Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

IN THE HIGH COURT OF JUSTICE

QUEEN'S BENCH DIVISION

ROYAL COURTS OF JUSTICE

B E T W E E N:

ALAN BATES AND OTHERS

Claimant

AND

POST OFFICE LIMITED

Defendant

WITNESS STATEMENT OF ANGELA MARGARET VAN DEN BOGERD

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1.   I, ANGELA MARGARET VAN DEN BOGERD WILL SAY as follows:

2.   I am Angela Margaret Van Den Bogerd, People Services Director, of Post Office Limited (**Post Office**).

3.   I make this statement in support of Post Office's Defence in these proceedings.

4.   The facts set out in this statement are within my own knowledge, or if they are outside my knowledge, I have explained the source of my information or belief.

Background

5.   I started my employment with Post Office on 1 April 1985, and since that date I have worked in a number of positions as follows:

5.1   A Branch Counter Assistant as part of the directly managed network for around 2 years. During this time I was also called upon to undertake on-site training for newly appointed Postmasters.

5.2   A Branch Manager responsible for the maintenance, day to day management and financial performance of Directly Managed Branches between 1987 and 1996.

5.3   A Retail Network Manager between 1996 and 2001 responsible at an area level for the maintenance, day-to-day management and financial performance of 24

post offices: 6 main branch offices employing approx. 130 staff and 18 Subpost offices managed via a contract for services. As part of this role I was responsible for interviewing the Postmaster, appointing the Postmaster, managing performance through the contract for services and dealing with any contract breaches including contract termination as appropriate.

5.4   Head of Area for the rural agency in Wales between 2001 and 2005 responsible for the maintenance, day-to-day management and financial performance of the rural network of 950 post offices in Wales & the Marches. As part of this role I was accountable for a line management team of 18 and 950 agent Subpostmasters, and for the delivery of post office services to quality and efficiency standards.

5.5   General Manager for the Community Network of post offices in the UK between 2005 and 2006, responsible for a team of 9 senior managers and a field based team of 40 managers, and for the day-to-day management of 9000 rural and 500 urban deprived post offices.

5.6   As National Network Development Manager between 2006 and 2009 I designed, developed and deployed the process (known as the Network Change Programme) to deliver 3000 changes to the Post Office network (2500 closures and the establishment of 500 new type services).

5.7   As Head of Network Services between 2009 and 2012 with a UK wide geographically dispersed field team of 200 people, I delivered a yearly average of (a) 1200 network change projects (i.e. post office relocations, refurbishments, closures and re-openings) across the Post Office network, (b) in excess of 5500 financial and compliance branch audits and interventions (c) new entrant training to approximately 1000 agents/franchisees and employees and (d) 2000 recruitment and/or contractual interviews.

5.8   As Head of Network Services, I was responsible for the maintenance of the network of post offices and part of that was the decision of whether a branch should be advertised in a given situation e.g. whether a post office in a new location (Greenfield) was warranted. Decisions were taken with input from the Network Modelling team and the business ACCs to ensure consistency of approach. The code of practice and consultation with consumer groups policed any proposals.

5.9   At that time (and today) Post Office had a Government requirement that it maintained the network at no fewer than 11,500 branches. There was certain criteria which Post Office had to fill as part of this requirement, such as a

percentage of the population had to live within three miles of a Post Office branch and another percentage within one mile of a Post Office for example. That in itself was the starting position which drove the size of the network.

5.10 Post Office also has a modelling team, which I have worked with, who use software which analyses where would be a good location to have a Post Office branch. Post Office would also be approached by people who were purchasing premises and considering having a Post Office. If so, Post Office would, by walking the ground and observing local trading patterns, consider whether the location would be viable and a good opportunity or whether we would be poaching business from other established Post Offices. We also had a decision matrix to support all location decision making.

5.11 As Head of Partnerships between September 2012 and August 2013, I was responsible for the relationship with CWU, Unite CMA for managers and also the National Federation of Subpostmasters.

5.12 As Programme Director for the Branch Support Programme between August 2013 and March 2015, I was responsible for making improvements to ways of working across Post Office. In parallel, I led the investigations of mediation scheme cases and was a member of the Working Group. At this time I took the opportunity to create a specialist team called the Support Services Resolution Team (**SSRT**) to support Postmasters and colleagues in identifying the more complex in-branch transactional issues and where possible resolving them.

5.13 As Director of Support Services between April 2015 and December 2016, I was responsible for our helpline for Postmasters, our customer helpline, the Financial Service Centre (**FSC**), the Human Resources Service Centre (**HRSC**) and also managing the Contract Admin team.

5.14 From January 2017 until January 2018 I was the People and Change Director, responsible for HRSC and Health and Safety and the Change Portfolio across the organisation. Since January 2018 until present, in my role as People Services Director, I am responsible for HR services within the Finance & Operations business unit, Health, Safety and well-being and the HR Service Centre.

6. I have operated at all levels during my career – from branch level to senior positions remaining at all times close to the operational procedures. I worked in branch when the paper-based accounting system was in place. When Horizon was introduced, in my role as RNM, I supported this transition from manual ways of working to the computerised system. This included supporting branches during roll-out by visiting branches before, during and after go live. I recognised that this

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was a new way of working and supported Postmasters in this transitional period. I have a very hands on knowledge of how branches worked in the paper based system, Horizon and Horizon Online.

7.   I have always lived in Swansea, however having been field based for the majority of my time with Post Office I have travelled around the UK.

Overview of Post Office business

8.   [We have provided below a high level overview of the Post Office business, the Post Office network, its scale and complexity but we need some more detail on its funding and the economics of its operation].

9.   Post Office is a limited company under the Companies Act 2006. As of 1 April 2012, Post Office has been separately owned and managed from Royal Mail Group plc. The sole shareholder of Post Office is the Secretary of State for Business, Energy and Industry Strategy (**BEIS**) but Post Office acts under the direction of its chairman and board of directors, rather than ministerial control. However, because the sole owner of Post Office is the government, it is common place and appropriate to describe Post Office as expending public funds and owes duties associated with its responsibilities for managing public money.

10.   Post office is the UK's largest retail network and financial services chain with over 11,800 branches.   [can we have more detail on this and how it has fluctuated, as well as a discussion of POL's obligation to maintain network numbers. Accessibility criteria were originally laid down by Government in 2007 and have been reconfirmed by successive Governments since. The Government's national access criteria are: 99% of UK population to be within three miles of their nearest Post Office outlet; 90% of the UK population to be within one mile of their nearest Post Office outlet; 99% of total population in deprived urban areas across the UK to be within one mile of their nearest Post Office outlet; 95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet; 95% of the total rural population across the UK to be within three miles of the nearest Post Office outlet. In addition the following applies at local level to ensure a minimum level of access for customers living in remove rural areas: 95% of the population of every postcode district to be within six miles of their nearest Post Office outlet. The Post Office produces a Network Report against this criteria. This is publicly available – it is placed in the House Library and the Post Office publishes it on its corporate website. The Network Report also contains tables of figures showing fluctuations of number of branches over time including quarterly change figures showing the quarterly change in network size. The Network Report for 17/18 has been placed

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in the House Library and shows that at the end of March 2018 there were 11,547 Post Office branches. The size of the network has been stable for more than a decade. It has been significantly larger in the decades/ years before – its peak was 25,056 branches in 1965/66. Decline over subsequent decades was driven by a number of factors including Government business reducing as proportion of Post Office revenue (it fell from 43% in 2003/4 to 26% in 2007-2008), particularly because of the Government move to pay pensions and benefits directly into bank accounts. In addition consumer trends, particularly growth of online business, and increasing competition have played a part. To reflect such marketplace changes, improve the network's prospects and avoid unmanaged decline there have been periodic closure programmes, notably the Urban Network Reinvention Programme [2001-4] and Network Change [2007], both of which were supported with Government funding, as well as periodic reviews of directly managed (Crown) branches involving some moving to a franchise model or closing.

Government policy has continued to reflect the need for the Post Office to operate commercially - and reduce reliance on taxpayer subsidy - whilst recognising its important social purpose for all communities, including those where branches cannot be commercially profitable. The Post Office's network continues to evolve and its current strategy is to provide better proximity to customers where they live and work, offering increased flexibility and choice by working with retail partners to open more Post Offices within shops, particularly in urban areas. This strategy is also to encourage new customers and help grow the business so that we can continue to invest in the network.

Numbers of open branches reported April 2018 - Numbers reported to BEIS

Government Regional Split:

Total number of Outlets split by Govt Office Regions		Rural	Urban	Urban Deprived	Total
1	East Midlands	543	266	72	881
2	East of England	677	396	41	1,114
3	London	7	536	126	669
4	NI	324	76	87	487
5	North East	244	151	94	489
6	North West	387	468	265	1,120
7	Scotland	918	333	145	1,396
8	South East	693	625	56	1,374
9	South West	867	342	61	1,270
10	Wales	631	157	130	918
11	West Midlands	364	377	160	901
12	Yorkshire and The Humber	470	321	165	956

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Total		6,125	4,048	1,402	11,575

Branch Type	Number in Network
MAIN	3,354
LOCAL	3,754
Crown	257
Franchise	34
MSPO	39
SPSO	2,598
Outreach	1,477
Satellite	57
Locally Funded	5
Total	11,575

Below is also the full breakdown as the Network Numbers as at April 2018 Open & Temp Closed

Status	Open		Status	(Multiple Items)
Row Labels	**Count of 6-FAD**		**Row Labels**	**Count of 6-FAD**
SAT	57		SAT	29
ACPT	1287		ACPT	45
CFPO	27		CFPO	8
Crown	257		IFPO	1
CSO	1		LM	217
HOME	138		LPM	58
IFPO	7		MAIN	38
LACPT	4		MSPO	2
LM	2216		PART	7
LOCF	1		SPSO	524
LPM	1538		**Grand Total**	**929**
MAIN	3354			
MSPO	39			
PART	53			
SPSO	2597			
Grand Total	**11576**			

11.   It provides more than 170 different products and services to the public. A Post Office branch is often a vital part of the local community. Approximately 283[MC2] of the branches are operated directly by Post Office, known either as directly managed branches (**DMBs**) or Crown Branches, in which the staff are employees of Post Office.

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I1   Taken from Corporate website
Ivan Roots, 23/07/2018 01:39 PM

MC2   I will check this figure – it has probably reduced.
Melanie Corfield, 24/07/2018 09:49 PM

12.   The remainder of the branches are run by Subpostmasters/postmasters on an agency basis, under contracts with Post Office. Subpostmasters operate independent businesses and are independent business people. Many operate additional businesses, and it is commonplace that the Post Office branch is found within a wider retail business such as a newsagent or general store. Every branch has a quantity – varying according to local demand and branch size – of Post Office cash and stock (such as stamps) for which the Subpostmaster must account to Post Office. Clause 1 of the standard contract between Post Office and Subpostmasters states that the Subpostmaster is an agent of Post Office.

[Please can you set out Post Office's (relevant) key relationships e.g Bank of Ireland and the (relevant) commercial and political forces operating on it requiring constant review / improvement / change].[MC3] The Post Office has [130 ???- will check number] clients including large companies such as Royal Mail, Bank of Ireland and the High Street banks. Working with its main clients Post Office is operating in mails, financial services, banking, telecoms and bill payments marketplaces amongst others and is subject to significant competition. Senior managerial roles within the Post Office are responsible for managing the relationships with different clients.

A key benefit for our clients is our large physical network which reaches customers throughout the UK, including rural areas. For example banks have been reducing their own branch networks (which is controversial in some areas) because some are not commercially viable as online transacting increases. However there is still demand for everyday banking, such as cash withdrawals and deposits, and the Post Office's network can provide this on their behalf. Similarly Royal Mail need a physical presence for customers aside from their own estate of Mail Centres, Delivery Offices and postboxes and Post Office branches provide this. Other clients have very little or no physical network of their own. Government departments, although increasing online solutions for customers, need to provide diverse groups of people for particular services and the geographical spread of Post Offices meets this requirement.

Some client services (eg banking) are offered at all Post Office branches, others are provided in agreement with clients and with consideration of our own business needs at branches which best fits their requirements (eg MVLs, identity services, Lottery).[MC4]

The Post Office has competitors – such as PayPoint – who also have a large network within retailers (PayPoint is the key competitor in bill payments market) but the Post Office is unique in its scope/ range of services, providing a 'hub' for vital services.

Key relationships - clients:

Page 7 Comments

MC3   This is very wide ranging topic so I have put down some material which I am sure needs developing! I suggest Mark Siviter, Martin Kearsley, Owen Woodley & Andrew Goddard will be good people to help input re on their specific marketplaces and how they work with our clients.
Melanie Corfield,   24/07/2018 10:52 PM

MC4   More detail on how decisions are made regarding choice of branches at which services available to be supplied from client leads
Melanie Corfield,   26/07/2018 02:44 PM

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Mails continues to be a very large part of the Post Office's business and , with the separation of Royal Mail and Post Office in 2012, a commercial agreement is in place that enables close working for the benefit of customers. With the separation of Post Office from Royal Mail Group (RMG) a Mails Distribution Agreement (MDA) was signed between Royal Mail Group and the Post Office in January 2012 and started on 26 March 2012 (with a 10 year term). The agreement is the terms on which Post Office makes RMG products and stamps available to customers and provide services to and on behalf of RMG. Within the agreement Post Office submits weekly revenue data and payment to RMG and RMG pays Post Office for sales. Other Post Office obligations include maintaining all regulatory approvals, general performance standards, assistance obligations regarding RMG's licence, good faith obligations regarding new products and services and sales conversations. Branch requirement obligations were also included under the agreement (a network of at least 11,500 branches until March 2015, best endeavours to carry out the Network Transformation programme, meeting branch opening requirements, training to be carried out in accordance with basic requirements, customer satisfaction targets and forum and Post Office liability for financial effect on RMG of any branch change.

Under the agreement Post Office cannot provide competing mails service or make available competing mails products in or from any Post Office branches. It also covers the processes in place for customer complaints handling as well as a dispute resolution procedure between RMG and Post Office. MC5

Post Office and Bank of Ireland have a longstanding partnership (a Joint Venture was announced in 2003) providing a range of financial services to more than 2.4 million customers both through branches and via the Post Office's website. [Suggest we ask Owen Woodley to input here to explain the longstanding and deep relationship and the way in which we have worked with BOI to develop PO branded products such as mortgages etc to benefit both businesses].

Telecoms – Owen Woodley

Banking framework for High Street banks – Martin Kearsley

Bill Payments – Andrew Goddard

Client transactions:

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MC5   Mark Siviter to check and input
Melanie Corfield, 26/07/2018 02:41 PM

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When a client product is transacted, details of the transaction are communicated to the client. In most cases there is then reconciliation between the client's records and Horizon's records. Sometimes, this reconciliation is conducted in real time, and sometimes it is conducted at a later point. Significant volumes of data are therefore scrutinised in great detail by third party clients – as yet none of those clients have raised a complaint about that data that could not be resolved through standard reconciliation processes. Following the reconciliation, Post Office is liable to account to the client for the transaction value (or vice versa).

The interconnectivity with, and the transfer of information and records to and from, clients is part of the overall Post Office IT infrastructure. Some client links are direct from Horizon and some are supported by daily or weekly batch files delivered from central Finance systems in Post Office to the client.

An example of online connectivity from Horizon to a client would be as follows:

Example:

At Post Office branches, a customer can deposit cash in or withdraw cash from his/her bank account with a number a major banks (eg. Lloyds, Santander, etc.).

If a customer wishes to withdraw £100 of cash from an account, the Horizon system connects to the client's computer banking system to confirm that the cash is available for withdrawal. Once authorised, Horizon will tell the subpostmaster to proceed with the transaction and to give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts on Horizon will be automatically reduced by £100 to reflect the withdrawal. This way the branch's accounts are kept in balance with the amount of cash actually on hand.

Likewise, the customer's account at the client bank will be reduced by £100 to reflect the cash withdrawal undertaken in the Post Office branch.

The branch books balance as above. Post Office obtains its money back from the relevant partner bank by way of client settlement activities administered by the Finance Service Centre (FSC).

This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position on Horizon at the transacting branch is increased by £100, the branch holding £100 more cash on hand and Post Office making a later payment to the client bank of £100.

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Transaction acknowledgments

Some Post Office transactions (eg. Lottery / Paystation / Post & Go) are not transacted through a Horizon terminal but instead via separate machine. However, the cash taken and stock vended for these transactions needs to be accounted for on Horizon as part of the overall branch cash and stock holdings. To ensure that Horizon is kept in sync with the records on the third party equipment, a "transaction acknowledgement" ("TA") is often used.

Overnight the third party equipment reports the volume / number of transactions to Post Office. Post Office's data centre then sends an overnight electronic message to each branch's Horizon terminal which contains details of the volume / number of transactions conducted within the branch on the third party equipment. This is the transaction acknowledgement.

The transaction acknowledgement will make an adjustment to the branch's accounts. For example, if the TA is for sales of Lottery products, the TA will increase the amount of cash to be held in the branch to reflect the value of the sales.

When the subpostmaster logs on to Horizon the following morning, he will be presented with the transaction acknowledgement and asked to confirm that it is correct. Once accepted by the subpostmaster, the above adjustments to the branch's accounts will take effect.

Commercial and political forces operating on POL requiring constant review / improvement / change].

Commercial: Over the past few decades, the significant changes in technology and the growth of online business have driven changes to the Post Office structure and marketplaces. As previously referenced (para 10) revenue from Government business reduced with the movement of pensions and benefits directly to bank accounts. Currently the number of Post Office Card Accounts (operated for Department of Work and Pensions for the payment of pensions and benefits for those without bank accounts is reducing as the Government takes steps to support and move account holders to banking to enable them to have the advantages of direct debits etc,) The Post Office Annual Report 2016/17 notes a £14 million decrease in turnover from DWP contracts due to a decline in the number of Post Office Card Accounts.

The growth of online/ changing consumer habits has led to the complete withdrawal of some products and services completely from sale at Post Office branches (eg NS&I Premium Bonds) and the mails market has also undergone dramatic changes, with the decline of personal mail, the growth of online shopping and deregulation.

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Post Office has responded to these and other developments with programmes to change and adapt the structure of its network (Network Reinvention, Network Change and Network Transformation programmes of modernisation and rationalisation over the past 18 years); by entering new marketplaces such as financial services and telecoms and by developing, with clients, online services (eg savings and mortgage products with Bank of Ireland) via the Post Office website.

In 2000/2001 Post Office introduced Horizon and its later version (2010) Horizon online, connecting its vast network and helping to provide it with the ability to respond to rapidly changing marketplaces more quickly and effectively in working with clients to bring new products and services to branches.

In case useful as background to show evolution & change – to illustrate by way of example Post Office banking services:

Post Office had arrangements in place for Girobank customers, which used to be part of the wider GPO (General Post Office, later The Post Office) until 1990, to continue to withdraw cash and make deposits at branches. Girobank then transferred to Alliance and Leicester (now part of Santander).

Post Office also started to offer some services to customers of Co-op, Lloyds TSB and Barclays in the 1990s.

More banks came on board in 2003 when benefits started to be migrated to bank accounts. Previously benefit recipients received a green giro cheque which they could cash at the Post Office. It was recognised that some people might still need to carry on collecting their benefits at their local Post Office so this service allowed recipients who were customers of major banks to withdraw cash at their local Post Office from basic bank accounts and current accounts. [Note – separately there is a Post Office Card Account operated at Post Offices on behalf of the Government for people without bank accounts; the Government is taking steps to continue to support and move POCA holders to banking to enable them to have advantages of facilities such as direct debits. This is a phased Government plan]

Each bank had very different services – based at the time, on paper slips or magnetic strip cards or bar coded slips, as well as emerging chip and pin – so the service types were very different. Some of the banks expanded on these services to deposits and balance enquiries but there was no consistency of service across all banks.

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In January 2017 Post Office announced its banking framework agreement – an agreement with UK's High Street banks - enabling Post Offices to offer 'every day' banking services to their customers. This essentially simplified all services, removed 'old' paper, making it easier for customers, and Post Office branches, to understand the services on offer.

A specific, granular, example of an 'on the ground' change & improvement (driven by banking industry): The UK banking industry initiated a change which, over the last decade, has removed paper paying in slips in place of customers making banking deposits using a chip and pin card. The chip and pin system is more secure and less prone to error. Historically, with paying in slips, there was a risk with paying in slips that the deposit value on Horizon (as manually keyed in) and th actual amount deposited to the customer's account (as per the paying in slip) could differ and generate a discrepancy (hence the need for the end of day cross check). Under the chip and pin system there is less likely to be an accounting error as the amount entered into Horizon by the counter staff is confirmed on the chip and pin by the customer. Therefore the amount deposited to the customer's account is always the same as the amount on Horizon.

Regulation & compliance: [Do we want to say something about changes in regulation over the years in the markets we operate in and how we adapt etc – Mark Underwood best placed to advise who subject expert might be for broad view in first instance?]

Political forces operating on Post Office

UK Government Investments (UKGI) GI oversees government's 100% shareholding in Post Office on behalf of the department for Business, Energy and Industrial Strategy, which involves a range of activities. UKGI holds a seat on the POL Board and Audit and Risk Committee, and oversees and participates in corporate governance activities such as the approval of the business's longer term strategy, executive and non-executive recruitment, and director remuneration. The shareholder team monitors financial and operational performance of the business against that long term strategy, holding the business to account in delivering against its commercial and policy objectives. UKGI are also responsible for ensuring the business is provided with sufficient investment and subsidy funding to achieve its target of being commercially sustainable in the longer term, whilst meeting its social obligations, particularly around minimum network coverages requirements.   Finally, UKGI advises ministers on both commercial and policy issues, supporting them in Parliament and with the wider set of stakeholders who have an interest in Post Office matters. There is a Minister for Postal Affairs (within BEIS).

Government funding has been vital to the business over many years. In [2001] Government obtained clearance under the EU State Aids regulations for £180

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million to enable the Urban Network Reinvention programme and between 2010 and 2017 the Government allocated £2 billion to fund the Post Office's modernisation and transformation programme, which included investing £20m in more than 3000 community branches which are often the last shop in the village. Post Office is transforming to become self sustaining because Government subsidy is reducing [I have figures on this].

How has Post Office's business had to adapt its (relevant) practices and (relevant) products / services over time to take account of various changes, including in technology, commercial practices, consumer preferences and government policy]. As outlined above the Post Office has continued to adapt over decades, developing and changing its product and service offering in line with client and consumer demands. To remain relevant it has replaced some historical traditional functions, such as the payment of pensions and benefits, and has done so by moving into new marketplaces such as financial services and telecoms, working in partnership with other organisations, sharing expertise (and also bringing expertise from our new marketplaces in-house) to develop and launch new products (eg range of PO branded products, such as savings and mortgages, with Bank of Ireland). Growth of online has led to the Post Office developing its digital offering (now the preference for financial services products) and increasing consumer demand for fast and flexible fulfilment solutions has also driven the modernisation of our network. Government policy includes the reduction of taxpayer subsidy over time and this, alongside increased competition, has been a factor in cost reduction programmes and changes it has made to enable business to be able to respond quickly to its markets (for example streamlining processes and reducing bureaucracy .

13.   [Please could you set out why Post Office has policies regarding:

13.1   Having a wide geographical spread of branches; This to adhere to Government policy which sets out access criteria (see para 10) [and client contracts – assurances in those?] to ensure that the population has reasonable access to Post Office services, including vulnerable people and those in deprived areas.

13.2   maintaining continuity of service to customers; This is important to ensure we continue to meet the access criteria and additionally avoid the 'migration' of customers to competitors/ alternatives. It is also a reputational/ brand issue if a branch is temporarily closed.

the varieties of branches in operation; - [Can you explain the differences here between Locals, mains, subpostmasters, directly managed, franchise and community branches?]

Directly Managed (Crown): Operated directly by the Post Office, larger branches usually located in town and city centres, offering full range of services.

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Franchised former DMBs: Modernisation of the network includes the continuing franchising of some DMBs. Some have moved to franchise partners such as WHSmith with others franchised to local independent retailers, sometimes remaining at the same site or relocating nearby. The services they offer typically remain unchanged (with the exception of the specialist biometric identity service for the Home Office where this has been provided. Locations are agreed with the Home Office.).

Local: Branches where the post office is fully integrated in a retail outlet, such as a convenience store. They provide around [95%] of Post Office services, including all the most frequently used services. Post Office services can be available when the shop is open, which in some cases includes evenings and Sundays.

Mains: Branches, like Locals, that are integrated into a retail outlet. These branches are larger and offer a wider range of services than Locals.

Multiples – Sometimes branches are located in much larger businesses such as Co-operative stores or WHSmiths. The operating procedures at multiples are largely the same as those at other agency branches.

Hosted: neighbouring postmaster will visit the village and provide service for a set number of hours a week and will offer the service from village hall or public house or local shop.

Mobile Post Offices: Mobile vans visit [over 250 villages - check] in the UK at set times and on certain days of the week. These Mobile Post Offices offer all frequently used Post Office services.

13.3 the nature of the products / services sold by the various categories of branches in operation; Kath has noted that core and no core – product suites already provided to WBD

13.4 the opening hours of these various categories of branches]. These vary [and are contractual]. .Typically, but not universally, DMBs are open Monday – Friday (9am – 5.30pm with 9.30am on Tuesdays to allow for staff training) and Saturday mornings (9am until 12.30pm) but some open Saturday afternoons; The hours of Mains and Locals vary depending on shop opening times but typically provide much longer opening times than directly managed branches, frequently including evening & Sunday opening for example.[MC6]

[Please can you explain in a summary fashion the Network reinvention, Network transformation, Network Change, Discretionary Fund and other similar programmes]. The biggest change where segmenting into urban/ rural branches could be seen was during the Urban Network Reinvention Programme. This programme was primarily a 'voluntary closure' programme within the urban segment (c2001-2004). This was the Post

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MC6   This needs Rod/ legal. I am not clear from all the documents about the

contractual obligations and overall principles.

Melanie Corfield, 26/07/2018 04:57 PM

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Office's first major work on network optimisation and was supported by Government funding. Government obtained clearance under the EU State Aids regulations for £180 million to compensate sub postmasters for the loss of value to their business caused by their exit from the Post Office network.The Government provided the funding for Post Office to carry out rationalisation in areas where there were too many Post Offices serving the same district for them all to remain viable. Post Offices in the 10% most deprived urban areas with no other branch within half a mile were ringfenced and protected from consideration for closure (other than in exceptional circumstances to warrant consideration).The programme involved around [2,500]closures MC7 through the drawing up of area plans. The programme also involved a £30 million investment fund to make Post Offices more attractive for customers, as well as compensation to exiting postmasters.

Network Change Programme [c 2005-2008] MC8

This was a compulsory closure programme which impacted all the network. It was also Government funded. In [year] the Department for Business Innovation and Skills and Post Office agreed a £1.7 billion strategy to make the network financially sustainable, including a £150 million annual subsidy. One element of the plan was the Network Change programme, whereby up to 2,500 Post Office branches were to be closed and 500 or more outreach outlets set up (eg mobile arrangements) MC9 The other elements of the strategy, alongside Network Change were restoring Crown (directly managed) offices to profitability, central cost cutting efficiencies and developing and expanding new business.In announcing the decision to proceed with Network Change BIS undertook to set out minimum access criteria

Network Transformation – this programme sought to change the way that Post Office services are offered in branches. Under the NT programme agency branches transferred to either a Main branch model in which a dedicated counter, physically separated from the postmaster's retail business, was maintained or a Local branch model which fully integrates Post Office services within the retail business (so the postmaster can offer Post Office services from the retail counter). This often means that Post Office services can be offered for longer hours than before, in some cases from early morning until late at night, seven days a week..

[Please can you explain how the business works – including Post Office doing deals with clients, the basic economics of these deals and of the parts of the network / types of branches that provide particular categories of products / services, the policies applied in and effort that goes into deciding which parts of the network / types of branches in which areas can offer which products / services and why (in the whole network's interests etc).

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MC7   Need to check this was achieved
Melanie Corfield, 26/07/2018 05:02 PM

MC8   Need to check all the precise dates for these change programmes – different docs indicate different dates
Melanie Corfield, 26/07/2018 05:04 PM

MC9   Again need to check actual resulting numbers in case different
Melanie Corfield, 26/07/2018 05:06 PM

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

Kath has indicated responses given to WBD.

The National Federation of Subpostmasters (the NFSP) is an independent members organisation [how and when set up?] supporting operators of Post Office branches across the UK and is solely acknowledged by Post Office as a representative body of operators. The NFSP is the only body with which Post Office will seek to discuss and consult on matters affecting Subpostmasters.

The NFSP was set up in 1897. It is the organisation recognised by Post Office to negotiate on behalf of subpostmasters nationwide. It looks to improve the pay and conditions of service for subpostmasters. It also negotiates with Post Office on the payment for all services and products transacted over a Post Office counter. The NFSP works closely with Post Office on a range of other issues including post office security, operational systems and technology. The NFSP provides a range of services offering support, advice and information to its members. Its monthly magazine, "The Subpostmaster", provides up-to-date information on issues affecting subpostmasters. A 24-hour helpline gives advice on matters such as contract issues in relation to the staff employed by subpostmasters. The NFSP cannot provide Horizon related technical assistance.Representation and guidance is available from the NFSP in the event of disputes with Post Office. Subpostmasters have access to local support through local branches of the NFSP and its Executive Officers. The NFSP also runs a Benevolent Fund providing financial support to subpostmasters in need.

14. [Please could you explain the role of the NFSP, particularly in relation to determining / varying the terms of the Subpostmaster contracts, the fees payable to Subpostmasters, the products and services offered by various parts of the Post Office network, the operational procedures to be followed by Subpostmasters and the rights and responsibilities of Subpostmasters)]. Nick Beal to advise on this I think

15. Are you able to speak to the various manuals/operational instructions documents used and specific instructions issued (e.g. instructions by the regional general manager etc), their nature and scale. How and why they are like that, how and why they have changed over time, and why these things are inevitable. Who drafted them?^{MC10}

How a Post Office Branch works

<u>Remuneration</u>

16. Post Office offers different remuneration levels for different types of products and types of contracts. Each product and service attracts a certain level of commission or remuneration.

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MC10   I'm afraid I haven't had a chance to review all the documents yet on this – it's a big topic. I will do so asap but would be useful to understand what this is driving at as I don't currently understand how to construct an answer from the material we have – are they getting at the user friendliness of communications, frequency etc?

Melanie Corfield, 26/07/2018 05:17 PM

17. Different model types would be paid different amounts, for example a Mains contract is different to a Local contract because there are different obligations in how they operate.

18. Post Office remuneration has declined over the years. The volume of transactions in some instances has generally remained steady but the amount of profit for those transactions has decreased. Post Office's margins have been reducing over the years. This meant Post Office had to review how it paid Postmasters and the profitability of their post office is linked to the remuneration Post Office can offer its Postmasters.

19. Part of the reason for implementing Horizon and updating the training to be more sales-focused was to encourage Postmasters to sell as many products and services as they could, to generate more income for them.

Horizon Computer System[111]

20. Horizon is Post Office's accounting computer system, provided by Fujitsu. As a computer program Horizon does exactly what Post Office asked it to do when we built it. It is fit for purpose. I have every confidence in the system.

21. I describe Horizon to new users as a big calculator. It processes the data exactly as it is input. The Horizon user just needs to remember what they need to do to initiate a transaction (eg scan the barcode; put the card in the pin-pad or touch the screen) on the Horizon system and then follow the screen prompts.

22. The system was tested before it was implemented. Part of this was questioning: "what if this happens; what do you do?" That thinking process is built into Horizon.

23. Horizon records every keystroke. Post Office keeps that information for 7 years, which enables it to go back and extrapolate that data. It is not an easy process to do this as this information is archived. When Horizon was built Post Office did not anticipate it would need to analyse the data on such as large scale as has been required as a result of this dispute.

24. The contract Post Office has with Fujitsu evidences that Post Office did not expect to be required to analyse the data very often. The contract only permits so many enquiries a month. If there are more queries than provisioned for in the contract for that month, it becomes very expensive. The cost would also increase depending on the volume of data required, for example the difference between two months of data or two years. The data retention function was built into

Page 17 Comments

I11   This is likely to be reduced in length but is being kept in full for the moment.

Ivan Roots, 23/07/2018 05:29 PM

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Horizon to ensure we kept transaction records, but Post Office never expected to be routinely extracting data from the archived data.

25. Sometimes it was not cost effective for Post Office to provide all of the data to the branch requesting the same. For example, a branch might request the data for 7 years which would cost many times more to get the data than the value of the loss particularly when the loss was small. There have been cases where Post Office have pushed back in such circumstances as it was not a commercial resolution to the loss.

26. The Postmaster in a number of cases has requested all of the data in what appears to be a last hope attempt at identifying the issue, rather than because there is some evidence that there is an issue to be searched for and addressed. However in a couple of instances I have felt that we should have been more receptive to providing the Horizon data.

27. The ability of the branch to access Horizon data has changed over time. Data was available to be accessed in branch for 42 days when Horizon was introduced; this later changed to 60 days.

28. Post Office's security team would request and use the data extraction function as part of its investigation into a shortfall at a branch, or a similar issue. The security team would analyse the raw data to assess what happened at that branch. This was a labour intensive task. This data would sometime be provided to the Contracts Advisers if they were considering a potential contract breach.

29. People expect the system to be fast and have the same reactivity as Google. One of the issues is that users try to compare it to a system we don't have or what ideally the system would be. There is a mismatch between expectation and reality.

30. In my view the weakness with the Horizon system is that it is a bit "clunky" to use. It's not always easy to locate the information you want from the system.

31. The Horizon system requires the user to read the screen and follow the prompts. It appears that some users don't know how to use Horizon as well as they should or they have developed bad habits and do not use the system in the correct way. Unfortunately it is possible for the user just to hit a button and move on the screens without reading the prompts and trying to shortcut the process. If this happens the user may have input incorrect information into the system eg processing a deposit as a withdrawal or vice versa and this could be difficult or in some instances impossible for the user to realise or remember they've done this.

32.   As with any IT system, there are instances where the system or the screen goes down. The system was built recognising that sometimes connectivity could be lost, that a power line would go down or the communication could be faulty. Recovery steps have been built into Horizon to counter this risk.

33.   If power or the connection was lost whilst serving a customer and the Horizon user was part way through a transaction, there are prompts built in to address that. For example, the customer might have given the Postmaster money but the Postmaster may not have completed the transaction on Horizon. If this is the case, when the system comes back up, it asks the Postmaster questions to establish at what point he/she was at when they lost power. For example, "Have you given money to the customer? Have you taken money from the customer?" Depending on how the user answers these prompts, Horizon would either reject the transaction or complete the transaction.

34.   I am aware there have been reports made that there were errors with Horizon and bugs which affected the system. I was involved with the communication of what those issues were to the affected branches.

35.   Post Office did not notify the whole network of reported issues if they were isolated incidents. I think there were around 20 branches affected by the reported issues out of 11,500 branches. If Post Office did flag an issue, the Helpline would tend to see a flurry of activity regarding that issue which the call centre would deal with.

36.   I have also been involved with managing how errors or bugs are communicated to the media.

37.   There have been some software changes to Horizon since it was implemented in 2000. Post Office has moved from Horizon to Horizon Online. Prior to the online facility the information would be extracted from the branch overnight. The key difference between Horizon and Horizon Online is that Horizon Online is a live record of the transactions carried out by the branch.

38.   The hardware is the same as when Horizon was first implemented in 2000. It is only recently being refreshed. There has been some refinement around the screen (which has been touchscreen from the start), the usability in terms of how the screens are set up and how many screens you need to go through to sell a stamp, for example. Horizon has been improved to try to make it quicker and easier to use, but in essence it has until recently been the same program built on the same platform.

39.   The Horizon user uses the keyboard to type in numbers and words, such as the number £1,000. They also have the use of a scanner and a touchscreen. The hardware has a card swipe functionality and a pin pad for customer use.

40.   When the Horizon system was installed there were Post Office teams on site to make sure the implementation process went smoothly. The branch network also had a central coordinator in the office who would field the calls from the Postmasters whose branches were being trained on Horizon.

41.   Horizon relies on the individual using it to input the correct information. The training tried to address and mitigate the possibility of human errors.

42.   Post Office supported the Postmaster with balancing the accounts while transferring from the manual system to Horizon during site visits. Some site visits I arranged during Horizon's implementation phase lasted until early hours of the morning. From my experience I was able to share best practice tips with Postmasters on how to organise themselves in branch in their transition from manual working to processing transactions and producing their cash account on the Horizon system.

43.   Some Postmasters were very competent with the manual system but had trouble with Horizon at first. They needed to follow computer prompts and input certain data into Horizon. There is a customer basket called a "stack". The prompts would tell the Postmaster, or whomever was operating Horizon to, for example, take £x from a customer or pay £x to a customer. When they ended the session the stack should have been zeroed. The Postmaster could then start the next transaction. In the mediations I dealt with there were Postmasters who were forgetting to zero the stack at the end of a transaction.

44.   The system has functions built in to tell the user to physically "take £20 to customer" or "give £20 to customer". It is then up to the user to follow the prompts.

45.   Horizon is also colour coded, for example the icons for banking deposit and withdraw, in which one is red and one is green.

46.   A change made to Horizon to reduce human error was rather than typing in the customer's account number and sort code, the Horizon user would swipe the customer's card which brought up the relevant account details. This has been more recently updated to the customer inputting their pin number. This reduces the data the Horizon user needs to input, lessening the risk of a typographical error.

47.   The system has changed in this way over time. I cannot recall when all of the changes were made.

48.   One of the issues which changes to the system cannot address, is when its users operate Horizon "on autopilot". This is where the user will just click through the screens without properly taking notice of the prompts and checking the data entry for errors at that point in time.

49.   One of the areas where we saw autopilot in practice resulting in irrecoverable errors was with MoneyGram. This is an instant transfer of money from one country to another. For example, a customer may be sending money abroad to their family. Once the transaction is processed, the money can be withdrawn abroad within a matter of minutes. There is very little room for calling back an incorrect transaction. This was an area particularly open to fraud risks. To counter this risk, there are security checks built into the transaction eg typing in ID reference. Post Office also implemented a prompt that informs the user that they would never be asked to carry out the transaction over the telephone, such as where the user would receive a call purporting to be from a Post Office "engineer" carrying out some "tests of the system" but it is in fact a fraudster and the "test" transaction is a fraud.

50.   Post Office can see where a postmaster has used Horizon to tell them how much their discrepancy is before they make a cash declaration. This can sometimes raise suspicions as they are carrying out the process the wrong way around. You should be checking cash and stock first, not asking the system what the discrepancy is and then declaring you have enough cash to balance.

51.   Instruction manuals are stored on Horizon Online. Before Horizon, there was a hard copy Operations Manual in branch.

52.   A Horizon user can use Horizon Online to search the Operations Manual, although there isn't a search engine function per se. The Horizon Online help function is not very easy to navigate, as the Operations Manual was simply copied and pasted into this online system.

53.   Due to the Horizon Online help system being clunky, Post Office still receives a high volume of calls into the Helpline regarding this issue. This is something Post Office is looking to address.

54.   Post Office is looking to simplify its transactions well enough that a Horizon user ideally would not need Horizon Online help. When Post Office designs a transaction product, it tries to build it so that one click of a button on the screen will automatically take the Horizon user where they needed to go.

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55.   Post Office will never be able to remove the risk of human error, but it has sought to reduce the risk of that as much as possible by automating processes and the transfer of information where possible. For example, using barcodes to pull information directly into the Horizon system and sending transaction acknowledgements to branches rather than them having to manually input the data into the Horizon system.

56.   Gayle Peacock (Head of Branch and Customer Support) is leading on the new case management system that will go into support contact centres. This means Post Office will get better information, which in turn enables Post Office to assess what that information is telling it. Post Office can then be more proactive in what support it provides to branches.

Contact/support during ongoing relationship

57.   Post Office had a team which account managed a number of branches. Pre-Horizon, these were known as "cluster offices".

58.   The Area Manager would be responsible for the whole life cycle of the Postmaster. Over time the Area Manager position has had different names such as Retail Network Manager (**RNM**) or Business Development Manager (**BDM**). The RNM or BDM would have a branch visiting cycle, which was usually quarterly. Area Managers knew the branches very well due to this high level of personal contact. Over time, the way we run our business has changed and there is no longer a planned visiting schedule for all branches.

59.   As we changed how we managed the network not all branches had frequent visits. As Post Office has less branch face to face contact than it did historically, it is harder to tell nowadays if there is an underlying problem or if a branch is struggling. It is a costly model to maintain frequent face to face contact with branches. Today we use technology where we can.

60.   Post Office has always had a sales focus but it is a focus on how does Post Office make sure the Postmasters generate sales in the right way and ensure that they are compliant with the regulations.

Helpline

61.   Around 1995 Post Office started to centralise the business. As part of this, in around 1999, Post Office set up the Helpline. This is the corporate helpline for Postmasters and Post Office employees which was firstly implemented on a regional basis and later centralised. There is also a customer helpline, which is currently an automated system.

62. The Postmaster's point of contact changed from their regional helplines to the Helpline. This was a period of transition for the Postmasters. It was important however that they used the Helpline as Post Office wanted a record of the calls reporting issues so that we could understand trends in the volume of calls and also the type of calls.

63. One of the purposes of the Helpline was to give greater visibility of what the queries were, which would allow Post Office to produce trend analysis at a national level to ascertain whether there are particular things taking place that are not just one offs. If, for example, Post Office brought a new product in and the Helpline received a large number of calls, Post Office could consider whether the training had not landed properly; or that the product design is not quite right. The Helpline enabled Post Office to do that forensic analysis and the root cause analysis.

64. Even if the Postmaster was to get hold of me as an RNM, I would inform them that they needed to go through the Helpline. I would inform them that the contact at the Helpline would then page the relevant RNM or BDM and ask the person to contact the Postmaster. We were always contactable as the second tier of support.

65. The Postmaster's call would be logged on the Helpline system. If that call was not returned by the RNM/ BDM, the only way Post Office would know would be if that same contact got back in touch with the Helpline again. Overall though I think the system worked pretty well and that most RNM/BDMs followed up the calls.

66. Any issue in branch is reported to the Helpline. The Helpline correlates this information so that Post Office can understand the scale of the issue. If the Helpline advisor was unable to deal with that issue, they would tell the Postmaster who they needed to contact.

67. If the RNM/ BDM was on annual leave, Post Office had a buddy system. There was always someone the Postmaster could get hold of if they needed to.

68. After the Helpline was implemented, Post Office informed the applicants at interview and training that the Helpline was their first port of call for any query.

69. Post Office has to be able to look to its central cost base and consider how it can reduce its costs by working smarter. The Helpline helped reduce base costs as it enabled Post Office to analyse the information it was receiving and form a more holistic view of the business. The Helpline flagged issues of contentions and points for improvement. This is something Post Office continues to focus on today, which I think is very important.

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70.   The operation of the Helpline is dealt with in more detail in the statement of Kendra Dickinson which I have read and agree with.

Subpostmasters

Becoming a Subpostmaster[12]

71.   The vacancy advertising process for appointing new Postmasters has been relatively consistent over time.

72.   The advertisement was historically by way of a poster which would be displayed in the branch of the Postmaster vacancy and the nearest three branches. However in the case of family transfers, providing the family member was suitable, then no advertising was required.

73.   Post Office later moved to advertising Postmaster vacancies on our Post Office website. There are guidelines for how long advertisements were posted for and what was stated in them.

74.   Post Office would advertise any vacancy for a minimum period. Depending on whether the vacancy was advertised 'AT' or 'AT or NEAR' applicants would for 'AT' be accepted for the existing site only. If 'AT or NEAR' then Post Office accepted applications for existing premises or suitable premises nearby.

75.   If Post Office advertised a vacancy, it would state that we have an opportunity for a branch and this is a contract that Post Office is willing to engage on. The applicant can choose to engage with Post Office on the terms offered and be a part of the Post Office franchise or they can choose not to. There is very little room for contractual negotiation.

76.   Post Office has previously advertised Postmaster vacancies/franchise opportunities at franchise roadshows/trade fairs. Also in the local press when vacancies were long standing.

77.   Some locations would only attract one applicant. It depended predominantly on the location and the retail opportunity. Following the economic downturn in 2008, we frequently only had one applicant per vacancy. On occasions where the applicant wasn't suitable and the existing Postmaster wanted to leave the business, it could be a difficult conversation with the Postmaster but nonetheless one we had to have.

78.   As far as the recruitment process was concerned, Post Office operated on the basis that its responsibility was for the sustainability of the branch going forward

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I12   This section is likely to be dealt with by Sarah Rimmer but is being left

in your statement for now.

Ivan Roots, 23/07/2018 03:37 PM

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and therefore assessed this through a financial and competency based assessment process.

79. One of the obligations of postmasters is to keep information confidential and comply with the Official Secrets Act [is this still the case?]. ^{MC13} Very often an applicant would come from within the community and therefore we needed to really instil in people the importance of, "this is data you cannot share". A postmaster will see things which are confidential to the customer, such as their account balance, the amount in their pension or National Savings, how much they were paying into their bank account each month etc.

80. [Is it seen as a valuable / profitable thing to do, and why?] Yes. The role of postmaster is an important one which is held in high regard in communities and neighbourhoods. The Post Office is a unique and highly trusted UK brand which drives increased footfall and new customers into a retail store where a branch is situated where there is a natural synergy between the host retail offer and Post Office services. This provides postmasters with cross-selling opportunities. Post Office is the market leader in several trade and financial products. Introducing a Post Office into a retail store can create three income and profit streams for that business: the retail income, the Post Office income and the cross sell income from new customers drawn to the retail store through the Post Office. Key statistics from research are – Post Office network has 17 million customer visits a week and this footfall is driven by a wide range of services; 25% of customers visit the Post Office fortnightly or more regularly; 14p in every £1 spent in the UK is channelled through a Post Office. Combining a convenience store with a Post Office can create a highly valued community service and business: In the 2016 Local Shop Report published by the Association of Convenience Stores recognised the Post Office as the number 1 service for the impact it has on the local area, ahead of both convenience stores (2nd) and banks (8th). A medium sized Local Post Office, when mature, typically draws a loyal and broad customer base of around 600 quality customers – this is the average based on the existing estate of medium sized Local Post Offices (we help potential postmasters with more specific forecasts for individual stores). ^{MC14} The role of a postmaster can provide choices because the postmaster can work in the business or can employ managers or assistants to do so. Or the postmaster might choose to live and work from one premises, with full integration into the community.

81. Post Office would take into consideration whether an applicant had worked for Post Office before. However, I can recall appointing an applicant with no prior post office experience rather than the applicant with post office experience. When it is your own business, you the Postmaster have to pay the bills, manage

Page 25 Comments

MC13   I don't know. Rod best placed to advise I think.
Melanie Corfield, 24/07/2018 10:51 AM

MC14   I've included this from existing material but would want to double check these stats to ensure we have latest here if we are going to use. Might be better/ more recent ones
Melanie Corfield, 25/07/2018 01:03 AM

your own accounts and look at your profit margin. So Post Office's assessment on who would be the best candidate can be very different, depending on the individual and their experience.

82.   [Are there statistics regarding how many applicants are successful?] Kath's note is that she thinks this q is signposted to AAPT or Sarah Rimmer.

83.   Once interviewed, Post Office would carry out checks on the applicant. We would do CRB checks and a creditworthiness check to inform our view of financial stability against their business plan.

84.   Section 15 of the Subpostmasters contract dealt with Assistants. The postmaster had to complete a P250 form giving details of their Assistants so they could be vetted before being employed by the postmaster) and this was also a requirement when they take on new people.

85.   Post Office also carries out CRB checks on an incoming Postmaster's assistants. This was important as this requirement is built into our contracts with clients (so that clients can be confident about the people working in the Post Office network). In addition, Post Office is a financial institution and needs to comply with the FCA. Post Office is also protecting its assets and reputation by carrying out such checks.

Investments made by Subpostmasters to secure appointment

Kath's note _ This was a question on the draft defence for lead claimants – refer to these for consistency? [my note – is this for WBD??]

86.   [Please could you comment on the nature and extent of the alleged "investments" that Subpostmasters were required to make in order to secure appointment, and what Post Office knew about those "investments" and their costs (including the 25% deduction from remuneration that Bates paid in his first year). Must all or any of them be regarded as investments in long term relationships and must Post Office have known that they were so regarded? Are any relevant statistics available?] Before 2001 Post Office sometimes charged a new postmaster a fee in recognition of the benefit arising from being granted the opportunity to run a Post Office branch. This fee took the form of a 25% abatement of the postmaster's remuneration for the first year. Such charges have now ceased.

87.   [In what circumstances would Post Office agree that a SPMR made "investments" to the business relationship:

87.1   Due to the employment and training of assistants?

87.2   In return for POL not terminating the SPMC or requiring POL to pay compensation for loss of office?

87.3   Due to the provision of information and documentation to support an application?

87.4   As a result of purchasing the branch(es)?

87.5   By entering into a long term loan agreements to fund the purchase?

87.6   By agreeing to carry out improvement works required as a condition of appointment?

87.7   By entering into a lease?

87.8   By purchasing a retail business from a former SPMR?]

88.   [In what circumstances could a SPMR expect to realise the "value" of their "investment" into the SPMR/Post Office relationship and the premises].

<u>Fees paid to Subpostmasters</u>

89.   I consider the contract with Postmasters is a contract for services, rather than a contract of employment. I recognise some of the reasons why Postmasters want to be granted employee status.

90.   Postmasters operate as franchisees of Post Office. I was always keen to ensure applicants realised this from the outset and understood the contract. This is why I gave so much attention to the meaning of the contract when I carried out interviews and why Post Office recommended the applicant take independent legal advice before entering the contract.

91.   The way the relationship operates also indicates that Postmasters are not employees of Post Office. Contracts with the individuals were always offered on the understanding that they were self-employed and that the main provisions of the contract were non-negotiable.

92.   Post Office employees and Postmasters and their staff had access to the same products, system, equipment, helpline and general communications with Post Office. Post Office gave Postmasters everything that they would need to be able to run the branch properly, in accordance with the contract and standards that we set. The Postmaster is then responsible for running the business on our behalf under the terms of the contract. The key distinction between the franchises and the Crown/directly managed branches was the way the contract worked and the distribution of responsibility for the franchise.

93.   Overall the content of the training Postmasters and Crown/managed branch employees received was the same. It could vary slightly due some of the restricted products like car tax and passports. Once the training was completed, the way employees and franchisees were managed was different. For example, an employee would have to declare a branch loss over a specific sum and this would be assessed as part of the employee's performance review. It could be escalated to a disciplinary and eventually to being dismissed. In contrast, if a Postmaster had a loss which was not made good, the contract could be terminated. There was no disciplinary or performance review process, as they were not employees.

94.   Postmasters were not entitled to the same holiday, sickness absence and maternity pay as Post Office employees. Postmasters, under the SPSO contract, instead are able to claim holiday and sickness substitution allowance and maternity to help cover their absence from the branch. The holiday and sickness contribution is worked out on a two year cycle.

95.   Post Office recognised that it would be good for the business for the Postmaster to take a break from running the business by having a holiday. Post Office therefore considered it to be goodwill gesture to give the Postmaster some financial contribution to assist them in doing that, partly to encourage them to take a break as it recognises we all need a holiday or to take time out sometimes.

96.   It was in Post Office's interest to make a financial contribution to keep the branch open. It is not payment in the same way as an employee would be entitled to if they wanted annual leave. Post Office did not cover the full cost of the Postmaster taking holiday. Instead, it made a contribution towards it, which is why it's an allowance.

97.   It is the same with sick substitution. Post Office recognises that we all get ill at some point. Post Office considered that taking off the pressure financially should a Postmaster be ill could potentially aid their recovery and as with holiday cover contributions, enable the branch to remain open. Post Office therefore offers a contribution for them enabling someone to come into branch and cover the work when they weren't able to do that.

98.   Some Postmasters chose never to take the contribution, either because they didn't put in a claim even though they had time off, or were never sick. Some people never take time away from their small businesses as they feel integral to its success.

99. The more recent contracts, such as the Mains and Locals contracts, do not contain an allowance for holiday and sickness substitution as we contract on a company to company basis.

100. Postmasters have to carry out their own tax returns, which points to the fact that they are not employees. They also have to do tax returns for the retail side of their business.

101. A number of Postmasters I appointed or worked with relished the way the relationship worked and the level of autonomy granted as a franchisee. For example, some Postmasters were very good businessmen/ women. They would sell on the business with the goodwill element and hold onto the freehold and enter into a lease with the new Postmaster. It was their own business. They would do this multiple times over. The goodwill element of the post office was at some point I recall as high as one and a half times remuneration, so this was a commercially sound plan.

102. The success of a Postmaster very much depends on the type of individual they are. Some absolutely relished the fact that they are independent business people. They tended to be the better Postmasters because they come in with the attitude that "I am here as my own boss, I want to be able to have the influence of running my own business and have my destiny in my own hands". Such Postmasters would see Post Office as the umbrella under which they operated as a franchise banner. We also had Postmasters at the opposite end of scale. The undertone was that they wanted to be employed with the security and benefits they thought this offered.

103. I am aware that there are some things which may not traditionally be seen as things which point towards self-employment, such as PAYE and NI contributions. Post Office in some instances deducts PAYE and NI contributions at source. Postmasters elect through their agreement with HMRC as to whether these payments are deducted in this way or whether they are responsible for paying the same.

104. There are some other things in the Postmaster contract you wouldn't perhaps expect to see, such as allowing the Postmaster to attend Territorial Army training.

105. Post Office also makes "small offices payments" to some of the smaller post offices that do not have the constant flow of business in relation to their opening hours. In these branches, remuneration worked out on the whole as less than national minimum wage based on the number of hours the branch was open. The purpose of the Small Office Payment is to assist Postmasters at smaller

branches with the financial consequences of the National Minimum Wage legislation applying to any staff they might employ to help them run their post office. It is not intended that these payments would mirror the National Minimum Wage or cover all financial circumstances that a Postmaster may have.

106. I was very aware of the cost to Post Office of this policy when I was Head of Area for Wales, because in some of the rural communities in Wales the Postmaster would have a small foot-fall and so would often require "small offices payments". The cost of this policy to the Post Office was I believe to be a few million back then. It is approximately £1.3 million per year now.

107. Post offices sometimes struggled in rural communities. I used to attend public meetings at which we discussed with the community the possibility of the Post Office closing down. Some options were reducing the opening hours if the branch didn't have the business for the operating hours. This could be attractive to potential Postmasters whilst at the same time help reduce Post Office "small offices payments".

108. I think the reason behind offering these extras was because of the ethos of Post Office. There is also an argument that in situations where the Postmaster was struggling, Post Office offered goodwill gestures such as the "small offices payments" to stop the branch closing down and to maintain Post Office presence within that community.

109. We expected the applicant to provide their own premises from which to operate a Post Office. They had to meet certain conditions in terms of size, so that Post Office could fit a counter in and make sure it was secure. It would do all the security checks and make sure that the Post Office element itself was secure and alarmed.

110. The Postmasters' premises are assessed to ensure they can operate out of them; that the premises are kept in good order and that they have liability insurance in place. This forms part of the contractual relationship with the Postmaster and will be flagged to them in an interview.

111. Post Office's interest in the premises is establishing whether the Postmaster owned or leased them and whether they have a license to trade from them. Post Office would require the Postmaster to evidence that they have a legal arrangement to operate from there. Not all Postmasters live on the premises. Post Office did not restrict who lived in the property or worked in the premises save for standard checks and staff CRB checks.

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112. Post Office also needed to reduce the risk of a "tiger kidnapping". Postmasters are at risk to this crime (albeit a very low risk in later years) as they have access to large amounts of cash, often work with close family members who will not raise the alarm to protect the hostage meaning the police could not be notified until after the event. The first consideration is always to protect the Postmaster and his/ her staff whilst in the Post Office. Post Office offered guidance on the obvious security points and referred the Postmasters to the Security Manual which is part of the appointment pack.

113. Post Office historically charged an introductory fee, licence fee or franchise fee when an incoming Postmaster began to operate a new branch. The rationale for charging this fee was that there was an inherent commercial benefit to a retailer in operating a Post Office branch. Obviously, incoming Postmasters traded under Post Office's brand and they often received additional footfall, however in my view the basis of the fee was never really explained well enough internally or externally. The fee was a bone of contention for a number of people.

114. At present Post Office does not charge introductory fees, or licence fees.

115. The circumstances when introductory payments were applicable were set out in an Agency Change Communique (**ACC**) but in essence if the Postmaster was buying the business as a going concern, which we called "commercial transfer", Post Office wouldn't charge a fee. If it was a Greenfield site, a new business and there was no commercial transfer Post Office would charge the equivalent of 3 months remuneration. For Franchise contracts the fee was calculated on the number of counter positions.

116. Rather than paying the equivalent of the 3 months remuneration up front the Postmaster was able to have a 25% reduction in the remuneration arrangement for the first year.

117. Post Office influences the retail side of the business, as it has restrictions on what can be sold in the branch to tie in with Post Office products and services.

Trust and Confidence

[Why was it commercially necessary / inevitable for Subpostmasters to be responsible for the assistants who worked for them (especially c.f. cases on absentee SPMRs, and people/ entities running multiple branches)? The Postmaster had a choice of whether he/she would do personal service. Many Post Offices were operated by a spouse/partner team or family business as part of a larger estate of retail outlet/s. Alternatively, the Postmaster who chose to be an absentee would usually have the benefit of additional

income streams from alternative employment/consultancy/own business. Essentially, the set up operation of a post office and with the vast majority of the network being operated by 'agents' had a variety of operating modes and it would be commercially unsustainable if the network of at one time [more than 20,000] branches to be operated by post office. The diversity in geography, community, size by way of example would have rendered this to be unstainable both in the cost and management of it. Notwithstanding that, Postmasters wanted to have control over their business and staffing so that they could choose to have multi skilled staff or family members working alongside them and assisting the development of their business. It is the postmaster who is best placed to arrange staffing to ensure the success of both his retail business and Post Office (for example he can employ assistants who can work within both businesses as he/she chooses/ needs). Some branches are operated by larger retailers such as WHSmith and there are also examples of smaller independent companies who operate several branches and appoint managers to operate them as they obviously cannot provide personal service themselves in this situation. It is the retailer who owns/ leases the premises and other than Post Office setting minimum standards for the premises (in terms of legal ownership rights/ physical security etc) it is a postmaster's responsibility to provide and operate premises (which of course the staff will be working in).It is the retailer/ postmaster who will be more knowledgeable about local customer needs/ customer flows etc which will influence decisions on the best way to staff the business to ensure good customer service.

118.   When Post Office enters into a contract with a Postmaster it provides them with a starting amount of cash, stock and all the equipment. It also gives the Postmaster practical training around how to carry out transactions and how to balance the branch.

119.   Post Office engages them to run that branch. They are on site. The Postmaster or their staff carry out transactions with Post Office customers, with Post Office cash and stock.

120.   In practical terms, this means that when a new Subpostmaster takes over an existing branch, he takes on responsibility for the Assistants of the previous Subpostmaster. It is up to him whether to identify whether they are suitable. If required to take them on due to TUPE regulations, this would need to be factored into the decision he had to make as to whether to take on the branch or whether to use those staff in the Post office side of the business as opposed to the retail side.

121.   This also meant that, once he had taken them on, he was also responsible for ensuring that they were adequately trained. If he felt that he was struggling to

provide that training, he should have identified that with Post Office and arranged for additional training, taking advantage of the support that was available from Post Office such as Helpline and post-appointment visits.

122. Post Office will also know what button they have pressed through Horizon, but only the Horizon user will know why they have pressed the button and whether it was the right button to press.

123. Post Office can review the Horizon logs to ascertain whether or not a transaction or pattern of behaviour looks normal. Post Office considers it normal behaviour to count the cash and enter onto Horizon as you count your cash. Then the Horizon user presses the button that tells you what your discrepancy is. If the stock unit is an individual stock unit the amount of discrepancy will automatically present. In the case of shared stock units then the branch user is required to request a variance check (the cash declaration is mandatory daily process but the variance check is not mandatory). If there is a discrepancy, it is normal to go back in and check it and then to make some adjustments because you've found a mistake somewhere. It is not normal behaviour to say how much am I out before I make my account declaration. This could suggest falsifying the accounts. There were instances where a Postmaster may be less than £50 out and would think "I am not going to bother looking for that amount. I will accept this position and make good the loss".

124. At the heart of Post Office's relationship with Postmasters is trust. Post Office trusts the Postmaster to give it the right information and supports the postmasters with its systems and training. Post Office will build its processes to try and see where it is not getting that accurate information. Post Office can't possibly say it is better placed than the Postmaster to know what is going on in that branch.

125. The relationship needs to be mutual for it to work. Post Office is not dishonest. We and Postmasters need to have confidence and trust in each other. We are a financial institution and are held in very high regard. We are probably the most trusted brand in the country and Post Office holds that very dear. Post Office's reputation is partly why it has survived as long as a business.

In relation to what matters was Post Office reliant on Subpostmasters and what would be the consequence if Subpostmasters let Post Office down: From Kath: Postmasters were given the initial training, and ongoing training and support to operate their business. (over the years this has changed from the way the roles in the network operated, but the support was on offer remotely and face to face. The Postmaster was encouraged to contact the helplines or formerly the

dedicated field support to request support /training etc. Ange- I have a document I pulled together for you and WBD about the roles/responsibilities over the years.

131.1 <mark>Did not follow relevant operational procedures?</mark> Postmasters were provided with a variety of comms on operational procedures such as hard copy operational manuals, counter news, branch focus and the support of regional and then the national NBSC helplines. Since the change to Horizon on Line, Postmasters have also been able to access the HOL help to support without the need to contact the branch. Failure to carry out procedures would/could result in a variety of circumstances, by way of example, discrepancies in branch, unhappy customers, letters from RNM in early period and CA in later years. Essentially, a conduct process could be instigated such as warning/remedy letters, invite to interviews to discuss issues and ultimately the loss of the contract by termination/notice period given, if all other action had failed and persistent offending occurred which could in more severe cases lead to damage to brand.

<mark>Did not train assistants well or employed incompetent assistants?</mark> From KA: Failure of the above could lead to the outcomes outlined in 131.1. Post Office, did offer assistants training for example when Horizon was introduced; invites to small group seminars on product launches; supported the Postmaster in sales programmes such as STEP, Customer Relationship Managers (currently in ASPM branches)

Ange – there is info in the old RNM manual about assistants/ the modernising the network journey of a branch in NT etc

<mark>Did not explain problems properly to the helpline etc?</mark> The failure to do so could lead to errors being compounded resulting in a discrepancy, loss of trust and confidence, loss of customer. Ultimately could lead to reticence to contact the helpline for future support, leading to potential discrepancies, negative postmasters and decline in business if this impacts the customer. Could also lead to lengthy calls which have an adverse effect on customers and a knock on effect to other callers response time. The helpline operates a 2 tier system and now has HORIce which gives the real time view of the branch. Recently, case management has been rolled out and still is and gives a more holistic/ one line of sight of the branch to mitigate issues and get to the root cause earlier potentially and allow POL to offer appropriate support.

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126.   Quality of transaction data typed into Horizon? Training and support that is provided all underlines the importance of avoiding human error when carrying out transactions and includes support about how to minimise the risk of this. Whilst Transaction Corrections can be issued to rectify accounting errors from a wide range of issues including mis-keying or not entering the transaction date, there are some errors (eg giving customer the wrong change) that will not be reconciled. KA – evidence of misskeys in TCs/NSBC logs/SSET cases etc.

Quality of accounts submitted to Post Office (effect of concealing shortfalls by false accounts etc)? By falsifying the accounts (whether through the inflation of cash on hand or otherwise) postmasters or their assistants prevent Post Office from being able to identify the transactions that may have caused discrepancies and losses. The first step in identifying a genuine error is to determine the days on which the cash position in the accounts is different from the cash on hand. Where the cash on hand figure has been falsely stated, this is not possible.

The false accounting therefore hides any genuine errors from Post Office. It hides it at the time the losses occur and it remains the case that Post Office is not then later able to identify which transactions may have caused the losses. False accounting by postmasters or their assistants prevents Post Office from investigating the underlying losses.

KA note- false declarations and concealing shortfall via non completion of TP, rem suppression, manipulation of suspense account, rolling losses

126.1   Relevant statistics? KA – Gayle would have the detail

127.   Subpostmasters were not required to provide personal service but those who chose to spend at least 18 hours per week working at their branches could subject to certain conditions claim a holiday substitution allowance from Post Office as a contribution towards the cost of providing a substitute for themselves while they were on holiday. [Please could you explain the holiday substitute allowance system, why it exists and how it works]. KA   has noted ACC and documents in pack but I have not yet been able to review all the docs

127.1   What is Post Office's death in service procedure? As above

127.2   [Would a Post Office employee have met with an individual who was taking over the business following the death of the former Subpostmaster?] KA – Yes in majority of cases, this would be modus operandi – refer ACCs and Barkham lead claimant

Training

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Subpostmasters

The following is the summary of training (taken from Second Sight's P1 report from information provided by Post Office). It does not answer all of the more detailed questions below however so will need advice from subject expert.

Training

Post Office will typically provide new Subpostmasters with training both prior to and after taking up their position in branch. Training can cover matters such as how to transact products and services; reconcile the day's transactions; "*remming*" in and out cash and stock (see below); and despatching cheques to processing centres.

 Subpostmasters are also advised on how to balance the branch on a weekly basis, roll over into the next weekly balancing period and how to balance at the end of the monthly "*trading period*". As part of this training, Subpostmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise; how to accept or to challenge Transaction Corrections; how to make good any losses and gains; and how to raise issues about errors/discrepancies.

As set out below the nature of this training has evolved over time and a summary of the type of training that has been provided by Post Office in the past is set out below. In addition to ongoing training related to operational processes, specific training was provided as part of the introduction and implementation of the original Horizon system and then the migration to Horizon On Line.

2001 – 2002

Classroom training was offered to new Subpostmasters followed by ten or eleven days of onsite training and support. This would be followed by one day of follow-up support on how to carry out balancing at the end of the trading period, referred to as "balance support".

2003 – 2006

Between five and ten days of classroom training was offered to new Subpostmasters (the training being optional) and five to ten days of onsite training and support was then given depending on whether the classroom training was attended. This would be followed by a further day of follow-up balance support.

2007 – 2011

New Subpostmasters received five, eight or ten days of training on foundation, sales and other specialised modules. Six days of onsite training and support was provided, again followed by one day of follow-up balance support. In 2007, after a pilot scheme, follow-up telephone calls were introduced at intervals of one month and six months after a branch was taken over by a new Subpostmaster, with a one-day site visit taking place three months after the branch was taken over.

 A Subpostmaster may choose not to attend training, or only attend part of a training session if, for example, he or she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training has been provided, it is the responsibility of the Subpostmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is for the Subpostmaster to ask for further training and/or assistance if it is required.

In 2012, as part of the wider steps being taken to "transform" the network, Post Office tailored its training to reflect the specific role being undertaken and rolled out further training depending on, for example, the experience of the Subpostmaster, the type of contract they would be operating and the number of employees they have.

The precise training given to a Subpostmaster therefore depends on a number of factors such as whether the Subpostmaster is completely new to the role, whether he/she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (i.e. Main or Local) and the types of products and services to be transacted. Post Office's approach to structuring its relationships with Subpostmasters has evolved over time, as have roles and titles.

Training for Subpostmasters [at a very high level], including: Note from KA - Ange- I haven't responded per each bullet – I have various training packages including us reconstructing a 2006 classroom course from the info on Relativity. We also have the archive and other training info. Also see factifile and my summary of roles document. Numerous information/responses have been given for the led claimants as this is an area that is key issue. Rather than send over all perhaps we can see what WBD and Ivan has seen and what you would like – we have info given for Counsel. Specific responses to questions posed by WBD on the specific cases, Factfile, balancing guides/aide memoirs/ PSAs, PTVs etc

127.3 The policies applied and effort made in formulating adequate training, in ensuring its consistency and quality across the country, and improving it when problems arise. Why (in the whole network's interests).

127.4 What initial training was given, what training was given when Horizon was introduced, and what continuing training was given. How this training varied region by region and how it varied over time – particularly with reference to why the number of classroom training days was reduced. MC15

127.5 The extent to which any of the above training covered the issues about which complaint is made – e.g. problems with balancing on Horizon, investigating discrepancies, disputing shortfalls etc.

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MC15   I found a reference from Select Committee when George Thomson said he still had his pack for the training for this but can find no other references at the moment regarding how this was carried out. Are we in touch with any people involved in its delivery at the time?

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127.6 The policies applied in deciding whether extra training would be provided if a Subpostmaster requested it. How much discretion was involved?

127.7 Whether and in what circumstances Subpostmasters knew that they could request extra training, how they could do so, and whether they would get it if they did so.

127.8 Are any of the complaints made about training based on an unrealistic standard?

127.9 Are there any facts we can rely on as demonstrating (a) that training was not offered and provided as a service to Subpostmasters and (b) that it was not provided in return for consideration moving from Subpostmasters?

127.1.1 Does the classroom and on-site training cover transaction corrections? [yes according to information above]

127.1.2 During the classroom and on-site training courses, are SPMRs told that they are obliged to make good losses disclosed in their branch accounts? If so, what explanation is given?

<u>Assistants</u>

128. The standard position is that the postmaster is responsible for training his or her staff but if there is availability on a local training course they will be put onto that course or placed on a reserve list. [Can we say more?] KA suggestion – use some of what we use re incompetent assistants par i.e. Post Office did offer assistants training for example when Horizon was introduced; invites to small group seminars on product launches; supported postmaster in sales programmes such as STEP

129. The aim of the training is that the Postmaster is equipped to do the role that they have been asked to do. The training is offered to the Postmaster as part of the induction process.

130. The training offered to Postmasters has changed over the years. Post Office has continually sought to improve the quality of the training and how that training is received.

131. Pre-Horizon (which was introduced in 2000), the training was carried out on site (at the branch) over a period of around two weeks, as "on the job" training. I believe training at this time was one week for branches with no car tax and two weeks for those that did car tax. There were two follow up balances and more if needed. For a short while I was an on-site trainer and used to visit and train

Postmasters on the manual system. It was a condition of the appointment that the applicant attended the training course.

132. Post Office wanted to ensure that before the Postmaster took on the appointment, they had had the opportunity to ask questions because different branches have different transactions, depending partly on the location of the branches and the services and products they were responsible for. The training would therefore be tailored in part depending on what sort of branch the applicant was going to run.

133. More recently, since the introduction of new contracts, different models of training were provided to the Postmaster depending on whether they were on a Mains or Local contract. The number of days over which the training took place depended on which model of training was provided. The training usually took place over 8 to 10 days. Both courses involved some classroom and on-site training.

134. When a trainer went on site, they did a transfer of a cash and stock and showed the Postmaster how to put all their cash and stock into the system. The trainer would also run through balancing the books with the Postmaster as well. Most often, it would be the same person who would come back to carry out the transfer audit after the applicant had completed the training.

135. It could be a stressful time for the incoming Postmaster as they were often also moving house as well as buying a business and entering into a commercial transaction with the Post Office. I always stressed to them what this commercial relationship entailed and offered suggestions on how they may want to organise themselves in the branch. I also stressed how important it was to be "present" at the training to equip them properly for running the branch.

136. We would historically offer training to not only Postmasters, but also their staff if there was space on the course. Now, it depends what type of contract Post Office has with the Postmaster. I believe under the standard Local contract the postmaster is required to train their staff. In this situation, Post Office trains the Postmaster, and they train their staff. In the Mains contract, there is an obligation that a number of their Assistants are required to be trained by Post Office as well.

137. At the training sessions, I would impress on the applicants that they as Postmaster were responsible for the branch and his/ her staff and potentially liable to Post Office under the contract for actions not only of themselves but also their staff. I would also impress the importance of the postmaster being comfortable that their staff were properly trained; that they were accurately declaring their cash and that when they as Postmaster signed off the cash

account it was accurate ie the amount of cash they said they had was what was in the branch.

138. Even if a Postmaster had experience with the Post Office before, it was important that they attend refresher training as the training was always evolving. If there was space on the course I would suggest that the Postmaster bring their staff with them to utilise the spaces on the course. With the new Mains and Local contract the training is set out explicitly: for Mains the Postmaster and up to 50% of their staff are invited to attend the training. For Locals if the Postmaster has more than 5 staff then in addition to the Postmaster sufficient spaces will be offered to train 50% of their staff.

139. Once the applicant has been accepted, the current position is that they will be sent a link to the online training that they access on their own device eg laptop. The online training is interactive and requires user participation. Recently, Post Office has provided online training as a precursor to classroom and on-site training. This is a change I introduced in 2015; this approach ensures the Postmaster has a variety of methods to take in the training – on-line, classroom and on-site.

140. A Postmaster is now required to complete the on-line training before attending the classroom training. This approach equips the Postmaster with a certain level of basic knowledge to process to classroom training. The classroom training is intended to reinforce the online training, familiarise themselves with the Horizon equipment and navigation of the screens and put into effect the practical skills, such as working on the counter.

141. The Postmaster is required to reach a level of competency through the online and classroom training. The on-site training reinforces the on-line and classroom training in the live situation. Once the training is completed the Postmaster should be sufficiently competent to run their post office effectively. If the trainer has any concerns about the Postmaster they would arrange further training for the Postmaster.

142. The content and set up of the training courses has changed and improved over time. One noticeable change is that the current content combines integrated selling techniques into the transaction.

143. When Post Office introduces new products or changes to products, the type of training is determined by the type of change or the level of complexity around the product. If a new product is introduced that is similar to a product Post Office has

already trained its Postmasters to use, then Post Office wouldn't do face to face training. Instead we would issue instructions and easy to use guides.

144. There have been examples where some Postmasters weren't happy with the level of training they received in relation to the ATMs. When we first introduced ATMs into our network the training was done by the installing engineers and Post Office issued written instructions on how to balance the ATM and how to account for the transactions on the Horizon system. We later moved to Post Office trainers providing training when ATMs were installed in post offices. On transfer of a post office if there was already an ATM installed then training would be provided by the Post Office trainer during the on-site training period.

145. In recent years training on certain products has also been by way of video links (like YouTube). These were typically filmed using NBSC staff.

Discrepancies and Investigations

<u>Audits</u>

146. Post Office used to have separate audit and training functions, so they ran as separate teams. These teams were later merged. When I took over the Audit and Training team in about 2009, they were already multi skilled for both the training and audit functions and have continued to be so. The audits were and are still carried out by the audit and training team.

147. The audit is not an audit in the traditional sense as carried out by accountants. It is a detailed check of cash, cheques, stock and vouchers on site. The auditors would use audit tools such as p32/FAT tool (accessed on the auditor's laptop) and guidance notes when carrying out the audit. It was a process driven approach.

148. The Postmaster is not given advance notice that the auditors will be attending. The lead auditor would have a conversation about what would happen on the day. Around 2011 we introduced a document which explained what would happen in the branch on the day of the audit. This document was shared across the network to help make the audit process transparent. It explained that if a discrepancy was discovered on the day of the audit, the Postmaster would have the opportunity to discuss it with Post Office.

149. The branch is closed for the audit. The auditor talks through with the Postmaster what is going to happen. The lead auditor asks the Postmaster to add them to the system so that they can call off the reports they need to do the audit. If the Postmaster is absent and there is no-one with manager access then the auditor

global password is used. This is recognisable by the "*" and initials of the auditor followed by "1" usually.

150.   Post Office would always inform the Postmaster this is what it was going to do. For example, when checking the cash the auditor would request that the Postmaster observes and checks what they are doing and would always recommend that they do so.

151.   A Postmaster is asked sign the auditor's findings. The auditor will discuss any findings at that point in time so the Postmaster is completely clear on the audit output. A copy of the audit report is sent to the branch. The content of the audit reports has changed over the years. The report is now automated. It is called a Financial Audit Tool report, internally known as a "FAT" report.

152.   When I was involved with the audit team between 2009 – 2012, it was carrying out around 5000 audits a year. These were broken down into random audits, risk based audits, special audits, branch transfer and compliance audits.

153.   Around 100 random audits are carried out each year.

154.   The "risk based audits" were for branches which had been identified using a risk model. The risk based audit system generates a list of between 50 and 100 branches that are potentially at risk of carrying a loss/funds at risk. That list forms a schedule of audits that Post Office carries out on a monthly basis.

155.   There are a number of factors that would deem a branch to be an "at risk branch". For example where Post Office knows how much working cash should be in the branch when it has considered the number of deposits and withdrawals (this is called their overnight cash holding target) and the branch is holding more than that. In that example, Post Office would investigate why. It might be that they are just holding too much cash and Post Office will ask them to send it back or it might be that they appear to be holding more in their accounts because they actually physically haven't got as much as they tell Post Office they have.

156.   There are also "special audits" which were carried out when something doesn't feel quite right. This isn't through the profiling system. It may be from a conversation somebody might have with a Postmaster or some intelligence Post Office has received from a third party or client. These audits are arranged within 24 to 48 hours due to the urgent nature of the circumstances which has deemed it necessary to carry out an almost instant audit.

157.   Another type of audit is carried out when there was a transfer from one branch to the next. Post Office would carry out an audit at that time to enable the hand over process.

158.   Due to the wide range of skills, the Audit and Training team were able to help with shortfall queries. They had a very good working knowledge of how the whole thing came together and were very competent users of Horizon. The team understood not just the numbers but also the transactions to get to those numbers.

159.   The Audit and Training team could identify where Postmasters could be hiding a loss and would work together with the SSRT to identify where that loss may be hidden. An example the team dealt with (although the figures I give are made up) was where a Postmaster declared that they had £40,000 in the ATM, when actually they only had £20,000 in the ATM. This was a way to hide the loss as the ATM was separate to the branch's main cash.

160.   Post Office stores audit data so that it can analyse what the trend has been over the years in terms of the number of audits carried out. From this data, it can be seen what the average loss level for each of those audits is. Post Office can also sort this data by type of audit.

161.   The format of the audit report and audit tool has changed slightly but the basic things checked have remained fundamentally the same.

162.   The way we produce the report has changed due to Horizon. When Post Office operated using a manual system, it produced a handwritten paper report. We now use an electronic version which shows the cash count and stock and some narrative.

163.   If there is a large loss, the auditor would tell the Postmaster that they will need to take advice from the Contracts Adviser. The Postmaster would then have a telephone discussion with the Contracts Adviser to discuss the loss.

Investigations

164.   The process was that the Contracts Adviser would gather more facts and evaluate the loss. Often, the Contracts Adviser would explain to the Postmaster that they needed time to investigate the loss. They may say "I will come back to you because I am considering whether I need to suspend you as a precaution or not".

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165.   The Contracts Adviser will then carry out their investigation. This is usually on the day of the audit but in exceptional circumstances can be later. Depending on the level of loss and what they find, the Contracts Adviser will then seek authority from their manager to take the recommended decision as to whether to suspend or not.

166.   There is a process map which contains clearly defined steps, the process and what the consideration points are in terms of coming to a decision on whether the Contracts Adviser should precautionary suspend the Postmaster or not. If the Postmaster is suspended, the process map also covers whether the Postmaster should be reinstated or have their contract terminated.

167.   The Contracts Adviser will need to record the decision rationale. A series of letters will be sent to the Postmaster during this time inviting them to a meeting, keeping them updated of the investigation and the outcome.

168.   If a Postmaster doesn't agree with the outcome, there is an appeals process. There is an appeals process documented in the Subpostmaster Contract. There isn't an appeals process as part of Mains and Locals but the Postmaster can request an audience with a senior manager if they feel they have something they want to discuss. I have attended such meetings myself before.

169.   A Postmaster will declare a discrepancy on a branch trading statement. At that point it is declared as a loss or gain. The Postmaster then has the opportunity to dispute the discrepancy and ask Post Office to investigate by contacting the Helpline.

170.   If the Postmaster had asked Post Office to investigate, Post Office would not usually seek to recover the loss then. The loss goes into the Postmaster customer account and is put on hold until investigations are complete. The SSRT usually helps with these investigations.

171.   [How likely it is that a Subpostmaster will know or be able to find out when and why a loss appearing in his branch accounts actually occurred.] KA: Provided that the Postmaster and /or his/her staff follow the end of day mandatory procedures, then any branch discrepancy will be pinpointed to within that day of operation. This will not necessarily allow the Postmaster to identify the source of the loss, by way of example an assistant may have finished their shift for the day and may have been the one to have made an error. That said, this short timescale will allow Postmasters to look at the very most the day's transactions. There are checks that the Postmaster can undertake to allow detection of an error. However, it may be difficult to find the root cause if for example the incorrect

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amount has been taken/given to customers and the customer has not realised an error has been made, or choosing not to alert the counter clerk. Some errors could be detected but by their very nature would require a TC to be issued once client settlement has been completed and /or where required customer agreement sought. Ange – I have lots of info that I provided to Amy following meeting with Counsel, so I can send this over as well or can signpost Ivan to this?

[The right to dispute shortfalls and how much support is given to Subpostmasters when disputing. Why this support is given (in Post Office's interests etc). KA: Postmasters are able to dispute a discrepancy in their branch. First point of contact should be NBSC to raise and give details. NBSC will support via tier1 and tier 2 and/or forward if to FSC depending on what the discrepancy relates to. e.g TC issue. Enlist support via FSC with client when error involving customer made, challenging TC (if the FSC details not given – which is unusual) etc. Branch may also choose to speak with the NFSP rep who may also assist. Depending on complexity/type of error then other teams e.g SSRT will be asked to review/investigate. . It is in Post Office interest for various reasons; foster good relationship with Postmaster, support to mitigate stress/financial hardship, mitigate impact on customer and client relationship, depending on severity could lead to customer choosing another supplier, client penalties or loss of client business. Ange- I have lots of documents for over period of time relating to the Dispute Process and also the SSRT investigation process which have been provided to Amy WBD. Mel: The following is from our Part Two Response to SS: If, following the monthly rollover, there is a shortage of cash (when the cash on hand is less thanthe amount of cash recorded in Horizon), then Horizon presents the Subpostmaster with three options to remedy the deficiency:

Make good – the Subpostmaster can elect to put cash or a cheque into the branch from his/her personal funds to make up the shortage.

Settle centrally and pay – the shortage is transferred to the Subpostmaster's personal account with Post Office. The cash figure in Horizon is reduced to bring it in line with the actual cash on hand at the branch. At this point, the Subpostmaster owes the cash loss to Post Office as a debt. This debt can be repaid by either (a) a direct payment from the Subpostmaster to Post Office or (b) by deductions from the Subpostmaster's future remuneration although in this latter option the Subpostmaster may not commit more than 25% of his/her net pay to such deductions.

Settle centrally and dispute the shortage - if the Subpostmaster believes that the shortage was not his fault or could be resolved through other means, then the debt will be suspended to allow time for the shortage to be investigated and remedied. The Subpostmaster can dispute a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the Finance Service Centre at Post Office to have the debt suspended pending an investigation.

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If however a Post Office investigation does not fully eliminate carelessness, negligence or error then the Subpostmaster is liable for the loss and is required to personally settle any amounts due. In order for the Subpostmaster to challenge this liability, the burden is on the Subpostmaster to determine the source of the error and deficiency.

It is very much in the Post Office's interests to understand the source of discrepancies in the interests of its network and everyone working in it and its customers so that they have confidence in the accuracy of the system. Understanding how discrepancies might arise can drive improvements in training and processes to minimise risk from human errors.

==Why was Bates' contract terminated when the shortfall was only £1,041.86?== from KA: Summary of POIR and on the addendum prepared by POL for the Lead Claimants

1. Based on the available evidence, the Applicant did not make good any losses to Post Office between the date on which Horizon was installed in his branch and the termination of his Contract for Services with effect from 5 November 2003. His debt was subsequently written off. Therefore, regardless of whether Horizon was at fault for any losses in his branch (which Post Office denies) he has suffered no direct loss.

2. The Applicant's Contract for Services was terminated by way of Post Office serving three months' contractual notice of termination on 5 August 2003 (which it was lawfully entitled to do, as would the Applicant have been if he wanted to terminate at any time). Post Office was not required to provide any reason when serving such notice and 'no fault termination' provisions are a common term in commercial contracts.

3. The Applicant was given a clear written warning that his actions could lead to the termination of his Contract for Services before the decision was taken. He could therefore have chosen to comply with the terms of his contract and avoid its termination.

4. Despite Post Office having no legal or contractual obligation to offer any form of appeal process, two independent senior managers carried out reviews of the Applicant's case. Both concluded that the decision to terminate his Contract for Services was appropriate in the circumstances. Given that the Applicant had been refusing to comply with the terms of his Contract for Services by making good losses to Post Office this appears to have been a reasonable conclusion.

5. There is evidence of the Applicant being given additional training on Horizon and receiving support visits from Post Office personnel to discuss his concerns about the Horizon system.

Ange-no doubt you can add much more here too]

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172.   [How does Post Office factor into its financial forecasts the assumption that a proportion of Subpostmasters will commit wrongdoing? [I had a very quick chat with Jenny Ellword, Risk Director, and think the short answer is that we don't in that we do not insure and we write off debt but I will ask for a formal response to the Q]. KA suggests FSC

Investigations (needs to be v high level), including: This is from our response to P2 report: In order to identify a loss of physical cash, an investigator needs two pieces of key information:
(a) How much cash should be in the branch as a result of the transactions processed in the branch. This information is provided by the branch accounts stored on Horizon.(b) How much cash is actually in the branch. This is known by conducting a physical count of the cash on hand. Any difference between the above two figures generates a 'discrepancy' which may either be a shortage or a surplus.

 If cash is missing, the first stage of the investigation is to identify the day on which the cash went missing. The transactions for that day can then be reviewed for anomalies. e.g.: transactions incorrectly recorded (such as withdrawals being recorded as deposits); and values incorrectly entered (e.g. entering £2000 instead of £200).

This is done to determine if the branch has made errors that would make the branch accounts inaccurate. **This review must be done by the branch staff** as only they will know the transactions performed on that day and may recall the correct transaction details. Many branch errors (including the two examples above) are most easily identified in branch. They would not be evident to Post Office unless, for instance, a complaint was made by a customer.

 Post Office helps correct branch errors where possible by reconciling Horizon records against data collected on some transactions by third parties such as banks and government departments. Where Post Office detects an error through this reconciliation process, it issues a Transaction Correction to a branch notifying them of the error and requiring an adjustment to the branch accounts.

Transaction Corrections are only issued where there is clear evidence of an error in branch. Where the cause of loss rests with Post Office or a third party client, Post Office absorbs that cost and it is not passed back to the branch.

Save when it conducts an audit, Post Office does not have any direct knowledge of what physical cash is actually in a branch – only Subpostmasters have this information. For this reason, branches are required to: count the amount of cash in the branch daily and record this figure on Horizon as a cash declaration; and count all cash and stock at the

end of each trading period and record these figures on Horizon before making good any discrepancies.

If daily cash declarations are not made by a branch or declarations are made falsely (by declaring that there is more cash in the branch than there actually is) then it is impossible for Post Office, and will be very difficult if not impossible for a Subpostmaster to: know if cash is missing; identify the day or days on which cash has gone missing; identify which member of staff may be the source of errors; or locate the erroneous transactions that caused a loss.

Daily accurate cash declarations are the most critical aspect of branch accounting. Where these are not performed, losses of cash go unchecked. For this reason, it is critical that Subpostmasters make accurate daily cash declarations as a fundamental requirement of their contract with Post Office. The need for daily cash declarations is known by all Subpostmasters and is easily done – there is no specialist training or support required.

172.1   The myriad of different circumstances which might call for an investigation and who would typically perform it – including evidence going to the test cases. KA- see para on disputing shortfalls and also she notes CAs and Network Field Team would potentially investigate too

From Second Sight's P1 briefing: This provides a lot of background about types of error – obviously need more specifics on some aspects to answer above question:

A number of the errors as described below may only be visible to those working in the branch. When discrepancies occur, Post Office normally seeks to find possible explanations other than those below. If no other source of the discrepancy can be found and system error can be eliminated or discounted then, by a process of elimination, the discrepancy will have most likely occurred through an error in the branch.

Mis-key

A mis-key is the term used when staff enter the wrong value of a transaction into Horizon compared to the actual amount of the transaction.

Example:

A personal banking customer wishes to deposit £1000 into his/her account and the person

serving the customer mistakenly enters £10,000 but only £1000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.

In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank which in turn will contact its customer. The customer will then be asked to confirm the amount deposited at the branch. However, the only receipt printed

from Horizon will have been given to the customer and will show a deposit of £10,000 and, therefore, the rectification process relies largely on the actions of the customer and their bank.

As a result, an easy to make keying error, by branch personnel, could result in a customer

enjoying a windfall benefit, with the Subpostmaster having to make good this discrepancy.

Mixing retail and Post Office business

Generally, a branch will maintain a physical separation between retail and Post Office cash.

Mixing these two sets of cash can lead to Post Office cash being lost to the retail business and vice versa as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

Errors in cash handling

At the end of a customer transaction, payment normally needs to be made to or received

from the customer. Even if the transaction is correctly recorded in Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to, or receiving it from, the customer.

In many cases the honesty of the finder and the ability to identify the money as coming from the branch is required if the money is to be returned to the branch.

Miscounting cash on hand

Cash must be physically counted at the end of each day and when rolling over at the end of a trading period. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether.

If cash is temporarily mislaid one day and found the next, it can lead to related shortages and surpluses on different days or in different trading periods. In the midst of many other activities, branches may not associate the two and may dispute part or all of the outcomes.

Another instance of where this can happen is when a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. A few Post Office products, such as National Lottery scratch cards, are permitted to be sold from the retail business. However, it is the Subpostmaster's responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.

Cash remittance pouches that have been prepared for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure (as it is deemed to have been remitted

out of the branch even if the pouch has not yet been physically collected) and, therefore, the branch could be declaring a gain or inadvertently hiding a loss.

Cash remittance errors

If there is mistake made between the amount that is "Remmed" in or out and what is received from, or sent to, the Post Office Cash Centre, then this will lead to a branch discrepancy. When a pouch is received from a branch, the handling clerk at the Cash Centre opens the seal and empties the contents onto their workstation, which is monitored by CCTV.

This is the same for pouches that are made up in the Cash Centres and sent to branches.

Example:

If a branch has bagged up £25,000 to send to the Cash Centre but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000.

If the cash has left the branch then the mistake cannot be rectified by the branch. The cash will be counted at the Cash Centre and a Transaction Correction will be sent to the branch to rectify the branch account.

Stock remittances

Branches receive their stock (postage stamps, Motor Vehicle Licences, etc.) from Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking at the earliest possible opportunity that the amount of stock received exactly matches the advice note delivered with the order and "remming" the stock onto the correct lines in Horizon.

As the delivery can often occur during branch opening hours it may be impractical to carry

out a full check immediately as to do so in an effective manner could require the branch to be closed for a period. In these circumstances an immediate cash count would not be carried out on delivery of the cash unless it was required immediately for operational purposes.

Cheque handling

 Branches can accept cheques as payment for certain products and services. Customers can also cash personal cheques up to a certain amount. Branches may also accept deposits for certain partner banks.

There are set procedures that must be followed in branch at the end of each day to ensure

that the cheques are handled correctly, the customer's bank account is debited accordingly and Post Office can settle the client accounts. Typically there are two scenarios which might cause a loss:

· A cheque has been accepted for a non-cheque acceptable product (i.e. foreign exchange

sales). By accepting payment by cheque for a non-cheque acceptable product, it may

not be possible to link a missing cheque to a transaction record. This is because the Subpostmaster may have taken the cheque for payment from the customer, but because the product did not permit cheque payment, Horizon would not present this option on the counter terminal. The Subpostmaster would therefore have to erroneously select another payment option (i.e. cash).

· The method of payment has not been correctly recorded in Horizon.

 Branches should follow a process to ensure that the amount of cheques recorded as held in branch balances to zero. This process is called "cutting off". If the cheques are not "cut off" at the end of the day the cheque listing on the following end of day procedure will not agree with the actual value of cheques held in branch. This is corrected in the same way by amending the "cheque on hand" figure to show the correct value of the actual cheques held in branch. The value of the cheques in branch is then sent out before a further cheque listing to confirm a zero entry is printed.

 It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, Post Office will normally absorb this loss and not pass it on to the Subpostmaster. In the majority of cases, Post Office either mitigates the loss caused by a lost cheque by obtaining a replacement cheque from the customer or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

Accidental loss

Other losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops taken by a customer without branch knowledge.

Transacting from the wrong stock unit

As noted there is a capability within Horizon to create "stock units",

which are, in effect, "virtual tills". A member of staff within a branch, when serving a customer, will log onto Horizon with their own User ID and password and can tag themselves to a stockunit containing cash and stock (either their own individual stock unit or a shared stock unit).

If a user accidentally links or tags to the wrong stock unit and serves a customer or transferscash or stock, then the accounts will record the transactions against one stock unit but the physical cash or stock will move in or out of a drawer allocated to a different stock unit. Any transactions carried out will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.

 If spotted, then this can be corrected by either reversing the transactions and allocating them to the correct stock unit, or by calculating the cash value of the transactions and transferring the total amount to the correct stock unit.

In theory, there should be no net overall discrepancy to the branch, as any losses in one

stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear as if an error has occurred in one of the stock units and can cause confusion, obscuring other errors.

Outstanding transfers between stock units

Where a branch has more than one stock unit in use (see above) there may be times when

cash and/or stock is transferred from one unit to another. For example if stock unit A is running short of cash, stock unit B may transfer money to allow customer service to continue smoothly.

The user in stock unit B should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit A) and transfer the cash out. A receipt is printed which is kept in stock unit B to confirm this.

 The user in stock unit A then needs to accept the cash in Horizon and print their own receipt to confirm this. A report called "Transfer Reconciliation" can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals sum to zero.

Failure to do this can cause cash or stock to be missed from cash and stock counts.

Product specific errors

Failure to follow the correct process for accounting for certain products can also cause errors. A good example is the accounting process for Motor Vehicle Licence (MVL) discs (commonly referred to as tax discs).

 Branches will receive MVL discs from Post Office, which they have to "Rem" into their stock using Horizon. When the discs have passed the time where they can be put onto a vehicle, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed.

When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it to Post Office, Horizon will still record the disc as being in the branch even though it has been destroyed.

When the branch carries out the end of the trading period rollover process and a full count

of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon.

 Whilst this does not create a cash shortage, branches are held liable for missing discs at a charge of £41.50 per disc, because Post Office is accountable to the DVLA for the missing discs.

Failure to follow the correct reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed in Horizon, but if no payment is actually taken, the branch has to reverse the transaction and the disc. If they only reverse the disc out of the system then the stock of discs will balance, but the branch cash will not balance.

Theft

Theft by branch staff can and has occurred involving staff taking cash or stock directly from safes or drawers or colluding with a customer to generate a gain for the customer and an offsetting loss for the branch (this being ultimately borne by the Subpostmaster). These shortages would be identified when a physical cash count and declaration is made,

but it is not possible for Post Office to identify when the actual theft occurred. Unless the person is caught in the act of taking the cash, it is probable that the loss would only be discovered at the end of day cash declaration or at the time of completing the Branch Trading Statement.

The branch staff may then be unaware of how the loss had occurred. Some thefts may also be accompanied by an effort to disguise the theft (i.e. creating false transactions or gains).

Whilst it may be possible to identify the User ID that was used to process these transactions it may be difficult or impossible to prove exactly when the theft occurred.

Example:

Cash or stock may be falsely declared to give the impression that the cash or stock is in the branch when in fact it has been stolen.

"Phantom" cash remittance pouches could be created to mask an amount of cash that is missing but the pouch is reversed before the dispatch. For example, Horizon does not take

into account the amount of cash in pouches when it calculates the amount of cash that it is expecting to be declared. So, if cash is missing before the cash declaration is made, the

branch could make up a cash remittance pouch to cover the discrepancy, so in effect the branch will not show a discrepancy in Horizon. Once the cash is declared, the branch will reverse the remittance pouch from the system.

181.1 The four or five most common examples of types of investigation. Most investigations come as unexplained and Horizon caused the loss, but other areas Comms/Power failure/stock rems/misskeys/ATM reconciliation/MG latency/Reversals only completed the cash element, so no change often can be the root cause/ TC challenge/ claims that cash changed since previous one with no declarations – common cause accepted TA /TC and no physical action of the cash to correlate. Other areas where the initial error has been compounded an

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172.2　The policies applied and effort taken in ensuring investigations are properly done, and why (in Post Office's interests to get it right etc).

181.2　The difficulties in ascertaining the causes of unexplained discrepancies, including: the main factor that impedes getting to the cause, is the failure of the branch to completed mandatory procedure of accurate cash declarations. These are often not completed at all, remain static over a period of time, or several declarations to show a clear balance/nil variance. At Trading Period often statements show a zero discrepancy which masks issues and/or when discrepancies are declared, the act of make good on branch is not followed by the physical act of putting in/withdrawing cash, hence rolling the loss/gain and again does not give a true picture.

172.2.1　The myriad of different circumstances in which discrepancies can arise.

KA- Factfile and other mediation reports refer to this and list provided to WBD following meeting with Counsel

181.2.1　Post Office does not know what happened in branch. By way of examples example when branches fail to complete TP, conceal shortfalls by suppression of Rem pouches, roll losses, false cash declarations which will take a period of time to see a trend, manipulation of the suspense account

How much information is available in branch and how much information is available to Post Office? Does Post Office have much more information than Subpostmasters? Was the relative availability of information better before the introduction of Horizon? Branch has access to a variety of reports /logs that can be pulled off Horizon, and essentially it is the branch that should know what has actually happened at the point of sale with the customer. Does Post Office have much more information than Subpostmasters? No, Post Office extracts the information primarily in excel format, but the branch has access to both the hard copies for example with ATM the print totals that POL do not have. Was the relative availability of information better before the introduction of Horizon? No, there is now a record electronically, (provided it has been entered on Horizon) especially when in the paper based days that if a customer bill/deposit/pension docket/cheque etc was handed back to the customer, then it would be difficult to pin point what had occurred. With Horizon, in the event of similar errors,

then the propensity to be able to correct is greater. With HOL, there is an extended period when logs/reports can be obtained in branch, however if the branch were following daily procedures correctly, then ideally only 1 day of trading would need to be reviewed. Ange- I provided info following meeting with Counsel

Below is an extract from Post Office response to Part 2 report which addresses the subject of insufficiency of data for postmasters to investigate and which addresses the question in part:

Branches have access to a range of reports on different products and transactions to investigate the possible causes for discrepancies (including a complete line by line listing of all transactions that day). This also applies at the end of the trading period as a trading period is either 4 or 5 weeks (28 or 35 days) and the above reports and data have always been available in branch for a minimum of 42 days (60 days since 2010).

If a Transaction Correction is sent to the branch, the information needed to verify the Correction will not be the Horizon data (Post Office has this data and takes this into account when generating the Transaction Correction). The information is likely to be in the paper records held at the branch.

Some postmasters (during the mediation scheme) raised the issue that some information is not available to Subpostmasters even on the day that a transaction takes place. An example provided was where an aggregate amount or volume is provided for Debit or Credit Card.transactions. An aggregate amount for the number of transactions was provided at the end of each day rather than a breakdown of the individual transactions. As a result, some postmasters claimed they were not able to identify the individual transaction that may have caused a balancing error.
But Debit and credit card information has never been retained on Horizon in branch – indeed doing so would be a breach of Payment Card Industry standards (and Horizon is PCI accredited). However, as mentioned above, branches have always had access to line by line transaction data each day and this data records the method of payment (e.g. cash, cheque or card).

A Transaction Correction may be issued after the date that data can be retrieved (i.e. beyond 42 or 60 days) but Subpostmasters may challenge a Transaction Correction without transaction data. Transaction Corrections are also often preceded by an enquiry and so even if the Transaction Correction is beyond 42/60 days then an enquiry may well

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have been received within the period enabling the matter to be investigated within the 42/60 day period. There is a wide range of evidence that can be provided to review or challenge a Transaction Correction. Often it is very product-specific and not a general view across all data entries. Typically, the necessary data is kept in branch records rather than on Horizon. These hardcopy documents should be retained beyond the period that data is available through Horizon and is used by Subpostmasters to challenge or review a Transaction Correction.

For example, if a branch wishes to contest a Transaction Correction relating to ATM transactions the information needed is on the paper 'Totals Receipt' printed daily by the ATM which shows how much cash has been dispensed by the ATM and other important information. This receipt must be retained in branch. No access to Horizon data is needed as all the necessary information is on the 'Totals Receipt'.

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181.3 What sorts of information are necessary to identify the causes of shortfalls? How much of that information: KA - Physical checking of assets in branch comparison made with Horizon. Can pinpoint for example errors in remitting in stock. Reversals, TCs brought to account. Paper slip /cheques and other documents as appropriate. Other reports as per list provided to WBD for Counsel.

172.3

181.3.1 *is only available to Subpostmasters* Postmasters have the hard copy BTS and final balance. POL has access to these electronically for 6 months on HORIce. ATM print totals are in branch only. POL has the BOI figures

172.3.1

181.3.2 *is only available to Post Office* BOI dispensed figures, branch has the print totals from the ATM similar with Lottery print outs too. TCs are seen by POL initially then issued to branch for accepting (these can be disputed also)

172.3.2

172.3.3 *is available to both.*

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181.4 No reason why Post Office/Fujitsu staff might seek to falsely find a Subpostmaster liable for a shortfall? KA - Fujitsu do not have control of the branch accounts and the shortfall. It is the branch that reports the shortfalls via being settled centrally or at for example audit then the amount revealed is/can be settled centrally. POL will issue on occasions stock TCs or Rem stuck in suspense TCs which but these are required to be accepted by branch (Stock TCs can impact the remuneration positively/negatively. MC - Point we consistently made about this during mediation scheme is there would be no possible credible motivation for this. Post Office's business success depends on a network of thriving branches, with minimal disruption through temporary closures or other breaks in service. It has a very strong and trusted brand which it needs to protect and which it also needs to attract not just clients and customers but also new postmasters and franchisees as well as Government investment. It is a business with an [£x billion] turnover. If any errors are found for which postmasters are not liable through carelessness/ negligence/ dishonesty it is in the business's interests to ensure they are not hidden but put right as efficiently as possible. Similarly it is difficult to see what motive FJ staff would have. They would not gain financially and as a company they, similarly, have every motivation to ensure the efficient discovery and fix for any errors.

181.5 Transaction corrections, the need for the Subpostmaster to consent to transaction corrections and the transaction data/evidence provided with transaction corrections. Cover transaction corrections within the trading period, transaction corrections after the end of the trading period and transaction corrections more than 42 / 60 days after the relevant transaction. See Factfile paras 101 -109 and also TC paper and information provided to Counsel Cover transaction corrections within the trading period, transaction corrections after the end of the trading period and transaction corrections more than 42 / 60 days after the relevant transaction. As above references TCs are required to be bta at TP end, but over £150 these can be settled centrally. Less than £150 need to be made good in branch but can still be challenged. Evidence is usually provided, in the absence of this can be requested. Essentially, TCs are to correct a previous error

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in branch which should have presented a loss/gain at the time the error was made. However, this can be masked by other errors. Or failure to follow procedures correctly such as accurate cash declarations.

172.4 A TC will be generated if there are differences on the accounts that the Branch has posted vs the Client files we receive and made settlement on. By sending a TC we are correcting the accounts. We do issue TC's for both debits and credits to branch. therefore in basic terms we give money back and we request money.

172.5 The TC itself is an electronic message with a narrative on it. The team will put a narrative on the TC, for example, you have entered £100 on Horizon and we have only received one cheque for £10. If evidence is required on this example we can send an image of the cheques or we can post evidence out. For the Cheques that Branches despatch we receive a scanned copies and we are able to send the image back showing this, i.e. the cheque is for say £10 not £100

172.6 The TCs basically goes to branch for the Postmaster to accept and make good the cash or settle centrally. They are either putting the cash in so that then balances their accounts or they settle it centrally. They get the TC via Horizon and they have to click a button. If they click the button that says make good cash, they should then put the cash in but if they do not, when they come to balancing again next time they will be in deficit again.

172.7 ==Why the true cause is invariably highly likely to be branch error or branch wrongdoing rather than error / wrongdoing within Post Office or Fujitsu or Post Office's clients==The branch users are responsible for the daily operation of the branch and what occurs at the point of service. In the event of by way of example a system failure, or MG latency issue or incorrect remittances, then the branch are required to either follow screen prompts or raise with NBSC.

181.1 ==The sort of circumstances in which Post Office does not find that the Subpostmaster is liable for the shortfall (when Horizon indicates that he is, or might be, liable)==]. MC - Would we want to include info on the receipts/ payments issue during the pilot for Horizon online and which was fixed? KA- I don't agree with the words in brackets. Circumstance could be when an issue has occurred and it is apparent that there has been a problem, usually in a small number of branches. Potentially, when

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I16   This is taken from Alison Bolsover's Proof of Evidence and can be
        adapted as appropriate.
        Ivan Roots, 23/07/2018 05:19 PM

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incorrect advice given has led to a shortfall. In the event of a Robbery/Burglary/Incident where nil culpability is the outcome as the Pmr has not been negligent and has followed security procedures. Section 12 para 17 relief from losses appeal to RGM.

STATEMENT OF TRUTH

I believe that the facts stated in this witness statement are true.

Signed:

Date:

Filed on behalf of the: Defendant
Witness: Angela Margaret Van Den Bogerd
Statement No.: First
Date Made: 23 July 2018

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HQ17X04248**

IN THE HIGH COURT OF JUSTICE

QUEEN'S BENCH DIVISION

ROYAL COURTS OF JUSTICE

B E T W E E N:

ALAN BATES AND OTHERS

<u>Claimant</u>

AND

POST OFFICE LIMITED

<u>Defendant</u>

**WITNESS STATEMENT OF ANGELA
MARGARET VAN DEN BOGERD**