



## POST OFFICE LIMITED GROUP EXECUTIVE REPORT

<b>Title:</b>	Postmaster Losses – Process Update	<b>Meeting Date:</b>	16th November 2022
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### Input Sought: Discussion and Decision<sup>1</sup>

The purpose of this paper is to update the Group Executive on the current position regarding postmaster losses, our current approach to recovering such losses and note the improvements to processes and ways of working already underway. A GE decision is also sought as to whether we should amend our approach to the recovery of losses via deductions from remuneration, where it is appropriate to do so.

### Executive Summary

Postmaster discrepancies are increasing Post Office provisioned balances by an average of £0.7m per period so far this year. This compares to an average increase of £0.1m per period throughout 2021/2022. We predict that this trend will continue throughout the remainder of the year unless changes to our policy and processes for the recovery of postmaster losses are implemented. The current amount of postmaster losses provisioned for on our balance sheet now stands at £24.6m as at period 7.<sup>1</sup>

As a result of the GLO findings and Fraser Judgment, the process for a postmaster to request that a discrepancy be 'reviewed or disputed' has been made easier with the introduction of the 'review and dispute' button in April 2021. Since its implementation there has been a steady increase in the number of postmasters using the button to dispute a discrepancy, the result of which is a 61% increase in volume from P1 to P7 22/23 compared to the same period in 21/22.

This process in itself has several challenges which are highlighted in sections 13 to 15 of this paper. In addition, when a discrepancy is found to be a genuine loss that is attributable to the postmaster or their assistants (Established Loss), recovery prospects are currently limited.

This paper will:

- Recap on the current process in place to recover postmaster losses
- Provide data on the current position regarding established losses and their root cause
- Identify issues with the current process
- Update on the work already underway on other improvements and to create a process to recover Established Losses and seek a decision from GE on the future recovery of losses via deductions from postmaster remuneration.

<sup>1</sup> GE are updated on the amount of provisioned losses on a monthly basis via the CIJ dashboard.



## Report

### **Current process in place to recover postmaster losses**

1. A postmaster that finds a discrepancy (shortage or surplus) at the end of a trading period can select the "Review/Dispute" option on Horizon if they don't know how the discrepancy has arisen. Alternatively, the postmaster can choose to balance the discrepancy locally by adding or removing money to/from the stock unit.
2. If the 'Review/Dispute' option is pressed, this virtually removes the discrepancy from Horizon, allowing the postmaster to balance and start the next trading period. The discrepancy amount is applied to the postmaster's centralised holding account, managed by the Postmaster Account Support team (PAST) in Chesterfield.
3. Once the button has been pressed, the postmaster is required to contact the Branch Support Centre (BSC) to ask for support in investigating how the discrepancy has arisen. If the postmaster can't resolve the discrepancy, the case is passed to the Accounting Dispute Resolution team (ADR) for further investigation. At this point, amounts below a de minimis value of £500 (temporarily increased to £1k to support the team over the peak period and clear a backlog) are subject to a lighter touch investigation (peripheral checks) prior to agreeing the amount to be written off<sup>2</sup>. All cases above the de minimis threshold are investigated and found to be, on the balance of probabilities, either the fault of the postmaster (an Established Loss) or not. The postmaster is advised of the outcome and how it was arrived at. The case investigation report, with accompanying evidence, is shared with the postmaster if they require a copy.
4. If the postmaster doesn't contact BSC after pressing the 'Review/Dispute' button, the PAS team will attempt to telephone them over a 12-week period. The initial call is followed up with two letters notifying the postmaster of their discrepancy, offering support and advising of their options to either dispute or to pay.
5. If, throughout the process, the postmaster disagrees with Post Office findings, there are opportunities for them to formally raise this and have the findings reviewed.
6. At present, no further action is taken if the postmaster can't be contacted or does not agree to pay for an Established Loss. Civil recovery of losses was stopped in c2018 and non-voluntary deductions from remuneration stopped in 2019.
7. We believe that the current investigation process is robust and CIJ compliant. The new operating model was set up in May 2021 with the support of KPMG (LLP) and, later, Post Office's legal team delivered training to the team on CIJ compliant investigations. A policy setting out the operation of this area was created and signed off initially in April 2021 by the Audit, Risk and Compliance Committee and a combined Deloitte/internal audit took place earlier this year with the report currently awaiting management clearance. It has also been agreed that, from January, the Central Investigations Unit (CIU) will be assuring the investigation process carried out by the Accounting Dispute Resolution team.

<sup>2</sup> The principle of operating a 'de minimis' was in the Accounting Dispute Resolution Policy signed off by ARC in May 2021 and the amounts are agreed by the Head of Network Support and Resolution.





### **Current 'Established Loss' position and root cause**

8. The postmaster loss provision (currently at £24.6m) has been growing at a faster rate recently. Appendix 2 shows the increases sustained from the end of the last financial year. Appendix 3 also provides details of 12 cases that contributed to the majority of the increase to provisioning in P7, the indicative causes and the status of each case.
9. Year to date (up to P7), there have been 35,083 discrepancies registered at the end of branch trading periods, with a total value of £41m. 4516 (13%) were cases with a total value of £25m where the postmaster selected review/dispute. However, 30,567 cases (87%) were dealt with locally, although the value of these is only 38% of the total discrepancy value (£16m). These values include both shortages and surpluses, combined.
10. The leading root cause of discrepancies is 'inaccurate accounting'. For example, inaccurate / incomplete cash declarations or the same figure declared daily or over a longer period of time making it difficult to determine the approximate cause of a discrepancy. If they are caused by a specific product issue this is usually easy to see and resolve.
11. Network Support and Resolution are working closely with Finance and Data Insights to ensure that we have a more robust set of data to analyse on an ongoing basis. Currently there are multiple data sources, spreadsheets, and issues with collecting and categorising the data from two disparate systems, MS Dynamics and Post Office Core Finance System (CFS). Consequently, there is a lack of accurate visibility around the volume and value of established losses, those agreed or disputed by the postmaster and the final outcome for example. There have been recent system improvements which will allow accurate values and outcomes to be recorded but there is more work to do.
12. In the meantime, we can see using preliminary (estimated), data that in approximately 89% of Established Loss cases, the postmaster verbally accepts the loss, accounting for £1.2m, compared to only 11% where they dispute the findings accounting for £319k<sup>3</sup>.

### **What issues are there with the current process?**

13. Often, postmasters fail to follow the process to contact BSC and discuss the discrepancy. Attempts are made to contact the postmaster via outbound calls, although the high volumes currently being experienced make that difficult for the small team in place. When contact is attempted, the postmaster is often unobtainable. This means:
  - We are unable to use our knowledge and experience to support the postmaster to identify how the discrepancy has arisen.
  - If we are still unable to contact the postmaster, after 12 weeks, we attempt to investigate the discrepancy anyway. However, finding out what happened after so long and with no postmaster input is often not possible.
  - The discrepancy therefore sits on the account as an unresolved postmaster loss, indefinitely.
14. There are also examples of where postmasters accept that the discrepancy is an Established Loss and verbally agree to pay but do not. The number of cases in this situation

<sup>3</sup> Please note that values are based on estimates at the time the Postmaster raises a discrepancy, the time the BSC advisor creates the case record or at the time the Review / Dispute button is pressed on Horizon. Recent system changes will allow accurate value reporting going forward.



has still to be quantified, but an earlier manual sample of 50 cases with an overall value of £154,000 showed that only 9.3% of this was being repaid (£14,376).

15. Since 2018/19, Post Office has not had the appetite to take any additional action to recover postmaster losses. This means that the volume and value of postmaster losses has continued to increase. This is evidenced by the £24.6m provisioned for postmaster balances currently. This includes a large proportion of 'aged balances', from before April 2021, the treatment of which is being managed separately by Historic Matters and is yet to be agreed.

### **What improvements are being made to improve the process and recover losses more effectively?**

#### **Established Loss Recovery Process**

16. For the last year, we have been liaising with the Improvement Delivery Group regarding a new process to recover losses that have been investigated. Norton Rose Fulbright (LLP) (NRF) flagged the lack of a recovery process as an issue in their CIJ report and we are keen to bring fairness and consistency to the treatment of Established Losses. We have created a proposed process and suite of documents, including a draft Established Loss Recovery Policy (see Appendix 1), which is currently under final review with NRF. The proposal is to follow robust process steps, including final authorisation by a sub-group of GE, to proceed with civil action for unpaid cases. The process, policy and supporting documents will be signed off via IDG, RCC and ARC in early Q4. In the meantime, however, The Central Investigations Unit (CIU), after discussions with Ben Tidswell, are putting together a potential test case with an unpaid loss of £121,000, to present to GE shortly for approval to recover the loss via civil action.
17. We are currently planning a series of postmaster communications, reiterating the importance of contacting BSC following the Review/Dispute option being selected, as well as the need to undertake other 'self-help' options to minimise discrepancies such as daily cash declarations. Branch Focus and the weekly Friday email will be used here, as well as reiteration of key messages via our field teams.
18. Technical solutions could also assist here. For example, if a postmaster fails to contact us or does not respond to our contact, we could arrange to move the discrepancy amount back to the Horizon system for the postmaster to address. This is being investigated further for both technical capability and any legal/reputational issues. Another option is to restrict the use of the review and dispute button until after contact with BSC has been made.
19. The fairest and most consistent way to routinely recover Established Losses would be to automatically offset them against the remuneration of those postmasters that either accept the loss but don't pay, or simply don't engage with us about their discrepancy. We propose to design and implement a new process to do this, ensure all relevant internal teams are briefed on the new process, communicate the new process to postmasters in a clear and timely way, and seek legal agreement and input beforehand. We will return to





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GE in December with an update and to obtain sign off on the detailed process and communications strategy. **GE agreement is sought to proceed on this basis.**

20. A working group has been established to progress the improvement options detailed above and will create a plan of action to implement changes for Q4 next year. This group includes legal and relevant operational representatives.

### Next Steps & Timelines

21. Set up a structured approach with Finance to ensure that robust data is available on a periodic basis
22. Create a Terms of Reference and take steps to set up the proposed GE Subset to agree cases to progress to civil recovery.
23. Submit the Established Loss Recovery policy for approval at the Audit, Risk and Compliance Committee in January, with a view to implementing the associated recovery process in Q4.
24. Return to GE in December to gain sign off on a new process for recovery of established losses via deductions from remuneration.

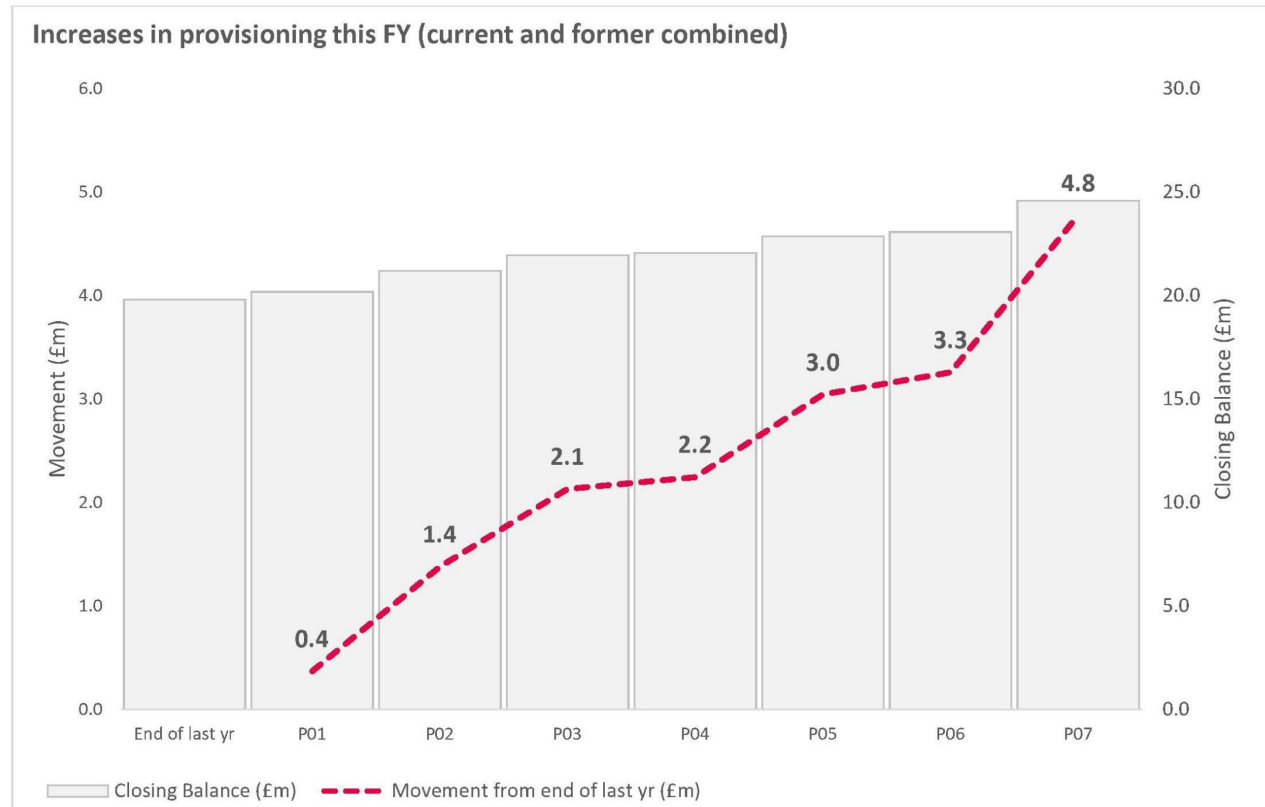


## Appendix 1

The Draft Established Loss policy is available in the Reading Room.

## Appendix 2

Graph to show provisioned balance (bars) and period increases (line) this Financial Year.







## Appendix 3

This is a list of the 12 branches contributing the most (£1.4m) to the overall increase in provisioning for postmaster losses in P7.

The discrepancies are split into age brackets and the amounts move into provisioning when they become 60 days old – the movement for P7 shown in the pink column, with the total amount provisioned in the TOTAL PROVISION column.

Customer Name	Total Amount	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 365 Days	> 365 Days	TOTAL PROVISION	Probable reason	Current status
Branch 1	76,035.90	0	0	67,078.58	0	8,957.32	76,035.90	Stock	Unable to make contact
Branch 2	620.00	-21,885.00	0	22,505.00	0	0	22,505.00	ATM	Cleared
Branch 3	58,754.47	0	-106,911.65	103,294.51	62,371.61	0	165,666.12	ATM	Cleared
Branch 4	54,055.73	0	0	53,789.73	266	0	54,055.73	Not known	Under investigation
Branch 5	1,040.76	0	53,083.36	98,437.40	-150,970.00	490	-52,042.60	ATM	Cleared
Branch 6	22,287.38	0	0	22,287.38	0	0	22,287.38	Cash remittance	Under investigation
Branch 7	44,352.21	0	0	44,352.21	0	0	44,352.21	Assistant error or negligence	Established loss
Branch 8	42,121.09	0	0	58,458.41	-16,337.32	0	42,121.09	Scratchcards	Under investigation
Branch 9	3,906.62	0	-71,243.64	74,650.26	500	0	75,150.26	Stock	Cleared
Branch 10	3,359.88	0	-31,100.00	31,772.75	0	2,687.13	34,459.88	ATM	Cleared
Branch 11	792,350.10	0	0	792,350.10	0	0	792,350.10	Stock	Under investigation
Branch 12	26,000.00	0	0	26,000.00	0	0	26,000.00	Cash Remittance	Under investigation
TOTAL				1,394,976.33					

The probable reason is an early indication of the cause of the discrepancy and the current status is also shown.

5 cases are currently being investigated, 5 have since cleared following the issuing of a corresponding transaction correction or reversal (either entirely or leaving a much smaller discrepancy), 1 needs investigation but we have been unable to contact and there is one where the investigation has concluded an Established Loss and repayment will be discussed with the postmaster.

The primary reasons appear consistent with previous analysis – ATM (all later cleared), stock, cash remittance discrepancies and lottery (scratchcards).