

In Strictest Confidence

POST OFFICE LTD BOARD

Branch Support Programme

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Post Office Board on the Branch Support Programme.

2. Background

- 2.1 The Branch Support Programme was initiated in July 2013 to review the level of support the Post Office provided to subpostmasters to operate their post offices and to introduce improved levels of support having taken feedback from subpostmasters.
- 2.2 As the findings of the Branch Support Programme unfolded it became evident that the scope of this programme needed to be wider to ensure that the required cultural change is to be embedded within the Post Office.

3. Branch Support Programme – Purpose and Scope

- 3.1 The purpose of the Branch Support Programme is to improve the effectiveness and efficiency of the support we provide to our subpostmasters and operators in the running of their Post Offices from an operational and engagement perspective.
- 3.2 What is in and out of the scope of this programme is detailed below:

In Scope	Out of Scope
Cash, stock & stores management Finance Service Centre (FSC) NBSC & HSD Training – design & delivery Audit – design & delivery Communications Structure design for the network and admin support function touch points IT Spmr/operator selection process Spmr contract breaches Sales support – delivery methods Product design, delivery & Comms Crown – where the touch points are the same for the Crown network then these are in scope Refinement of network operating models	Crown network as an entity Supply Chain as an entity NTP as an entity Wider business organisational design

4. Programme Outputs – Quick Wins

Branch Support Programme Update – Feb 2014 Kevin Gilliland
20th February 2014

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In the process of mapping the “As is” and “To be” processes “Quick wins” have already been / will be implemented by end March 2014. Our focus has been on addressing the key issues raised in the Second Sight interim report and some of the themes from the Mediation Scheme cases (which is the subject of a separate Board paper), although a number of these improvements were already in train within the Post Office.

4.1 Subpostmaster Contract Breaches - we have reviewed our approach to how we respond to material contract breaches by subpostmasters and made the following improvements:

- Where a potential breach of contract has occurred our approach is to work with the subpostmaster to establish the facts and then take the appropriate action, keeping the subpostmaster in post and the branch operational, unless in the usually low number of cases where not to precautionary suspend the subpostmaster would carry a high risk of damage to POL’s reputation and / or a high risk to POL’s assets or where a customer has been directly involved in a potential fraud by the subpostmaster. This has resulted in a significant reduction in precautionary suspension and termination cases as evidenced at appendix 1. Examples of some of the cases are detailed at appendix 2. These branches are then monitored so if the initial problem were to reoccur we can respond quickly.
- If the precautionary suspension rate were to continue at the Q3 run rate of 14 i.e. 56 p.a. this would result in a reduction of c.900 process hours p.a. This could increase to a saving of 1400 process hours p.a. if appeals were to continue at emerging run rate of 12 p.a.
- Based on what we are seeing from recent cases, this new approach should have a positive impact on the recovery of losses, as for the subpostmaster to remain in post they would need to either make good the loss in full or agree repayment terms. A sample check of seven recent cases showed 60% of loss paid in total and repayment terms agreed for 40%. The net effect on P&L for former and current agent debt is a credit of £235k at period 10 (cumulative position) and whilst there would be other factors affecting this position the new precautionary suspension process will be one of the contributing factors.
- In March we are introducing suspended termination, a new category of action in dealing with material breaches of contract. This is where the subpostmaster has materially breached the contract and would have previously had their contract terminated. The new Suspended Termination category is where mitigating circumstances are such that the decision is to award a suspended termination is made; the subpostmaster remains in post on the condition that if a further material breach of contract occurs in an agreed period (set by the nature of the first breach and typically a year) then the contract termination may be triggered.

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4.2 Early Identification Tool - this is a real-time data tool from Fujitsu.

- It will support earlier identification and intervention of accounting and transactional anomalies which could be an indicator of non-conformance or fraud.
- The real-time element will enable analysis to be undertaken at the point it happens rather than waiting for historical data to be gathered.
- The pilot called HORice will be run in March and if the results are as we expect this tool could highlight problems and associated losses at a significantly earlier stage; there have been specific historical cases of significant losses (for example £185k) where having this data would have identified a pattern within one to two months rather than after 1 year.

4.3 Accounting Losses Support – we have refined our processes to react more responsively to reports of unexplained losses from subpostmasters:

- Where unexplained accounting discrepancies are raised by subpostmasters either via NBSC or some other route e.g. flag case these are passed to the Branch Support Team for resolution.
- The Branch Support team will assess whether the case is satisfactorily closed or whether further training is required.
- If further training is required the Branch Support team will action this.
- If further investigation is required the Branch Support team will pass to the Mediation Case Managers for assessment and further investigation as appropriate.
- Longer term, calls to NBSC will be categorised and analysed to establish root cause and resolution.

4.4 Training - we have improved the training approach by:

- Introducing an introductory call to the new subpostmaster two weeks before they take up post.
- Having earlier contact with the Subpostmaster following their initial training and replacing the month 1 telephone call with a branch visit.
- Reviewing the effectiveness of the balancing work-aid to help subpostmasters identify and hopefully resolve balancing problems earlier.
- Longer term, we are considering options on how best to optimise e-learning in our initial training to subpostmasters and on an ongoing basis.

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5. Programme Outputs – Longer Term

- 5.1 The Branch Support Programme has 9 work streams that capture all the touch points the subpostmaster has with Post Office in running their branch. These are: pre-appointment process; operational support; physical support; performance management; training; communication; IT; early warning/intervention approach; leavers process.
- 5.2 The milestone plan including costs and benefits for each of the workstreams will be completed by the end of March 2014, with interdependencies mapped.
- 5.3 The proposed ways of working for each workstream will include an ongoing review mechanism that ensures continuous improvement is embedded into business as usual.

6. Commercial Impact/Costs

- 6.1 The business case for this Programme is being developed and will be presented to POLIC for consideration in due course. Indicatively, benefits of c. £9m have been identified, to be realised over 14/15 and 15/16. However, as the majority of the benefits relate to headcount reduction, plans and therefore the associated cost of realising them (e.g. VR costs) are yet to be determined. This will be worked through following the completion of the workstream milestone plans at the end of March. As well as affordability, the implementation of the Programme will also be subject to the plans of the wider Business Transformation Programme.

7. Success Criteria

- 7.1 The Programme has two main key performance indicators (KPIs) – Agent Engagement and Operational Cost Reduction:
 - Agent Engagement - the formal measure is the subpostmaster annual engagement survey and in particular the support category of the survey. This will be supplemented with Pulse surveys undertaken at quarterly intervals.
 - Operational Cost Reduction - the cost of support to the network will be baselined as part of this Programme. Headline numbers suggest that 40% of the current support to the network is spent on recovery support ie correcting things that haven't been done right first time
- 7.2 Each of the nine workstreams will have performance measurements that feed into the two main KPIs.

8. Interdependencies

- 8.1 Other business programmes identified as having key interdependencies with this Programme are:
 - Initial Complaint Review and Mediation Scheme. Sponsor – Chris Aujard. Programme led by Belinda Crowe
 - Network Transformation.

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Sponsor – Kevin Gilliland. Neil Ennis, Programme Director.

- Business Transformation.
Sponsor – Lesley Sewell. Programme led by Brian Deveney.

9. Key Stakeholder Communication

9.1 The NFSP – has been engaged on two fronts:

- As a stakeholder in the Branch Support Programme and has input to the gap analysis stage of the process.
- In the high level thinking on a revised approach to Subpostmaster material breaches of contract.

9.2 **Wider Communications** – the development of branch communication plan is underway to listen and respond across the broad business spectrum. This includes:

- The link between the Branch Support Programme and the Initial Mediation Scheme with any improvement opportunity being impact tested and/or aligned with “The Scheme” before being implemented.
- The Branch User Forum
- The Agent Engagement Survey.

10. Governance

- 10.1 The Branch Support Programme will operate with a formal programmatic approach supported by the necessary governance and resource. The rationale for this is that a cultural change in behaviours will be required and therefore the right support in each of the workstreams and business areas will be needed to ensure that the changes are managed effectively and successfully embedded within the organisation with pace.
- 10.2 The Programme Board will meet monthly with monthly updates provided to ExCo and POL Board.

11. Recommendations

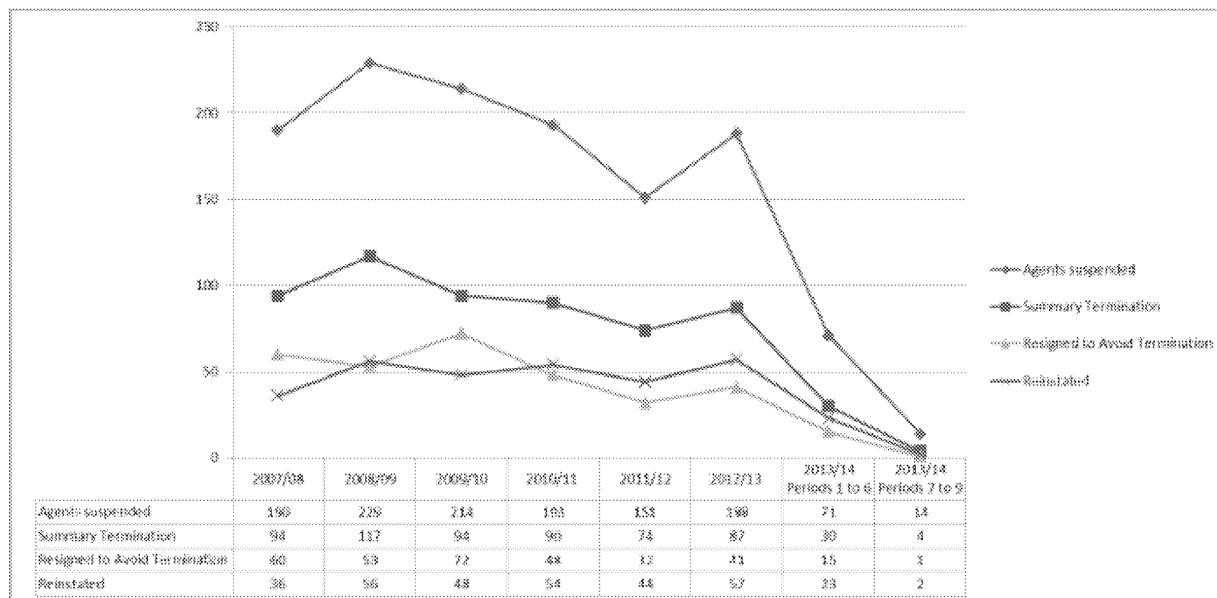
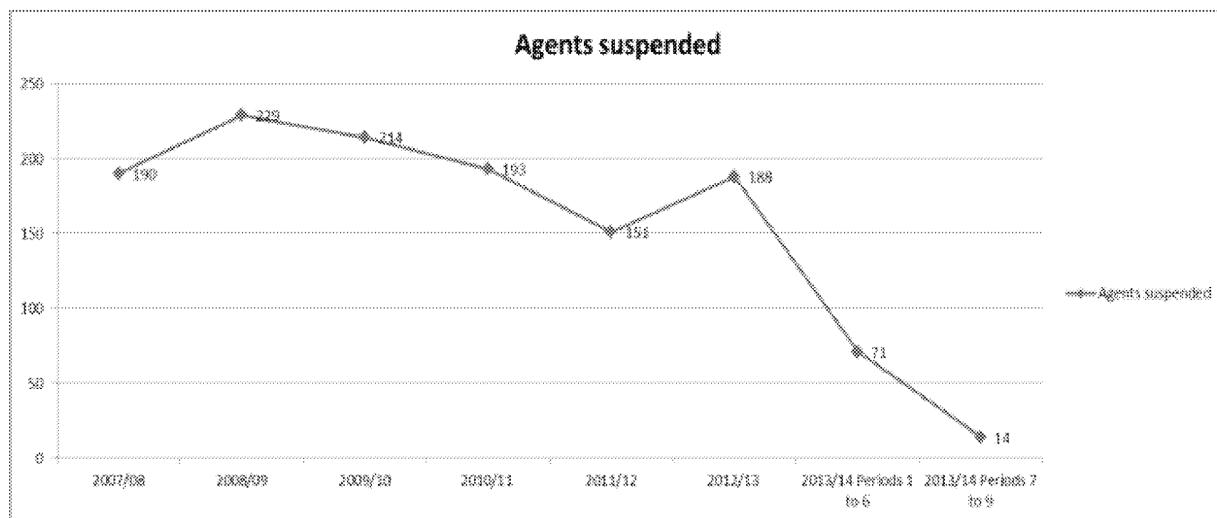
The Board is asked to:

- 11.1 Note the update and actions set out above.

Kevin Gilliland
20th Feb 2014

Appendix 1

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Appendix 2
Subpostmaster Contract Breaches – New Approach Examples

No Precautionary Suspension Examples – these are where under the previous approach precautionary suspensions would have happened.	
Date of Audit	Decision in respect of Contract breach
Sept 2013 Risk Based Audit	Audit result was £1112.98 short. As this was over the £1K threshold this would have previously led to a precautionary suspension pending investigation. Three cheques totalling £800 were missing – the response from Spmr was vague in relation to where they were. Rather than suspend, upon making good the full amount of the loss on the day the branch was re-opened and service maintained. The Spmr later attended a meeting with the Contracts Advisor in relation to the contract breach.
October 2013 Risk Based Audit	Audit result was £5401.44 short which would have led to automatic precautionary suspension. Spmr claimed historic stamp shortage (2008) and part Transaction Correction had been disputed. The loss was made good on day. The Spmr was kept in post. The investigation and the interview with the Spmr taking place at a later date. Written warning was issued.
November 2013 Audit following cash check escalation	Audit result was £17,818.42 short. It was clear from Field Support Advisor (auditor) on site that this was down to OIC who failed to appear with safe keys which would have previously led to automatic precautionary suspension. The Spmr accepted full responsibility and undertook to repay at earliest opportunity in full (received within 7 days). The Spmr was kept in post and interviewed at a later date. The Spmr has since left as part of a commercial transfer.
December 2013 Special Request Audit	Audit result was £36148.04 short. Staff member had been manipulating cheques within the account – these cheques were not being received by the processing centre. The staff member was son of the Spmr who had left him in charge without proper controls. The Spmr accepted full responsibility for loss, removed her son from the branch and entered into repayment arrangements with us to repay the loss. Previously the Spmr would have been precautionary suspended whilst the investigation was completed but in this instance the investigation was but was done on the day. As the Spmr is a pluralist if suspended she would have been suspended from both branches.
Precautionary Suspension Examples – these are cases that under the new approach warrant precautionary suspension	
Date of Audit	Decision in respect of Contract breach
November 2013 Risk Based Audit	Audit result was £33,388.14 short. During the audit the Spmr admitted taking £29k and giving it to his brother to buy a car. Precautionary suspension took place and following interview with Contract Advisor the Spmr's contract was terminated. The debt is still outstanding. A temporary Spmr is running the branch.
September 2013 Risk Based Audit	Audit result was £7488.00 short. The Spmr admitted misuse of funds to keep business running as struggling to maintain. He was precautionary suspended because no reasonable explanation and funds would have continued to be at risk. He later resigned to avoid termination