issues and ignore the volume that the branch is generating. Only when this gets to a figure of £25k do they class it as high risk. Also, there is no correlation between the TC volume/value and the branch remuneration. If the branch has a remuneration of £18k, we wait until it reaches £25k to go out and have a look. Again, with things like ONCH levels, there is no correlation with the size of the branch. It becomes a high risk branch when it gets to £25k excess, but it doesn't take into consideration the size of the branch and the variation between in-payments and out-payments.

Therefore, I think the model needs to be reviewed, otherwise we will be wasting our time where there is no loss, or the loss is that great, we have no chance of ever recovering it.

4. Review what is done following an audit taking place at the branch

Currently, there is no process for what happens following an audit taking place at a branch. The information is sent for filing, and nobody takes ownership for rectifying the issues in the branch. The only follow up that the audit team do is where the spmr has been suspended following a cash shortage and has been re-instated. The branch is classed as high-risk and is then put back into the model for review.

A full process of how non-conformance identified at audit is then managed needs to be developed. We also need to define what the process is for how we manage branches who have a cash shortage, but make it good and are not suspended. A similar approach to the ONCH visits could be taken, and those

branches who have opted to make good are identified and someone like a member of the Outlet Field Support Team could be asked to go on a spot check the cash, a number of weeks/months after the visit.

5. Manage Losses and Debt more effectively

How we manage debt also needs to be completely reviewed and can be split into 2 areas.

a) Former spmr debt

- In April 2006 we started with a figure of £5.2m to recover from former spmr. By March 2007, this figure increased to £5.3m. In the 12 months between, £2.1 m was recovered, meaning that an extra £2.2m had been sent to late account to recover.
- By Period 6 of this financial year, the outstanding debt to recover increased to £6.7 m. In the past six months, £683k has been recovered, which means that in 6 months alone £2.1 million has been sent to late account, which is nearly the figure for the whole of last year.
- We have no information as to the different categories for this debt - TCs, robbery/burglary, losses on suspension
- The above information shows that we are leaving it too late to tackle the issue and too much recovery of debt is being pushed in this direction. This has the potential to rise massively with the Network Change Programme.

b) Current debt

I don't think that even P&BA have a handle on what this looks like. Nicky did some analysis of the information that is produced in Chesterfield to highlight the branches that have the largest discrepancies per Branch Trading period, whether that be a loss or a gain.

The reports analysed between 26th July and 20th Sept show the following:

- 30 branches with the largest discrepancies within the network opted to "make good" a total loss of £678k. The amounts ranged from £4.5k to £161k. I think that it is unlikely that branches would have made a figure of £161k good by putting the cash in, therefore there is a risk that in the top 30 branches alone, there is a risk of £678k being unaccounted for.
- 39 branches opted to settle losses centrally that equated to £674k. The ranges for these branches was a lot lower than the ones who opted to make good, and ranged from £4k to £57k. This implies that some are not as eager to press settle centrally if they think it is going to come out of remuneration.
- 46 branches had a gain, which implies that they can take the money out to balance the account. In this period, this equated to £1.3m, with a range from £5k to £114k. Again, there is no confirmation to say that the money has been taken out, or any challenge to the branch to get them to settle centrally.
- Only 21 branches who had a gain decided to settle it centrally. This amount totalled only £346k and the ranges were from £6k to £48k.

Therefore if we take John's suggestion of charging an interest rate for DFR, there is the opportunity to deter it coming from remuneration. If we assume that the branches who opt to settle losses centrally end up as DFR, based on an interest rate of 7.5%, this would equate to £47,156 in interest per year. However, there would be the risk that money just wouldn't be made good.

The other issue is that there is no correlation between losses, gains and DFR. There is no tie up or challenge for branches who have a gain in one week, take the money out, have a loss the next BT period, dispute the transaction and then opt to pay by DFR, even though we assume they have had the money.

One suggestion that was made was that we could do something similar to multiples and opt to settle everything centrally. A customer account would be produced every quarter and the spmr would be sent an invoice to settle the account.

6. Manage non-conformance more effectively in the short term

I've touched briefly above on what I think we should be doing as a business to manage non-conformance more effectively in the long term, but we have had a think about what we could do within our team in the short term.

Basically, we need to be concentrating on things that will bring us a return.

a) ONCH

The size of the prize is basically the difference between current performance and target. We would have the capacity to make 100 extra calls per month on top of what we already do, but these would need to generate a cash return to be effective. The calculation has been made that based on the cost to make the phonecall and the interest rate, we would need to ensure that £6k is returned on each call. Therefore the information that we use would have to be completely accurate to make sure that we are contacting the right branches.

The other suggestion that we made with ONCH was charging branches for not returning the expected levels of cash. The branches where we have least control over are the surplus branches, as we cannot control how much cash is received, but we rely on them to return. Therefore, what we could do is charge the branch with the cost of delivery, admin fee and the interest rate of the surplus cash. This would be completely reliant on accurate information and the proviso that we didn't have a cash van failure, but it may focus the mind.

We also need to get the Inventory Teams to take more ownership up front. Because of the IA, we don't have enough historical information to prove where we have had influence, they would get the money back into the cash centres, 6 weeks earlier than we could.

b) FONCH

The size of the prize is very much dependent on the difference between target and actual performance. Like ONCH above, the intervention that is made should cover the costs of resource and the interest rate. The problem with the FONCH branches is that we are less likely to see the return due to the smaller numbers involved. This is not helped by the ratio versus sales that is used. For example, a branch may sell £1000 of currency per week, and has £3000 of holdings. This gives the branch a ratio of 1:3 and this is one of the branches that we would focus on. However, even if we recovered the £1000 surplus, it would not be enough to cover our costs.

Therefore I think our focus needs to change within the team. We should take ownership of the bigger branches as the intervention would be quicker than the BDMs and the size of the prize would be a lot bigger.

As mentioned above, we need to be in a position to put a cost against the processes that we define, to assess whether what we are doing is worth it. If there isn't a financial benefit, we would need to understand if there are different drivers why we do something, ie. brand damage, client dissatisfaction etc. I also agree with John's point that the marketing team don't put non-conformance into their business cases, as they expect the cost to be absorbed somewhere else.

With regards to other information you needed, the audit results following robbery and burglary costs weren't included in the info that John provided. This information has been provided by Chesterfield and currently stands at:

2005/2006 = £1,315,586.94

2006/2007 = £1,784,672.90

2007/2008 = £918,546.67

Common sense dictates that the risk is higher at this time of year, so the potential is that this figure will only increase and exceed last year's out-turn.

I hope this is the type of thing that you are looking for.

thanks

Gayle

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Outlet Support Team Meeting 14th November – Suggested Content

The overall theme coming from the suggestions for the content of this event is to look back and see what has been achieved and then focus on planning for the future.

The suggested areas of content for the event are as follows:-

Session 1 - Network Directorate and the Outlet Support Team – Lynn & Paula Vennells

Paula Vennells:-

- Look back over the performance of the Network Directorate recognising what has been achieved and what we wanted to do but had to prioritise downwards.
- Paula's vision for the Network Directorate over the short and medium term i.e. 12 – 24 months.
- A view of the priorities for the next financial year.
- Progress against the business plan i.e. Forward Four 2 Eleven
- Paula's view of the business and how it compares with the external market/her previous employer – her thoughts of the challenge pre joining and her views after 9/12 months.

Lynn – similar to Paula's session but at Outlet Support level

- Look back over the past year since OD and recognise what has been achieved and what we wanted to do but had to prioritise downwards. Incorporate changes/evolution to roles that have occurred over the last year.
- Vision for the future the Outlet Support team over the short and medium term i.e. 12 – 24 months.
- Priorities for quarter 4 and the next financial year for the Outlet Support team.
- What is expected in future in respect of individual and team performance given the introduction of broadbanding – standards of performance expected.

John Breeden
05/11/2007 21:16

To: Lynn Hobbs/e/POSTOFFICE [GRO] Gayle A
Laverick/e/POSTOFFICE [GRO] Lin
Norbury/e/POSTOFFICE [GRO] Julia
cc:
Subject: Outlet Support Team Mtg - 14 November

All,

Ahead of the conference call on Wednesday please find attached the following:

- details of who will be attending this event

- suggested areas of content for the event. I hope I have not lost any ideas in pulling this consolidated document together.

In respect of the conference call at 11:30 the number and participants code are:

Tel no - [GRO]

Participant code - [GRO]

Regards

John



Outlet Support Team Meeting Attendees 14.11.07.doc Outlet Support Team Meeting 14th November - Suggested Content.doc
John Breeden



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Roles or different directorates

Network Efficiency

The whole subject of network efficiency can be as narrow or as wide as we care to make it.

My view is that if we consider the costs areas in the network we need to review all of these to understand the prize, the cost of delivering the prize and where the tipping point is.

Lean programme ^{Resource implications}

In a nutshell and as I understand it this is about fundamentally changing our approach, our processes and how we deliver across a range of internal activities. One area that has been reviewed is Crown Offices and it's unfortunate that our meeting on 7/11 is in advance of the presentation to be delivered by the Borton Group who are consultants providing support to Neil Ennis about what the prize might look like.

Areas in Crowns likely to be highlighted in the review are:

Counter serving — are we as effective and efficient at this as we might be particularly following changes to product mix. The review may well highlight the inefficient way in which we find any number of ways to process what arguably seem like very similar or the same type of product

Back office admin — what is it costing and are there better ways of doing this

BM support — we're in the process of changing this — is now the right time? Is it a done deal in terms of Bol financial support

There are other areas within the team where Lean could make a difference and I'll be in a position to discuss in more detail after the presentation on 8/11

Branches

The cost of operating some of our branches far exceeds what we earn from them in income. I'm not sure how much of this has been factored into the NC area plans, certainly I know some has but the information to base some of these decisions on has not been as good as it might be. The following gives a flavour of where there could be opportunities.

We currently pay £1.125m per year in property costs to keep open 20 branches

* We have around 50 branches where we have temporary agents running the branches and we are paying a fixed sum over and above the remuneration warranted by the branch to keep it open. The additional cost hasn't been quantified because of the way in which this is recorded in Salford. Work is underway to quantify this

We have a number of branches operating with a temp for a considerable length of time, years in some cases. We might want to consider advertising these branches and if no-one is interested taking a pragmatic decision to close

We are committed to paying transition or top-up payments in branches converted to franchise status from Crowns. There is little we can do about this unless we have an opportunity to franchise with an alternative partner which might reduce the payment

We run three branches in various Government buildings e.g. House of Commons. These are operated by employees and are Crown Offices. There could be scope to run these as agency branches and make a saving not yet quantified

We have 46 Crown branches with lease breaks over the next three to four years, 19 of these are within half a mile of a WHS location and whilst some of the WHS stores may not be able to accommodate the Crown branch there could be scope for further franchising dependent on the ET's view of commitments given

Losses and Debt management

We need to understand in financial terms the level of branch discrepancies resulting in real cash losses to PO Ltd to determine what more we could do to reduce this figure and whether the cost of not doing something else is greater in the long term.

A very brief analysis of the audit findings revealed the following:

2006/07

- * 1396 branches were audited in 2006/07
- * Shortages were discovered in 937 branches
- * The total amount of discrepancies found in branches following these audits was (£3.788m). This figure includes a number of accounting discrepancies including Transaction Corrections waiting to be issued by P&BA; unfortunately this is not quantifiable from the information provided.
- * 895 branches were visited as a result of being identified by the Risk Model as requiring an audit. Shortages were found in 593 of these branches resulting in an overall discrepancy of (£1.285m)
- * 295 branches were visited following requests from various people (Outlet Support team, BDMs, P&BA, and Investigation) for 'special audits'. Shortages were found in 237 branches resulting in an overall discrepancy of (£2.411m).
- * Shortages in 82 branches were due to 'dishonest acts' and the resultant discrepancy was £945k
- * Shortages of over £50k were discovered in 19 branches. The discrepancies in these branches amounted to (£1.629m) in total
- * (£1.782m) was posted to late accounts which in the main means we have to chase this debt with ex subpostmasters

2007/08 (information up to P6 - end Sept)

- * 544 branches have been audited up to the end of period 6
- * Shortages were discovered in 406 branches
- * The total amount of discrepancies found in branches following these audits was (£3.865m) although a shortage of (£1.46m) in one branch has now been resolved. Even so the trend is upward. This figure includes a number of accounting discrepancies including Transaction Corrections waiting to be issued by P&BA; unfortunately this is not quantifiable from the information provided.
- * 325 branches were visited as a result of being identified by the Risk Model as requiring an audit. Shortages were found in 233 of these branches resulting in an overall discrepancy of (£2.322m)
- * 188 branches were visited following requests from various people (Outlet Support team, BDMs, P&BA, and Investigation) for 'special audits'. Shortages were found in 153 branches resulting in an overall discrepancy of (£1.532m).
- * Shortages in 36 branches were due to 'dishonest acts' and the resultant discrepancy stands at £359k
- * Shortages of over £50k were discovered in 12 branches. The discrepancies in these branches amounted to (£2.602m) although the largest figure of (£1.46m) in one branch has now been resolved. The question is how can one community branch accumulate discrepancies of £1.46m without the risk model picking this up?
- * (£1.027m) has been posted to late accounts which in the main means we have to chase this debt with ex subpostmasters

Ultimately some of the above will not result in loss to the business but there is obviously a cost to the business of managing all of the errors creating these discrepancies. Branch trading losses are not included in the above which is another source of significant potential loss

I would hope to have further analysis and proposals around debt management and losses for our meeting

Crown Office losses

These continue at a very high rate and in most cases result in a loss to the bottom line. Again I would hope to have further analysis for our meeting

When was the last time a crown was audited?
Accountability for losses.

Recommendations

Quantify the potential 'size of the prize'

Quantify the resource to deliver and impact on other activity

LEAN

$$FONCH \text{ CALLS} = 0.000017 = \text{daily rate}$$

$$58 \text{ calls} = 2.42 \times 58 = \text{£}140.36 \text{ cost.}$$

$$6\% \text{ of } 115,000 = \text{£}6,900 \text{ borrowing charge}$$

Understand the impact of LEAN in terms of how it affects the Network Directorate and agree an approach to delivering cost efficiencies – suggest further meeting required after 8/11/07

Branches

Consider radical approaches to branches costing money to run based on the following:

- Is the branch essential to meet the access criteria?
- How much income does it currently make for PO Ltd?
- What are the actual costs to PO Ltd?
- What potential for growth has been identified by the sales Potential model and what would be the impact financially if a branch achieved these levels
- What level of costs would PO Ltd be prepared to support ongoing to maintain the branch

Losses and debt recovery

Understand the actual cost to the network – what ends up on the bottom line?

Quantify the cost of non conformance – is this feasible?

Determine actions to improve conformance, what would these cost and how would we deliver these?

Agree approaches with other PO Ltd teams – cash management, P&BA, audit and compliance

Crown Office losses

Assess impact of new policy recently communicated

Consider further actions to reduce losses – e.g. possible impact on Goldmine pot?

Other issues to consider

CWU and NFSP

+ Role of Core + Outreach database?

- cost of compliance - HomePhone mis-sells?

* True cost of branch is masked by our accounting procedures + the "visibility" of the cost

- sits on different scorecards + there is no way of reconciling the information.

- Archiving branches - how many have we got?

- Risk of compliance - example resource churning.

* What do other franchise models look like in terms of support + off-charging?

- What are the business models?

ONCH/FONCH - Length of call
Cost of resource
Interest to business

side-monitored - taken from borrowing

• 6% cost → borrowing rate
7%

* Outlet Support often rely on other teams to deliver change
- usually end up picking up pieces when no ownership taken.

* Technology solutions - What could we implement that could reduce resource?

* Do we want to go down route of not accepting cheques? What would this save us as a business?

* Issue of how we put product business cases together.

- should we be building into plan a buffer for non-conformance?

• risk to assets
• risk to brand

Size of risk

= Audit Loss
ONCH
FONCH

Cost of ONCH phone call

= £18,578.04 for 52 weeks

~~1776 hours~~ 1924 hours
9.65 per hour

= ~~£3.22~~ per 15 minute call
242 for PO.

+ cost of call
100 x cost of call. - 50 for each
6 £40.33.
phone call made, £53.66 must be returned.

A realistic review and an indication of the challenges that lie ahead at two levels i.e. Directorate and Team – this would be the session pre lunch. All managers given the opportunity to ask questions of both Paula and Lynn.

Session 2 – Team Introductions

As this is the first time all managers from Outlet Support have been together a short presentation from each team leader to summarise the main roles and responsibilities/key activities of each team.

Wouldn't this be better to have at the start?

Session 3 – Cross Functional Working

Linking in to the activities mentioned in session 1 for what we have to do in the forthcoming financial year we could look at:-

Efficiencies - establish a number of syndicates to look at different attributes of the efficiency work the Network Directorate have initiated as follows:

- ONCH
- FONCH
- Debt management process (debt recovery) split across concurrences, aged debt, former agents debt, debt associated to conduct and culpability work, property debt, cash declarations, transaction corrections, crown network debt
- Audit risk model
- Branch profitability

This session is all about idea generation of what could be done differently to improve the current situation on the above and each team would need to be provided with a brief of what is expected and then would present back to the group. Probably 45/60 minutes for idea generation and then 10 minutes to present back.

And/or

Managers using input from session 1 work in focus groups to look at what Outlet Support specifically need to focus on over the next year and then longer term up to 2011 – what do we continue to do? What new activities do we want to do? What do we stop doing? In addition have a group looking 'outside' the box maybe, looking at radical ways of working and how we might approach Outlet Support tasks/activities differently in the future – there might be some blue sky suggestions but at least it will give an opportunity to tap into people's innovation/creativity?

Session 4 – Team Priorities

Taking into account what has been said in the day, from the work currently being undertaken by teams, each team prepares a draft high level plan i.e. key items to be included in the plan and identify areas which can be objectives for different roles in the team – allow 60 minutes. Lin and my team would have to work together on this. (This work is then taken as input to a planning day for the Outlet Support Lead

Team in either Dec or Jan so we can align with more information coming from the Network lead team and the POL business plan?)

Session 5 - Review and Close

Summary of outputs of the day and next steps.

Gain input of how useful attendees have found the day and if there was to be a similar event what changes individuals would like to see being made to the structure of the day and what suggested areas of content they could see and event of this nature being used for.

Outlet Support Team Meeting Attendees – 14th November**Julia's team**

Stuart Pilgrim
Roy Grindrod
Gary Adderley
Wendy Mahoney
Mike Jackson
Patrick Moss
Frances Burton
Stan Ashcroft
Peter Jackson
Julia Mann 10

Gayle's team

Vicky Harrison
Nicky Barraclough
Anne Allaker
Shaun Turner
Pat Bursi
David Sears 6

Lin's team

Sue Muddeman
Alan Lusher
Carol Ballan
Elaine Ridge
Nigel Allen
Steve Utting
Denise Reid 7

Peter's team

Wayne Cowan 1

John's team

Brian Trotter
Lesley Joyce
Michael Haworth
Karen Arnold
Glenn Chester
Paul Williams
David Southall
Davlyn Cumberland 8

John Breeden
02/11/2007 16:42

To: Lynn Hobbs/e/POSTOFFICE
cc: Gayle A Laverick/e/POSTOFFICE
Subject: Debt Management

GRO
GRO

Lynn,

Following our telephone conversation on Monday and the document you circulated on efficiencies to Gayle and myself here are some ideas for debt management that might improve the situation. They are only ideas and would need to be worked up to see viable or politically acceptable.

Settle Centrally Button - this facility appears to be being abused by parts of the network ie this function is used so the branch can balance on the given night but no real consideration is given to how the debt will be settled, how it has arisen and then the concurrence process has to kick in to follow up payment of this debt which is labour intensive. Somehow greater control has to be implemented on how this button is used (in discussions with Martin Ferlinc and others they are totally against the suggestion of removing the facility as this apparently is the only way of knowing what is outstanding with the removal of the suspense account). Perhaps some kind of reminder needs to be issued under the circumstances which SPMRs use this facility and in using the facility what they are agreeing to link to the contractual clauses on losses. Occasionally this function may be used where a loss is in dispute but this needs to be registered and authorised as an allowable for using settle centrally.

Repayment of debt - where a SPMR looks to repay by deductions from remuneration (DFR), first we appear to allow this method of repayment irrespective of the individuals ability to repay being assessed (the old hardship process where accounts were assessed etc does not happen now) so we would need strict criteria over who qualifies for this method of repayment, the max term and how many can be running concurrently/if you can top up with further losses. Additionally for a SPMR this is a great way of repaying as it helps their cash flow at the detriment of POLs and is an interest free loan and if I am not mistaken losses are an allowable expense in SPMRs business accounts. Therefore I would have thought that it is not unreasonable to charge an admin fee for such an arrangement to reflect the costs of setting up DFRs and any work undertaken to get to this stage and also that they should be charged interest on the balance outstanding similar to that charged on any commercial loan/overdraft. (The present arrangement of an interest free loan which is what a deduction from remuneration is would probably be viewed as a benefit in kind should the Tax Authorities look at it).

Repayment of debt by debit/credit card - do we look to offer a 'discount' off the debt if this method of payment is used due to the lower costs of processing this type of transaction via the banking system ie they are cheaper than cheques for processing and if payment is rejected this is identified more quickly.

Debt free branches/compliant settlers of debt - do we offer a bonus to branches who settle debts as they arise ie branch discrepancies and clear all transaction corrections as they arrive or where they use the settle centrally button clear immediately. This scheme could be set up in bands ie amounts cleared in a year not exceeding in total £1k receive a bonus of x % of their remuneration, not exceeding £5k a bonus of a lower percentage of their remuneration.

Savings Pot - allow SPMRs to save part of their remuneration into a pot which can be used when a debt arises - this money in the pot could have interest applied to it similar to an Instant Saver.

SPMR Applications - stronger vetting of existing SPMRs who apply for another branch in respect of past performance in settling debt and errors in general ie transaction corrections etc

Waiver Scheme - offer a scheme similar to the insurance waiver on franchise branches in respect of debt which would be an up front payment which would allow debts to be cleared by POL where a SPMR has been compliant but an error has subsequently arisen they were not likely to be aware of at the time of the transaction.

Consistency of application of debt management procedures across POL - there are different approaches adopted to debt management by differing teams in POL which needs to be eradicated and likewise when a debt can be written off needs consistent application.

Transaction corrections - the production of transaction corrections is very slow and I realise this is

sometimes due to the client but on other occasions it is probably down to POL. Do we put a deadline on the production of transaction corrections whereby if POL cannot produce within an acceptable time which would have to be carefully defined this debt is not pursued. (Whilst I realise it is difficult to draw comparisons between POL and other operators due to the vast number of transactions undertaken but if you take a bank or a building society it is highly unlikely they would wait 6 months before notifying an individual of an error in a mortgage/loan payment)

Transaction corrections - there is a need to ensure adequate quality evidence is provided for these errors which basically is difficult to contest. Redefine how transactions corrections can be contested ie does the SPMR have to prove the did not make the error for a TC to be cancelled?

Former SPMR debt - this is probably where the bigger sums of money are, particular in relation to SPMRs who have been terminated following a loss - there is a certain amount the individual leading on the conduct case can do to ensure steps are put in place for recovering debt which if this is focused on as has been proved this financial year to a limited degree can reap rewards eg undertakings with SPMR solicitors where the business is being sold so from the proceeds our debt can be repaid. Whether we need to go further that this in respect of applying to have a charge registered over a property to secure repayment of debt would I think need to be taken on a case by case basis and recognise (i) the cost involved and (ii) a POL/RM charge will always be second to the bank who has the mortgage on the property. The greatest are of difficulty in recovery of debt is where there is no surplus cash or the SPMR is declared bankrupt.

Resigning SPMRs - transaction corrections come through following transfer and the outgoing is then pursued to clear the outstanding amount - could the last months remuneration not be retained for a period to allow for these transaction corrections to come through - we would have to have a cut off point at which time we could still apply transaction corrections against withheld remuneration before this remuneration is released to the outgoing SPMR.

Bond - take a bond from SPMRs up front which can be applied to settle debt - this could not apply retrospectively I dont believe and again could attract interest whilst the bond is in place.

MI - we need better MI as at present we dont appear to have a good reporting system in respect of debt or if we have I have not seen it eg something like the suspense reports which showed rolling losses etc. My understanding is POLFS has capability to produce an array of reports but I am not sure we have these in place and if they are timely.

Recognition for staff involved in debt recovery if debt recovery targets were achieved/exceed.

A greater focus by POL on both sides of the accounts ie not just focused on income but also losses.

Greater ownership of cash and stock by all SPMRs so to try to cut down on careless errors/better accounting for the stock and cash issue to them (I know Geoff May has advocated on several occasions SPMRs should actually own the cash and stock as with any other franchise type arrangement).

The losses and gains policy needs to be reviewed completely to reflect current and revised approaches to the issue of debt.

We need to focus our effort in two ways (i) quick wins on recovery and (ii) preventing debt situation deteriorating further.

Who would we need to involve to work on debt management:

- P&BA
- Finance particularly the MI team
- Network Directorate (Outlet Support, Anna Malley's/Julie Thomas's team, Richard Barker and Adele Henderson's team, NFSP liaison team)
- Possibly Legal Services, HRSC
- Cash Management potentially
- Change team to manage introduction of any changes
- NBSC for changes to scripts of operators where appropriate

- NFSP at some stage

I am not sure if there could be system work involved with may need IT involvement.

In addition at some stage the product proposals prepared by Marketing should include something on potential errors that can occur with transactions and how this is built into the overall product proposition.

Not sure if this fits the bill of radical but hopefully it will provide a start point.

Regards

John

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