



Chairman Briefing Session

Sparrow

2 June 2014

DRAFT NOT POLICY



Agenda

1. Introduction and context
 2. Options and recommendation
 3. Communications plan, narrative and stakeholder handling
 4. Conclusion
- Annexes



Annexes

- A. Progress of the Scheme
- B. Case MO22
- C. Options to amend existing ToR
- D. Financial modelling
- E. Horizon definitions
- F. Terms of Reference
- G. Tony Hooper
- H. Working Group Relationship (JFSA)
- I. Second Sight
- J. Timeline
- K. Draft PO / Linklaters 'Horizon report' (work in progress)
- L. Alternative narratives



1. Introduction and context

Today is an informal opportunity to discuss:

- Position with the Scheme
 - ahead of sub-committee meeting
 - following Board and sub-committee requests for information
- Assessment of opportunities, benefits, handling and risks of core options
- Assessment on likely outcomes if we are to maintain status quo position
- Case progression
 - PO has completed 24 investigations
 - Second Sight has provided its report on three of those investigations
 - One recommended for mediation



1. Introduction and context

We are in a challenging position with the Scheme – our session is aimed at assessing all options openly and frankly.

Whatever decisions are made by the sub-committee, we believe that we can develop and deliver communications and stakeholder approaches which will manage and respond to adverse publicity and reaction. However, we do recommend a specific option.

We have developed communications approaches for all the options set out here.

We have engaged a senior PR professional to work solely on Sparrow over the next three months and are in discussions with Brunswick PR.



1. Introduction and context

Post Office Board/Chair has asked for:

- Consideration be given to changes that could be made within the existing ToR
- Whether the caseload could be “triaged” to allow the caseload to be minimised
- Steps to be taken to settle case M022

Sub Committee has asked for the following to be developed:

- An implementation plan following their agreement in principle to PO “taking control” of the Scheme
- Linklaters letter, drawing on the further Deloitte assurance work, for potential use in the context of this plan

James Arbuthnot MP has written to the Post Office Chief Executive to:

- Express concerns over how long the Scheme and investigations are taking
- Request a draft letter for MPs and a meeting in July to update MPs on Scheme progress

Post Office Minister Jo Swinson MP returns to role in late June:

- with BIS pre-brief on June 9



1. Introduction and context

What does success look like?

- We bring a close to the discussion on the Horizon IT system as there is no evidence there are systemic issues with it (independent assurance provided)
- 150 applicants feel that their concerns have been addressed
- MPs and the media are interested in our strategy and modernisation as opposed to our IT systems
- In run up to the election the Horizon issue does not cause the minister any problems
- We can proactive to changes in our IT systems and ensure they are received positively
- Limited internal resource (from chairman to administration)/money spent on Horizon and more on profit-making activity
- Second Sight no longer producing poor quality work that POL cannot rebut publicly
- Existing subpostmasters and customers continue to have confidence in our systems and processes, particularly in relation to digital and financial services development



Principle concerns

- Mounting cost and use of management time
- Potential for Scheme to continue until the end of 2015 (if Second Sight submit three cases a week)
- JFSA and Second Sight are increasingly taking a harder line – in the case of JFSA escalating to Ministers and threatening to go to media
- Governance of Scheme as constituted does not allow Post Office any ability to amend approach in best interests of the Business and applicants
- Second Sight's reports are of poor quality and inflammatory and will become public (with no opportunity for Post Office to rebut)
- Prospect of sustained media and stakeholder activity (possibly to tie into election sensitivities)
- Controversial cases and high profile decisions on a monthly basis, plus one off adverse media/stakeholder reaction when process completed
- Due to Conditional Fee Agreements there is an increasing likelihood of sub-postmasters entering detrimental financial arrangements
- Potential impact the continuation of the Scheme could have on confidence in the business
- This is all in the context of:
 - Post Office having very limited legal liability, based on the Linklaters report
 - Further evidence of there being no systemic issue with the Horizon computer system through the Deloitte report and the results of 26 Post Office investigations



2. Options and recommendation

An assessment of options has been undertaken by the Programme, Legal and Communications and Corporate Affairs teams:

- i. Continue with the Scheme as it is
 - i.e. current arrangements
- ii. Continue with the Scheme but seek to refine its work within the existing Terms of Reference
 - including 'triaging' cases post-investigation
- iii. Completing the Post Office investigation in each case and moving the governance and management of the Scheme in-house
 - including 'triaging' cases post-investigation and disbanding Working Group and ending Second Sight's engagement



2. Options and recommendation

i. **Continue with the Scheme as it is, i.e. current arrangements**

Benefits:

- Delivers on Ministerial and Post Office commitments
- Potential for short term stability (in external context)
- Delayed adverse PR impact (potentially)

Risks:

- Number of dissatisfied applicants increases
- Scheme costs continue to rise as it continues for further 18 months
- Diverting management time from core business
- Scheme damages credibility of the Post Office
- Continued pressures for MP meetings



2. Options and recommendation

ii. **Continue with the Scheme, but seek to refine the way it works within existing TOR**

Press for a number of reforms to its operation:

- Criminal cases: Make clear we will investigate last and are unlikely to mediate
- Bankruptcy: only engage if the Official Receiver has agreed to assign the rights
- Old cases: do not investigate where data is not available
- Case Questionnaire Response submission: A hard deadline is set and enforced
- Linklaters and Deloitte assurance work: dissemination based on a duty to applicants
- Regular quality and delivery review meetings with Second Sight



2. Options and recommendation

ii. **Continue with the Scheme, but seek to refine the way it works within existing TOR**

Benefits:

- Scheme administration improved

Risks:

- Likely to be resisted by Working Group, including Tony Hooper, as infringing independence
- If issues forced to disagreement Post Office will either need to back down or risk causing the Working Group to break up
- Adverse publicity and stakeholder reaction



2. Options and recommendation

iii. **Completing the Post Office investigation in each case and moving the governance and management of the Mediation Scheme in-house**

Publish a report in July on Horizon and the Mediation Scheme, including the Linklaters letter and the Deloitte report. We disband the working group and end Second Sight involvement. Pledge to investigate all the cases.

Benefits:

- Reduced administration costs saving millions of pounds
- Earlier Scheme completion (by end 2014)
- Ability to manage the Scheme processes and implement them effectively
- Manages the expectation gap through making clear to applicants the likely maximum legal liability leading to more realistic mediations
- Post Office controls the timing of any announcement and consequent publicity
- Will release management time
- Completes all investigations and Scheme closed within current Parliament and before general election



2. Options and recommendation

iii. **Completing the Post Office investigation in each case and moving the Mediation Scheme in-house**

Risks:

- Highly likely to lead to criticism of Post Office in national media
- May cause applicants to abandon the Scheme in favour of litigation
- Removes independent element from process
- Increased risk (in the short term) of parliamentary scrutiny
- Adverse ministerial and stakeholder reaction
- Irreparable damage to relations with JFSA

These are all risks which are likely to materialise in any event and under any option. This option, we believe, gives us the opportunity to manage these risks more effectively.



2. Options and recommendation

It is the view of the Programme, Legal and Communications and Corporate Affairs teams that Option iii, where we move the Scheme in-house is the option most likely to meet the needs of the Business.

We take this view in the light of the following:

The inquiry into the allegations raised by the JFSA and MPs was set up in summer 2012.

There has been no evidence in the two year period since of any systemic issue with the Horizon computer system, the central contention of the allegations.

Alongside increasing costs (with £3.2m already spent on the programme), we now have a body of evidence and other factors which suggest that we should amend the approach taken – while ensuring that all applicants have their cases heard.

We could expend time, energy and cost pursuing a process which results in the applicants and stakeholders being more dissatisfied at the end than they were at the beginning.



3. Comms plan, narrative & stakeholder handling

Proposal

We publish a report in July on Horizon and the Mediation Scheme, including the Linklaters letter and the Deloitte report. We disband the working group and end Second Sight involvement. Pledge to investigate all the cases.

Narrative and media line to take

As a responsible business the Post Office is committed to listening and learning from its people. As such in 2012, following allegations raised with us by some subpostmasters, we set up an inquiry into the Horizon computer system. We appointed an independent firm, Second Sight, to lead this inquiry.

In the two years since the inquiry began there has been no evidence of deficiencies with the Horizon system. Indeed, Second Sight found no systemic issues in its report in 2013. It has since been investigating cases and this work supports this finding.

We have also commissioned Deloitte to examine the Horizon system further and received assurance around the integrity of the system, which has around 68,000 users and deals with more than six million transactions every day.



3. Comms plan, narrative & stakeholder handling

As part of our commitment to investigate cases raised with us by a small number of subpostmasters we set up a Mediation Scheme in order to offer an opportunity for them to have their cases heard. At the same time we launched a Branch Support Programme to find ways of improving the support we offer the subpostmaster community.

Having fully investigated 26 of the 70 cases submitted, it has now become clear that few of the cases submitted to us raise genuine issues with the Horizon computer system. The mediation scheme will not therefore work in the interests of those who have submitted cases.

We have therefore decided to move to a new approach.

We will investigate all cases and provide applicants with a report of their investigation to help them understand what happened in their case.

When all investigations are completed we will consider what action is appropriate in individual cases and what improvements can be made in the light of any findings.

This is consistent with the approach we have taken with the Second Sight Interim Report through our Branch Support Programme.

We will publish a report when all investigations have been completed.



3. Comms plan, narrative & stakeholder handling

Stakeholder key messages / handling

Stakeholder	Key Message/handling
Minister	Value for money considerations and potential play into general election timing. The longer the scheme runs, and the more dissatisfied applicants emerge, the greater the risk of calls for a public inquiry and BIS select committee involvement. MPs with cases could find themselves facing criticism where cases are not resolved in a way which satisfies applicant. Right thing for the business at time of massive change. LL and Deloitte independent assurance/possible further independent role Role for NFSP? Duty of care to existing subpostmasters (and applicants – expectation gap) If we continue the next 9 months will be littered with local negative stories Protection against SS quality of work. Independence remains in mediation process through respected mediators CEDR All applicants will receive the full investigation report. Legal options remain open to dissatisfied applicants.



In relation to Ministerial handling, other factors to consider are:

- Discuss possible role with NFSP
- Post Office takes lead in media handling
- Plan communications opportunities for the minister
- Timing of announcement
- Network Transformation factors in key MP areas
- Consider independent oversight by a third party

These factors could mitigate difficult communications factors and ease handling.



3. Comms plan, narrative & stakeholder handling

Stakeholder	Key Message/handling
Media	Now to summer: Allegation of white wash by POL resulting in 1-2 days media coverage (poss BBC, Computer Weekly as well as nationals such as Mirror, Mail as well as regional print and broadcast) This will be drive by and include quotes from JFSA, MPs and Applicants Over the summer: Potential for media coverage driven by any Fol placed by JFSA on cost of the scheme. Summer – Christmas: Possible regional and national stories by those who continue to follow the story e.g BBC and Computer Weekly and regionals Run up to election: Potential remains for follow up around any announcement on IT&C contract. Though hopefully story becoming of less interest in this scenario as no live cases.
Sir Anthony Hooper	Our decision to make; we need to put applicants and business first We have listened, given time and we need to act now. We understand your view and of course this is no criticism of you. How do we handle this in a way that helps you? At end of day it's a decision we need to take
Second Sight	Remind of obligations around confidentiality Legal letter.



3. Comms plan, narrative & stakeholder handling

Stakeholder	Key Message/handling
James Arbuthnot	Face to face meeting (AP and PV) – use letter as basis Play back concerns in last letter – you’ve been chasing about progress, I share your concerns and now I am taking action We are concerned about applicants which is why we are making the changes Committed to investigations. This and Branch Support Programme important legacy of your involvement (offer him involvement in media release on initiatives delivered as result of programme). We will publish a report as soon as investigations completed (and this will be before you stand down as an MP) If we don’t take this action, the work will not be completed before the general election. Opportunity to share more information about Scheme progress with him and other MPs. Update meetings with MPs which he could chair.
Other MPs engaged	Write to MPs with a constituent in the case and offer meetings. All cases still live so we must be mindful of that and keep information confidential We are committed to investigating all cases.
JFSA	Current arrangements haven’t worked. We are committed to investigating every case, including yours, with mediation where appropriate.



3. Comms plan, narrative & stakeholder handling

Stakeholder key messages / handling

Stakeholder	Key Message/handling
Applicants	Letter to all PA and Applicants at the same time Timescale of when to get CQRs in (4 weeks) Case by case basis Change in process to ensure timely investigation of their case LL advice
Other Stakeholders (consumer futures, NFSP)	NFSP – re-engage and reclaim support Consumer Futures – assurances that no adverse impact for customers.
Professional Advisors	Letter to all PA and Applicants at the same time Timescale of when to get CQRs in (4 weeks) We are committed to investigating all cases Case by case basis LL advice. Will be paid for work as committed.



4. Media handling

Holding line for media

We have decided to make changes to the approach to this issue in the best interests of applicants and the Post Office business.

We are committed to investigating all cases. It would be inappropriate to comment on individual cases. We have confidence in the Horizon computer system and this has been further consolidated through independent verification which has repeatedly shown no systemic issues within it.

We have published a report setting out the position we have reached and will publish a final report at the end of the Scheme.

This approach would attract some media coverage from outlets which have previously covered the issue (last July it was covered in a 12 hour cycle by the BBC, with the most high profile being the Today Programme and BBC News at 10. This would be a one day news cycle.



5. Conclusions

- Hope this has been a useful session
- Recognise some of the difficulties and challenges it raises
- We believe that the recommended approach is in the best interests of the business and the applicants and is deliverable in such a way that can be managed in relation to media and stakeholders
- Subject to your views our next step will be to prepare papers making this recommendation for the sub-committee



Annexes

- A. Progress of the Scheme
- B. Case MO22
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- K. Alternative narratives



Annex A: Progress of the scheme

DN embed pdf of latest tracker on Monday





Annex B: Case MO22

- First case to progress through the Scheme.
- Second Sight have produced a draft report which Post Office (as a member of the Working Group) have commented on.
- Post Office will send a detailed response rebutting the inaccuracies in the report this week.
- The applicant and their advisor have reviewed the report and are also due to comment on the report this week.
- The Working Group has already approved the report for mediation (this occurred prior to the recent Board discussion)
- Post Office is actively trying to settle the case.
- According to the agreed processes if no settlement is reached the case should reach mediation by mid July.





Annex C: Terms of Reference

Ministerial Commitments

- Working Party will consider all 47 cases brought forward by JFSA and MPs
- Independent figure will chair a review
- Independence of process
- Second Sight and JFSA Working Party
- Further work on cases must be independent
- Working Party must be independent
- Scheme open from 27th August – 18th November 2013
- Working Group is independent of Government and responsible for meeting interim report recommendations





Annex C: Terms of Reference

Detail of the scheme as published

- There will be a Working Group
- Second Sight and JFSA will be members
- There will be an independent Chair
- Second Sight will recommend whether a case should be mediated
- Second Sight will investigate and provide a case review
- Applicants will receive a copy of the case review
- Mediation process will be independently administered
- Post Office will pay for a professional advisor to articulate the applicants's case and attend mediation.
- Scheme will take in Criminal cases
- Scheme will take in old cases



Annex C: Terms of Reference

Working Group ToR (not published)

- WG will oversee Scheme
- Membership may change by agreement of WG but currently comprises PO, JFSA, SS and independent Chair
- SS will be investigator and advisor
- Scheme objectives to achieve mutual and final resolution of applicants concerns about Horizon and associated issues.
- Investigate proportionately and efficiently an applicant's claims
- Scheme must ensure value for money
- WG may modify operations and practices
- WG should ensure cases are completed in a timely manner
- Ensure all cases treated consistently
- Proceedings will be confidential
- SS are non voting, JFSA and POL are voting members, Chair has casting vote
- Only confidentiality is legally binding



Annex C: Terms of Reference

Journey to the WG and Scheme

- Ministerial commitments following SS Report set out broad way ahead.
- PO/JFSA/SS designed the Scheme and published details
- WG established and agreed its ToRs (not published)
- What changes could be made within existing ToRs?
- Ministerial commitments relatively broad - some scope for change
- Published Scheme but can be varied BY WG
- Under TORs for WG PO would need agreement of WG to change - experience to date shows reluctance to do so

Therefore:

- if PO asks for change what happens if WG refuses?
- where does that leave us?
- would we be prepared to force the issue and break the WG?

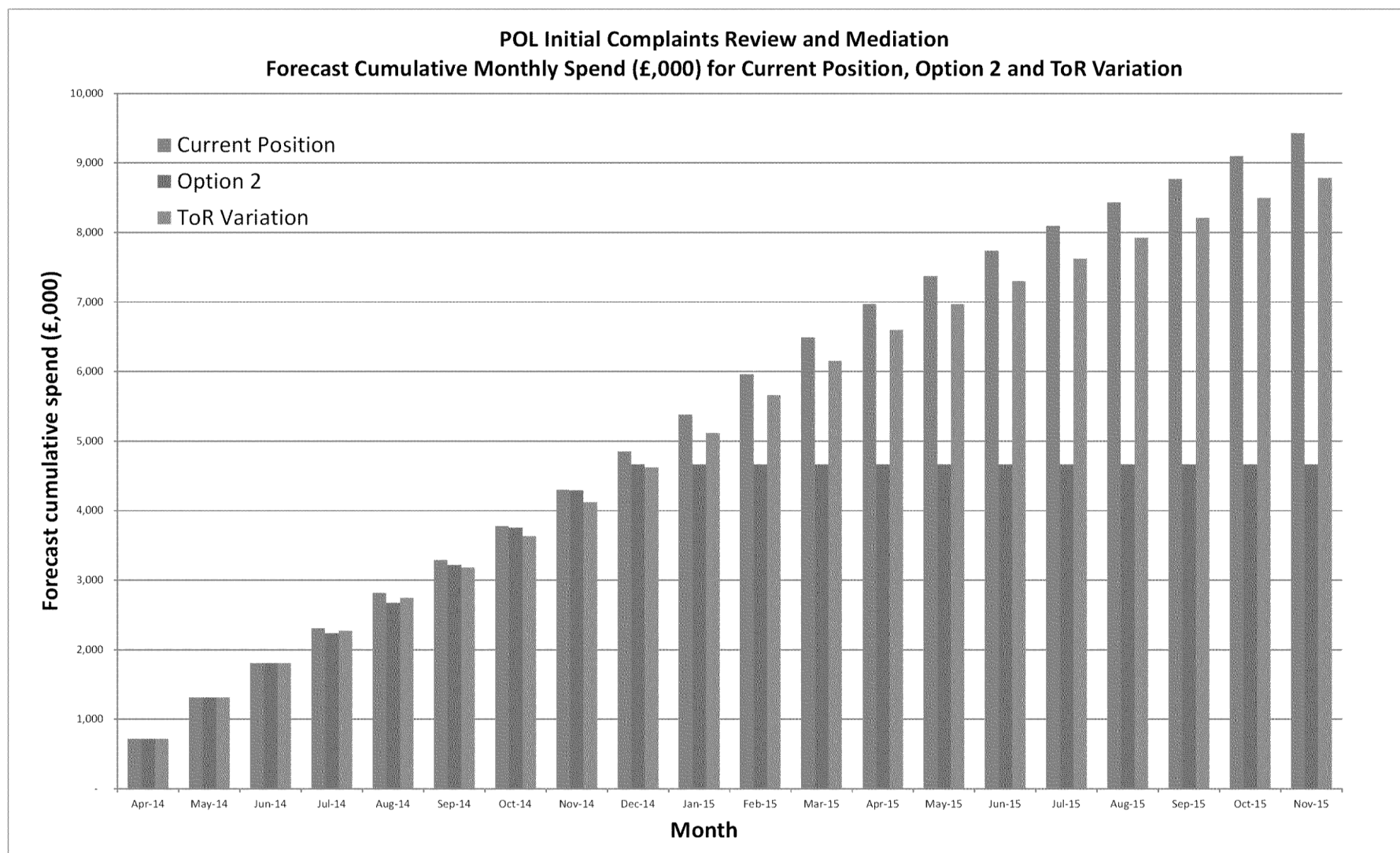


Annex C: Options to amend existing ToR

	Ministerial Commitments	Detail of the scheme as published	Working Group ToR	Cost	Time	Management overhead
<i>Tighten the focus of Second Sight role (e.g. lose job 1, lose pre-CQR stage, switch to piece rate)</i>	Yes	Yes	Yes	Save £40K / month? Pay £1,500 per case.	Saving 2 weeks / case (pre-Investigation) Investigation of all cases = 1 year +	Increase
Limit Second Sight role to advisor to WG and POL to investigate cases	Yes	No	No	Save £50K / month?	Saving 10 weeks / case (pre- and SS- investigation) Investigation of all cases = 5 months	Short term increase followed by long term decrease
<i>Replace Second Sight investigation role with external</i>	Yes	No	No	Additional £23K / month	Saving [X] weeks / case (pre- Investigation) Investigation of all cases = 30 weeks	Short term increase followed by long term decrease
Investigate every case before deciding approach to resolution (FOS?)	Yes	Yes	Yes	Minimal	Nil?	Decrease followed by spot increase at decision announcement
Allow POL veto over Working Group decisions	Yes	Yes	No	Minimal	Avoid future WG decisions that negatively impact timeframes	Decrease
Publish Deloitte / Linklaters piece	Yes	Yes	Yes	Small due to possible withdrawal of cases	Small due to possible withdrawal of cases	Short term increase followed by long term decrease



Annex D: Financial modelling





Annex E: Horizon definitions

At the Board's request we examined the impact of the Horizon definition on the cases where we have received detailed case questionnaire responses (70 cases). We used the definitions below:

- **Core Horizon** – ghost transactions; power/telecoms issues; recovery process; lost data; Horizon terminal/hardware failures; remote access to Horizon
- **Branch operating issues** – cash and stock remittances; synchronisation with client systems; other hardware failures (eg. pinpad/lottery/etc); branch accounting practices; ATMs; paystation;
- **Support** - training; NBSC / HSD support; lack of investigation team; lack of audit trail; allocation of risk; access to Horizon data; proof of errors
- **Other** – NT payments / branch relocations / issues with previous SPMRs / anything else

Results:

- 30 of the 70 have raised core horizon issues
- 59 of the 70 have referenced branch operating issues (38 of these cases do not mention core horizon issues).
- 67 of the 70 have raised support issues (only 2 cases relate to support issues only).
- 20 cases are criminal.
- 38 refer to incidents that occurred prior to 2007

We also examined the history of the wider Horizon definition and found it has been in use since 2012. Given this we do not recommend using this approach to reduce the caseload facing the Scheme.



Annex F: Tony Hooper

The programme team have considered Tony Hooper's likely positioning in relation to the Scheme and any possible modifications. In summary the team believe:

- That Tony will not remain as Chair of a radically modified Scheme if Post Office take Control.
- That Tony will not assist Post Office if it looks to disband the Working Group and end Second Sight's engagement
- That he is unlikely to take a public stance against Post Office .
- That he believes that Post Office should accept that the Scheme will take around 18 months and that is normal for a Scheme of this type.
- That as Chair he will maintain the Status Quo rather than managing conflict necessary to redesign the Scheme.



Annex G: JFSA

Despite having collaborated with them since summer 2012 and given them prominent role they stance against post office continues to harden

- AB has said that he is still looking for a public enquiry
- He has said he has not confidence that post office are going to act in good faith at mediation
- He has said he is expecting to see evidence of post offices willingness to pay large sums of money
- He said he is continuing to gather and use FOI and other channels to gain evidence against post office

Summary

After 2 years of post office working closely with JFSA we have not been to establish credibility with him. This position is likely to deteriorate over the course of the scheme regardless of the option post office chooses



Annex H: Second Sight

The Post Office has a number of concerns with the state of the relationship with Second Sight:

- They are a small firm who have struggled with the scale of the work they have taken on
- They are expensive (£60K pcm)
- Their work is both partisan and of poor quality
- We have written evidence of them coaching applicants and advisors to minimise any admission of guilt.
- They have resisted all attempts to manage them and to restrict the Scope of their work.
- Over the 18 months they have been reviewing Horizon they have not found anything new



Annex I: Timeline

DATE	EVENT
October 2008	Gartner report on Horizon Online (HNG-X) design
2009	JFSA established
11/05/2009	Computer Weekly article on deficits with Horizon system published
2010	Horizon upgrade
31/03/2010	AB sends a letter to Edward Davey MP, Minister for Postal Affairs (ED)
14/10/2010	Feedback AB and ED meeting. • States that: Horizon is the root cause of ALL issues for JFSA members. • JFSA has no other agenda than to redress the wrongs that have inflicted upon them
February 2011	Horizon integrity subject of 2 features on BBC's "Inside Out" programme
20/08/2011	• 4 Notification of lawsuits (Letters of Claim) being filed by SPMRs against POL on Horizon system with the Courts. • Letters of Claim cover above plus legality of SPMR contract (old one) • Implies no future in working with ED's department.
15/12/2011	JA writes to Moya Greene (RMG CEO) regarding closure of Odiham Post Office and problems due to Horizon
January 2012	JA writes to Minister and Moya Greene regarding closure of Odiham Post Office due to "irregularities" and questioned the Horizon system



Annex I: Timeline

DATE	EVENT
24/02/2012	· JA contacts Alice raising his concerns regarding Horizon and requests a meeting. · Alice responds by agreeing to meet with JA
February 2012	Deloitte Internal Audit Assurance review of Key System Controls in Horizon
27/02/2012	JA chairs a meeting at Portcullis House to discuss Horizon
13/03/2012	JA meeting with Alice Perkins (AP) and Alwen Lyons
02/04/2012	AP letter to invite JA for a meeting
15/05/2012	· Received proposal from Deloitte to conduct a forensic investigation into Horizon. They had done similar work in the banking and telecom sectors. · Their cost estimate was £250K.
17/05/2012	Meeting with James Arbuthnot, Oliver Letwin, Alice, Paula, Alwen, and Angela where they agree to appoint forensic accounts
23/05/2012	AP agrees that MPs only should be briefed



Annex I: Timeline

DATE	EVENT
1/6/2012	NDA's with Second Sight signed
1/6/2012	Initial proposal from Ron Warmington received (they propose a cost of £15k)
6/06/2012	Alice and Susan Crichton prepare a TOR for Second Sight to work on the investigation
7/6/012	· Meeting with Paula, Alice, Susan, Lesley, Alwen, Simon where the Deloitte and Second Sight options are discussed. · Second Sight option was agreed as the best way forward · TOR for Second Sight was also discussed.
7/6/012	Deloitte make alternative proposals with lower costs.
08/06/2012	Alice makes some minor adjustments to the Second Sight TOR
11/06/2012	TOR goes to JA to approve
18/06/2012	· JA meets with MPs , with Post Office present.
19/06/2012	JA message to Tadge Channer at Shoosmiths explaining the MP meeting outcome on 18 June



Annex I: Timeline

DATE	EVENT
25/06/2012	Susan Crichton asks SS hold off until JA endorsement secured though SS will have a TC with Simon Baker and Rod Ismay to begin work on understanding the helpdesk processes but hold off
4/07/2012	· Second Sight attend first meeting with JA. · The following MPs are also present: Andrew Bridgen MP, Mike Wood MP, Tessa Munt MP, Mary Glindon MP. · Primary purpose was to get JA's approval of Second Sight
05/07/2012	JA expresses that Alan Bates should have no power of veto over SS appointment or how the investigations ought to be undertaken.
12/07/2012	· Second Sight attend second meeting with JA. This time Alan Bates and Kay Linnell are present. · At this meeting the subject of "how to carry the sub-postmasters with us" was discussed.
23/08/2012	Post Office sends Second Sight the first CD containing documents for the initial batch of cases
13/09/2012	Ian Henderson attends a workshop with Fujitsu to get a technical understanding of Horizon
December 2012	· ToR for the investigation issued jointly by POL and JFSA. · ToR published on JFSA website · Submission for SPMRs to submit relevant cases to JFSA and/or Second Sight opens



Annex K: Alternative Narratives
