

POST OFFICE BOARD

NFSP.

- Contract piece

- Loss investigations
benchmark exercise

NOTING PAPER

Operations and GLO contingency planning

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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.

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 for 2019/20 is £8.8m Opex with further £1.3m not yet committed for 2020/21. The estimated Change spend for 2019/20 is £8.4m with a further £3.7m for 2020/21 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

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

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)

- 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

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

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.

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

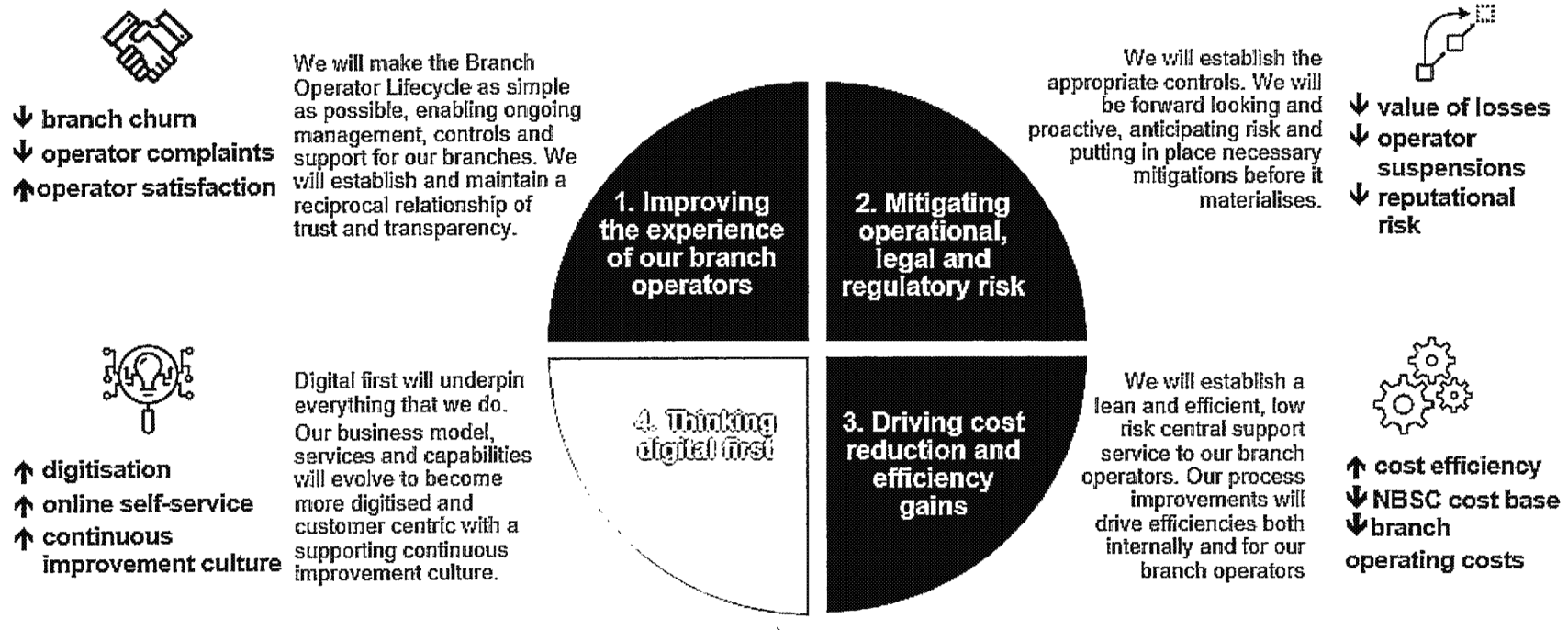
successful businesses. They may however be concerned by the Judgment and turn to Post Office for explanations, guidance and reassurance on what Post Office will do to support them should they encounter any issues when using the Horizon system.

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.

Appendix 1 – Scope and measures for Operations Transformation

The Operations Transformation programme is designed to support a partnership of transparency and trust, delivering efficiencies and protecting Post Office from operational, legal and regulatory risks



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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:

Issue 'Grouping' (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	Stakeholder inference	The Potential and most severe immediate business impacts
<p>1. The reliability of Horizon and the extent to which Horizon was the root cause of shortfalls in branches: <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. The ability for Post Office and or Fujitsu to access, edit or delete transaction data recorded in branches: <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 & 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. Reconciliation and Transaction Corrections – How Horizon compares its own transaction data against other data sources: <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>Technical: 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>Procedural: <i>Process governing the Horizon system are not fit for purpose and serious concerns remain over the use of remote access.</i></p> <p>Cultural: 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 [likelihood thought to be low].</p> <p>2. Calls for or enforced immediate legal, operational, or governance reaction (e.g. settlement, independent inquiries etc) [likelihood thought to be medium/high].</p> <p>3. Significant increase in postmaster queries, questions and claims into branch support centre [likelihood thought to be high].</p> <p>4. Retail partners refuse to sell products or operate Post Offices. Commercial clients seek to terminate contracts [likelihood thought to be low].</p> <p>5. Prolonged top tier negative media coverage extending beyond initial news moment to human interest stories [likelihood thought to be low/medium]</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
Coordinated or widespread branch closures impacting customers	<ul style="list-style-type: none">• Monitor HORice log-ins• Supply chain reports• Area Manager reports• NBSC reports• Customer complaints team reports <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">• Redirect customers to nearest branch (hiring taxis / minibuses if required) and update Post Office website so customers know which post offices are open• Inform supply chain to increase cash orders to nearby branches who remain open and may receive increase in footfall <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">• Redirect customers to alternative providers/competitors <p>If closed branch is the only branch/service within 3 miles:</p> <ul style="list-style-type: none">• Consider deployment of pop-up post office (where available) to region in order to provide continuity of service to vulnerable customers for SGEIs	<ul style="list-style-type: none">• Inform customers through social media/email teams to redirect them to nearest available services• Area managers to engage postmasters to determine length of closure expected (temporary or long-term) and request re-opening

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Impact	How will we detect this?	Key responses	Key communication-based responses
		<ul style="list-style-type: none"> Consider deployment of vans (where available) if location is within distance of current van routes 	
Calls for or enforced immediate legal, operational, or governance reaction (e.g. settlement, independent inquiries etc).	<ul style="list-style-type: none"> Media coverage and/or demands from key stakeholders etc requesting immediate settlement / Inquiry Judge makes comment on specific bugs, known errors or technical issues 	<ul style="list-style-type: none"> Legal team have separate approach to manage requests to settle / historic claims 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 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. 	<ul style="list-style-type: none"> Core response communication playbook will be used to defend Horizon and remind stakeholders of why Horizon fundamentally does work 'New Normal' messaging to be used to demonstrate the positive and tangible changes being made by the business
Significant increase in postmaster queries, questions and claims into branch support centre.	<ul style="list-style-type: none"> NBSC call volumes Area Manager – sentiment monitoring and queries 	<ul style="list-style-type: none"> 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 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 	<ul style="list-style-type: none"> Areas managers will escalate challenging questions/queries to the comms team for a formal response Area managers equipped to reassure postmasters on Horizon NBSC equipped to reassure and manage/triage queries from postmasters
Retail partners refuse to sell products or operate Post Offices. Commercial clients terminate contracts.	<ul style="list-style-type: none"> Relationship manager alerts RRT / GE Corporate affairs Communications team 	<ul style="list-style-type: none"> Legal team have specific response process to address contractual issues raised by this scenario 	<ul style="list-style-type: none"> Relationship managers and GE to be equipped with Horizon defence messaging detailing the accuracy of the specific reconciliation process with each commercial partner.

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

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Appendix 4 – Estimated GLO Spend (21 Oct 2019)

GLO Opex (pending approval)		
	19/20 £k	20/21 £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
TOTAL	430	1,276
Legal (not committed)	1,749	
Commiss (not committed)	380	
	2,129	
Benefits		
Nil - enabling		

GLO Change 20/21		
	Costs £k	Benefits £k
Design out TCs (Ph2 + Ph3)	-	329
Loss Prevention	1,700	840
Redesign Ops - Branch Support	2,000	980
Ops subtotal	3,700	2,149
Simpler Business - Hot Housing	-	1,700
Retail subtotal	-	1,700
TOTAL	3,700	3,849

Benefits (Branch Support)
Recurring £3.85m annual benefit (from 2021 onwards)

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