



POLICY DOCUMENT- Postmasters' In Service Debt

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Author	Ravi Chauhan, Contracts and Policy Advisor
Owner	Agents' Contracts and Policy Development Manager
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Key stakeholders	Contracts Team: John Breeden Lin Norbury Andrew Carpenter Finance Service Centre: Alison Bolsover Dawn Wall Finance: Mike Hallas (Tax implications) Carl Nielsen Security Team Sally Smith Legal Services: Jessica Madron

Approval

Role	Name(s)	Date
Assurance	Paul Inwood, Contracts and Policy Manager	04/12/2014
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Version 1.1	Amendment to version 1.0, Section 12.0 referring to the write off authority levels for Network Services.	22 October 2013
Version 2.0	Version following post implementation review of version 1.1.	4 December 2014

CONTENTS

PART 1

- 1.0 Statement
- 2.0 Glossary
- 3.0 Introduction and purpose
- 4.0 Background
- 5.0 Right of recovery of sums due
- 6.0 Repayment of outstanding debt
- 7.0 Repayment options for former Postmasters
- 8.0 Pluralist Postmasters and multiple partners
- 9.0 Death in service
- 10.0 Risk Register / Branch Profile
- 11.0 Securing the debt
- 12.0 Write offs
- 13.0 Debt disputes – Transactional debt
- 14.0 Debt disputes – Non-transactional debt

PART 2 – Policy Implementation

- 1.0 Applicability
- 2.0 Related policies
- 3.0 Implementation procedures
- 4.0 Standard letters and documents

SUBJECT: Policy for dealing with the recovery of Postmaster's in service debt

PART 1

1.0 Statement

- 1.1 The purpose of this policy is to clearly set out the processes Post Office Ltd (POL) will follow to recover debt incurred in service by Postmasters of all Post Office branches. This policy supercedes custom and practice formerly implemented to recover debt incurred in service.

2.0 Glossary

Word/term	Definition
Assistant	A person employed by the Postmaster (who is approved by Post Office Ltd) to work in the Branch
Basic Business	The type of business carried on by the Postmaster on its own account from the Branch Premises
Branch	The Post Office branch operated by the Postmaster

Branch Discrepancy	When Branch Trading is completed, Horizon calculates the expected cash position, using the transactions completed through Horizon. The branch then counts the actual cash in the branch and declares this. A branch discrepancy is where there is a difference between these two values, either a cash shortage or surplus.
Branch Premises	The premises from which the Post Office Branch and the Basic Business are operated
Branch Trading	The act of the monthly balancing of the branch accounts. The Postmaster is required to reconcile the cash and stock in his branch against what the Horizon system is displaying there should exist in real terms.
DFR	Deduction from fees/ remuneration
Existing Contract	A contract currently in place between Post Office Ltd and the Postmaster (or, as appropriate, a shareholder and/or a director of the Postmaster) for the operation of a Post Office branch at the Branch Premises
FSC	Finance Service Centre
NBSC	Network Business Support Centre
Non-transactional Debt	Refers to debt incurred outside of branch transactions. Incurred due to unpaid invoices for example: Franchise Insurance Waivers (once a year); Lease of electronic scales (once every quarter); Property projects (e.g. refurbishment work).
NT Agreement	Contractual conditions for the operation of a Local Post Office® and Main Post Office®
Operator	Refers to an individual, company or partnership responsible for the operation of a Local or Main branch under an NT Agreement only
Postmaster	This is the collective term for an individual, company or partnership contracting with POL as an Operator, Subpostmaster or Franchisee.
POL	Post Office Limited
Settle Centrally	In Horizon Postmasters can choose the option to "Accept and Settle Centrally" which signifies acceptance of a loss or gain within a branch unless the dispute process is instigated. "Settle Centrally" does not prohibit further investigation which might offset all or part of the loss/ gain accepted earlier, but this is the branch's responsibility to initiate.
Subpostmaster/ Franchisee	Refers to an individual, company or partnership responsible for the operation of a Post Office branch under a Traditional Contract
Traditional Contract	Contract for the operation of Post Office branches, signed prior to the introduction of Local and Main agreements. Traditional contracts include: Subpostmasters Contract; Community Subpostmasters

	Contract; Modified Subpostmasters Contract; Franchise Agreement; Franchise Independent Retailer Agreement; Satellite contract; Outreach Agreements; Company Operated Contract; Local Funded; Paystation Direct Settlement; PO Essential; Temporary Subpostmasters Contract
Transaction Correction	Transaction Corrections are sent to the branches via their Horizon system when a discrepancy has occurred in their accounting or where a branch is considered liable for payment processing failures such as negligent acceptance of counterfeit currency.. A discrepancy may not have arisen in branch but a loss has been identified at some point which is attributable to the specific branch. These are sent out by teams within Finance Service Centre who deal with various clients/products.
Transactional Debt	Refers to debt incurred in branch. Usually created by a Transaction Correction or a Branch Discrepancy which has occurred in the office accounts at branch trading.

3.0 Introduction and purpose

3.1 In order for POL to be modernised and sustainable it is vital that it works to prevent and minimise financial loss, and mitigate the impact of financial loss on POL and the network. Aside from the direct cost to POL of incurring losses, some of which are ultimately written off, all losses involve administrative costs in dealing with recovering the debt and with the errors that cause them.

3.2 This policy is designed to provide clear and consistent guidelines and processes for POL to recover transactional and non-transactional debt incurred whilst in service by Postmasters of all Post Office branches whether they are still in service or have subsequently resigned.

3.3 Process charts and guidance notes for dealing with these requests are included in Part 2 (Section 3.0) of this policy.

3.4 Standard letters (inclusive of those which are sent via Finance System and documents are included in Part 2 (Section 4.0) of this policy.

4.0 Background

4.1 From a purely contractual perspective the Postmaster of a Post Office branch is responsible for:

- Making good any loss of Post Office cash and stock without delay.

- Making good any losses incurred whilst operating under their respective contractual agreements that come to light following termination of the agreement.
- All losses incurred through their own negligence, carelessness or error and also for losses caused by their Assistants.

4.2 To ensure that this policy is consistent with the contractual relationships between POL and the Postmasters it is designed to clarify circumstances where mitigation may be appropriate and to provide a clear framework of repayment options, where immediate repayment is not possible.

5.0 Right of recovery of sums due

Traditional contracts

5.1 POL has a common law right to set off sums owed by the Subpostmaster/Franchisee to POL against some payments made by POL to the Subpostmaster/Franchisee.

NT Agreements

5.2 Where money is owed by an Operator to POL or any other member of the Royal Mail Group whether that money is owed under an Existing Contract or lease of premises or otherwise, POL at its own discretion may recover *all* of that money from any sum due to the Operator under the NT Agreement or the Existing Contract, including their remuneration fees or any termination payment owing to Operators leaving the Post Office network. This right does not affect POL's right to require an Operator to make good any deficiencies identified through the late account procedure and/or repay any other debts due. **Also note that POL has made a business decision that sums owed by the Operator cannot be recovered from funds POL releases to the Operator under the Network Transformation Programme namely investment payments, or conversion or transition payments.**

6.0 Repayment of outstanding debt

6.1 The contractual position is that Postmasters should repay the debt immediately. POL understands that in some circumstances immediate repayment of the debt is not always possible. It is within POL's interests to ensure the continuation of Post Office services and branches, by motivating Postmasters to repay debt whilst continuing service, and where appropriate limiting the risk of resignation or notice of termination by an Postmaster whilst taking steps to recover the debt.

6.2 Therefore there will be circumstances in which POL will give due consideration to offering one or both of the following repayment options to Postmasters:

- Repayment of full amount in one instalment.
- Repayment plan where Postmaster proposes a reasonable repayment plan up to 12 months.

Each repayment option is considered in turn below.

6.3 Repayment of full amount in one instalment

6.3.1 The default option for repayment of debt should be in full either via direct payments or by deducting amounts from fees/remuneration. Note that the priority order for payment options is to be defined as card payment, automatic transfer (bacs or chaps payment), one deduction from remuneration, with the last option being payment via cheque.

6.4 Postmaster proposes a reasonable monthly repayment plan up to 12 months

6.4.1 Postmasters will not always be able to repay the debt in one payment. POL will consider reasonable repayment plans suggested by Postmasters. Postmasters must provide a reason for why they are proposing the repayment plan as opposed to paying the amount in full.

6.4.2 The Postmaster can propose to repay a debt on a monthly basis over a maximum period of 12 months either via direct payments or by deducting amounts from fees/remuneration. Note that the priority order for payment options is to be defined as card payment, automatic transfer (bacs or chaps payment) with the last option being deduction from fees/remuneration over the shortest possible period (see Fig 1 below). Further note that the repayment plan will commence from the date of the next remuneration payment following the date that POL signs the repayment plan as sent to the Postmaster (subject to remuneration cut off dates).

6.4.3 In cases where the monthly instalments would be insufficient to repay the debt over the agreed repayment period, a lump sum will be required from the Postmaster to repay the balance and this must be received prior to the end date of the repayment plan in cleared funds.

6.4.4 For transactional debt only one instalment plan can be in place at any time. This should be confirmed in writing to the Operator, using Standard Letter D, when the initial repayment plan is established. Following repayment – no further instalment plans will be allowed for a further 12 month period. If the Postmaster incurs a further transactional debt which

he has settled centrally, the debt shall be added to any existing instalment plan using Standard Letter K or I and is payable in one payment by the next month. The 12 month period would commence from the date of the final payment being paid on the previous instalment plan. Details of when the last repayment plan was repaid is to be included on the concurrence report issued by the Agents Accounting Team. Should a Postmaster appear on the report whilst they have a repayment plan in place or in the twelve month period after repayment of a plan, the Contract Advisor should request full repayment. A conversation must be conducted with the Operator to assess the financial position/problems being experienced at the branch.

6.4.5 Where the Postmaster has agreed to repay the debt any repayment plan should be recorded in writing, using Standard Letter D. The letter will state the agreed sum due, when instalments are to be paid and for how much. The letter should also expressly reserve all of POL's rights and remedies under the contract. POL and the Postmaster should then sign off the plan as having been agreed. Note that agreement is not required to deduct the amount from fees/remuneration where the Postmaster has failed to repay the debt subsequent to warning from the Contract Advisors (See Process Chart A). In such cases Standard Letter E or F can be used to communicate the arrangement to the Postmaster.

Fig 1 - Deduction from fees/remuneration

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- a. Where direct payment is not made by card payment or automatic transfer (bacs or chaps payment), the debt can be paid by deducting amounts from the Postmaster's fees/remuneration over the agreed repayment period. Where the debt amount exceeds £1000.00, the Agents Accounting Team will send out a concurrence report to Contract Advisors, seeking concurrence to commence collection of this outstanding debt by deduction from remuneration.
- b. In determining the amount to be deducted from fees/remuneration (DFR), POL must consider the circumstances of the Postmaster's branch including its fees/remuneration for the previous 12 months and the term remaining on the Postmaster's agreement (this is of particular relevance where a Postmaster has given notice to terminate in accordance with his respective Agreement).
- c. Once the above considerations have been made POL will calculate the level of deduction. The maximum amount that can be deducted each month is 25% of the monthly fees/remuneration, unless the Postmaster voluntarily offered more.
- d. In cases where the monthly instalments would be insufficient to repay the debt over the agreed repayment period, a lump sum will be required from the Postmaster to repay the balance and this must be received prior to the end date of the repayment plan in cleared funds. Where the Postmaster is still unable to repay the outstanding balance POL should seek legal advice to consider the options set out below, at Section 11.0, to secure the debt.
- e. If the case involves a pluralist Postmaster the percentage of fees/remuneration deducted is to be calculated in the aggregated fees/remuneration for all branches operated by the Postmaster. Similarly if it is a temporary Postmaster with more than one branch the percentage would

7.0 Repayment options for former Postmasters

7.1 The following options are available to former Postmasters for the repayment of debt incurred in service:

- a. **Lump sum payment** - via cash, cheque, BACS/CHAPS, postal order or debit card.
- b. **Standing order** - over a period agreed with POL. Where this option is agreed the former Postmaster will be required to complete and submit pro forma B - income and expenditure form.
- c. **Recovery from sums due** - Where Postmasters decide to leave the Post Office Network under the Network Transformation Programme, POL can deduct monies due to it from the Postmaster's compensation payment.
- d. **Recovery from third party** - Some former Postmasters will appoint a third party (e.g. Payplan) to consolidate all of the former Postmaster's debts. The third party will then allocate repayment to the various creditors. This will likely involve a discount to the full sum due.

7.2 In the circumstance that POL successfully pursues legal routes for recovering debt, recovery may be via cheques received from various County Courts to reduce the former Postmaster's debt.

8.0 Pluralist Postmasters and multiple partners

8.1 In the case of pluralist Postmasters and multiple partners, POL will consider the aggregated remuneration of all of the pluralist's or multiple partners'

branches as opposed to the individual position of the site where the loss has occurred.

9.0 Death in service

- 9.1 The recovery of debt from a Postmaster who has died in service will be dealt with by the Former Agents Debt team. It is important to note that each case must be treated with sensitivity and due diligence. Where POL has contracted with a company, as opposed to an individual, the branch may be able to continue operating. In such an instance POL will continue to deploy its business as usual policy.
- 9.2 The Former Agents Debt team will write (recorded delivery) to the next of kin to notify them of the outstanding debt amount and requesting repayment, giving 21 days to respond. If a response is received, repayment details are discussed with the next of kin. If no response is received the Former Agents Debt team will research whether the address for the next of kin is correct or whether another contact within the Postmaster's family is available. If the address is correct and no response has been received a second letter is sent out to the next of kin, giving 14 days to respond. Subsequent to this if no response is received a third letter is sent out, giving 7 days to respond. Further failure to respond prompts the requirement to send a referral to POL's legal representatives for further action.
- 9.3 Note that if POL was unsuccessful in recovery, the Former Agents Debt team will weigh up the cost effectiveness of pursuing the debt prior to referring it to POL's legal representatives.
- 9.4 In regards the repayment options available to former Postmasters refer to section 8.0 above.

10.0 Risk register/Branch profile

- 10.1 Postmasters that fall into the following categories are to be highlighted by Contract Advisors on the branch risk register/branch performance profile as being potentially a higher risk as they are not able to repay outstanding losses in full:
 - a) Postmasters that cannot pay within 12 months and/or need a lump sum to settle the debt.
 - b) Postmasters on a current repayment plan.
- 10.2 The Security team will be notified via the DFR Report of this information.

11.0 Securing the debt

11.1 There may be circumstances where POL wants extra comfort that it can recover losses incurred by securing the debt, particularly where there are concerns about the Postmaster's accounts or where there is the risk that the Postmaster may leave the network. POL loses significant amounts of money to former Postmasters.

11.2 The debt may be secured in two ways:

- a. **Guarantees (proactive)** - under the Local and Mains Post Office agreements Operators operating as a company are obliged to provide guarantees to secure the performance of the Operator's obligations under the agreement, where the company has existed for less than three years, or if the company is deemed a financial risk. It is important that POL explains clearly to the guarantor that they will be liable for the debt. The Guarantees in Company to Company relationships policy should be referred.
- b. **Charges on property (reactive)** - POL may consider securing the debt against property of the Postmaster by placing a charge on their property. This measure should not be implemented without informed advice from Legal Services

11.3 The Postmaster should obtain independent legal advice before providing a Guarantee or a Charge. POL should obtain an Independent Legal Advice ("ILA") certificate confirming this. This will minimise the risk of the Guarantee or Charge being set aside.

12.0 Write offs

12.1 Decisions in respect of write-offs are not taken by groups but are the responsibility of individual managers, who bear P&L accountability for those decisions. The reasons for a write-off must be fully documented and may be subject to audit.

12.2 The Network Directorate may write off against it cost centre, in which case the following authorisation levels apply:

Up to £5,000	Agents Contracts Deployment Manager or BAU Regional Manager
Up to £25,000	Head of Network Services or Head of Network Operations
Up to £100,000	General Manager Network Agency Sales, Services & Transformation

£100,001+	Network and Sales Director
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12.3 Alternatively, FSC may write off debts against its cost centre , in which case the authorisation limits below will apply:

Up to £1,000	Team Leader
Up to £5,000	Senior Manager
Up to £100,000	Head of FSC
£100,001+	Finance Director

12.4 For write-offs pertaining to debt owed by former Postmasters the authority limits for write-offs are as follows:

Up to £1,000	Former Agents Debt Team Leader
Up to £15,000	Relationship Manager
Up to £25,000	Former Agents Debt Team Senior Manager
£25,001+	Head of FSC

13.0 Debt disputes -Transactional debt

13.1 POL acknowledges the potential financial impact and stress that may be caused by unexpected Transaction Corrections or Branch Discrepancies. An effective dispute resolution process is essential to ensure that settled centrally debts are not recovered from Postmasters without reasonable time to investigate, challenge and resolve individual amounts.

13.2 There are two routes by which Postmasters might instigate the dispute process:

- Transaction Corrections
- Branch Discrepancies

13.3 Transaction Corrections

13.3.1 Branches should contact the Transaction Correction issuer within 7 days of acceptance at branch to challenge the evidence provided to support the Transaction Correction wherever possible. Where time permits prior to Branch Trading, branches should challenge prior to acceptance.

13.3.2 If the challenge is accepted by POL in full or part at this stage, a compensating Transaction Correction will be issued to close the dispute.

13.3.3 On receipt of supporting information the issuing team will suspend the debt recovery process, if the Transaction Correction was settled centrally, until a response has been made. Written submissions to the specific team should receive a written response, within 10 working days, in line with business standards. It is recommended that written submissions be sent using a priority service.

Transaction Corrections where there is insufficient time to investigate prior to Branch Trading roll over.

13.3.4 Branches should contact NBSC ([GRO]) and request further time to investigate and present supporting information. A reference number will be provided.

13.3.5 Supporting information to support any dispute must then be presented by the Postmaster in writing via Special Delivery to *Agents Accounting Team* (, 1 Future Walk, Chesterfield S49 1PF, within 7 days quoting the above reference number.

13.3.6 The Agents Accounting Team will then present to the issuing team who will suspend the debt recovery process, if the Transaction Correction was settled centrally, until a written response has been made. FSC will provide an update on the query or a resolution, within 10 working days.

13.4 *Branch Discrepancies*

13.4.1 The resolution of branch discrepancies is the responsibility of the branch.

13.4.2 If the Postmaster believes a transaction correction is required they should contact the appropriate department in FSC via NBSC ([GRO]). It is FSC's sole responsibility to update NBSC of any changes to a department's contact number. Supporting information should be presented and resolution then follows the transaction correction process. It is recommended that this be sent using a priority service. FSC will provide an update on the query or a resolution, within 10 working days.

13.5 *Further Review*

13.5.1 If the Postmaster believes that the supporting information provided to FSC adequately supports their dispute but the dispute has not been allowed they should make a written submission to:

*The Relationship Manager
1 Future Walk
Chesterfield
S49 1PF*

- 13.5.2 The debt recovery process, if settled centrally, will be suspended pending a written response.
- 13.5.3 A written response will be provided, within 10 working days, in line with Business standards.
- 13.5.4 All correspondence will be included on the Cloud City for the Network to be able to view.
- 13.5.5 Where a dispute is subsequently not upheld, a branch then becomes liable for the settled centrally debt and no repayment will be made for any debt made good.
- 13.5.6 The decision of the Relationship Manager is final. Decisions are made at POL's discretion.

14.0 Debt Disputes - Non-transactional debt

- 14.1 Where the Postmaster disputes the amount of an invoice he should raise a query using the Agents.Accounting.Team GRO email address. The Agents Accounting Team will then forward on the query to the responsible individual within POL who raised the invoice. The responsible individual will respond to the Agents Accounting Team to confirm the amount and will respond to the postmaster accordingly. Where the Postmaster has successfully disputed an invoice amount (i.e. he has been charged incorrectly), the responsible individual will send an SD05 form to the Accounts Receivable Team who will raise a credit note to offset against the invoice.

PART 2

1.0 Applicability

This policy applies to all contracts types and to dealings between POL and all Postmasters of Post Office branches.

2.0 Related policies

The following policies require consideration or cross referencing when dealing with the recovery of in service debt:

Guarantees in Company to Company relationships

Contract breach
 Burglaries and Robberies

The above list is not exclusive and consideration of other policies may be required depending on the particulars of each case.

3.0 Implementation procedures

Process Chart A Process for recovery of in service transactional debt incurred by an Postmaster.	 pcA - Transactional debt recovery.doc
Process Chart B Process for recovery of in service non-transactional debt incurred by an Postmaster.	 pcB - Non-transactional fun
Process Chart C Process for recovery of in Service debt incurred by a former Postmaster.	 pcC - Former Postmaster debt reco
Process Chart D Process for agreeing a repayment plan beyond 12 months for the recovery of in service debt.	 pcD - Instalment plans beyond 12 mont

4.0 Standard letters and documents

Standard Letter A Statement of debt detailing amount of outstanding transactional or non-transactional debt.	 sIA - New Statement V5 0 15 05 2014.docx
Standard Letter B Reminder of debt, following Standard Letter A, detailing amount of outstanding transactional or non-transactional debt.	 sIB - New Dunning Doc 04 06 2014.docx
Standard Letter C Subsequent to voluntary agreement, letter agreeing with Postmaster that transactional or non-transactional debt will be deducted from fees/remuneration in one instalment.	 sIC - Dfr Voluntary single payment.docx
Standard Letter D Subsequent to voluntary agreement, letter agreeing with Postmaster that transactional or non-transactional debt will be deducted from fees/remuneration over a number of instalments.	 sID - Dfr Voluntary instalments.docx
Standard Letter E Letter of warning to the Postmaster stating that payment will be taken in one instalment from fees/remuneration.	 sIE - Dfr Forced single payment.docx

Standard Letter F Letter of warning to the Postmaster stating that payment will be taken in a number of instalments from fees/remuneration.	 slF - Dfr Forced instalments.docx
Standard Letter G First statement of debt letter to former Postmaster.	 slG - 1st letter to former Postmasters.d
Standard Letter H Second letter to former Postmaster reminding of unpaid debt.	 slH - 2nd letter to former Postmasters.d
Standard Letter I Letter of action to former Postmaster subsequent to Standard Letter I and J.	 slI - 3rd letter to former Postmasters.d
Standard Letter J Letter to Postmaster requesting additional information where request placed to repay the debt beyond a 12 month repayment plan.	 slJ - Exceptional request for Instalmen
Standard Letter K Letter to Postmaster who has an existing instalment plan in place, has settled a further transactional debt centrally, and POL is deducting the further debt from fees/remuneration in one instalment.	 slK - Dfr Forced single payment.docx
Standard Letter L Letter to Postmaster who has an existing instalment plan in place, has settled a further transactional debt centrally, and POL is deducting the further debt from fees/remuneration over a number of instalments.	 slL - Dfr Forced instalments.docx
Pro Forma A Income and expenditure form to be sent to a current Postmaster for completion where he requests to repay a debt beyond 12 monthly instalments.	 pFA - Income and Expenditure Form Exi
Pro Forma B Income and expenditure form for completion by a former Postmaster where he requests to repay an outstanding debt via standing order over an agreed period.	 pFB - Income and Expenditure Former P