

## Post Office Limited

### Postmaster Litigation Subcommittee Agenda



<b>Date:</b>	<b>22 September 2019</b>	<b>Time:</b>	<b>11.30 – 12.30 hrs</b>	<b>Location:</b>	<b>1.19 Wakefield</b>
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<b>Present:</b>		<b>Other Attendees:</b>		
<ul style="list-style-type: none"> <li>• Tim Parker (Chairman)</li> <li>• Ken McCall (Senior Independent Director)</li> </ul>		<ul style="list-style-type: none"> <li>• Tom Cooper (Non-Executive Director)</li> </ul>	<ul style="list-style-type: none"> <li>• Nick Read (Chief Executive Officer)</li> <li>• Ben Foat (General Counsel)</li> <li>• Andrew Parsons (Womble Bond Dickinson)</li> <li>• Catherine Emanuel (Herbert Smith Freehills)</li> <li>• Richard Watson (General Counsel – UKGI)</li> <li>• Angela Van Den Bogerd (Business Improvement Director) (Item 5.)</li> </ul>	<ul style="list-style-type: none"> <li>• Alasdair Cameron (Chief Financial Officer)</li> <li>• Veronica Branton (Company Secretary)</li> <li>• Rodric Williams (Head of Legal – Dispute Resolution &amp; Brand)</li> <li>• Alan Watts (Herbert Smith Freehills)</li> <li>• Julie Thomas (Operations Director) (Item 5.)</li> <li>• Amanda Jones (Network Director) (Item 5.)</li> </ul>
<b>Agenda Item</b>		<b>Input needed/ Status</b>	<b>Lead</b>	<b>Timings</b>
1.	<b>Welcome and Conflicts of Interest</b>	Noting	Chairman	11.30 – 11.35 hrs
2.	<b>Minutes and Matters Arising</b> - 17 September 2019	Approval	Chairman	
3.	<b>Updates on Court Activity</b>	Noting and Discussion	Womble Bond Dickinson/ Herbert Smith Freehills	11.35 – 11.50 hrs
4.	<b>Group Litigation Update</b>	Noting and Discussion	Ben Foat	11.50 – 12.00 hrs
5.	<b>Operational and GLO contingency planning</b>	Noting and Discussion	Julie Thomas/ Angela Van Den Bogerd/ Amanda Jones	12.00 – 12.25 hrs
6.	<b>Any other business</b> - Herbert Smith Freehills fee levels (email appended)	Decision	Chairman	12.25 – 12.30 hrs
7.	<b>Date of next meeting:</b> November date to be confirmed <sup>1</sup> .	Noting	Chairman	

<sup>1</sup> The date originally scheduled now clashes with the Court of Appeal hearing for permission to appeal the Common Issues Judgment.

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## Postmaster Litigation Subcommittee Board



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### MINUTES OF A MEETING OF THE POSTMASTER LITIGATION SUBCOMMITTEE OF POST OFFICE LIMITED HELD ON TUESDAY 17 SEPTEMBER 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 10.00 HRS

#### Present:

Tim Parker	Chairman <b>(TP)</b> (by phone)
Ken McCall	Senior Independent Director <b>(KM)</b>
Tom Cooper	Non-Executive Director <b>(TC)</b>

#### In attendance:

Nick Read	Group Chief Executive <b>(NR)</b>
Ben Foat	General Counsel <b>(BF)</b>
Veronica Branton	Company Secretary <b>(VB)</b>
Rodric Williams	Head of Legal – Dispute Resolution & Brand <b>(RW)</b>
Catherine Emanuel	Herbert Smith Freehills <b>(CE)</b>
Andrew Parsons	Womble Bond Dickinson <b>(AP)</b>
Richard Watson	General Counsel – UKGI <b>(RW)</b>
Alan Watts	Herbert Smith Freehills <b>(AW)</b>

#### Action

#### 1. Welcome and Conflicts of Interest

The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

#### 2. Minutes and Matters Arising

The minutes of the meetings held on 24 April 2019, 12 June 2019 and 20 June 2019 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

#### 3. Updates on Court Activity (oral updates)

Catherine Emanuel provided an overview of court activity including the Common Issues Appeal, the Horizon Issues Judgment and the Third/ Further Issues Trial.

An oral hearing on the application for leave to appeal had been scheduled for 12 November 2019 at which each side would have two hours to make their case.

The Horizon issues judgment was likely to be released at some point in October 2019 but the timing was in the Court's hands. The Court would also indicate when the Judgment would be made public but it was likely that POL and the claimants' solicitors would receive a copy under embargo. The embargoed Judgment would be circulated to the Subcommittee<sup>1</sup> and the legal team would read through this at speed to provide the headline findings and then produce a more detailed briefing.

Ben Foat reported that a Horizon contingency planning group had been working through the worst case scenarios (including the Judge finding the Horizon system not fit for purpose) and through less extreme scenarios.

The Horizon Issues Judgment and the decision on leave to appeal would change the overall position of the litigation.

<sup>1</sup> It was agreed that this should not include Richard Watson, General Counsel, UKGI who was an observer at the Subcommittee meetings.

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The third trial was scheduled for March 2020 and would look at the principles of how loss would be calculated. Work would start at the end of October 2019 with test cases. Four of the six claimants from the Common Issues Trial had been selected. The briefing notes associated with these cases would be circulated to the Subcommittee. The trial was not designed to focus on the details of the original cases but the legal team would be working on the assumption that claimants would wish to pivot back to their case. A number of court hearings would also be taking place on procedural issues. A decision would need to be reached on which counsel to use for the trial. Helen Davies QC had held this time in her diary but the Subcommittee would be asked to take the decision on which counsel to appoint when we knew more about the timing of the Common Issues appeal.

Rodric Williams

A number of points were raised, including:

- that the Subcommittee would like to see what we had done and would be doing to re-design business processes and which changes were a consequence of the Common Issues Judgment. An item would be added to the next Subcommittee agenda
- ownership of business processes was discussed and it was noted that this had changed when Al Cameron had become interim CEO and business processes had moved into the Chief Operating Officer's remit under Rob Houghton. A permanent owner needed to be identified now that Rob Houghton had left the business and Nick Read would consider who this should be.

Julie Thomas/  
Veronica Branton

Nick Read

#### 4. Settlement / Mediation (Draft Board Report)

Ben Foat provided an overview of the paper to the Board on the settlement and mediation issues. Our legal strategy had changed to explore settlement options fully. The paper considered recoverability from a legal perspective, the claimants' funding arrangements and what their funders might seek from a settlement. Settlement ranges were provided, including factors such as post termination losses and other categories of claim such as personal injury, stigma and harassment and what might be recoverable under these. The Subcommittee was not being asked to take any decision on potential settlement figures currently. We were trying to arrange a lawyers meeting for both sides in October 2019 to discuss a number of issues, including figures, prior to the mediation process starting.

Catherine Emanuel provided an overview of the advice on settlement provided by Herbert Smith Freehills and the Subcommittee discussed this in detail. It was noted that assistants' claims were not included in this analysis. There were different potential periods for post termination losses. It was reported that normally claims would be limited to the contract termination period but that the Common Issues Judgment had referred to a payment not being "less than" the termination period while also referring in some instances to a period of 12 months. The period for post termination losses was an issue that we would like to take to appeal. It was noted that £5m in payments had been made to claimants to date.

A number of points were raised, including:

- that we needed a better understanding of the thinking of the claimants and their funders and how we would be approaching the case in their position
- that it would be helpful to translate some of the figures provided into specific examples (a "bottom up" analysis) and see what the overall position would be depending on which categories of claimants we included
- the approval process for determining settlement figures and funding was discussed. It was noted that a merits opinion would need to be produced as part of the Shareholder

Legal Team

## Postmaster Litigation Subcommittee Board



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funding approval process but that it was sensible for this to be drafted after the Horizon Issues Judgment had been issued.

5. **Date of next meeting:**  
11.30 hrs, 22 October 2019

# Group Litigation Update

Author: Ben Foat/Rodric Williams

Sponsor: Ben Foat

Meeting date: 29 October 2019

## Executive Summary

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### Context

Post Office is awaiting decisions from the courts on the Horizon Issues trial and on Post Office's application for permission to appeal the March 2019 Common Issues judgment.

On 3 October 2019 Post Office notified the Claimants and the Court that we had become aware of the existence of potentially relevant documents (previous versions of Fujitsu's Horizon Known Error Log / KEL entries) which had not been disclosed before the Horizon Issues trial.

Mediation to explore settlement with the Claimant Group is scheduled for 27-28 November 2019. This could be postponed if the Horizon judgment is delayed. Preparations otherwise continue for the third, "Further Issues" trial scheduled for March 2020.

An update on Post Office's operational responses to the Common Issues Judgment handed down on 15 March 2019, and on the Contingency Planning for the Horizon Judgment will be addressed in a separate Board paper.

### Questions addressed in this report

1. What is the update on the Group Litigation (Horizon judgment; Common Issues trial; third/Further Issues trial)?
2. What is the update on the KEL Disclosure development?
3. What is being done to prepare for mediation and settlement?
  - a. What is being done to analyse each individual Claimants' claim?
  - b. What might be driving the Claimants' perspective on quantum?
  - c. Would it be more cost effective to settle the claim or litigate and lose?
  - d. What is being done to map out the route for shareholder approval of any settlement?
  - e. Who will attend the mediation for Post Office?
4. What are the next steps?

### Conclusion

1. The Horizon judgment will not be handed down until the end of October at the earliest. It is possible that the KEL Disclosure development delays this. We are also preparing for the Court of Appeal hearing on 12 November 2019, and to receive on

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25 October 2019 the Claimant's formal claims for the third, "Further Issues" trial scheduled for March 2020.

2. Post Office has received the additional KELs from Fujitsu. We are reviewing the newly provided versions of the KELs referred to at trial to assess the impact they may have on the litigation. We are also addressing Post Office's legal options and audit rights against Fujitsu. Neither the Court nor the Claimants have as yet responded substantively to Post Office's notifications of this development.
3. Mediation to explore settlement with the Claimants has been scheduled for 27-28 November 2019. This could be postponed if the Horizon judgment is delayed (which is possible given the KEL Disclosure development). Nevertheless, further work is being done to refine the analysis of the Claimants' claims and quantum, and to put in place arrangements to share information with, and obtain approvals from, our shareholder concerning settlement.
4. The next key steps between now and the end of November 2019 are attending to the Horizon judgment once received and the KEL Disclosure development, preparing for the Court of Appeal hearing on 12 November 2019 and mediation on 27-28 November 2019, and responding to the Claimants' case for the Further Issues trial by 25 November 2019.

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### Input Sought

1. The Board is asked to note the updates in this paper.
2. The Board is also asked to note the approach being taken to mediation, and to authorise the Board Subcommittee to delegate to the General Counsel authority to make settlement offers at mediation (on terms determined by the Subcommittee).

### Input Received

3. This paper has been prepared with the assistance of external legal counsel.

The Board is reminded to exercise caution when communicating about potential levels of settlement. Communications about settlement should therefore only be held orally, but if that is not possible, advice should be sought from Post Office's lawyers.



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## Litigation Update

### *Horizon Judgment*

On 7 October 2019 the Managing Judge informed the parties that his judgment on the Horizon Issues Trial was “unlikely to be distributed before the end of the month”. A further update from the court on when we can expect to receive the judgment will be provided during the week commencing 21 October 2019.

The Horizon contingency plans have been developed to respond to an adverse judgment, the details of which are set out in the separate GLO Operations paper.

### *Common Issues Appeal*

The Court of Appeal will hear Post Office’s application for permission to appeal the Common Issues Judgment on 12 November 2019, with judgment on the application to follow shortly after.

The hearing will be based on the Grounds of Appeal and Skeleton Argument we filed on 28 June 2019, and largely influenced by questions from the judge (Lord Justice Coulson). As part of her preparations for the hearing, Helen Davies QC has outlined the key points she aims to land during the hearing. These focus on the wide ranging legal term of good faith Mr Justice Fraser implied into the postmaster contracts (to which most of the other issues are connected), and challenge both the breadth of the term and whether it should be implied at all. Helpfully, there has been a recent judgment in another High Court case which supports our approach.<sup>1</sup>

### *Third / Further Issues Trial*

The next step ahead of the “Further Issues” trial scheduled for March 2020 is for the Claimants to file “Particulars of Claim” (PoC) formally setting out the legal basis for their claims for financial compensation. We know from correspondence with the Claimants that these could include claims for harassment and for their litigation funding costs.

The Court has ordered the PoC to be filed by 25 October 2019. The Claimants may however seek an extension of time so that they can reflect in the PoC the Horizon judgment’s findings. There is also a Case Management Conference before the Court scheduled for 7 November 2019 at which any issues with the PoC could be raised. As matters stand however, Post Office has been ordered to file Defences formally replying to the PoC by 25 November 2019.

### *Future Trials*

As part of its ongoing review of all 555 individual cases, Post Office is identifying criteria for selecting “Test Claimants”. These Claimants would then be used as cases representative of the wider claimant group in an as yet unscheduled trial on breach (i.e. whether Post Office acted wrongly), causation (i.e. did that breach cause the Claimant’s harm), and limitation (i.e. is a Claimant’s claim time-barred).

<sup>1</sup> *UTB v Sheffield United Ltd* [2019] EWHC 2322

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The parties will each propose selection criteria for choosing test cases on 25 November 2019, which will then be discussed with the Managing Judge at a Case Management Conference scheduled for 4 December 2019. The approach taken to this exercise will be set out at the next Board Subcommittee meeting. No date has yet been set for the selection of test claimants.

### Horizon Issues Trial - KEL Disclosure

As reported to the Board on 3 October 2019, Post Office failed to disclose all potentially relevant Known Error Log entries (KELs) prior to the Horizon Issues Trial. Post Office disclosed only final versions of the KELs, and not any previous versions, acting on incorrect information from Fujitsu that previous versions were no longer available.

The Court and the Claimants were notified of this on 3 October 2019, and urgent steps (on which the Board has received separate updates) have been taken to correct the position. We will understand better the impact this may have on the litigation once we have completed the reviews of the newly provided versions of KELs referred to at trial (e.g. as to whether the versions are materially different), received substantive responses to our notification from the Claimants and/or Court, and assessed its influence on the Horizon judgment itself.

The Claimants are, however, likely to contend that the inadequate KEL disclosure warrants the Court drawing an adverse inference about the extent of bugs in Horizon. They may also press to re-open the trial.

These developments could delay receipt of the draft judgment, which could in turn delay mediation scheduled for 27-28 November 2019. They could also influence the Judge while drafting his Horizon judgment and ahead of future trials which will consider for limitation/time-bar purposes whether Post Office concealed known issues with Horizon.

Legal advice is being provided about our prospects of making a claim against Fujitsu arising from this incident and in respect of the proceedings more generally (any recommendation will however have to wait until the impact of this on the litigation is better known). We are also proposing to audit Fujitsu's work on the extraction of the historic KELs. A verbal update can be given at the time of the meeting.

### Mediation / Settlement Update

At its September 2019 meeting, the Board approved the broad approach to settlement outlined in the paper prepared for that meeting. The Board also raised a number of further matters, which are addressed below.

#### *Individual Claimant Analysis*

The Board noted that further work needed to be done to investigate each individual Claimant's case.

HSF has already assessed the claims on a claimant-by-claimant basis for quantum analysis purposes, based on data collated from Post Office's records (principally remuneration, notice period, suspension period and settlement data). Nevertheless,



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assumptions may still be required for some cases, e.g. if data is not available or cannot be verified from Post Office's records.

The cases are now being analysed so that Post Office can make informed decisions about liability (both individually and collectively), and make strategically useful settlement offers as part of the settlement strategy.

We aim to complete the case reviews by 31 October 2019 and also refine the quantum analysis in light of the Claimants' Further Issues PoC so that a more informed view can be formed prior to mediation.<sup>2</sup> We aim to present the outcomes from this exercise at the Board Subcommittee meeting prior to the mediation.

#### *Claimants' Perspective on Quantum*

The Board wanted to understand what might be driving the Claimants' funders investment in the GLO given the substantial delta between HSF's estimates of Post Office's legal liability [REDACTED]

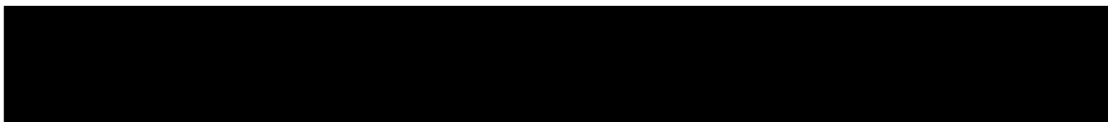
[REDACTED] The fact that the Claimants are now proposing to bring a claim for their litigation funding costs suggests they recognise this delta exists.

Litigation funding arrangements are highly confidential, so we do not as yet have any insight into how the funders assessed this particular case (we hope to learn more at mediation). The gap might however be explained by:

- The Claimants exceeding their budget: HSF's funding analysis is based on costs incurred, which are substantial. The funders' original assessment would, however, have been based on budgeted costs and it is likely they did not budget for Fraser J's approach of holding numerous, costly trials.
- Including recovery for convicted Claimants: A convicted Claimant whose conviction is overturned is likely to have stronger claims for stigma damages, personal injury, harassment and malicious prosecution. [REDACTED]
- Interest: HSF estimated interest at LIBOR plus 1% / [REDACTED] Adding recovery for convicted Claimants as above could increase interest to [REDACTED] or more if higher rates of interest or compound interest is awarded.
- Other possible factors: These might include the Claimants making less generous assumptions around the extent of recoverable losses than in HSF's analysis (in particular around [REDACTED])

<sup>2</sup> As noted earlier in this Report, this exercise has also helped identify criteria for selecting "Test Claimants".

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In summary, although we do not yet have any insight into the funders' approach, the above could explain how they put a greater valuation on the claims than HSF's estimates, thereby justifying their investment in the GLO.

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*Costs to Settle vs. Costs to Litigate to Conclusion*

The Board wanted to understand whether it would be cheaper to settle or to fight and lose in Court.

HSF cannot express a concluded view on this question until we understand better the Claimants' settlement expectations (which should come through mediation), and have clarity on the claims that will be made and how they are quantified (where we will be better informed following receipt of the Further Issues PoC). Nevertheless, the following points can now be made:

- If the Claimants' expectations are driven by their funding commitments and a per Claimant recovery on top,   

- The cost of fighting and losing in Court will be driven by the heads of recoverable loss and their values, plus legal costs and interest. Although this gives rise to a large number of permutations, the following benchmarks (which are based on certain assumptions<sup>4</sup>) may be helpful:



<sup>4</sup> This number, and those that follow, would be correspondingly larger if the Claimants succeed on any of their unquantified claims (e.g. for personal injury).

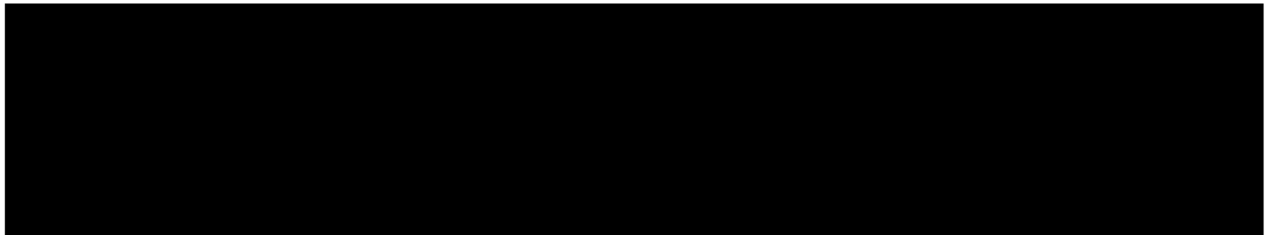
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- Post Office would also need to bear its own costs of progressing matters to trial which, subject to the way the litigation develops, could be in the order of a further £10-15m.

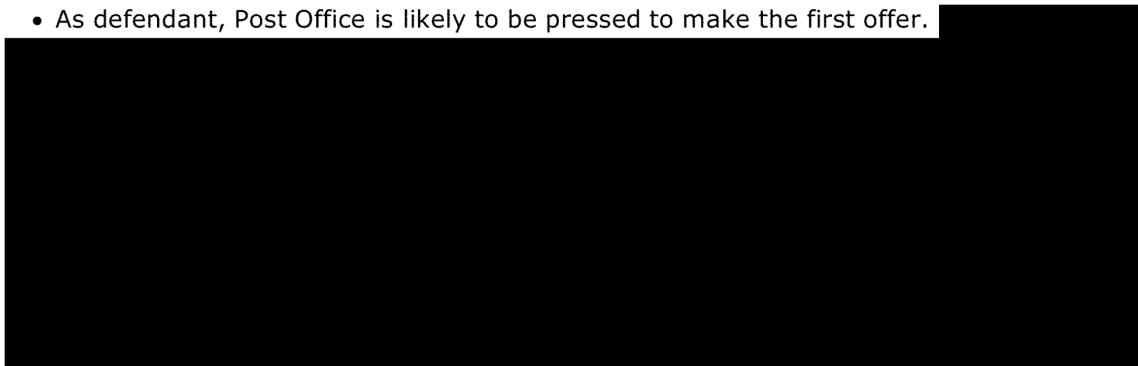
Determining the amount at which settlement can be justified will be a risks-based exercise. Recognising the number of unknown factors that remain (e.g. the outcomes of the Horizon Issues trial and application to appeal the Common Issues judgment, and the potential for additional or more substantial claims to be brought), our approach has been to start with a reasonable and justifiable assessment of quantum based on the claims as they are currently pleaded.



#### *Settlement strategy and authority for mediation*

Our recommended strategy for mediation is as follows:

- HSF will meet with the mediator prior to the mediation and explain that Post Office's key concern is that the claims are not worth what the Claimants claim.
- At the plenary session on the first morning, Post Office will emphasise its desire to bring this matter to a satisfactory conclusion for commercial reasons and reassure the Claimants that it is negotiating in good faith.
- Much of the first day will be devoted to getting the parties to understand the principles upon which the value of the claims will need to be assessed.
- As defendant, Post Office is likely to be pressed to make the first offer.



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Addressing the Board's request to map out the route for Shareholder approval through BEIS and HMT in advance of mediation, arrangements are in hand with UKGI to finalise a protocol for Post Office's shareholder to authorise settlement if required. Specifically:

- UKGI/BEIS and HMT representatives have formed a committee to assess and respond to requests for authorisation.
- Arrangements are in place for Post Office to share information with that committee, so that it can ask questions and form provisional views before any formal request for approval is made.
- The committee will require confirmation of how Post Office plans to fund any settlement. Al Cameron has confirmed that Post Office could fund the sums presently under consideration from its own resources.

The precise form the authorisation protocol takes will depend on further feedback from the committee.

#### *Managing messages coming out of Mediation*

The Board enquired about the extent to which we could manage the messages coming out of a settlement, and noted that BEIS input should be sought if we were considering the use of confidentiality agreements.

Mediation is a confidential process where the parties should be free to explore settlement with the mediator and each other without fear of their discussions becoming more widely known. Mediation cannot work without confidentiality.

Mediation is also a consensual process where the parties agree the terms of settlement where one is reached. Settlement agreements routinely impose confidentiality obligations (with consequences for breach), which may also be accompanied by a statement the parties agree can be made public. These terms will be subject to negotiation along with all other settlement terms. BEIS's input on any such terms could therefore be sought through the information sharing and approvals process as appropriate. Post Office will also act consistently with Law Society guidance on the use of confidentiality clauses.

#### *Post Office Mediation Representatives*

Beyond ensuring that attendees are properly authorised, there are no rules as to who can attend mediation for a party. As matters stand, it is proposed that the key Post Office representatives at mediation will be General Counsel Ben Foat and Alan Watts of HSF.<sup>6</sup> Consideration is being given to CEO Nick Read attending to make introductory

<sup>6</sup> As noted in the September 2019 Board Report, both Ben and Alan have extensive experience of commercial mediation.

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commercial remarks. Others from Post Office's operations and legal teams will be available on the day to assist as required, either in person in breakout rooms or remotely.

We do not intend bringing our Leading Counsel to the mediation, given that the purpose of mediation is to explore commercial possibilities for settlement rather than debate each side's legal case. The Claimants' solicitors have confirmed that that is also their understanding, and that although their Leading Counsel (Patrick Green QC) will attend the mediation, he is doing so to satisfy their funders' requirements.

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Consistent with the mediation strategy outlined at the September 2019 Board meeting, we do not recommend there be any shareholder representation at the mediation. However, as noted above arrangements will be finalised to keep shareholder representatives informed of progress in the mediation.

### Next Steps

An overview of the main court and settlement-related activity in the Group Litigation through to October 2020 is set out in the "Group Litigation Timetable" at **Appendix 1**.

Between now and the end of November 2019 we are preparing to:

- resolve the KEL Disclosure issue, including assessing the legal claims that could be pursued against Fujitsu and pursuing audit rights;
- receive the Horizon judgment;
- attend mediation on 27-28 November 2019, which includes finalising in advance the protocol for shareholder settlement authorisation if required;
- attend the Court of Appeal on 12 November 2019 for the hearing on permission to appeal the Common Issues Judgment;
- respond to the Claimants' Further Issues trial PoC due on 25 October 2019; and
- identify "Test Claimant" criteria by 25 November 2019.

A timeline of the key milestones to the end of November 2019 is set out at **Appendix 2**.

The operational responses to the Common Issues Judgment and Contingency Planning for the Horizon Judgment are addressed in a separate Board paper.



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# Appendices

## 1. Group Litigation Timetable

	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	March 2020	April 2020	May 2020	June 2020	July 2020	Aug 2020	Sept 2020	Oct 2020
<b>Common Issues Appeal</b>		Oral permission hearing (12 Nov)	File additional documents with Court as required for appeal if permission is granted.							Likely window for Court to hear appeal if permission is granted. Note: Court vacation August & September so unlikely appeal will be heard in these months.			
<b>Horizon Issues Trial</b>		Likely window for Horizon Issues Judgment		Hearing on costs of Horizon Issues trial									
<b>Further Issues Trial</b>	Costs Budgets (2 Oct) Discussion Reports (16 Oct) Costs Management Conference (23 Oct) Particulars of Claim (25 Oct)	CMC (7 Nov) Defences (25 Nov)	Statement of Assumed Facts (2 Dec) CMC (4 Dec) Replies (9 Dec)	PreTrial Review (23 Jan)		Further Issues Trial (2-20 Mar)		Likely window for Further Issues Judgment		Hearing on costs of Further Issues Trial			
<b>Trial 4</b>		Agree test case selection criteria (27 Nov)								Likely window for Trial 4			
<b>Settlement</b>	Without Prejudice Lawyers meeting (10 Oct)	Mediation (27-28 Nov)		Window for possible second mediation									

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## 2. Timeline of Key Litigation and Settlement Milestones to end of November 2019

<u>No.</u>	<u>Date</u>	<u>Milestone</u>
1.	w/c 21 October	Horizon: Court to provide an update regarding judgment
2.	22 October	Post Office Board Sub-Committee
3.	25 October	Further Issues Trial: Deadline for Lead Claimants to file/serve Individual Particulars of Claim
4.	29 October	Post Office Board Meeting
5.	1 November	Horizon: judgment expected to be handed down on or after this date
6.	4 November	Case Management: Deadline for Post Office to file any applications before the 7 November case management conference
7.	7 November	Case Management Conference
8.	12 November	Common Issues: Oral hearing of Permission to Appeal application
9.	13 November	Post Office Board GLO Sub-Committee on or after this date
10.	18 November	Further Issues Trial: Internal deadline for legal team to draft Defences and provide to Post Office for sign off.
11.	25 November	Further Issues Trial: Deadline for Post Office to serve individual Defences
12.	26 November	Post Office Board Meeting
13.	27 November	Parties to serve and file their proposed Selection Criteria for Test Claimants
14.	27 – 28 November	Mediation. UKGI/BEIS authority to be obtained if required.
15.	3 December	Parties to set out assumed facts and issues to be decided at Further Issues Trial
16.	4 December	Case Management: Case Management Conference to resolve any disputes about issues to be dealt with at FIT

POST OFFICE BOARD  
POSTMASTER LITIGATION SUBCOMMITTEE

NOTING PAPER

# Operations and GLO contingency planning

Authors: Nina Trueman, Angela Van Den Bogerd Business Sponsors: Julie Thomas, Amanda Jones, Ben Foat  
Meeting date: 22 October 2019

## Executive Summary

### Context

This paper covers a comprehensive update of the activities across Operations which have already been completed since the Common Issues Trial Judgment was received in March 2019 and those in progress as part of the change activities under Operations and Retail. It also updates on the contingency planning work completed in readiness for the Horizon Issues Trial Judgment.

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### Questions addressed in this report

1. What changes have been made to operational support processes since the Common Issues Trial Judgment?
2. What further changes are now in progress via the Ops transformation and Agent Relationship Programmes?
3. What is our level of preparedness ahead of the Horizon Issues Trial Judgment being received?
4. Is the expected spend on GLO in line with expectations?

### Conclusion

1. All processes related to how we support branches, recover losses, manage loss disputes, suspend and terminate Postmasters have been reviewed to reflect the outcomes of the Common Issues Judgment.
2. A programme of activity to reduce Transaction Corrections through Horizon screen changes and further process system and restructure activity across Loss Prevention and the Branch Support Teams in Chesterfield is now mobilised.
3. Ahead of the Horizon Issues trial judgment, additional monitoring capability, a response plan to protect service and a comms strategy to maintain the confidence of our stakeholders are all ready to be deployed.
4. The current estimated GLO spend is £8.9m Opex (of which £1.7m not committed) and £10.6m Change spend (£3.7m not yet in any business case). See summary at **Appendix 4.**

### Input Sought

1. The Board is asked to note the contents of this paper

### Input Received

2. Operations team, Retail Sales team, Horizon Contingency Planning Programme, Finance

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## The Report

What changes have been made to operational and support processes to reflect the Common Issues Trial Judgment?

The **Branch Support Centre** has been restructured to strengthen the support for branches:

1. **Transaction Correction** wording changed and under strict quality control to ensure these are plain English and correct.
2. **Transaction Correction Disputes Team** mobilised to help Postmasters if they do not agree with a Transaction Correction following explanation from the Branch Reconciliation Team.
3. **Tier 2 Branch Support** implemented with dedicated Case Handlers helping Postmasters by investigating discrepancies if the Tier 1 call is unable to identify the cause. (By September, 575 cases valued at circa £1m have been resolved – 99% success rate).
4. **Loss Prevention Case Workers** - new team mobilised in August to administer the end to end audit process, which will ensure accurate, consolidated information is maintained at an individual case level. This team will take on the responsibility of scheduling audits which will result in less lead time between a risk being identified and the branch being audited.
5. **Horizon Knowledge Based Faults (KBFs)** formerly known as KELs – joint work with IT and Fujitsu completed to separate known faults from Knowledge Based Articles (KBA) and Knowledge Based Information (KBI).
6. **KBF Process** – the process for identifying faults has been formalised and the (current) 11 known faults have been documented and uploaded to Dynamics and the Branch Insights Tool for reference by the Branch Support, Loss Prevention and Area Manager teams if a Postmaster reports a discrepancy.
7. **Branch Insight Tool** – developed and launched to all Area Managers and all branch support teams. This tool is designed to be shared with Postmasters and gives detailed Operational performance information to enable supportive discussions around Operations conformance.

A new **Loss Prevention** function has been established to minimise loss to Post Office, whilst supporting branches against the threat of internal and external losses:

8. **End to end process review** – all data, decisions, letters, processes involved in supporting branches, identifying losses, supporting recovery of discrepancies, moving into loss dispute, recovery, suspensions and terminations have been reviewed:-
9. **Audit Rationale Document** – produced for every audit and shared with the branch operator at the start of each audit to improve the transparency of the rationale for the audit
10. **Audit opening and closing scripts** – have been produced, and used by auditors, to ensure a consistent conversations the branch operator at the start and end of each audit

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11. **Audit attendance** - all audits now have a minimum of two auditors to ensure consistency and to allow double checking of counting between auditors and so minimise mistakes
12. New telephone **quality assurance** process to gain feedback from branch operators on their audit experience
13. **Weekly management of suspension cases** and cases involving Legal introduced to improve visibility of suspension cases and improve the speed of resolutions – cases now reduced to 6-8 per month from typically 15-18.
14. Contract management restructured to create **one point of decision making** for all suspension, termination and reinstatement decisions to improve consistency and speed.
15. **Correspondence reviewed with Legal and Comms** – ensuring legal compliance, but supportive tone of voice. This includes remedy letters sent by Contract Advisors and discrepancy letters sent by Loss Recovery.
16. **Loss Recovery call monitoring** introduced to ensure quality and consistency of telephone calls
17. **PACE interviews** – no longer carried out by Security given that prosecution processes are on hold
18. **Increased support and Operation Torch visits** – are being carried out by the Security teams to focus on helping operators prevent their exposure to increasing retail crime and to drive security compliance
19. **Culpability reviews** – processes for operator culpability (e.g. sleight of hand) have been reviewed to ensure consistency and a focus on support for the branch operator

5

What further changes are now in progress via the Operation Transformation & Agent Relationship Programmes?

20. **Developing Capability (Hothousing)** – there has been a step-change in effort over the last year to better engage and support Postmasters. Capability is being developed through hot-housing which is live in 220 branches, extending to a further 45 this month (October). Of a selection of Postmasters surveyed, 79% felt the relationship between Postmasters and POL was improving.
21. **Training** – improvements to the on-boarding experience with the new 'Run a Post Office' website and digitised business plan on track to be live this month. New operational Training modules being developed to address priority areas where we have balancing issues e.g. lottery and ATMs.
22. **Engagement** – continued testing of the effectiveness of different engagement channels. To date, hosted 9 regional business update conference calls, over 100 curry nights, 22 drop-in sessions and over 100 mails workshops across the country. The sessions, led by Regional Managers and Area Managers, allow postmasters to openly share concerns, discuss issues and share ideas.
23. **Remuneration** – various options for increased remuneration have been tested and modelled with the input of c.50 Postmasters, 6 multiple partners and the NFSP. Recommendations will be proposed to the Board in a separate paper.
24. **Transaction Corrections and Horizon improvements** - business case approved for phase 1 and 2 along with prove case for phase 3.

**Phase 1 and 2:**

- Banking TCs – changes to reduce ability to make mistakes (Nov 19)

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- Bureau TCs – changes to Bureau manual booking, selling and buying screens and pre-order click & collect. (Jan 20)
- Cash rem from branch improvements (Jan 20)

**Phase 3:**

- Debit card TCs – delivery of refund to debit card functionality (Jan and Mar 20)
  - Lottery TCs – Camelot integration for Lottery prizes (Mar 20)
  - Paystation TCs –automation changes (Mar 20)
  - ATM TCs – ATM simplification (Mar 20)
25. **Continuous Improvement of Horizon screens** – shared accountability to feed the backlog of improvements between Retail, Operations and IT. Annual budget (ASM) to be ringfenced to fund a dedicated Fujitsu improvement team.
- Backlog issues to include simplifying the wording of a Branch Trading Statement and making it clear that Postmasters have the ability to dispute the balance figure.
26. **Loss Prevention Transformation** – business case submitted to continue the modernisation of this new function with predictive data modelling and case management allowing earlier detection, fewer losses and fewer suspensions: -
- Introducing a **Case Management system** linking with other teams outside of LP means we can work through cases clearly and consistently from incident to recovery, to understand true workload, improve inefficiencies to close cases quicker. The Postmaster will have a much better experience as we can implement support interventions sooner, and meet our obligation of good faith and transparency. This will also enable case progress to be made visible to the Area Manager teams and other internal audiences so that local stakeholders can be managed and updated as appropriate.
  - Basic **SAP Improvements** such as ageing the losses correctly and automating legally compliant letters means we will be able to recommence our loss recovery activity whilst doing this confidently within the findings of the GLO.
  - **New approach to Loss Prevention** using predictive data modelling will create a range of responses to risk. These will range from desk-based audit calls for return of cash to blocking user access to Horizon to implement more control, with physical audit and suspension becoming the exception rather than the norm. Initial business case submitted Oct to include a prove phase, expected to lead to a full business case in Q4.
  - **Cause of branch loss outside** of Horizon changes to be understood, including any weakness in processes which may expose Post Office, branches or our clients to risk of loss. An example of this is Stock, which is converted to cash as part of the balance and reconciliation process.

27. **Business Resilience and Change (BR&C)** – business case and planning underway to establish a Business Resilience and Change gateway within Operations. This will incorporate the existing Network Gateway Team with an expanded remit. The team will continue to be the forward looking 'voice of the Postmaster' for all changes impacting the branch network. The expanded remit is to take ownership on impact assessing back-office systems, processes and third party supplier process changes. It will also identify and coordinate the early

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resolution of issues that could impact branches as well as manage operational branch communication. The Knowledge Based Fault process and ownership of future Horizon improvements will sit in this team with joint objectives across Network Operations and IT Operations.

28. **Branch Support TOM** – prove case to land in Q4 with a full business case as part of OE to be developed during Q4. This describes a support centre which is digital first, but skilled to support in the right way, at the right time, driven by data. This is inter-connected with Branch Hub, Loss Prevention and improvements to Horizon to design out mistakes

\* see **Appendix 1** for the aims and specific measures for Operations Transformation

5

What is our level of preparedness ahead of the Horizon Issues Trial Judgment being received?

29. Preparedness activities ahead of the Horizon Trial Judgment being received include the scope of work carried out since June 2019 and the strategy adopted by the wider Post Office team to build organisational 'readiness' and minimise business disruption, based upon a worst case Judgment being received. Though not all are expected to materialise, the potential and most severe immediate business impacts of a worst case scenario Judgment are set out at **Appendix 2**, along with an indication of likelihood.

30. A set of minimum requirements, or capabilities, which needed to be in place in order for Post Office to be 'ready' to respond to a potential adverse judgment were defined as:

- **To have a monitoring capability in place, in order to quickly identify impacts across the network.**

Capability is now in place and rehearsed to monitor and report twice daily on the following: unplanned branch closures, postmaster sentiment, cash declarations / branch conformance, media articles, customer complaints, NBSC call volumes, relationship/client reaction, postmaster resignations.

- **To have operational response processes in place that will minimise any disruption to customer service, with a particular focus on vulnerable customers.**

New processes have been designed or existing response processes enhanced to ensure operational impacts can be managed coherently. For example, a virtual team has been established to coordinate and mobilise Comms, Supply Chain, Area Managers and Branch Support – should branches refuse to open.

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Where additional resource may be required (e.g. Branch Support Centre), surge resourcing plans are in place.

Broader and longer term business continuity needs have been identified, with plans in place to pilot and build resilience e.g. through trialling 'pop up' post offices and having in place 5 additional mobile vans – both by mid-November.

- **To have a rapid response team capability in place and rehearsed, able to implement operational response measures and react to a rapidly evolving and unpredictable situation.**

A cross-functional strategic Crisis Management Team is stood up, rehearsed and able to respond to a range of scenarios as well as manage more complex strategic challenges, with the appropriate MI feeds and escalation points to the GE.

- **To have a communication strategy in place, designed to protect stakeholder confidence in the Post Office.**

A comprehensive communications plan, which is built up from 30 pieces of collateral and briefing materials, varied by audience and channel, has been developed. WBD and HSF have both reviewed all associated material as have Lexington; ensuring the tone is appropriate and delivers to our strategic objectives, which are as follows:

1. Avoid a hostile confrontation with the Judge.
2. Protect the overall reputation of the Post Office and the integrity of its relationship with Postmasters.
3. Reassure and maintain confidence of key stakeholder groups in the overall reliability of Horizon, the PO network, products and services.
4. Proactively make clear that the Post Office is addressing the concerns of key stakeholders and the Court.
5. Minimise any media and political fallout arising from the Judgment.
6. Quickly move the story from criticisms of historic practices to communicating forward-looking proposition to postmasters designed to improve their commercial and day-to-lives.

31. The initial focus of the contingency planning has been to equip the business to respond to the worst case scenario (a high level view of Post Office planned responses is included at **Appendix 3**), recognising that currently there is no alternative at scale to the Horizon system, nor for example, a temporary paper based system which would be acceptable to regulators such as the FCA.

32. The focus has now extended to considering a more moderate and, we believe, the more realistic response from postmasters i.e. we expect the majority of postmasters to want to continue to provide services to their customers and run

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successful businesses. They may however be concerned by the Judgment and turn to Post Office for explanations, guidance and reassurance on what Post Office will do to support them should they encounter any issues when using the Horizon system.

33. A number of key materials have been or are being prepared in order to maintain confidence, contain the judgment and reassure Postmasters and other stakeholders:

- **'Found vs Not found':** a document which will set out, by each of the 15 issues, what has or, importantly, has not been found by the Judge and what it does or does not mean for Postmasters, customers, clients, retail partners etc. The purpose of this document is to inform and equip individuals within the business, enabling them to 'contain' the judgment. This document is to be produced within 48 hours of receiving the embargoed Judgment, so that it is ready for 'Day 1'.
- **29 Bug Summaries:** summaries have been produced for each of the 29 discussed in court but will need to be reviewed once the embargoed judgment is received. It will be possible to make the detail of these bugs available to postmasters and whether they were branch impacting.
- **Identifying and fixing 'bugs':** how branch affecting 'bugs' are identified, escalated and communicated to Postmasters. (Branch Resilience and Change)
- **Summary papers** have been produced with the intention to make available to postmasters:
  - How the KEL, PEAKS and BIMs knit together and are used to fix errors.
  - Remote Access – what we define it as, and the extent it has actually been used in both Legacy Horizon and Horizon Online.
- **One Pager Operator Guides** have been produced for:
  - Investigating Branch Discrepancies.
  - Help with a discrepancy and or TC.
  - Troubleshooting /Hints and Tips.

5

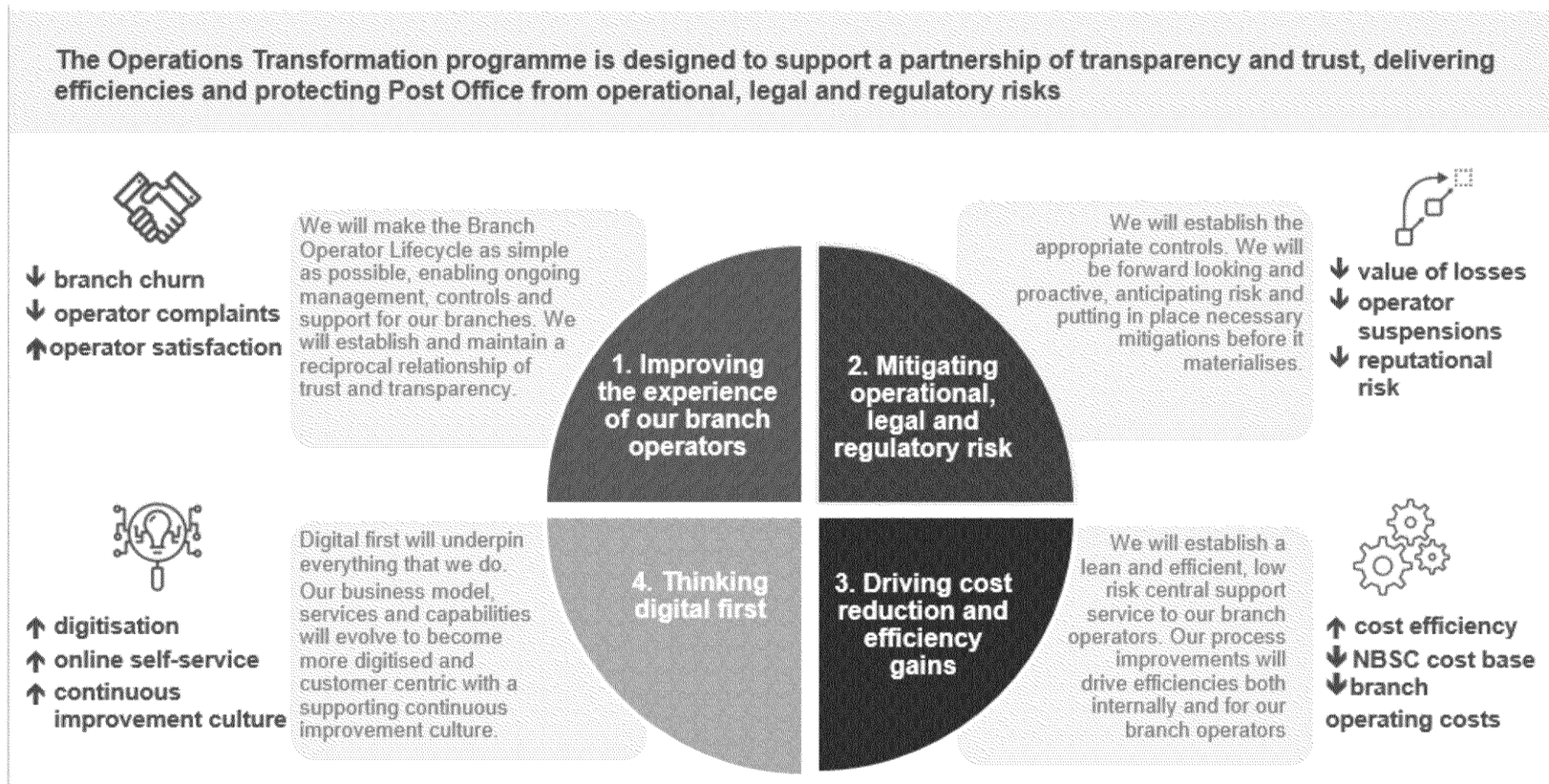
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## Appendix 1 – Scope and measures for Operations Transformation



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**Appendix 2****1. Worst Case Scenario**

A worst-case scenario was identified through a series of workshops with the wider business (including IT, Legal, Ops and retail). The most severe of these impacts are captured below:

<b>Issue 'Grouping'</b> (There are 15 "Horizon Issues" to be decided at trial. These can be grouped under 4 categories) along with extracts from the Claimants' closing submissions	<b>Stakeholder inference</b>	<b>The Potential and most severe immediate business impacts</b>
<p>1. <b>The reliability of Horizon and the extent to which Horizon was the root cause of shortfalls in branches:</b> <i>It is clear that bugs, errors and defects have caused discrepancies and shortfalls in branch accounts and undermine the reliability of Horizon to accurately process and record transactions.</i></p> <p>2. <b>The ability for Post Office and or Fujitsu to access, edit or delete transaction data recorded in branches:</b> <i>Remote Access is an 'open door'. Post Office and or Fujitsu had a number of different powerful tools and roles which had the potential to insert, edit and delete transactional data. Roles were not properly controlled.</i></p> <p>Please note that groupings 3 &amp; 4 issues were designed to be uncontroversial factual questions about how Horizon conducts reconciliations and processes transaction corrections. The issues to be addressed are purely factual and should not invite comment on adequacy or sufficiency.</p> <p>3. <b>Reconciliation and Transaction Corrections – How Horizon compares its own transaction data against other data sources:</b> <i>There is no dispute between respective experts on these issues, though the Judge could find that over 100,000 TCs each year indicates that there are problems with Horizon or Post Office's reconciliation Process.</i></p>	<p><b>Technical:</b> IT system is not fit for purpose today to the extent that Post Office and postmasters cannot rely on accuracy of branch accounts past and present.</p> <p><b>Procedural:</b> <i>Process governing the Horizon system are not fit for purpose and serious concerns remain over the use of remote access.</i></p> <p><b>Cultural:</b> Post Office's relationships with, or conduct towards, postmasters – or wider culture of organisation and leadership – is not acceptable.</p>	<p>1. Coordinated or widespread branch closures impacting customers [<b>likelihood thought to be low</b>].</p> <p>2. Calls for or enforced immediate legal, operational, or governance reaction (e.g. settlement, independent inquiries etc) [<b>likelihood thought to be medium/high</b>].</p> <p>3. Significant increase in postmaster queries, questions and claims into branch support centre [<b>likelihood thought to be high</b>].</p> <p>4. Retail partners refuse to sell products or operate Post Offices. Commercial clients seek to terminate contracts [<b>likelihood thought to be low</b>].</p> <p>5. Prolonged top tier negative media coverage extending beyond initial news moment to human interest stories [<b>likelihood thought to be low/medium</b>]</p>

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4. **Information available to Post Office versus that available to Postmasters:**

*Horizon did not, in general, alert Postmasters to any significant bugs or other defects in the Horizon System.*

*Post Office had access to data and systems which Postmasters did not. Some causes for shortfalls would be difficult or impossible to identify from the reports or transaction data available to Postmasters with such identification requiring information and co-operation from Post Office and or Fujitsu.*

*There is no functionality within Horizon to raise disputes. These are done via the helpline and 'settling centrally'*

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**Appendix 3****2. Response Plan**

The Response Plan is a live document detailing how Post Office will detect, mitigate and respond to immediate business impacts with the processes upon which it is reliant, embedded within it. The table below provides an aggregated view of how Post Office will respond to the most significant potential impacts which could occur across the network following receipt of an adverse Judgment, along with our view of their likelihood.

Impact	How will we detect this?	Key responses	Key communication-based responses
<b>Coordinated or widespread branch closures impacting customers</b>	<ul style="list-style-type: none"><li>• Monitor HORice log-ins</li><li>• Supply chain reports</li><li>• Area Manager reports</li><li>• NBSC reports</li><li>• Customer complaints team reports</li></ul> <p>This data is compiled into a single report, including baseline unplanned branch closures and removing planned or scheduled branch closures.</p>	<p>If closed branch is located near to alternative branches/services:</p> <ul style="list-style-type: none"><li>• Redirect customers to nearest branch (hiring taxis / minibuses if required) and update Post Office website so customers know which post offices are open</li><li>• Inform supply chain to increase cash orders to nearby branches who remain open and may receive increase in footfall</li></ul> <p>If closed branch has no Post Office branch (or Payzone outlet for bill payments) within 3 miles but is nearby to competitors:</p> <ul style="list-style-type: none"><li>• Redirect customers to alternative providers/competitors</li></ul> <p>If closed branch is the only branch/service within 3 miles:</p> <ul style="list-style-type: none"><li>• Consider deployment of pop-up post office (where available) to region in order to provide continuity of service to vulnerable customers for SGEIs</li></ul>	<ul style="list-style-type: none"><li>• Inform customers through social media/email teams to redirect them to nearest available services</li><li>• Area managers to engage postmasters to determine length of closure expected (temporary or long-term) and request re-opening</li></ul>

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Impact	How will we detect this?	Key responses	Key communication-based responses
		<ul style="list-style-type: none"> <li>Consider deployment of vans (where available) if location is within distance of current van routes</li> </ul>	
<b>Calls for or enforced immediate legal, operational, or governance reaction (e.g. settlement, independent inquiries etc).</b>	<ul style="list-style-type: none"> <li>Media coverage and/or demands from key stakeholders etc requesting immediate settlement / Inquiry</li> <li>Judge makes comment on specific bugs, known errors or technical issues</li> </ul>	<ul style="list-style-type: none"> <li>Legal team have separate approach to manage requests to settle / historic claims</li> <li>IT response team set-up to respond to, escalate and fix specific technical challenges that may be raised in Judgment. Any issue will automatically be raised as P1 and escalated to Fujitsu</li> <li>IT Team to have reviewed all processes to ensure they are appropriately documented, including the 'bug' identification, escalation and communication process and pro- active scanning for issues process.</li> </ul>	<ul style="list-style-type: none"> <li>Core response communication playbook will be used to defend Horizon and remind stakeholders of why Horizon fundamentally does work</li> <li>'New Normal' messaging to be used to demonstrate the positive and tangible changes being made by the business</li> </ul>
<b>Significant increase in postmaster queries, questions and claims into branch support centre.</b>	<ul style="list-style-type: none"> <li>NBSC call volumes</li> <li>Area Manager – sentiment monitoring and queries</li> </ul>	<ul style="list-style-type: none"> <li>NBSC surge resource plan invoked to increase tier 1 headcount by a maximum of c.30 people. This will mean more NBSC call handlers can manager tier 2 calls</li> <li>Area managers are equipped with information regarding Horizon troubleshooting if Postmasters have concerns on reconciling. This will reduce the burden on NBSC as Postmasters can use the guide to self-diagnose</li> </ul>	<ul style="list-style-type: none"> <li>Areas managers will escalate challenging questions/queries to the comms team for a formal response</li> <li>Area managers equipped to reassure postmasters on Horizon</li> <li>NBSC equipped to reassure and manage/triage queries from postmasters</li> </ul>
<b>Retail partners refuse to sell products or operate Post Offices. Commercial clients terminate contracts.</b>	<ul style="list-style-type: none"> <li>Relationship manager alerts RRT / GE</li> <li>Corporate affairs</li> <li>Communications team</li> </ul>	<ul style="list-style-type: none"> <li>Legal team have specific response process to address contractual issues raised by this scenario</li> </ul>	<ul style="list-style-type: none"> <li>Relationship managers and GE to be equipped with Horizon defence messaging detailing the accuracy of the specific reconciliation process with each commercial partner.</li> </ul>

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Impact	How will we detect this?	Key responses	Key communication-based responses
		<ul style="list-style-type: none"><li>If required, branch closure response process will be invoked to provide continuity of services where required</li></ul>	<ul style="list-style-type: none"><li>Long-term strategic engagement required to manage commercial partner/client expectations and future relationship with Post Office</li></ul>
<b>Prolonged top tier negative media coverage extending beyond initial news moment to human interest stories.</b>	<ul style="list-style-type: none"><li>Corporate affairs</li><li>Communication team</li></ul>	<ul style="list-style-type: none"><li>Comms team to continue to monitor and manage story.</li></ul>	<ul style="list-style-type: none"><li>All colleague comms to provide reassurance</li><li>Appropriate spokesperson used.</li><li>Response will focus on strategy for people to “maintain confidence” in the Post Office</li><li>New Normal’ messaging to be used to highlight the major changes underway at the Post Office</li></ul>

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PRIVILEGE

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**Appendix 4 – Estimated GLO Spend (17 Oct 2019)**

GLO Opex (approved) 19/20	
	£k
FSC - reduce TC backlog	26
TC Disputes Team	101
Branch Support Tier 2	143
Puzzel (call recording)	69
Contractor and other resource	411
<b>Ops subtotal</b>	<b>749</b>
Simpler Business Training and Engagement	1,200
Agent Remuneration	500
Agent Remuneration - Increased rates for PM	3,500
Agent Remuneration - Suspended PM*	1,200
<b>Retail subtotal</b>	<b>6,400</b>
<b>TOTAL</b>	<b>7,149</b> k
*Suspended PM allotted £15m, latest forecast £12m	
<b>Benefits</b>	
Nil - enabling	

GLO Opex (pending approval)			
	19/20	20/21	
	£k	£k	
Ops Transformation Project Lead (Loss Prevention)	105	156	
GLO - Historic Losses Team	44	156	
Branch Support Tier 2 (inc. Agency for surge)	53	348	
Branch Reconciliation & Disputes Teams (inc. Agency for surge)	53	303	
BIT Data Analyst (currently single point of failure)	15	30	
BA inc. 9% VAT (and VAT adjustment for CITI)	16	145	
Change Lead (GLO coordinator for Ops)		90	
BR&C team - GLO response	120		
T&S	24	48	
<b>TOTAL</b>	<b>430</b>	<b>1,276</b>	k
<b>Benefits</b>			
Nil - enabling			

GLO Change 19/20			
	Costs	Benefits BC Approved	
	£m	£m	
Design out TCs (Phase 2)	0.6	01-Oct-19	
Design out TCs Phase 3	1.3	Nov-19 tbc	
Loss Prevention Prove	0.6	0.16	29-Oct-19 tbc
Loss Prevention Phase 2	0.2		
Redesign Ops - Branch Support	0.8	29-Oct-19 tbc	
Portfolio (Prove)	0.5	Jun-19	
<b>Ops subtotal</b>	<b>4.0</b>	<b>0.2</b>	
Simpler Business - Hot Housing	2.9	0.1	Jun-19
<b>Retail subtotal</b>	<b>2.9</b>	<b>0.1</b>	
<b>TOTAL</b>	<b>6.87</b>	<b>0.21</b>	m

GLO Change 20/21			
	Costs	Benefits	
	£m	£m	
Design out TCs (Ph2 + Ph3)	-	0.33	
Loss Prevention	1.7	0.84	
Redesign Ops - Branch Support	2.0	0.98	
<b>Ops subtotal</b>	<b>3.7</b>	<b>2.1</b>	
Simpler Business - Hot Housing	0	1.7	
<b>Retail subtotal</b>	<b>0.0</b>	<b>1.7</b>	
<b>TOTAL</b>	<b>3.70</b>	<b>3.85</b>	m
<b>Benefits (Branch Support)</b>			
Recurring £3.85m annual benefit (from 2021 onwards)			

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**From:** Watts, Alan [GRO]  
**Sent:** 16 October 2019 14:41  
**To:** Ben Foat [GRO]  
**Cc:** Rodric Williams [GRO]; Emanuel, Catherine [GRO]  
**Subject:** Phase 2 costs v KPIs

Ben,

We are now moving from phase 2 to phase 3 of the litigation whereby our standard hourly rates will be reduced by an additional 5% to 15%).

I am hoping this is a suitable juncture to assess how HSF's performance has measured up to the agreed KPIs during phase 2.

You will recall that, under our engagement letter, 15% of our time costs for phase two is deducted from our bills and only becomes payable if and to the extent that the GLO Board Subcommittee considers we have met the agreed key performance indicators (including partner involvement, actual versus quoted lead time for delivery of work product, quality of advice, cost efficiency and responsiveness (including in relation to any complaints or issues). So Post Office has the discretion to agree anything between 0 and 15% based on its view of our performance.

The key points we would draw to Post Office's attention are:

1. One of the key roles we were instructed on was the Common Issues appeal. History suggests that we were right to recommend that this be dealt with separately from the recusal application. Further, although the outcome of the appeal is not yet known, we have successfully persuaded the Court of Appeal to give us an oral hearing at the permission stage.
2. Our other key role was to explore settlement. In that regard:
  - a. A mediation is now fixed and in the diary for November;
  - b. We have conducted an extensive quantum analysis across the 555 claimants which enables us to negotiate credibly about the true value of the claims;
  - c. We have developed a clear negotiating strategy which takes advantage of the government approvals required under Post Office's Articles of Association;
  - d. We have recommended the (novel) use of Part 36 which will enable us to: (a) shift some costs risk to the Claimants; (b) make it more difficult for the Court to make "rolling" costs orders in the Claimants favour which will swell their fighting fund and (c) will allow us to "reach" individual claimants directly, rather than communicating about settlement simply through Freeths and the activist claimant subcommittee.
3. We have taken an active role in steering the litigation in a helpful direction going forward. In particular:
  - a. It was at our direction that the scope of the further issues trial was narrowed to exclude limitation issues and, in particular, the (likely very damaging) question of whether Post Office was guilty of deliberate concealment under section 32.
  - b. We have sought to re-focus the case on an examination of properly selected test claimants by including a direction for the service of test case selection criteria and taking over the individual claimant review ourselves so ensure that appropriate test claimants are selected.

Tab 6 Any other business

4. We have actively assisted on issues arising out of the Horizon Issues trial, including the recent disclosure issues.
5. I have been directly involved in all key matters relating to the case, including on shareholder engagement.
6. Notwithstanding that a great deal of work has been required in short order, we have delivered in a timeous fashion enabling the Board to take informed and considered decisions on the appropriate levels of settlement authority to give.
7. We have leveraged off HSF's Belfast office with their lower charge out-rates and ability to upscale quickly where required to deliver volume work (such as the quantum review and individual case analysis) in a cost effective way without affecting the quality of the output.

We are obviously quite happy to expand on these points or put them in whatever format you would prefer. Will this email suffice for the members of the GLO Board Sub-Committee or would you like a more formal note?

Regards

Alan

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