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PS 14/1-14/6

POST OFFICE LTD

PROJECT SPARROW SUB-COMMITTEE

Minutes of a meeting of the Project Sparrow Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Wednesday 9 April 2014

Present:	Alice Perkins (AP)	Chair
	Alasdair Marnoch (AM)	Non-Executive Director (by telephone) (from item PS 14/1-part of PS14/4)
	Richard Callard (RC)	Non-Executive Director
	Paula Vennells (PV	CEO (from item PS 14/3)
	Chris Aujard (CA)	General Counsel
In Attendance:	Chris Day (CD)	CFO
	Angela Van-Den-Bogerd (AVDB)	Network Change Operations Manager
	Belinda Crowe (BC)	Programme Director, Project Sparrow
	Mark Davies (MD)	Communications Director (by telephone)
	David Oliver (DO)	Programme Manager, Project Sparrow
	Carolyn Low (CL)	Programme Team, Project Sparrow
	Gill Catcheside (GC)	Assistant Company Secretary

PS 14/1 **OPENING OF MEETING**

A quorum being present, AP opened the first meeting of the Project Sparrow Sub-Committee ("the Committee").

PS 14/2 **TERMS OF REFERENCE**

(a) The draft Terms of Reference ("TOR") for the Project Sparrow Committee had been circulated prior to the meeting. The Chairman advised that she would like the Committee to comprise five members – the Chairman, two Non-Executive Directors, the CEO and General Counsel.

(b) AP asked that any comments regarding the TOR should be submitted in writing to the Company Secretary, with a view to them being approved at the next Committee meeting.

ACTION: ALL

PS 14/3 **INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME ("THE SCHEME")**

1 AP suggested that there were a number of key issues for the Committee to consider:-

1a What commitments had been made publicly about the Scheme (in particular in the House of Commons)?

1b What had changed since the Scheme was announced to prompt the need for a different approach? i.e. what problem was the Post Office trying to solve, acknowledging that the process was taking longer,

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was costing more and the expectations of SPMRs were exceeding what the Post Office originally envisaged?

1c What would the Post Office ideally like to do?

1d What could be done in light of previous public statements about the Scheme, in particular those made by the Minister? A paper to be produced on the key variables to modify the Scheme – including financial analysis and assessment of alignment with Ministerial commitments and a recommended way forward.

ACTION: Programme Team

2 In terms of the present position with the Scheme, and key timescales, the Committee noted:

2a The Post Office has passed around 20 cases to Second Sight for review. Second Sight had produced three case reviews which have all been rejected by the Working Group as not sufficient for mediation. Second Sight had also produced an early draft of their thematic report which Tony Hooper had dismissed as not ready for Working Group discussion.

2b The Working Group has tasked Post Office and Second Sight to focus on the preparation of 2 – 3 cases, which do not raise thematic issues, for discussion at the next face to face Working Group on 1 May with a view to deciding whether those cases should progress to mediation. If one or more of those cases are approved for mediation, a date for the mediation would be set within four weeks and, potentially, the first case(s) mediated within about ten weeks from now.

3 The following points were made in discussion:

3a The paper had been developed as an "options paper" to address the problems of cost, time, investigation length, Second Sight competence and capacity, the expectation gap and the management overhead and impact on BAU.

3b The Scheme as currently configured was broadly consistent with Ministerial commitments. A more detailed assessment of all public statements (PQs etc.) made by the Minister about the Scheme should be undertaken. It was recognised that the statement made in Parliament by the Minister for Postal Affairs preceded the Post Office's announcement of the Scheme; the former did not mention the Mediation Scheme. A paper was requested for the next Sub-Committee meeting on all of Jo Swinson's public comments on the Scheme including correspondence, PQs and other public engagements – identifying, inter alia, references to the Mediation Scheme or timelines.

ACTION: Mark Davies with BIS and Programme Team

3c The importance of acting on the lessons learned as cases are investigated and building these into the way we engage with SPMRs and manage our business going forward. This work is being taken forward in the Branch Support Programme, led by AVDB and will form a key part of any narrative about the Scheme in the future. A paper was requested for the July Board mapping the lessons learnt from the

ACTION: AVBD

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Scheme.

3d The so called expectation gap was an issue. On the basis that Horizon was working as it should, the Post Office would not contemplate paying 'compensation' of the order being claimed, and the Linklaters' advice had confirmed the Post Office's very limited liability in relation to financial redress. Whilst it is important to be transparent in terms of setting out the Post Office position as early as possible, any steps to do so must be taken in the context of wider decisions about the Scheme.

3e Careful consideration would be needed in terms of how the essence of the Linklaters advice could be communicated to applicants to ensure that Legal Professional Privilege is not waived unintentionally.

3f The results of the Horizon assurance work (over which Legal Professional Privilege is also being claimed) due to be delivered, at least in summary form for the April Board meeting, would need to form a part of any communication to applicants setting out the legal position. The handling and sequencing of what would be a public message will be crucial and would need to take account of the position of key stakeholders, in particular Tony Hooper, James Arbuthnot and other MPs. It was agreed that a paper be produced for the next Sub-Committee meeting setting out approaches to disseminating the Horizon report from Deloitte and the essence of the legal opinion from Linklaters to advisors, applicants and MPs including action planning and Communications and Stakeholder engagement. It was noted that approaches might, for example, include asking Tony Hooper to commission legal advice on the liability in light of the expectation gap.

ACTION: Programme Team

3g Further consideration should be given to the appropriateness of the Post Office making 'ex gratia' payments as it receives public funding, and such payments should, in any event be nominal and made in accordance with very specific criteria. A paper should be produced for the next Sub-Committee on the Post Office's position on making "token payments" to Scheme applicants taking account of the use of taxpayers' money, drawing on the Bond Dickinson draft Settlement Policy, and having regard to the Linklaters advice on Post Office's liability.

ACTION: Programme Team

3h There is a general expectation by the Working Group and applicants that the majority of cases will go to mediation, and Post Office acknowledges that many applicants will want the opportunity to be able to discuss their case face to face with Post Office.

3i The cost of all cases in the Scheme going to mediation would be in the region of £1m. Having set up the Mediation process, it would be difficult to reverse, and the Business would need to balance financial cost against reputational costs.

3j The Post Office does not anticipate mediation being appropriate for cases which have gone through either the Criminal or Civil courts – this accounts for approximately a third of the caseload. Criminal cases are being investigated by both Post Office and Second Sight.

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Tony Hooper has made clear that due regard should be given to the Court's judgement.

3k The Scheme was established as an attempt to resolve at least some of the dissatisfaction of SPMRs and stakeholders. However the differing expectations between the Post Office, applicants and stakeholders, create a real risk that, unless action is taken, and despite the time and cost invested in the Scheme, many applicants will remain dissatisfied at the end of the process.

3l Consideration should be given to what support might be provided to Second Sight to address concerns about lack of capacity and capability as part of any assessment of how the Scheme might proceed in a way that remains consistent with Ministerial statements about their on-going involvement in the Scheme. A paper should be produced for the next Sub-Committee meeting on the role of Second Sight and options to support them or reduce their role. The paper should include Stakeholder views.

ACTION: Programme Team

3m Whilst getting some cases through the Scheme early might help to manage the expectations gap, the Post Office must avoid setting any precedent in doing so and, until a decision is made about the future of the Scheme, should avoid any actions which might close off options in the longer term. It was agreed that effort should be made to try and accelerate cases that were not thematic and which might be useful to show the Minister.

ACTION: AVDB

ACTION: Programme Team

3n It was agreed that a timeline of key actions and decision points be produced from today through to the Summer Recess.

ACTION: AVDB

3o A table to be produced, to the extent practicable and to the extent that the case permits, demonstrating that Post Office is rebutting the concerns raised by Second Sight in relation to Horizon.

PS 14/4

UPDATE ON HORIZON ON-LINE HNG-X ("HORIZON") ASSURANCE WORK

(a) An update on the Horizon Assurance work, being carried out (subject to Legal Professional Privilege) by Deloittes, was considered by the Committee.

(b) It was noted that Part 1 consisted of a largely desk-based exercise to assess the control framework within which Horizon operates. As part of its business as usual activity Post Office and Fujitsu undertake a range of assessments and audits of Horizon's operating environment. Deloittes will review those assessments and audits and provide an assessment of the assurance landscape and identify any gaps. The assessment will not consider the integrity of the Horizon processing environment at implementation. That would form Part 2 of the work.

(c) Although no system could be absolutely "bullet proof", no issues had yet been identified through the cases being investigated or any other route that has called into question the integrity of Horizon. Nor have any wide-spread systemic faults been identified since Horizon on-line was implemented. These two points, along with the Part 1 work

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(depending on the results) should be sufficient to assure Post Office that Horizon is fit for purpose.

(d) Part 2 was not an essential piece of work at this stage, but if commissioned, would look at the adequacy of Horizon at implementation, user acceptance testing etc. to determine whether the system was set up correctly. This would be a larger and more costly exercise and should not be undertaken unless deemed necessary based on the results of part 1.

ACTION: CIO

(e) Part 1 of the Horizon Assurance work to be considered at the next Board. The Chief Information Officer ("CIO"), Lesley Sewell, to attend to present the findings.

ACTION: CIO

(f) The CIO to attend the next meeting of the Sub-Committee to provide a detailed update on the Horizon Assurance work and in particular Part 2 and whether it is required and how long it will take.

PS14/5 **DATE OF NEXT MEETING**

ACTION: CoSec

(a) The next meeting of the Committee to be held after the Board on 30 April 2014.

PS 14/6 **CLOSE**

There being no further business, the meeting closed.

GRO

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PROJECT SPARROW SUB-COMMITTEE

ACTIONS LIST AS AT APRIL 2014

No.	ACTION	BY WHOM	STATUS
PS1	Comments on the Terms of Reference in writing to the Company Secretary.	**All**	
PS2	Paper to be produced on key variables to modify the Scheme – including financial analysis and assessment of alignment with Ministerial commitments and a recommended way forward.	**Programme Team**	
PS3	A paper to be produced for the next Sub-Committee on all of Jo Swinson's public comments on the Scheme including correspondence, PQs and other public engagements – identifying, inter alia, references to the Mediation Scheme or timelines.	**Mark Davies to work with BIS and programme team**	
PS4	Paper to the July Board mapping the lessons learnt from the Scheme.	**AVDB**	
PS5	Paper to be produced for the next Sub-Committee setting out approaches to disseminating the Horizon report from Deloitte and the essence of the legal opinion from Linklaters to advisors, applicants and MPs including action planning, and Communications and Stakeholder engagement . NB approaches might for example include asking TH to commission legal advice on the liability in light of the expectation gap.	**Programme team**	
PS6	Paper to be produced for the next Sub-Committee on Post Office's position on making "token payments" to Scheme applicants taking account of the use of taxpayers' money, drawing on the Bond Dickinson draft Settlement Policy and having regard to the Linklaters advice on Post Office's liability.	**Programme Team**	
PS7	A paper to be produced for the next Sub-Committee on the role of Second Sight and options to support them or reduce their role. This paper should include likely Stakeholder views.	**Programme team to produce**	
PS8	Try to accelerate cases that are not thematic and might be useful to show the Minister.	**AVDB**	
PS9	A timeline of key actions and decision points to be produced from today through to summer recess.	**Programme Team**	
PS10	Table to be produced, to the extent practicable and to the extent that the case permits, demonstrating that Post Office is rebutting the concerns raised by Second Sight in relation to Horizon.	**AVDB**	
PS11	Part 1 of the Horizon assurance work to be considered at the next Board. The CIO to	**CIO**	

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	attend to present the findings.		
PS12	CIO to attend the next Sub-Committee to provide a detailed update on the Deloitte work, in particular Part two, and whether it is required and how long it will take.	**CIO**	
PS13	Sub Committee to next meet on the day of the full board 30 April 2014 – this meeting will need to be longer suggest at least two hours.	**CoSec**	