



Complaint Review  
and  
Mediation Scheme

## Contents

1. Executive Summary
2. Horizon and Second Sight's Initial Investigation
3. Establishment of the Complaint Review and Mediation Scheme
4. Investigations, Principal Findings and Headline Improvements
5. Mediations
6. Access to Information
7. Prosecution Policy and Process
8. Contract for Services between the Post Office and Postmasters
9. Annexes and Further Reading

## 1. Executive Summary

1. The Post Office is an essential part of the fabric of the Nation. It is of vital importance that all those who work in the business, and their customers, can have confidence in the systems which underpin its work.
2. In 2012, the Post Office commissioned Second Sight Support Services Limited to carry out an independent review of its Horizon computer system, which is supplied to the Post Office by Fujitsu Services Limited, in response to allegations by a small number of former Postmasters about the integrity of that system. Second Sight reported on their investigation in July 2013.
3. The investigation found no evidence of system-wide issues with Horizon and its associated processes. However, it did point to areas where the Post Office could have done more to support Postmasters, for instance in the support they received. In response, the Post Office set up a Branch Support Programme which led to the introduction of a number of important new measures, set out in this report.
4. Following publication of Second Sight's conclusions in 2013, the Post Office also set up a Complaint Review and Mediation Scheme (the Scheme) to examine individual cases and, where appropriate, provide a forum to assist their resolution through mediation. The Scheme was set up in consultation with Members of Parliament (MPs), the Justice for Subpostmasters Alliance (JFSA) and Second Sight and overseen by a Working Group chaired by Sir Anthony Hooper, a former Court of Appeal Judge.
5. 136 cases were admitted into the Scheme. The Post Office has now completed thorough investigations into each one. Nothing has been found in any of the cases to suggest Horizon has not worked as it should.
6. Where the facts indicate genuine grievances, for example that the support provided in a particular instance fell short of the desired standards, those issues are being discussed with Applicants and a number of complaints have been resolved.
7. However, many cases are based on allegations which, following investigation, are not supported by the evidence.
8. Having completed all its investigations, the Post Office has now decided to put forward for mediation all cases remaining in the Scheme except those that have been subject to a previous court ruling. This will accelerate the conclusion of the Scheme in the interests of Applicants and ensure that commitments made to Applicants at the outset are met.
9. The mediation process will continue to be overseen by the Centre for Effective Dispute Resolution (CEDR). The Post Office will also seek to continue to make available to Applicants an independent review by forensic accountants Second Sight, where this has not already been provided. The Post Office will also work with Second Sight to support

completion of their further thematic report in order that it is available to inform the ongoing mediation process.

10. For those Applicants who have been the subject of court rulings, two important points need to be drawn out. Firstly, we will continue to consider each of these cases carefully, on a case by case basis, even though mediation cannot overturn a court's ruling.

11. Secondly, as prosecutor, Post Office has a continuing duty after a prosecution has concluded to disclose immediately any information that subsequently comes to light which might undermine its prosecution case or support the case of the defendant. Having now completed its reinvestigation of each of the cases, Post Office has found no reason to conclude that any original prosecution was unsafe. Applicants remain able to pursue the normal legal avenues open to them to appeal court rulings with any further material disclosed to them, including that produced through the Scheme.

12. In all cases, including those subject to court rulings, (if Applicants give their consent) the Post Office continues to be prepared to discuss individual cases, in confidence with relevant Members of Parliament or indeed to meet separately with individual Applicants to discuss their cases.

13. The approach set out above will help to bring the mediation process to a conclusion earlier than previously envisaged. It will also bring to an end the role of the Working Group which previously recommended whether a case is suitable to go to mediation or not.

14. It has been a long and difficult process to reach this position. However, while it has been challenging, it has also been productive. The Post Office is a better business for the steps that have been and will continue to be taken.

## 2. Horizon and Second Sight's Initial Investigation

15. Horizon is the electronic point of sale system used across all Post Office branches to process and record a wide range of transactions. The term 'Horizon' is used throughout this report to refer to the original Horizon system, which was introduced in 1995, as well as the current version of Horizon, introduced in 2010, known as Horizon On Line.

16. Horizon now processes six million transactions every working day and nearly 500,000 users have worked with Horizon since it was introduced, serving millions of customers.

17. In early 2012, a group of Members of Parliament led by Rt Hon James Arbuthnot MP raised a number of concerns with the Post Office over the reliability of Horizon, having been approached by a small number of mainly former Postmasters under the banner of the Justice for Subpostmasters Alliance (JFSA). These Postmasters considered that apparently unexplained accounting issues in their Post Office branches might be the product of a flaw in the Horizon operating system.

18. Given the serious nature of the issues raised, the Post Office agreed to appoint an independent firm of forensic accountants, Second Sight Support Services Ltd (Second Sight), to investigate these claims as a matter of urgency. The basis of Second Sight's initial engagement was reflected in a document for Postmasters entitled "Raising Concerns with Horizon", a copy of which is available at Annex A, and included the requirement to:

*"Consider and advise on whether there were any systemic issues and/or concerns with the Horizon system including training and support processes, giving evidence and reasons for the conclusions reached."*

19. The document, produced by the Post Office at the request of the JFSA, was intended to facilitate Second Sight's work, not least by reassuring Postmasters that they should have absolutely no hesitation in raising any concerns they might have about the operation of the Horizon system and assisting Second Sight in their work. The content of the document was agreed jointly between the Post Office, Second Sight and the JFSA. A copy was posted on the JFSA's website to ensure maximum coverage among those with an interest.

20. A year-long investigation took place during which the Post Office provided Second Sight with an enormous amount of information concerning the operation of the Horizon system in Postmasters' branches. To answer Second Sight's questions about the specific issues raised by Postmasters, the Post Office also conducted a significant number of 'spot reviews', designed to explain how a particular transaction or procedure should be processed (where possible) and apply that to a specific example raised by a Postmaster.

21. After a year's work, Second Sight had neither completed their investigations into the cases brought to their attention, nor had they been able to reach any definitive conclusions in respect of any of the concerns raised with them, save that they had found

no evidence of a system-wide flaw with Horizon. As a result, it was agreed with Second Sight that they would produce an 'Interim Report' of their findings to date which was published on 13 July 2013.

22. The report set out six preliminary conclusions, chief among which was that Second Sight had found "no evidence of system-wide (systemic) problems with the Horizon software". However, Second Sight considered that a limited number of other issues may have contributed to difficulties being experienced by those Postmasters who had raised concerns, most notably around the effectiveness of the support offered to them by the Post Office and suggesting that these merited further examination.

### 3. The Establishment of the Complaint Review and Mediation Scheme

23. Since Second Sight had not found any evidence of systemic issues with Horizon that could affect all Postmasters, the Post Office decided to establish the Scheme in order to provide an avenue for any Postmasters to raise their specific concerns directly with the Post Office on an individual basis.

24. The Scheme, developed jointly by Post Office, Second Sight, and the JFSA as the way of focusing Second Sight's investigations on the issues raised in individual cases, also provided any other Postmasters with a relevant complaint the opportunity to make an application to the Scheme. The Scheme was open to both serving and former Postmasters, as well as to counter clerks employed by Post Office. Applications were invited through the Post Office's internal communications channels as well as through the JFSA over a 12 week period between 27 August and 18 November 2013.

25. The Scheme was overseen by a Working Group comprising representatives from the Post Office, Second Sight, and the JFSA. The Working Group's role was to ensure the Scheme was run in a fair and efficient manner and to make decisions on how particular cases should be progressed. To ensure its impartiality, the Working Group appointed an independent Chair, Sir Anthony Hooper, a former Court of Appeal judge. The press release announcing Sir Anthony Hooper's appointment is available at Annex F.

26. In an initial application process, Postmasters with a complaint were invited to submit details of their case to Second Sight. The Working Group's role at this juncture was to ensure that the application met the Scheme's entry criteria.

27. On acceptance into the Scheme proper, Applicants were given the opportunity to apply for a funding contribution of £1,500 +VAT, payable by the Post Office, so that they could appoint a professional advisor to assist with setting out the detail of their complaint. When a complaint was made, this was passed to the Post Office for comprehensive investigation. This new investigation constituted a further detailed examination of all the available facts. Except in a small number of cases where the issue had not previously been raised with the Post Office, this included a review of the investigation which took place at the time of the original incident.

28. The purpose of Second Sight's engagement by the Post Office changed fundamentally following the establishment of the Scheme. Whereas Second Sight had previously been concerned with reporting to the Post Office about the workings of the Horizon system, their remit was now to focus their attention on the individual complaints in the Scheme. In doing so, they were to serve as a Member of the Working Group; investigate the specific issues raised by each Applicant; prepare a report for each case and offer a view as to whether a case might be suitable for mediation.

29. Consideration of Second Sight's final reports by the Working Group resulted, more frequently than not, in a recommendation that mediation should take place. Where that occurred, the case details were then passed to the Centre for Effective Dispute Resolution (CEDR), the independent organisation appointed by the Post Office to administer the mediations.

30. Since mediation is a voluntary process, it is a matter for each party to decide whether they actually wish to proceed to mediation. This is consistent with the process set out in the original documentation which established the Scheme and was agreed by the Working Group.

#### 4. Post Office Investigations, Principal Findings and Improvements to Date

31. The Post Office investigated comprehensively all complaints and applications accepted into the Scheme save for those that were resolved to mutual satisfaction at an early stage. In all other instances, a full investigation report was completed, passed to Second Sight and sent to the Applicant. Although cases varied in their complexity, investigation reports were supported by up to 80 pieces of evidence in each case.

32. Whilst these investigations took longer than it would have wanted, the Post Office is satisfied that they were comprehensive and thorough. Although some cases were very old and outside the standard retention periods for keeping information, the Post Office went to considerable lengths to search its records and provide as much evidence as possible. Thousands of pages of information were identified, recovered and made available both to Applicants and Second Sight.

33. The investigation team comprised 20 members of staff drawn from across the business with the requisite skills and expertise to undertake this type of work. They were managed by one of the Post Office's most experienced and long-serving senior managers, who signed off each investigation report personally before it was passed to Second Sight.

34. Second Sight identified a number of what it calls 'thematic issues' arising from its general assessment of the Applicants' complaints. Although a number of cases do have some features in common, Post Office's assessment is that each case is demonstrably different and influenced by its own particular facts.

35. Nonetheless, now that the Post Office has completed all its investigations into each complaint made under the Scheme, the findings of those investigations, together with opportunities for the Post Office to make improvements to various processes, procedures and ways of working have been cross referenced with the 'thematic issues' identified in Second Sight's report. These were:

- A. Transactions or transaction corrections not entered by the Postmaster or staff.
- B. Transaction anomalies associated with cash or stock remittances.
- C. Transaction anomalies associated with Pensions and Allowances.
- D. Transaction anomalies following telecommunication or power failures.
- E. Transaction anomalies associated with Automatic Teller Machines.
- F. Transaction anomalies associated with Lottery Terminal or Scratch Cards.
- G. Transaction anomalies associated with Motor Vehicle Licences.
- H. Transaction anomalies associated with Foreign Currency.

- I. Transaction anomalies associated with Bank / GIRO / Cheques.
- J. Transaction anomalies associated with the handling of Stamps, Postage Labels, Phone Cards or Premium Bonds.
- K. Hardware issues including printer problems, PIN pads, touch screens and PayStation.
- L. Failures to follow correct procedures or imperfect advice provided by POL's HelpLine.
- M. Training and Support issues including Helpline and Audit.
- N. Limitations in the Transaction Audit Trail available to Postmasters.
- O. Process issues at the end of each Trading Period.
- P. The contract between the Post Office and Postmasters.
- Q. The lack of an outreach investigations function.

36. The Post Office's headline findings in respect of these thematic issues are:

- Five 'thematic' issues were attributable to errors made by a Postmaster or their staff in operating their own branch (e.g. mis-keying transactions into Horizon): D, E, F, I, and J.
- Five 'thematic' issues were found not to have actually occurred but arose out of the misunderstandings of certain Postmasters: A, N, O, P and Q.
- Four 'thematic' issues did occur in branches but were issues that, by their very nature, could and did not cause any loss of cash or stock in a branch: B, G, H and K.
- Two 'thematic' issues were not found to be 'thematic' at all but rather turned on the specific circumstances of each case: L and M.
- One 'thematic' issue was the product of fraud by a postmaster or their staff: C.

37. Human error was found to be the primary cause of cash and stock losses in the cases investigated. Through the Branch Support Programme established in 2013, the Post Office has, following discussion with the National Federation of Subpostmasters (NFSP), introduced improvements to reduce further the risk of human error in branches by Postmasters and their staff. Further details of the Branch Support Programme and the improvements that have been made are available at Annex J of this report.

38. In addition, training and support was claimed by a number of Applicants to have been insufficient. The Post Office's investigations have found that for the majority of Postmasters its training practices (principally when a Postmaster is first appointed) were

adequate and did give most Postmasters the skills needed to operate their branches. However, in some cases, where certain Postmasters were struggling, the Post Office has accepted that it might have delivered additional training sooner.

39. Annex I of this report provides further comprehensive detail about the issues identified and the results of investigations into the identified 'thematic' issues.

## 5. Mediations

40. The Centre for Effective Dispute Resolution (CEDR) was engaged to provide mediation services for the Scheme. The arrangements put in place by CEDR, and agreed by the Working Group, are in line with CEDR's own Code of Conduct and the European Code of Conduct for Mediators which the Civil Mediation Council requires all UK providers to observe in order to maintain accreditation.

41. The reason independent, well established and reputable mediation experts were appointed to conduct the mediations was specifically to ensure that mediations are undertaken in line with best practice.

42. Consistent with its approach of supporting Applicants to the Scheme throughout the process, the Post Office further agreed to provide each Applicant with £1,250 + VAT (full day) or £750 + VAT (half day) towards costs of a professional advisor in preparing for and attending mediations. In addition, it provides Applicants and up to two representatives with reasonable expenses in respect of their travel to and from the mediation.

43. When a case is passed to mediation, the Applicant and their advisor are contacted by CEDR to arrange a date for mediation and provided with information about the process. Every mediation is conducted by an experienced and entirely independent mediator appointed by CEDR, and Applicants typically attend mediation with their own professional advisor.

44. In deciding who attends individual mediations on its behalf, the Post Office considers the particulars of the case and selects the team which it considers best able to contribute to a successful outcome. The team is drawn from a pool of senior Post Office staff with long experience working within the Post Office network and a pool of experienced lawyers who are familiar with mediation, the Scheme and case investigations.

45. As is standard mediation practice, parties sign a confidentiality agreement prior to a mediation session. Under those confidentiality arrangements, which are a key component of every mediation, no one other than the parties involved is entitled to know the outcome of individual mediations. This includes the Working Group. Mediation is, by its nature, a voluntary process designed to help reach a resolution through compromise. Accordingly, the Working Group agreed that the final decision on whether or not to mediate a case rested with the parties involved and it could not compel either party to participate in mediation.

46. In relation to the Post Office's approach to mediation, it took the view that it should adopt a general default position in favour of mediation, at least for the initial cases, and await feedback from CEDR. In all cases where Post Office has attended mediation it has done so in good faith, giving each Applicant the opportunity to voice their concerns and

attempted to address those concerns. Some initial feedback from CEDR has now been received and is included at Annex R.

## 6. Access to Information

47. Before and during the Scheme, Post Office has provided Second Sight with a considerable amount of information including:

- Spot Reviews (as described above);
- Post Office's investigation findings into specific cases;
- line-by-line comments on Second Sight's own case reports;
- technical papers on particular issues raised by Second Sight;
- detailed feedback on Second Sight's first thematic report; and
- answers to over 100 questions posed by Second Sight on thematic issues.

48. Accusations have however, recently been made that the Post Office has been unwilling to provide information to assist in Second Sight's work or has otherwise been attempting to frustrate that work through the inappropriate control of information. Those accusations are incorrect. The specific allegations concerned information in three broad areas, covered in the following paragraphs.

### Legal files

49. As Post Office made plain in its evidence to the Business, Innovation and Skills Committee on 3 February 2015, it has made the appropriate documentation from its prosecution files available to Second Sight. However, the Post Office has not provided legally privileged material. This is a generally accepted practice, and it is well understood that this information is not shared with anyone else, even the Court.

### Emails

50. In 2013, Second Sight asked for the email accounts of a number of Post Office employees dating from 2008. This was in response to an issue raised by Second Sight as part of its initial investigation, prior to the publication of its report in July 2013. The allegation related to whether the Horizon test environment in the basement of Fujitsu's office in Bracknell could have been used to edit live branch data. The Post Office explained at the time that it may be difficult to provide such information in view of its age but did, in May 2013, provide the email data it was able to retrieve.

51. In order to address the allegation more comprehensively, the Post Office also provided Second Sight with a witness statement from a key member of staff who worked at a Fujitsu site at Bracknell. This confirmed that the basement was a secure test environment, there was no connection to any live transaction data; live transaction data could not be accessed from the basement; and the basement was never used to access, change or manipulate

live transaction data in branches. In addition, the Post Office provided Second Sight with a considerable amount of policy documentation relating to the Bracknell office covering systems access, building access and security.

52. In light of this, the Post Office has asked Second Sight for further clarification as to the scope of emails sought. Pending receipt of this clarification, Post Office will supply a more limited range of emails which it believes should address the specific questions which Second Sight says it is seeking to address.

### **Suspense Account Data**

53. In June 2014, Second Sight asked the Post Office to explain the operation of its suspense account. The Post Office replied to that request in a written paper in July 2014. Second Sight then made a request for further data on the accounting entries being posted to the suspense account. Given that the purpose of this request was unclear, Second Sight agreed to provide further clarity on the nature of the enquiry, which they did in October 2014. Following some residual uncertainty over the focus and purpose of the request, the Post Office sent a further written paper to Second Sight explaining the operation of its suspense account.

54. Whilst the Post Office acknowledges it originally took longer to respond to Second Sight's initial requests than it would have wished, it was able to answer Second Sight's questions when a shared understanding of the nature of the enquiry had been reached.

55. Post Office's Chief Financial Officer has now had two meetings with Second Sight to discuss these matters and has provided Second Sight with further 'contextual data'. At the most recent meeting, Second Sight agreed that it needed no further information on the Suspense Account, requesting some further data on another aspect of client accounts to provide additional reassurance.

## 7. Prosecutions Policy and Practice

56. All cases of potentially criminal conduct are investigated thoroughly and decisions about appropriate courses of action are taken on the basis of the available facts and evidence.

57. Post Office records show that in the financial years 2011-12 and 2012-13, for example, approximately 12% of all audits conducted led to the suspension of a Postmaster and approximately half of those Postmasters suspended saw their contracts terminated. Approximately 2.5% of the audits during this period led to criminal prosecutions.

58. The decision to prosecute a Postmaster or employee, in the small number of instances where this occurs, is always taken following numerous checks and balances. The Post Office is confident that its approach complies with all legal requirements.

59. If the Post Office decides to prosecute a case, its conduct of the prosecution is scrutinised by defence lawyers and ultimately by the Courts themselves. Possible miscarriages of justice in the criminal courts of England, Wales and Northern Ireland can also be reviewed by the Criminal Cases Review Commission, which refers appropriate cases to the Court of Appeal.

60. In deciding whether a case is suitable for prosecution, the Post Office considers (among other factors) whether it meets the tests set out in the Code for Crown Prosecutors. The Code requires prosecutors to be satisfied that there is sufficient evidence for a realistic prospect of conviction and that the prosecution is in the public interest. The Code is issued by the Director of Public Prosecutions and followed by Crown Prosecutors. The Post Office is not required to inform the Crown Prosecution Service (CPS) that a private prosecution has commenced but the CPS can take over a private prosecution if circumstances warrant. Like the CPS, the Post Office keeps cases under continuous review all the way up to and during any trial.

61. Once a decision has been made to prosecute and a defendant is charged, he or she is entitled to receive private and confidential legal advice. Should the defendant wish to dispute the charges, the Post Office has a duty to disclose to the defendant and his or her lawyers, any material that could assist the defence or undermine the prosecution. The defendant's lawyers can also ask the Post Office to produce any material which they believe the Post Office may hold which could assist the defence or undermine the prosecution

62. The Post Office is duty bound to communicate with a defendant's lawyers, and any decision by a defendant to plead guilty is made after he or she has had the opportunity to take private and confidential legal advice and consider, with lawyers, all the available evidence. The evidential requirements for proving the offences of theft or false accounting are a matter of law.

63. The suggestion that the offence of false accounting is a less serious offence to that of theft has appeared in a number of contexts, most commonly where it is alleged that an Applicant has pleaded guilty to the former offence so as to avoid “the more serious” charge of theft, or has pleaded guilty to “the lesser offence” of false accounting.

64. Both are offences of dishonesty and both carry the same maximum sentence (7 years imprisonment).

65. Also, Post Office does not advise a defendant on their response to a criminal charge. Every person charged with a criminal offence is entitled to independent legal advice and representation. Further, Legal Aid may be available to any defendant where the offence carries a risk of imprisonment (as do the charges levelled by the Post Office):

- The decision to plead guilty is always one for the defendant only, having taken advice from their own lawyers.
- When deciding to plead guilty, the defendant will have been advised by his or her own lawyer that a guilty plea represents a complete admission to having committed the offence (which the defendant can qualify by a written ‘basis of plea’) and, where the offence is one of dishonesty (theft, false accounting, fraud), to that dishonest act. This is advice a defence lawyer is duty bound to give.
- The Code for Crown Prosecutors requires prosecutors to consider in any individual case whether there is sufficient evidence and if so, whether a prosecution is in the public interest. In cases where an audit discloses a loss in circumstances where there is evidence of false accounting, the fact of the loss together with the false entries will often be regarded as sufficient evidence on which to base a charge of theft.
- The initial suggestion that a defendant pleads guilty will come from the defendant’s lawyers, usually motivated by the defendant’s instructions that they are guilty of that offence.
- Finally, it is the duty of the defence lawyers to identify to the Court where there is insufficient evidence to sustain a charge, or to seek further information from the Post Office which might assist the defendant’s case. If the Court agrees, then the Judge must dismiss that charge. Thus a charge upon which there is no evidence will inevitably fail.

66. Any suggestion that the CPS would have acted differently from the Post Office as a prosecutor, perhaps by not prosecuting at all, or by accepting a different outcome, is misplaced:

- Both the Post Office and the CPS are bound by the Code for Crown Prosecutors; the courts oversee both and both must act in accordance with the principles of fairness.
- The Post Office is not unique in prosecuting its own cases. Many organisations conduct prosecutions within their own sphere of interest, including for example the Driver and Vehicle Standards Agency, Transport for London, the Environment Agency, and many local authorities.
- The Post Office prosecutors are all experienced criminal lawyers, many of whom have wide experience of prosecuting both for the Post Office and the CPS. These lawyers advise the Post Office in full, including by reference to the Code for Crown Prosecutors and its application in the Courts, before a prosecution is commenced and continued. The CPS does not have any role in this process.
- Neither does the CPS 'review', 'oversee' or otherwise regulate non-CPS prosecutions — that function is reserved for the courts.

67. The Post Office is concerned by the allegations that there may have been miscarriages of justice. In re-investigating each case through the Scheme, we have considered whether it raised anything which could lead us to question whether the original conviction was unsafe, including whether any of the material reviewed could have undermined the prosecution case or supported the case for the defendant. As a prosecutor, Post Office has a continuing duty after a prosecution has concluded to disclose immediately any such material to the defendant and/or his lawyers, and it has acted throughout the Scheme with this duty in mind. Having now completed its reinvestigation of each of the cases, Post Office has found no reason to conclude that any original prosecution was unsafe.

## 8. The Contract between Postmasters and the Post Office

68. The Scheme was established to consider complaints about Horizon and associated issues, not wider matters about the Post Office's business model, including contracts. This Section provides a summary of the information Post Office has provided to Second Sight and others in response to questions about the postmaster's Contract ('the Contract').

69. Postmasters are not employees of the Post Office. They are independent business people who make a conscious choice to enter into a contract with the Post Office. The Contract is a contract for services, which sets out the basis on which the parties agree to do business. Its core principles, including that relating to risk, are consistent with arrangements used throughout the UK and the well established law of agency. It reflects standard agency agreements in use in the United Kingdom.

70. The current version of the Contract is the 1994 issue, which has been subject to a number of amendments since then. Post Office discusses and agrees variations to the Contract with the National Federation of Subpostmasters (NFSP) on behalf of Postmasters.

71. The basis on which a Postmaster is bound to the Contract, e.g. by signing it or an 'Acknowledgment of Appointment' letter, is determined by the particular circumstances of each individual case. Either method is legally binding. It is worth noting that in the 'Acknowledgment of Appointment' letter which is frequently used to record a Postmaster's appointment, the Postmaster states that he or she has been given and accepted the terms of the Contract.

72. Under the terms of the Contract, Postmasters are only responsible for losses caused through their "own negligence, carelessness or error" or for losses caused by their assistants. Postmasters are therefore only liable for losses arising from those operations that are under their control and responsibility. Postmasters employ their assistants directly and are responsible for organising their staff and implementing controls to prevent opportunities for losses to occur. Therefore, they are responsible for the actions of their employees, even if those employees act dishonestly.

73. Postmasters' assistants are employees of the Postmaster and not the Post Office. The Postmaster is accordingly responsible for the management and performance of their staff including any disciplinary action which the Postmaster may consider appropriate. Postmasters must also assure themselves that any assistants they employ are suitable for the role, for instance by conducting interviews and seeking references, and that they are appropriately trained

74. Postmasters should undertake a number of basic checks when they recruit a new member of staff (e.g. right to work in the UK, proof of identity, and proof of address along

with five-year work history). There is an annual check of all assistants to ensure they have been cleared through the pre-employment checking system.

75. Under their Contract for services with the Post Office, every Postmaster must establish, maintain and adhere to a formal disciplinary policy in respect of any assistants who fail to comply with the Postmaster obligations as detailed in the contract. The disciplinary policy must include the content as defined in the Contract and records must be retained.

## 9. Annexes and Further Reading

- A. Communication to Subpostmasters regarding raising concerns with Horizon for initial Second Sight Investigation
- B. Press Release announcing the establishment of the Scheme
- C. Letter to Subpostmasters about the Scheme
- D. Scheme Application Pack
- E. Mediation Pack
- F. Press Release announcing the appointment of Sir Anthony Hooper
- G. Fact File
- H. Case progress
- I. 'Thematic Issues' and Post Office Responses
- J. Branch Support Programme
- K. Post Office Response to Westminster Hall Debate
- L. Sir Anthony Hooper's Letter to Jo Swinson MP
- M. Post Office Evidence and Supplementary Evidence to the BIS Select Committee
- N. Sir Anthony Hooper's letter to Adrian Bailey MP
- O. CEDR Mediation Process Guidance notes prepared for the Initial Complaint Review and Mediation Scheme Working Group
- P. Model Mediation Procedure: Initial Complaint Review and Mediation Scheme ('The Scheme') Edition 2014
- Q. Centre for Effective Dispute Resolution letter to the Working Group in Respect of Confidentiality
- R. Feedback from CEDR to the Post Office on the mediations that have taken place to date

**Annex A: Communication to Subpostmasters regarding raising concerns with Horizon for initial  
Second Sight Investigation**

## **RAISING CONCERNS WITH HORIZON**

### **Introduction - The Purpose of this Document**

This is a paper which has been issued by the agreement of Post Office Limited and the Justice for Subpostmasters Alliance (JFSA).

Post Office Limited is concerned to hear about and determined to thoroughly and even-handedly investigate cases where there have been persistent assertions that the Horizon system (Horizon) may be the source of unresolved shortages in Post Offices.

Post Office Limited cares about its agents, the thousands of subpostmasters and subpostmistresses (SPMRs) operating branches across the land for the benefit of the community. Post Office Limited is committed to the highest standards of corporate governance, openness, probity and accountability. It is happy to be sensibly challenged and believes this to be a good thing.

Post Office Limited also acknowledges that there may be a concern that some SPMRs might not express their concerns because they feel that speaking up would be detrimental to their position, that they may also fear that they will be harassed or victimised if they speak out, and that in these circumstances they may prefer to ignore their concerns than to report them.

*Post Office Limited would like to take this opportunity to emphasise that these fears are unfounded.* Although SPMRs are not employees of Post Office Limited, Post Office Limited takes seriously any such allegations.

Therefore Post Office Limited, working with JFSA, is setting out in this document a process where you can raise concerns regarding Horizon, and feel comfortable about doing so. Any investigation of any concerns which you may raise will not influence or be influenced by any disciplinary or network transformation actions that already affect you.

This process also applies to all Post Office Limited employees, contractors and agency staff working with Horizon for Post Office Limited.

### **In summary this document aims to:**

- reassure you that you should have no fears about raising any concerns over Horizon, including over victimisation and reprisals;
- provide you with a process for raising any such concerns;
- demonstrate to you that your concerns will be taken seriously and that you will get a response to your concerns; and
- give you options if you are still not satisfied.

However Post Office Limited takes deliberate fraud, dishonesty and illegal conduct against it very seriously, and has a duty to protect Post Office money and take action if it has reasonable suspicions regarding the same. So you should only raise your concerns through this process in good faith, and not frivolously, maliciously or for personal gain.

#### **How to voice your concerns**

There are two steps you can take to voice your concerns. You can either contact JFSA in the first instance (see (A) below), or you can go directly to Second Sight Support Services Limited (Second Sight), an independent third party which is already undertaking a review of several Horizon cases in consultation with the Right Honourable James Arbuthnot MP (see (B) below).

#### **(A) Initial Steps you can take with JFSA**

1. You can discuss any concerns with JFSA and/or its advisers (contact details at [jfsa.org.uk](http://jfsa.org.uk)). JFSA undertakes to treat these discussions as confidential. It is then your decision as to whether or not you wish to pursue your concerns through the Inquiry Route set out in Section B below.
2. If you decide to discuss your concerns with JFSA, you should make sure you gather all your evidence together including all relevant documents, transaction references, helpline references, copies of correspondence, contact details and an outline of your concerns and any subsequent discussions with Post Office Limited. You should retain all original documents at this time although they may be required later.
3. You should provide JFSA with photocopies or PDF copies of all relevant documents, which will be examined by JFSA and/or JFSA's advisers.
4. At this time JFSA undertakes that it will keep all information strictly confidential and neither Post Office Limited nor Second Sight will be made aware of any discussions with or submissions to JFSA. JFSA undertakes not to reveal any details about you, your FAD code or branch location to Post Office Limited until JFSA agrees with you that your concerns will be raised as part of the Inquiry.

#### **(B) The Inquiry Route – an Overview**

1. The Inquiry will be carried out by Second Sight within a "no blame" framework.
2. If you are a Horizon user (whether as a Post Office Limited employee, contractor or a former or existing subpostmaster), you can submit your experiences of and concerns with Horizon for consideration under the Inquiry through JFSA or by contacting Second Sight at Tythe Farm, Maugersbury, Cheltenham, Gloucestershire GL54 1HR. You must do this by 28 February 2013.
3. Except in a case where deliberate fraud, dishonesty or illegal or unlawful conduct is suspected, no information voluntarily submitted for the Inquiry in good faith will be used for any purpose other than the Inquiry. However, Second Sight may

pass that information to Post Office Limited to enable Post Office Limited to respond to any issues or questions arising out of the Inquiry.

(C) The Inquiry - the Detail

Details of the Remit, Conduct and Output of the Inquiry are set out in the Appendix to this document.

Taking matters further

If for any reason you are not satisfied with the findings and wish to take matters further, you are of course free to pursue other avenues which JFSA can help you with.

Equally, if Post Office Limited has good reason to suspect that there may indeed have been fraud, dishonesty or other illegal or unlawful conduct, it may decide to pursue such matters in the civil or criminal courts.

Dated:

Issued by and on behalf of Post Office Limited

Signed **GRO**

Issued by and on behalf of JFSA

Signed **GRO**

Issued by and on behalf of Second Sight Support Services Limited

Signed **GRO**

*APPENDIX*

**The Second Sight Inquiry – the Detail**

**The Remit of the Inquiry**

The remit of the Inquiry will be to consider and to advise on whether there are any systemic issues and/or concerns with the "Horizon" system, including training and support processes, giving evidence and reasons for the conclusions reached.

The Inquiry is not asked to investigate or comment on general improvements which might be made to Horizon, or on any individual concern raised (see below) save to the extent that it concludes that such investigation or comment is necessary to address the remit.

The Inquiry is not a mediation or arbitration. It is not intended to resolve or affect any dispute there may be between any individual Horizon user and Post Office Limited.

**The Conduct of the Inquiry**

**1. Submission of concerns**

As highlighted, you can raise concerns directly with Second Sight. However, you must do so by 28 February 2013.

By submitting a concern you will have agreed that it may be taken forward into the Inquiry process, and that as a consequence Post Office Limited may become aware of the content of the concern.

When submitting a concern, you should seek to ensure that you include all of the relevant facts of your experience of Horizon. You should include a written summary of the concern, all relevant documents, contact details, transaction references, helpline references, copies of correspondence, an outline description of the error incident and any subsequent discussions with Post Office Limited.

Second Sight will decide whether it will investigate an individual concern in detail as part of the Inquiry, having regard to the remit. Second Sight may consult JFSA in connection with this decision. The Inquiry will not consider any concern which becomes the subject of a civil or criminal court case.

**2. No Blame Framework**

If:

- your concern is submitted in good faith;
- you honestly and reasonably believe at the time of submission that the facts it contains are substantially true and complete, so far as you know;

- the concern is not submitted with the intention of making personal gain (for the avoidance of doubt this does not include the SPMR believing or hoping that SPMRs generally may benefit from the outcome of the Inquiry); and
- the concern does not reveal conduct which is or which is likely to amount to fraud or any other criminal offence, or which may give rise to a civil claim

and subject to there being no overriding public interest to the contrary, Post Office Limited will not subject you to any detriment either as a result of having submitted a concern, or as a result of Post Office Limited becoming aware of any information contained within a concern. For the avoidance of doubt, information already known to Post Office Limited at the time that the concern is submitted may continue to be used by Post Office Limited for any purpose.

### 3. Establishment and conduct of Inquiry

Post Office Limited will pay Second Sight to conduct the Inquiry within a total budget agreed between Post Office Limited and Second Sight. Second Sight will be contractually obliged to complete the Inquiry within the agreed total budget, and both Post Office Limited and JFSA will co-operate with Second Sight to facilitate this. If the agreed total budget is or is likely to be reached before a report has been published, Post Office Limited and JFSA will meet to discuss options.

All information received by Second Sight from whatever source in connection with the Inquiry will be held confidentially and will only be used for the purposes of the Inquiry.

JFSA can provide Second Sight with anonymised copies of any or all concerns to enable Second Sight to conduct the Inquiry. Second Sight may provide any such anonymised documents to Post Office Limited so that it can provide input and assistance to the Inquiry.

Post Office Limited may provide Second Sight with its own comments on any or all concerns, and on Horizon generally.

In order to carry out the Inquiry, Second Sight will be entitled to request information related to a concern from Post Office Limited, and if Post Office Limited holds that information, Post Office Limited will provide it to Second Sight.

Post Office Limited will provide Second Sight with such hardware, software and technical information and administrative support as Second Sight may reasonably require to carry out the Inquiry.

Second Sight will determine the process it will follow for the Inquiry using its judgment, after consultation with Post Office Limited and JFSA.

### **The Output of the Inquiry**

Second Sight will consult with JFSA, Post Office Limited, and/or any other party as it considers necessary before producing any report. No party may introduce any wholly

new issue or concern at this stage, and the parties will each keep the consultations with Second Sight and their contents confidential.

Second Sight will consider and take into account any comments received from JFSA, Post Office Limited and/or any other consulted party, and may conduct further investigations if necessary in light of the comments (having regard to the agreed total budget). Second Sight will then produce the report by a date agreed between Post Office Limited and Second Sight.

The report will report on the remit and if necessary will contain recommendations and/or alternative recommendations to Post Office Limited relating to the issues and concerns investigated during the Inquiry. The report and recommendations are to be the expert and reasoned opinion of Second Sight in the light of the evidence seen during the Inquiry.

The report may be published. Until it is published, JFSA (and its advisers), Post Office Limited, and any other party consulted by Second Sight will keep the report and evidence confidential.

Second Sight will prepare the report so that so far as is reasonably possible, it may be published without redaction of personal data and/or information that is confidential or commercially sensitive for Post Office Limited or any Horizon user, bearing in mind the primary need to ensure that the report is reasoned and evidence based.

**Annex B: Press Release announcing the establishment of the Scheme**

## Post Office Media

---

# Post Office announces independent mediation scheme for subpostmasters

Press Release Aug 26, 2013 23:00 BST



- Introduction of scheme part of Post Office's commitments following findings of interim report into Horizon system
- Post Office committed to addressing concerns raised by sub-postmasters by reviewing their cases

The Post Office has today announced the introduction of an independent mediation scheme to address the concerns raised by some sub-postmasters regarding cases which they feel require further resolution.

This follows the publication of the interim report into the Horizon system produced by Second Sight in July. The report stated that so far no evidence of system wide (systemic) problems with the Horizon software had been found. However, it noted that improvements could be made in the training and support processes provided to sub-postmasters. In response to the report the Post Office has made a number of commitments, one of which is to create this independent mediation scheme for sub-

postmasters and the Post Office to investigate and try to resolve a sub-postmaster's concerns.

The Post Office, JFSA (Justice for Sub-postmasters Alliance), and Second Sight, the independent investigators, have formed a working group to collaboratively develop and monitor this scheme which is available to current and former sub-postmasters from 27 August 2013.

Commenting on the launch of the Scheme, Angela van den Bogerd Post Office Head of Partnerships said: "The Post Office is committed to addressing any outstanding concerns among sub-postmasters swiftly and transparently.

"As part of this commitment we set up an independent review which recently published an interim report which found that so far there was no evidence of any systemic issues with Horizon but did identify some further improvements we could make to our training and support arrangements, which we are taking forward.

"In addition, the independent mediation scheme we are announcing today will provide an effective way to assess and address any outstanding cases where sub-postmasters feel they have been unfairly treated.

"Sub-postmasters are the lifeblood of our business and we take their concerns extremely seriously. We hope the package of measures we are announcing will demonstrate our commitment to working closely with them to further improve our network."•

Commenting on the announcement, James Arbuthnot MP, who is spearheading interest in the matter at Parliament, said: "I am very pleased indeed with the working group's proposed process. To my mind, it represents the very best chance all parties - individual sub-postmasters and mistresses, and the Post Office have of ensuring the best outcome for everyone. It is fair, thorough, and independent."•

Sub-postmasters wishing to submit an application should visit **[jfsa.org.uk](http://jfsa.org.uk)** for further information.

The Post Office is responding to the Second Sight report with three new initiatives aimed at addressing concerns raised, improving future processes, and examining potential structural changes to support sub-postmasters:

In addition to establishing the independent mediation scheme, a working group has been created to build on the work started by Second Sight last year and to develop it into this mediation scheme.

A new Branch User Forum is also being established to provide a way for sub-postmasters and others to raise concerns and insights around business processes, training and support, directly feeding into the organisation's thinking at the highest level. A key task for this forum will be to review support processes and training to ensure they meet the standards expected of the Post Office.

The Horizon system has around 68,000 users and processes more than six million transactions every day. The total number of cases put forward by users to Second Sight as part for its external review was 47, less than 0.1 per cent of the total number of users of the Horizon system.

The mediation process will be open both to subpostmasters who raised concerns through the Second Sight review, and also any who feel they have a dispute with the Horizon system (or an associated issue) which requires resolution. The scheme will involve cases being independently investigated by Second Sight followed, where appropriate, by a face-to-face discussion between the Post Office and the subpostmaster chaired by a neutral mediator.

The scheme is being supervised by a working group comprising representatives from Post Office, JFSA, and Second Sight. Any subpostmaster wishing to take part in the scheme must submit an application through Second Sight which will review each case for eligibility.

Contact - Post Office, Press Office

---

### **About the Post Office**

The Post Office (Post Office Limited) has an unrivalled national network of over 11,500 branches across the UK, more than all the high street banks combined, and sits at the heart of communities in Northern Ireland, Scotland, Wales and England. The Post Office has made a commitment to maintaining its network of branches at its current size and reach. It provides around 170 different products and services spanning financial services including savings, insurance, loans, mortgages and credit cards; Government services; telephony; foreign currency; travel insurance and mail services.

The Post Office serves over 17 million customers a week and a third of small businesses. Some 99.7% of the total population live within three miles of a post office and over 97% live with one mile of a post office. For many rural communities, the post office is the only retail outlet. Post Offices branches remain highly valued and trusted, and are the focal point of many communities. For more information, visit <http://www.postoffice.co.uk/>.

---

Please note the Press Office team can only deal with enquiries from the media. Unfortunately they do not have access to customer information so can not help with customer enquiries.

If you have an enquiry regarding any Post Office product or service please visit [postoffice.co.uk](https://www.postoffice.co.uk) or call **GRO**. Local call rates apply. Call costs may vary depending on your service provider. Calls may be monitored or recorded for training and compliance purposes. **GRO**

**Annex C: Letter to Subpostmasters about the Scheme**



## Initial Complaint Review and Mediation Scheme (to be known as the Scheme)

As you will be aware, Post Office has been undertaking an independent review into the Horizon system and associated issues.

Post Office is determined to ensure that Horizon and any associated processes are fair, effective and reliable, and that Subpostmasters can have confidence in the system.

In some instances, however, Subpostmasters allege that Post Office and Horizon have not met these standards. To address these concerns, Post Office appointed independent forensic accountants, Second Sight, to investigate this situation.

In collaboration with the Justice for Subpostmasters Alliance (JFSA) and a group of MPs led by the Rt Hon James Arbuthnot MP, Post Office established an Inquiry into Horizon. Second Sight was appointed to lead this Inquiry and has been working with a number of Subpostmasters for over 12 months. A copy of Second Sight's interim report is available at <http://www.postoffice.co.uk/post-office-statement-horizon>

Post Office now wishes to offer a Scheme to Subpostmasters so that individual Subpostmasters have an opportunity to raise their concerns directly with Post Office. In partnership with Subpostmasters, the JFSA, Second Sight and interested MPs, all sides can then work towards resolving those concerns.

Please find enclosed a pack of documents describing how the Scheme will work. We would be grateful if you could forward this letter and the enclosed pack to any Subpostmasters who you believe may be interested in this Scheme.

If a Subpostmaster wishes to take part in the Scheme he/she should:

- Carefully read the information enclosed with this letter.
- Complete and return an Application Form which can be found at [www.jfsa.org.uk](http://www.jfsa.org.uk)

A Subpostmaster is not obliged to submit his/her case through the Scheme and they may leave the Scheme at any time. Their legal rights will remain in full force, whether or not they choose to enter the Scheme.

A Subpostmaster's Application must be received by Second Sight by Monday 18 November 2013 if they wish to be involved in the Scheme.

This letter has been sent to a number of interested parties. It is therefore possible that a Subpostmaster may be notified of this Scheme more than once, but the Subpostmaster should only make one Application.

Yours faithfully

**GRO**

Angela Van Den Bogerd

[www.postoffice.co.uk](http://www.postoffice.co.uk)

**Annex D: Scheme Application Pack**



**Application Form**

<p>For Second Sight use only</p> <p>Case ref:</p>
---

<b>Your Details</b>	
Surname:	Forenames:
Your address:	
Postcode:	
Telephone number 1: Telephone number 2:	Email address:
My current Member of Parliament is:	

<b>Your Branch</b>	
<i>Please insert the details of the branch where you worked. If you worked at more than one branch, please provide details on an extra sheet of paper.</i>	
Name of branch:	FAD Code of branch:
Address of branch:	
Postcode:	
Your role at the branch (ie. Subpostmaster, Subpostmistress, clerk, etc.):	
When did you begin in this role?	<p>Are you still in this role?</p> <p><input type="checkbox"/> YES</p> <p><input type="checkbox"/> NO</p> <p>If no, when did you leave this role:</p>

### Initial Case Overview

To the best of your knowledge, is your case (or any part of it) currently subject to any on-going criminal investigations or proceedings (including the issue of a summons, sentencing hearings or a confiscation order)?

YES – you may still submit your case, but Second Sight may not be able investigate it whilst criminal investigations or proceedings are on-going.

NO

The purpose of the 'Initial Case Overview' is to summarise the main issues you wish Second Sight to consider. If your case is accepted for mediation, you will then have an opportunity to supply much more detail together with supporting evidence.

The following Key Questions may help you with this Initial Case Overview but please feel free to supply any information that you consider may help explain your complaint.

What is the main issue or issues you wish us to consider that relate to Horizon or its associated processes?

When did the incidents relating to the main issue or issues occur?

What prior contact have you had with the Post Office in regard to the incidents/issues that you are now reporting?

How was the issue or issues resolved at the time they occurred?

What is the monetary value of the issue or issues you are now reporting?

Were you the subject of either civil recovery action or criminal prosecution regarding the main issue or issues you are now reporting?

How were these actions against you (if any) resolved?

What is your explanation for the events forming the main issue or issues you are now reporting?

Did you request assistance from the Post Office regarding the issue or issues you are now reporting?

What assistance if any was provided?

*Please attach additional sheets of paper if you require more space.*

**Declaration**

I acknowledge that:

- As part of the Scheme, I must promptly provide information about my case to Second Sight. If I do not provide full information in a timely manner, I accept that it may not be possible to investigate or mediate my case.
- Information I provide about my case or the findings of Second Sight's investigation may help reach a resolution with Post Office but that it may also reveal further claims against me.
- I am only entitled to financial support from Post Office if I have signed a Funding Agreement.

I confirm that:

- My case relates to the Horizon system or an associated issue.
- Post Office may communicate details of my case to Second Sight, JFSA, my Member of Parliament and/or its professional advisors.
- The facts and matters set out in this Application are true and accurate to the best of my knowledge and belief.

I confirm that I am:

Currently serving as a Subpostmaster and have already raised my case with Post Office and have completed all Post Office's internal complaint processes.

Not currently serving as a Subpostmaster.

*(Please tick one box)*

If you are unable to give all the above acknowledgements and confirmations, your case may not be eligible for the Scheme. In that circumstance, please contact the JFSA for assistance.

This Application Form and your involvement in the Scheme do not create any legally binding contract or obligations between Post Office and you.

The Working Group, its members and their advisors owe no obligations or duties, and accept no liability, to you in connection with the Scheme.

**Signed** .....

**Name** .....

**Date** .....

**Annex E: Mediation Pack**



## Overview of the Initial Complaint Review and Mediation Scheme

### Initial Complaint Review and Mediation Scheme

The Initial Complaint Review and Mediation Scheme have been established to help resolve the concerns of Subpostmasters regarding the Horizon system and other associated issues.

Post Office is determined to ensure that Horizon and its associated processes are fair, effective and reliable, and that Subpostmasters can have confidence in the system.

In some instances, however, Subpostmasters allege that Post Office and Horizon have not met these standards. To address these concerns, Post Office appointed independent forensic accountants, Second Sight, to investigate this situation.

In collaboration with the Justice for Subpostmasters Alliance (JFSA) and a group of MPs led by the Rt Hon James Arbuthnot MP, Post Office established an Inquiry into Horizon. Second Sight was appointed to lead this Inquiry and has been working with a number of Subpostmasters for over 12 months. A copy of Second Sight's interim report is available at <http://www.postoffice.co.uk/post-office-statement-horizon>

Post Office now wishes to offer a Scheme to Subpostmasters so that individual Subpostmasters have an opportunity to raise their concerns directly with Post Office. In partnership with Subpostmasters, the JFSA, Second Sight and interested MPs, all sides can then work towards resolving those concerns.

This Scheme has been developed by Post Office, Second Sight and the JFSA.

### Mediation

In essence, mediation is a face-to-face discussion between two parties. The discussion is chaired by a neutral and independent mediator.

The purpose of mediation is to give each side the opportunity to explain their position. The mediator will then discuss matters with both parties, sometimes together in the same room, sometimes privately with each party.

The mediator's role is to help the parties find common ground. Where common ground cannot be reached, the mediator will help the parties identify their differences and then try to find a resolution to those differences.

The mediator cannot impose a solution on any party (unlike a judge in a courtroom). He can recommend possible solutions to any disagreements. The parties are then free to accept or reject any recommendation. A solution is only binding on the parties where they both agree to that solution and that agreement is captured in writing and signed by both parties.

### Eligibility

The Scheme applies to both current and former Subpostmasters as well as counter clerks employed by Post Office.

Where we refer to "Subpostmasters" this includes Subpostmistresses, nominee Subpostmasters of multiple branches and counter clerks.

The Scheme is open to any Subpostmaster who believes they have suffered a loss or been treated unfairly as a result of the Horizon system or any associated issues.

If a serving Subpostmaster wants to use the Scheme, he or she must have already raised their case with Post Office and have completed all Post Office's internal complaint processes. For example, a

Subpostmaster who wishes to dispute a transaction or series of transactions in their branch should first raise this matter with NBSC and assist with any subsequent Post Office enquires. If a currently serving Subpostmaster needs advice how to raise a matter internally with Post Office they should email [branch.support.team@postoffice.gro](mailto:branch.support.team@postoffice.gro)

## The Scheme

The Scheme is being supervised by a Working Group comprising of representatives from Post Office, Second Sight and the JFSA. The Working Group's role is to ensure the Scheme is run in a fair and efficient manner. It will also be involved in making decisions on how particular cases should be managed through the Scheme. To ensure its impartiality, the Working Group is seeking to appoint an Independent Chairperson.

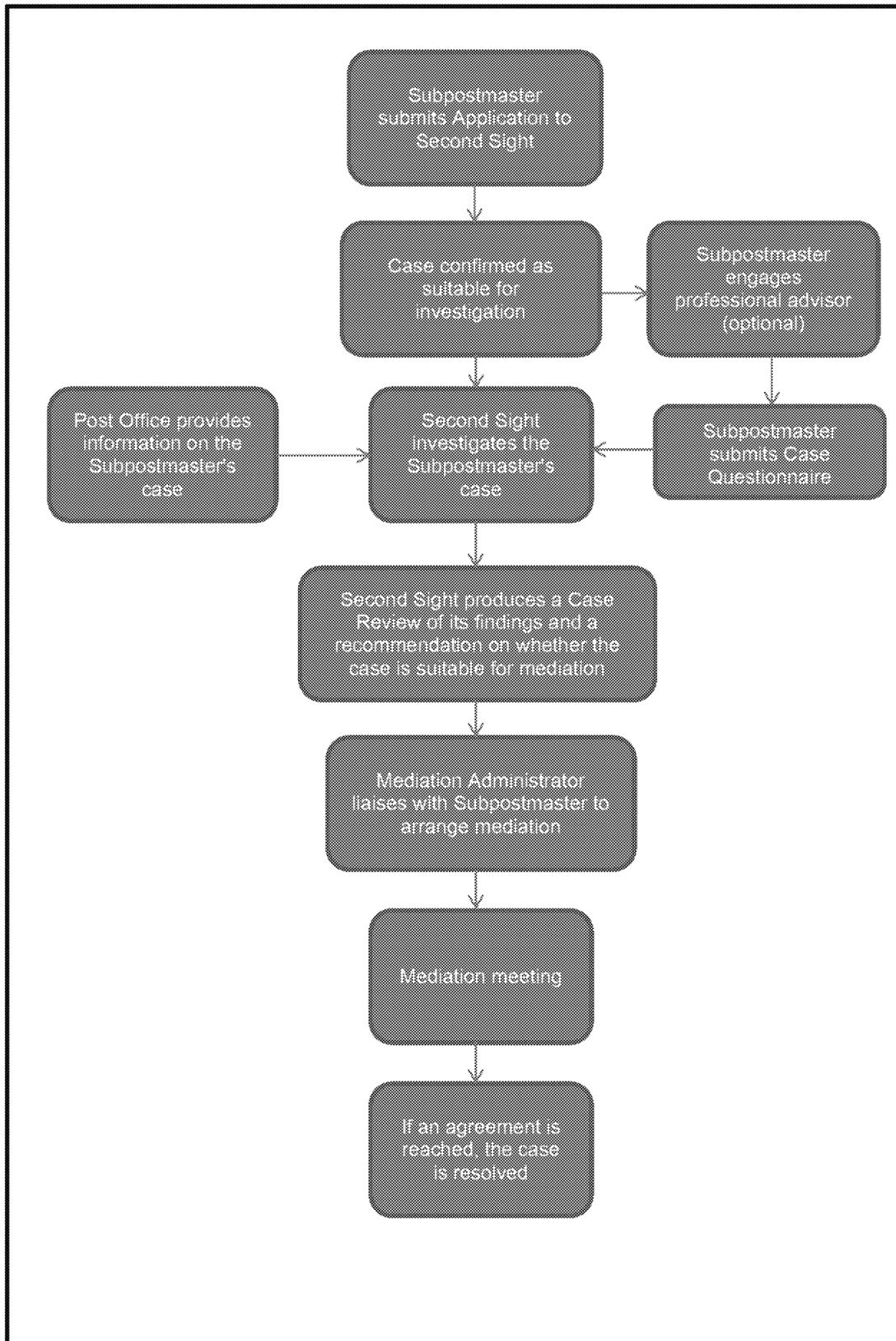
The starting point for the Scheme is for Subpostmasters to submit details of their case to Second Sight as part of an initial application process. Second Sight, in collaboration with the Working Group, will recommend whether the case should be investigated.

Second Sight will then work with each Subpostmaster and Post Office to gather information about and investigate that case. The Subpostmaster will be sent a Case Questionnaire setting out requests for more detailed information. Post Office will also provide additional information from its own records.

As a result of this investigation, Second Sight will produce a Case Review summarising its findings and a recommendation on whether the case is suitable for mediation. A copy of this Case Review will be provided to you. The Working Group will however take the final decision on any cases that may not be suitable for mediation.

The Case Review should bring clarity to many cases. Post Office may contact a Subpostmaster directly to discuss the Case Review and to seek closure of any outstanding issues. If a solution cannot be reached directly between Post Office and the Subpostmaster, both parties may then be invited to attend mediation.

The mediation process will be administered by an independent mediation body and the mediator will be selected by the parties from a panel of mediators. The mediation administrator and the panel of mediators will be nominated by the Working Group.



### **The Subpostmaster's role**

In order for mediation to work, it is important that each case is properly investigated by Second Sight before the mediation begins. It is therefore critical that each Subpostmaster provides complete and accurate information to Second Sight in a timely manner.

If an Application is accepted following Second Sight's recommendation, the Subpostmaster will be asked to submit a more detailed explanation of his/her case along with any supporting documents in the form of a Case Questionnaire. Subpostmasters will have four weeks after the Case Questionnaire is received to complete the Case Questionnaire and to submit relevant evidence. Subpostmasters will receive guidance on the information required and may use a professional advisor to help with this process. Second Sight may also contact a Subpostmaster (by phone, letter or email) to seek more information or to clarify some matters.

The information provided in the Case Questionnaire is likely to be shared with Post Office so that Post Office can make its own internal enquiries and provide further relevant information to Second Sight.

If the information provided by the Subpostmaster is insufficiently detailed or not clear, or information is not provided promptly, it may mean that a case is not investigated or mediated. It is also very important that the information provided is accurate and truthful.

### **Support for Subpostmasters**

Post Office recognises that mediation will be unfamiliar to many Subpostmasters. It is therefore prepared to make a financial contribution towards the reasonable costs of a professional advisor (such as a lawyer or an accountant) supporting a Subpostmaster through the Scheme.

Post Office will provide a financial contribution of:

- up to £1,500 + VAT towards the reasonable costs of a professional advisor assisting a Subpostmaster during Second Sight's investigation (ie. gathering information, completing the Case Questionnaire, responding to Second Sight's questions, etc.)
- up to £750 + VAT towards costs of a professional advisor in preparing for and attending a half-day mediation or up to £1,250 + VAT for a full day mediation.

Post Office will also pay the reasonable expenses of travelling to and from the mediation for a Subpostmaster and up to two representatives.

Subpostmasters will not be asked to contribute towards the costs of the mediator or the mediation venue.

Subpostmasters may engage a professional advisor to provide additional support in other areas or in excess of the above contribution levels however they will be responsible for these costs. In exceptional circumstances, a Subpostmaster may make a written request to the Working Group for additional financial support.

If an Application is accepted, the Subpostmaster will be sent a Funding Agreement that will explain how Post Office will provide this financial support.

### **Further information**

For further information, please see the enclosed Frequently Asked Questions.

## **Frequently Asked Questions for the Scheme**

### **What is the Working Group?**

The Scheme is being supervised by a Working Group comprising of representatives from Post Office, Second Sight and the JFSA. The Working Group's role is to ensure the Scheme is run in a fair and efficient manner. It will also be involved in making decisions on how particular cases should be managed through the Scheme. To ensure its impartiality, the Working Group is seeking to appoint an Independent Chairperson.

### **What are the eligibility criteria for the Scheme?**

You must meet both the following criteria.

First, your case must relate to a financial loss or unfair treatment that you believe you have suffered as a result of the Horizon system or any associated issues.

Secondly, if a serving Subpostmaster wants to use the Scheme, he or she must have already raised their case with Post Office and have completed all Post Office's internal complaint processes. For example, a Subpostmaster who wishes to dispute a transaction or series of transactions in their branch should first raise this matter with NBSC and assist with any subsequent Post Office enquires. If a currently serving Subpostmaster needs advice on how to raise a matter internally with Post Office they should email [branch.support.team@postoffice.co.uk](mailto:branch.support.team@postoffice.co.uk) **GRO**

### **My case is very old. Can I still mediate it?**

Post Office's records only date back seven years and therefore it may be more difficult to investigate very old cases unless you are able to provide information and documents.

If your case is very old, you may still submit it to Second Sight for consideration. However it may be decided by the Working Group that your case is not suitable for investigation or mediation.

### **What if my case has already been settled by Post Office?**

You may put your case through the Scheme even if you have already entered into a settlement with Post Office.

### **What if my case has already been considered by the civil courts and they have given judgment against me?**

You may put your case through the Scheme even if the Courts have already given judgment against you.

### **What if my case involves a completed criminal prosecution or conviction?**

You may put your case through the Scheme even if you have already received a Police caution or have been subject to a criminal prosecution or conviction.

However, Post Office does not have the power to reverse or overturn any criminal conviction – only the Criminal Courts have this power.

If at any stage during the Scheme, new information comes to light that might reasonably be considered capable of undermining the case for a prosecution or of assisting the case for the defence, Post Office has a duty to notify you and your defence lawyers. You may then choose whether to use that new information to appeal your conviction or sentence.

**What if my case is subject to on-going court proceedings?**

You may still submit your case but it may not be eligible at this time.

**When is the deadline for Applications to the Scheme?**

Your application must be received by Monday 18 November 2013.

**Where should I send my Application?**

Please email your application to:

For any queries on submitting an application, please contact Second Sight on

**How should I complete my application?**

The Application Form can be downloaded from the JFSA website – [www.jfsa.org.uk](http://www.jfsa.org.uk)

If you would prefer to complete the Application in hardcopy, please contact Second Sight (details below) who will send you a paper version of the Application Form.

**If I'm not sure if my case is eligible, what should I do?**

If you need advice on the Scheme please contact the JFSA on:

<http://www.jfsa.org.uk/>

Email:

Telephone:

**What is the Justice for Subpostmasters Alliance?**

JFSA is an independent organization, established to raise awareness of the alleged problems within the Post Office Horizon system. The organisation mainly comprises of ex-Subpostmasters.

**Second Sight Investigation**

**What is Second Sight?**

Second Sight is a firm of independent forensic accountants and investigators which have been engaged to investigate and report on the Horizon system.

[www.2ndsight.eu](http://www.2ndsight.eu)

Email:

Tel:

**What is Second Sight's role?**

Second Sight was appointed by the Rt Hon James Arbuthnot MP and Post Office to independently review and report on the Horizon system and any associated issues.

As a part of the Mediation Scheme, Second Sight will work with you to investigate your case. It will then liaise with Post Office to obtain further information before giving an assessment of your case.

Some cases will be very complex. You should not therefore expect Second Sight to come up with definitive answers to all questions. It will however provide its best, impartial and reasoned assessment based on the evidence available.

### **What information do I need to provide to Second Sight?**

At this stage, you just need to provide preliminary details of your case in your Application Form.

If your case is accepted for the Scheme, Second Sight will send you a full Case Questionnaire to complete. You need to provide as much detail about your case as possible in the Case Questionnaire along with any supporting documents and other evidence. You will receive guidance on the information required.

### **Can I use a professional advisor to help prepare my written submissions to Second Sight?**

Yes – you may engage a professional advisor, such as a lawyer or an accountant, to help with this.

JFSA may be able to assist you with selecting an advisor and the Working Group will be looking to establish a panel of professional advisors that could be engaged by Subpostmasters.

Post Office will pay up to £1,500 + VAT towards the reasonable costs of a professional advisor assisting you during Second Sight's investigation (i.e. gathering information, completing the Case Questionnaire, responding to Second Sight's questions, etc.).

You will be sent an Investigation Funding Agreement for this financial support if your Application is accepted.

You are solely responsible for any costs incurred before the Investigation Funding Agreement is signed or for costs that are outside the scope of the Investigation Funding Agreement.

### **Will my case definitely get investigated by Second Sight?**

The depth of Second Sight's investigation is very much dependent on the quality of the information provided by you. The more specific and comprehensive you can be, the better the chance of Second Sight providing good answers.

If there is insufficient information for Second Sight to investigate a case, the case may not be investigated or may not proceed to mediation.

### **How will Second Sight investigate my case?**

Second Sight's investigation will be principally based on information provided by you and Post Office. In some cases, Second Sight may contact you or Post Office (by phone, email or letter) to discuss your case or to request more information.

Second Sight will seek to determine whether there was a problem with Horizon (or any associated issue) that had an impact on you. If so, Second Sight will also try to determine the scale and scope of that impact on your case.

### **How long will it take for Second Sight to investigate my case?**

It is estimated that it will take between one to three months from receipt of a properly completed Case Questionnaire to investigate a case depending on its complexity.

### **What will Second Sight's findings reveal?**

This very much depends on the nature of your case but Second Sight will provide the best assessment possible based on the available information. This assessment will be provided to you in writing.

However, you should bear in mind that Second Sight is independent of both Post Office and you. Its investigation may therefore reveal information that could assist either you or Post Office.

In particular, the investigation into your case could reveal that you owe a debt or loss to Post Office. In that circumstance, Post Office will be entitled to act on this information and seek to recover this loss from you.

Should Second Sight discover evidence of any criminal wrongdoing, Post Office may pass this information to the Police, the Crown Prosecution Service or seek to prosecute directly.

Likewise, the investigation could disclose information that may assist you in a claim against Post Office.

If you have been previously involved in criminal proceedings, Post Office also has a duty to disclose to you and your defence counsel, any new information which comes to light that might reasonably be considered capable of undermining the case for the prosecution or of assisting the case for your defence.

### **Will my case definitely be referred to mediation?**

If your case is suitable and you provide accurate, detailed information to Second Sight, then this is likely in most circumstances.

However, the Working Group may consider that some cases are not suitable for mediation. For example, if there is insufficient information about a case or the case is not one requiring resolution.

Also, once Second Sight has submitted its findings, Post Office may contact you to discuss your case and to seek a resolution without needing to attend mediation.

If your case is not referred to mediation, then you may still pursue other methods of resolution such as by bringing a claim through the Courts.

## **Mediation**

### **What is mediation?**

In essence, mediation is a face-to-face discussion between two parties. The discussion is chaired by a neutral and independent mediator.

The purpose of mediation is to give each side the opportunity to explain their position. The mediator will then discuss matters with both parties, sometimes together in the same room, sometimes privately with each party.

The mediator's role is to help the parties find common ground. Where common ground cannot be reached, the mediator will help the parties identify their differences and then try to find a resolution to those differences.

### **Who is the mediator?**

The mediator is a neutral individual who specialises in resolving disputes. Typically, mediators are independent professionals.

The Working Group will be nominating a panel of suitable mediators. A mediator from this panel will be jointly chosen by you and Post Office. If the parties cannot agree on a mediator then the mediator will be selected by the independent Mediation Administrator.

#### **Who is the Mediation Administrator?**

The Working Group will be nominating a Mediation Administrator. This will be an independent body specialising in providing mediation services.

The Mediation Administrator's role will be to organise the mediation process by helping the parties choose a mediator and by finding an appropriate location and time for the mediation.

Full details of the Mediation Administrator will be provided to you if your case proceeds to mediation.

#### **What powers does the mediator have?**

The mediator's role is to facilitate a discussion between you and Post Office. He/she is there to help the parties find a solution to their disagreement.

The mediator cannot order the parties to do anything or to impose an outcome on the parties.

#### **What will happen on the mediation day?**

The course of events at the mediation will be set by the mediator. The mediator will look to use the time available at the mediation in the most productive way possible.

A typical mediation will run as follows:

- The parties arrive at the venue and are each allocated separate private rooms.
- The mediator arrives and introduces himself to each party separately.
- The parties convene in a joint meeting. Each party or their representative makes a short opening statement (lasting just a few minutes) setting out their position.
- The mediator then chairs a discussion between the parties about the issues to be considered.
- The parties retire to their separate rooms. The mediator speaks separately to each party about their thoughts and opportunities for resolution.
- The mediator may assist negotiations between the parties in an attempt to agree a solution.
- Further face-to-face meetings may be held between various people at the mediation.
- If a deal is reached, the mediator may help the parties to draw up a settlement agreement.

#### **Who attends mediation?**

There are no strict rules on who can attend. However it is usual to have only two or three people representing each side. You may bring with you anyone you consider appropriate. However, Post Office will only pay reasonable travelling expenses for you and two representatives.

#### **Can I bring a professional advisor to the mediation?**

Yes – you may bring a professional advisor, such as a lawyer or accountant, to the mediation.

**Who will pay for my professional advisor to attend the mediation?**

Post Office will make a contribution towards the reasonable costs of a professional advisor in preparing for and attending mediation on your behalf.

For a half-day mediation, Post Office will contribute up to £750 + VAT.

For a full-day mediation, Post Office will contribute £1,250 + VAT.

You will be sent a Mediation Funding Agreement for this financial support if your case is deemed suitable for mediation by the Working Group. This decision will be made after Second Sight has produced its Case Review.

You are solely responsible for any costs incurred before the Mediation Funding Agreement is signed or for costs that are outside the scope of the Mediation Funding Agreement.

**Will Post Office pay my expenses of travelling to the mediation?**

Yes – Post Office will pay the reasonable expenses for you and up to two representatives to travel to the mediation. Full details of this support will be provided in your Mediation Funding Agreement.

**How long will the mediation last?**

In most cases, the mediation will last about half a day (4 hours). For complex cases, the mediation may last a full day (8 hours).

**Where will the mediation be held?**

The mediation will be held in a set of meeting rooms at an appropriate venue. The venue will be selected depending on the location of the mediator and the parties. Post Office will seek to find a venue within three hours travel of where you live, but this cannot be guaranteed in all situations.

**When will the mediation happen?**

The precise date depends on your availability and the availability of the mediator and Post Office. The aim is to hold most mediations within six months of receipt of your Application Form.

The Mediation is likely to happen on a weekday so you may need to take time off work.

**Will Post Office compensate me for taking time off work to attend mediation?**

No.

**How might my case be resolved?**

The advantage of mediation is that the parties can agree any solution that is legal, realistic and enforceable. Post Office is keeping an open mind to all possibilities for resolution.

Compensation is one possible solution that could be agreed by the parties but this will depend on what happened in your case.

If a resolution is reached by the parties, then this is likely to be drawn up into a formal settlement agreement for you to sign.

**What if my case is not resolved at mediation?**

If your case is not resolved at mediation, you are free to pursue any other method of resolution, including through the Courts.

### **Information about my case**

#### **Will Second Sight share my information with Post Office?**

Yes – Second Sight will share your information with Post Office in order to investigate your case.

#### **Why are details of my case being shared with JFSA and my MP?**

JFSA are part of the Working Group, alongside Second Sight and Post Office, who will be monitoring the Scheme.

The Scheme is also being kept under review by a group of MPs led by the Rt Hon James Arbuthnot MP. Your MP may therefore request details of your case. However, details of your case will only be communicated to your MP and not to other MPs.

#### **Will my case be kept confidential?**

Both you and Post Office must endeavour to keep details of your case confidential however details of your case may be discussed with:

- Second Sight
- Your MP
- JFSA
- Professional advisors
- With other appropriate persons where you have already made or have chosen to make public statements about your case.

However, all matters discussed in the actual mediation will be strictly confidential and subject to "without prejudice" privilege. This means that the matters discussed during mediation cannot be disclosed to any third party or to any Civil Court.

This protection allows both parties to speak freely in the mediation room, without risk of their words being repeated back to them in public or in the Civil Courts. Under this protection, the parties can then accept responsibility for their actions and make concessions in order to move towards a resolution.

#### **Can Second Sight's pre-mediation findings be used in subsequent Court proceedings?**

Yes. A Subpostmaster will receive a copy of Second Sight's findings and may use them against Post Office in later Court proceedings.

However, the investigation into your case may reveal that you owe a debt or loss to Post Office. In that circumstance, Post Office will be entitled to act on this information and seek to recover this loss from you.

Likewise, should the investigation reveal any criminal wrongdoing, Post Office may pass this information to the Police, the Crown Prosecution Service or seek to prosecute directly.

The matters discussed at the actual mediation cannot be later used in later Civil Court proceedings but might be disclosable in the Criminal Courts.

### **Other questions**

#### **Is it possible that the structure of the Scheme may change over time?**

Yes – the Working Group is tasked with making sure that the Scheme is operating effectively. It may therefore be necessary to revise the Scheme as appropriate.

### **What is the effect of the Scheme on my legal position?**

You are not waiving any of your legal rights by submitting information to Second Sight or attending mediation.

Your legal rights will only be affected if you settle your case against Post Office in a written agreement.

The Funding Agreements and the Mediation Agreement may contain some obligations on you such as duties to keep information confidential.

### **Am I obliged to mediate my case?**

No – the Scheme is voluntary.

Post Office will not use the fact that you have not mediated your case (or may have pulled out part way through the Scheme) against you in any future Court proceedings.

### **Can I pull out part way through the Scheme?**

Yes – at any time you may confirm in writing (to either Second Sight or the Mediation Administrator as appropriate) that you no longer wish to be part of the Scheme. Should you pull out of the Scheme, you may not be able to re-join the Scheme at a later date.

### **What happens if I pull out?**

Second Sight will stop its investigation into your case.

If you pull out before signing a Funding Agreement, you will be responsible for any professional advisor's costs you have incurred.

If you pull out after signing a Funding Agreement, Post Office will still make its contribution towards your professional advisor's reasonable costs as described in that Funding Agreement.

### **What is a Funding Agreement?**

A Funding Agreement is a contract between you and Post Office under which Post Office commits to provide you with financial support.

An Investigation Funding Agreement will be sent to you if your Application is accepted. This will provide up to £1,500 + VAT towards the costs of you engaging a professional advisor during Second Sight's investigation.

A Mediation Funding Agreement will be sent to you if, after Second Sight's investigation, the Working Group decides that your case is suitable for mediation. This will provide up to £750 + VAT or £1,250 + VAT (depending on the length of the mediation) towards the costs of a professional advisor attending mediation on your behalf

Unless you sign a Funding Agreement, Post Office is not responsible for any costs that you may incur.

Post Office is also not responsible for any costs you may incur outside the scope of any Funding Agreement or in excess of the above funding commitments.

### **What if I need more financial support?**

It is for you to manage your professional advisor's costs.

In exceptional circumstances, you may make a written request to the Working Group for additional financial support. Each case will be treated on its merits with no guarantee of additional support being granted.

**What is a Mediation Agreement?**

A Mediation Agreement outlines the basic principles of the mediation process and confirms the appointment of the mediator. It also contains the obligation on the parties to keep the Mediation discussions confidential.

You will be sent a Mediation Agreement after Second Sight's investigation is complete and your case is considered suitable for mediation.

**Annex F: Press Release announcing the appointment of Sir Anthony Hooper**

## **Sir Anthony Hooper appointed as independent chair of working group overseeing initial mediation scheme for Subpostmasters**

Press Release Oct 29, 2013 00:00 GMT



- Appointment part of Post Office's commitment to addressing concerns raised by subpostmasters
- Initial Mediation Scheme created to review cases

Post Office has announced that Sir Anthony Hooper has been appointed as Independent Chair of the Working Group overseeing the Initial Mediation Scheme established to address the concerns raised by some subpostmasters regarding the organisation's Horizon computer system and its supporting processes.

As an Independent Chair, Sir Anthony will provide leadership and scrutiny to ensure the scheme fully achieves its objectives in providing a forum for the resolution of subpostmasters' complaints.

As former Lord Justice of Appeal, Sir Anthony heard many criminal appeals, deciding complex issues of law and fact. He also presided in the Divisional Court. Sir

Anthony's particular areas of expertise have included fraud, money laundering, public interest immunity, employment law and all aspects of administrative law.

Commenting on the appointment, Angela Van Den Bogerd Post Office Head of Partnerships said: "We're delighted that Sir Anthony Hooper has been appointed as Chair of the Working Group. His wealth of experience in handling complex cases will be invaluable."

"Subpostmasters are the lifeblood of our business and we take their concerns extremely seriously. We hope the appointment of Sir Anthony as the Independent Chair will reassure them of our commitment to ensuring all concerns are fully investigated."

The Mediation Scheme was established following the publication of the interim report into the Horizon system produced by Second Sight in July. The report stated that so far no evidence of system wide (systemic) problems with the Horizon software had been found.

However, it noted that improvements could be made in the training and support processes provided to subpostmasters. In response to the report the Post Office made a number of commitments, one of which was to create this Mediation Scheme. The Post Office, JFSA (Justice for Subpostmasters Alliance), and Second Sight, the independent investigators, have formed a Working Group to develop and monitor the scheme which is available to both current and former subpostmasters.

Alan Bates of Justice for Subpostmasters (JFSP) said: "We welcome the appointment of Sir Anthony Hooper as Chairman. The Working Group can only benefit from his considerable experience of dealing with complex issues such as those the case reviews will be dealing with."

Subpostmasters wishing to submit an application should visit [jfsa.org.uk](http://jfsa.org.uk) for further information.

**Ends**

The Post Office is responding to the Second Sight report with three new initiatives aimed at addressing concerns raised, improving future processes, and examining potential structural changes to support sub-postmasters:

In addition to establishing the independent mediation scheme, a Working Group has been created to build on the work started by Second Sight last year and to develop it into this mediation scheme.

A new Branch User Forum is also being established to provide a way for sub-postmasters and others to raise concerns and insights around business processes, training and support, directly feeding into the organisation's thinking at the highest level. A key task for this forum will be to review support processes and training to ensure they meet the standards expected of the Post Office.

The Horizon system has around 68,000 users and processes more than six million transactions every day. The total number of cases put forward by users to Second Sight as part for its external review was 47, less than 0.1 per cent of the total number of users of the Horizon system.

The mediation process will be open both to subpostmasters who raised concerns through the Second Sight review, and also any who feel they have a dispute with the Horizon system (or an associated issue) which requires resolution. The scheme will involve cases being independently investigated by Second Sight followed, where appropriate, by a face-to-face discussion between the Post Office and the subpostmaster chaired by a neutral mediator.

The scheme is being supervised by the Working Group comprising representatives from Post Office, JFSA, and Second Sight. Any subpostmaster wishing to take part in the scheme must submit an application through Second Sight which will review each case for eligibility.

Contact - Post Office, Press Office

### **About the Post Office**

The Post Office (Post Office Limited) has an unrivalled national network of over 11,500 branches across the UK, more than all the high street banks combined, and sits at the heart of communities in Northern Ireland, Scotland, Wales and England. The Post Office has made a commitment to maintaining its network of branches at its current size and reach. It provides around 170 different products and services spanning financial services including savings, insurance, loans, mortgages and credit cards; Government services; telephony; foreign currency; travel insurance and mail services.

The Post Office serves over 17 million customers a week and a third of small businesses. Some 99.7% of the total population live within three miles of a post office and over 97% live with one mile of a post office. For many rural communities, the post office is the only retail outlet. Post Offices branches remain highly valued and trusted, and are the focal point of many communities. For more information, visit <http://www.postoffice.co.uk/>.

Please note the Press Office team can only deal with enquiries from the media. Unfortunately they do not have access to customer information so cannot help with customer enquiries.

If you have an enquiry regarding any Post Office product or service please visit [postoffice.co.uk](http://postoffice.co.uk) or call **GRO**. Local call rates apply. Call costs may vary depending on your service provider. Calls may be monitored or recorded for training and compliance purposes. **GRO**

**Annex G: Fact File**

**Complaint Review and Mediation Scheme**

**Factfile**

**Contents**

Introduction.....	3
The Post Office: an overview.....	3
Postmasters.....	3
Other branch types.....	4
National Federation of Postmasters (NFSP).....	5
Postmaster's contract.....	5
Temporary Postmasters.....	6
Horizon and branching accounting.....	7
Horizon.....	7
Branch accounts and the principle of double entry accounting.....	8
Processing transactions on Horizon.....	9
Stock units.....	10
Reconciliation with clients.....	10
Transaction acknowledgments.....	11
Associated equipment.....	12
ATMs.....	12
Paystation.....	13
Lottery.....	14
Remittances.....	15
Branch reporting and management.....	18
Reporting.....	18
Resolving surpluses or losses of cash or stock.....	19
Transaction corrections.....	20
Standard training.....	23
Support for postmasters.....	25
Network Business Support Centre (NBSC).....	25
Horizon Service Desk.....	25
Field support.....	26
Auditing.....	28
Branch errors.....	30
Miss-key.....	30
Mixing retail and Post Office business.....	31
Errors in cash handling.....	31
Accidental loss.....	31
Miscounting cash on hand.....	32
Cash remittance errors.....	32
Stock remittances.....	32
Cheque handling.....	33
Connectivity.....	34
Transacting from the wrong stock unit.....	35
Outstanding transfers between stock units.....	35
Transaction Acknowledgements.....	35
Product specific errors eg. DVLA Motor Vehicle Licences.....	36
Theft from the Post Office.....	36

## **Introduction**

This overview has been prepared with a view to informing the reader of the basic functions of the Horizon system and the Post Office's branch trading practices.

It is not an exhaustive explanation of every trading practice or procedure of the Post Office. There are a number of product and scenario-specific processes that are not described in this overview.

## **Post Office: an overview**

1. The Post Office is a commercial business with a public purpose. The majority of its income is self-generated but it does receive financial support from its ultimate shareholder, the UK government. It has around 11,500 branches, sells more than 170 products and services and employs almost 8,000 people.
2. Although traditionally, the Post Office is thought of a place to post mail, its branch network now provides a full range of products and services, from financial services such as commercial and personal banking, and access to government benefits through to home telecommunications. A non-exhaustive list of products sold by the Post Office is in Schedule 1.
3. Historically, the Post Office was part of the Royal Mail Group, with operations and services centrally controlled for both businesses. In April 2012, the two businesses separated and the Post Office has since traded as a separate company.

## **Postmasters**

4. The majority of Post Office branches are run by independent postmasters and are known as 'Agency' branches. Postmasters are, in the main, individuals who are contracted to run Post Office branches. They are individual contractors, not employees of the Post Office, and their position is similar to that of a franchisee.
5. A postmaster does not need to render personal service – they may employ 'assistants' to conduct branch business. In some cases, a postmaster may employ a manager to run his or her branch and may have minimal personal involvement in day-to-day operations. The employment of assistants is the postmaster's responsibility. In this document, where an activity is said to be undertaken by a postmaster, in most cases it could also be undertaken by an assistant.
6. Each postmaster owns (or leases from a third party landlord) the premises from which the branch is run. Other than setting minimum standards for the premises (in terms of legal ownership rights and physical security), it is the postmaster's responsibility to provide the branch premises.
7. Typically, the premises will be part of an existing business like a convenience store. This existing business is typically referred to as the 'retail business'. Part of the

premises is given up to transacting Post Office business and the Post Office equipment, cash and stock is generally kept separate on the Post Office side, away from the retail business, although the new 'local model', which has been introduced as part of the Network Transformation Programme (see paragraph 15 overleaf), has changed this position.

8. In terms of transacting Post Office business, the postmaster is an agent of the Post Office. In legal terms, Post Office business is a transaction between the customer and Post Office Limited, with the postmaster acting as the Post Office's agent to complete the transaction. As the postmaster is not undertaking business in his own name, all the cash and stock held at a branch are owned by the Post Office. In effect, the postmaster is a steward of this cash and stock, and although it is under the postmaster's control, the postmaster does not own it.

### ***Other branch types***

9. **Crown:** There are around 300 'Crown' branches that are directly owned and run by the Post Office. The staff at Crown branches are employees of Post Office Limited and the branch is run by an employed 'branch manager', rather than a postmaster. The operating procedures at Crown branches are largely the same as those at agency branches.
10. Crown branches also operate Horizon and Crown employees who access it are given their own unique user ID, in the same way as postmasters and their staff in Agency branches. The navigation and operation of Horizon, including the processes used to sell products, run reports and transaction corrections, are the same across agency and Crown branches. Crown branches are audited in the same way as agency branches which, as explained in ***Auditing*** below, is to verify the assets held in the branch.
11. As Crown branches are directly managed by the Post Office, the reporting and procedures in terms of balancing and cash declarations are slightly different. For example, Crown branches work in weekly balancing periods (and therefore roll over weekly instead of monthly – see further below at paragraph 93) and, in an effort to minimise losses, there is also a requirement for misbalance checks to be performed on all stock units that misbalance by £30 and over.
12. Branch managers of Crown branches, unlike postmasters, are not liable for any losses that a Crown branch may suffer (see paragraph 21). This is because branch managers are employees of the Post Office which, as the owner of the branch, directly carries any loss. That is not to say the Post Office does not take action against employees based in Crown branches if discrepancies arise, but such action is taken pursuant to the employer/employee relationship (unlike in the case of a postmaster where action is taken pursuant to the postmaster's contract). However, if the Post Office has reason to believe that a criminal offence has taken place at a Crown branch, it will bring criminal proceedings against Crown employees in the same way it could against postmasters.
13. **Multiples:** Sometimes branches are located in much larger businesses such as Co-operative convenience stores or WH Smiths. These larger businesses tend to have multiple branches and are therefore called 'multiples'. The operating procedures at multiples are largely the same as those at agency branches.

### ***The Network Transformation Programme***

14. The Network Transformation Programme (**NT Programme**) currently underway is seeking to change the way Post Office services are offered in branches.
15. Under the NT Programme, postmasters transfer to either a 'main branch model' or 'local branch model'. The main branch model continues to offer a dedicated Post Office counter, which is physically separated from the postmaster's own retail business. The local branch model fully integrates Post Office services within the retail business, so that postmasters can offer Post Office services from the retail counter, rather than a separate dedicated Post Office counter. This often means that Post Office services can be offered for much longer hours than before, in many cases from early morning until late at night, seven days a week.

### ***The National Federation of Postmasters (NFSP)***

16. The NFSP is the organisation recognised by the Post Office to negotiate on behalf of postmasters nationwide. It looks to improve the pay and conditions of service for postmasters. It also negotiates with Post Office on the payment for all services and products transacted over a Post Office counter. The NFSP works closely with the Post Office on a range of other issues, including Post Office security, operational systems and technology.
17. The NFSP provides a range of services offering support, advice and information to its members. Its monthly magazine, *The Postmaster*, provides up-to-date information on issues affecting postmasters. A 24-hour helpline gives advice on matters such as contract issues in relation to the staff employed by postmasters. The NFSP cannot provide Horizon-related technical assistance.
18. Representation and guidance is available from the NFSP in the event of disputes with the Post Office. Postmasters have access to local support through local branches of the NFSP and its executive officers. The NFSP also runs a Benevolent Fund, providing financial support to postmasters in need.

### ***Postmaster's contract***

19. The postmaster's contract has been subject to several revisions over the years, most recently in connection with the NT Programme. However, the core principles have generally remained unchanged. The majority of postmasters currently provide services to the Post Office under the 1994 issue of the standard postmaster contract (as amended from time to time). The terms of the postmaster's contract are jointly drawn up by the Post Office and the NFSP is involved in all subsequent variations to the contract.
20. Under the standard postmaster's contract, postmasters are remunerated based on a combination of fixed and variable sums, calculated according to the volume of business that they transact.
21. A postmaster also has responsibility for the safekeeping of the Post Office's cash and stock. A Postmaster is therefore liable for any loss of cash or stock in their branches if that loss is caused by their carelessness, negligence or error (clause 12(12)), or by the

carelessness, negligence or error of their assistants (clause 15). If cash or stock is lost by the fault of the postmaster, the postmaster is obliged to reimburse the Post Office for that loss. The way that losses can occur is set out in **Branch errors** below.

22. Serious errors by postmasters can result in a postmaster's contract being suspended and/or terminated, and/or action being taken against the postmaster (or their assistants) through civil courts to recover any related loss.
23. Where the Post Office discovers evidence of criminal wrongdoing, it may exercise the right to bring a private criminal prosecution, a right available to all companies and individuals. Typical criminal prosecutions are for fraud, theft or false accounting (where a postmaster has declared transactions or stock or cash levels within the branch that the postmaster knows are not true). The Post Office sometimes refers these prosecutions to the police or national prosecution service (being the Crown Prosecution Service in England and Wales, and the Procurator Fiscals office in Scotland). However, in the vast majority of cases, the Post Office undertakes a private prosecution of the postmaster.

### ***Temporary postmasters***

24. If a postmaster is precautionary suspended or terminated, a temporary postmaster is sometimes appointed to take over the running of a branch. Temporary postmasters operate the branch under the same contract terms with the Post Office as permanent postmasters (save that their notice period is one week, rather than three months) and receive remuneration from the Post Office in the same way.
25. The Post Office keeps a list of pre-approved temporary postmasters who can be called upon at short notice. The Post Office cannot force an incumbent postmaster to allow a temporary postmaster to take over a branch, although it is highly encouraged in most cases as the Post Office is keen to ensure continuity of service to customers.
26. It is for the incumbent postmaster and the temporary postmaster to agree the terms under which the temporary postmaster will operate from the incumbent postmaster's premises. Typically, this involves the temporary postmaster paying a weekly or monthly 'rent' to the incumbent postmaster.

## Horizon and branching accounting

### *Horizon*

27. Horizon is the electronic point of sale IT system used in all Post Office branches to undertake transactions (from selling lottery scratch cards to cash withdrawals and currency exchanges). In 1995, the Post Office commissioned the Horizon system (**Horizon**) from the company now known as Fujitsu Services Limited. Horizon is accredited by Payment Card Industry Data Security Standard and ISO 27001. More than 68,000 users currently use it across 11,500 Post Office branches.
28. The system encompasses the following elements:
  - 28.1 Both bespoke and off-the-shelf software packages
  - 28.2 Computer hardware and communication equipment, which is installed in each Post Office branch, including the touch screen counter terminal and printers
  - 28.3 Central data centres where transaction data from each branch is stored
  - 28.4 Control and monitoring systems
  - 28.5 Testing and training systems.
29. Horizon stores all transactional data undertaken at each counter in Post Office data centres. Each terminal communicates with Post Office data centres via a secure communication line, with a back-up communication system. In order to communicate, Horizon must be 'online' on the internet. Financial data is generally stored for a period of seven years, in line with data retention policies.
30. In 2010, the Post Office rolled out 'Horizon Online' as part of its Horizon Next Generation (often referred to as 'HNG-X') Programme, to provide a simplified network based on the centralised processing of data. The main changes were behind the scenes, with a new user interface and principally affected the way each terminal communicates transaction data to the central Post Office data centres. The main roll-out of Horizon Online began in June 2010, following a pilot involving 1,422 branches, and completed in September 2010.
31. All Horizon transactions are conducted through a 'conversation' between the terminal in the branch and the systems within Post Office data centres. These conversations are conducted over a secure cryptographically protected virtual private network, which allows private data to be shared securely across the internet. Transactions on Horizon can only be undertaken physically on a terminal in a branch by a valid user (through their user ID). Transactions cannot be undertaken remotely.
32. Transactions can comprise a number of conversations, each of which has a unique sequential serial number. Horizon records all data centrally in the Branch Database, in the Post Office data centre. A copy of all conversations is also made to a separate audit server, where they are digitally stored independently. Specific security personnel at the Post Office have read-only access to this audit server.

33. There are a number of reconciliation and integrity checks built into Horizon to guarantee the integrity of the data. For example, all data passing from Horizon to third parties or to Post Office's 'back office' (Post Office's financial systems that receive nightly feeds from branches to hold a financial view of all transactions undertaken in each branch) are driven from 'one source' to ensure every recipient receives the same correct data. Financial transactions such as banking withdrawals and card payments are matched against the bank's view of the transaction. For example, if £100 has been withdrawn at a branch, this will be recorded in Horizon and matched against the bank's record that £100 has been withdrawn. If discrepancies arise, they will be addressed following the Post Office's procedures (further details are set out below).

### ***Branch accounts and the principle of double entry accounting***

34. Horizon is also an electronic accounting system. It tracks every transaction made in a Post Office branch and ensures relevant double entry bookkeeping for it. This includes both transactions recording sales or services to customers and record keeping for deliveries of cash and stock to and from the branch. Horizon enables staff in the branch to run reports referred to as 'balance snapshots' as and when they require, and to look up the recorded amount of cash and stock on hand.
35. The system's core principle is that of double recording. For example, entries generally have a corresponding and opposite entry so as to 'balance' the account. So, if a product is sold for cash, in most cases this would result in a reduction in a branch's stock levels of that particular product line and a corresponding increase in the amount of cash recorded as held at the branch.
36. A typical example of double entry would be the processing of a personal banking cash withdrawal by a customer. Horizon would record a credit (a reduction) in physical cash holdings in the branch, due to money being paid to the customer. It would also record a debit in the payments section of the balance snapshot, which reflects the debt now due to the Post Office from the relevant customer's bank.
37. The effect of this double entry system is that an input in one part of the branch's accounts can cause corresponding changes in other parts of the accounts.

#### *Example:*

*The levels of stock held in a branch can be manually adjusted. A reduction in stock will, however, increase the amount of cash by the same value, as Horizon will assume the stock has been sold.*

*So if the amount of First Class Stamps recorded on Horizon is manually reduced by £10, the amount of cash recorded on Horizon is automatically increased by £10.*

*If this reduction in stamps was incorrect (say it was done by accident), when the amount of physical cash actually held in the branch is then compared to the amount of cash recorded on Horizon, the branch will be £10 short and will be showing a loss of £10 in cash. In this way, the error in accounting for stamps has migrated across the accounts to manifest as a loss of cash.*

*However, the branch should also now be actually holding £10 more in First Class Stamps than the amount of First Class Stamps shown on Horizon. This creates a surplus of stamps in the branch.*

*Therefore, in this scenario, there is no net overall loss. The error can be corrected by manually increasing the value of First Class Stamps recorded on Horizon by £10, which will then automatically decrease the amount of cash recorded on Horizon by £10 (as there are now more stamps in the branch, Horizon will assume those extra stamps must not have been sold). This will bring in line (or 'balance') the branch's accounts recorded on Horizon with the actual cash and stock holdings in the branch.*

### **Processing transactions on Horizon**

38. In simple terms, most customer transactions are processed as follows:
  - 38.1 A customer approaches the branch counter and requests certain transactions
  - 38.2 The postmaster selects the appropriate product or service on the Horizon terminal and, if necessary, inputs the value of the transaction (e.g. cash withdrawal from a bank account of £100)
  - 38.3 This process is repeated for each individual transaction requested by the customer (e.g. at the same time as the cash withdrawal, the customer purchases £10 of stamps)
  - 38.4 Horizon groups the individual transactions together in a 'basket' and displays the net amount to be paid to the customer, or that needs to be taken from the customer (e.g. in the above situation, the net cash due to the customer is £90)
  - 38.5 If payment is to be taken from the customer, the postmaster selects the payment method (e.g. cash, cheque or debit card)
  - 38.6 The postmaster takes the payment from the customer or pays out cash to the customer as required. This final payment out or in (whether by cash, cheque or other method) records a final line to the transaction record that offsets the net value of the transactions and brings the basket total to zero (e.g. a customer buys £10 of stamps for cash. The stamps would show as a negative £10 and the cash received would show as a positive £10, thereby bringing the basket total to zero).
  - 38.7 The postmaster completes the transaction on Horizon, which closes that basket and updates the branch's cash and stock records on Horizon (e.g. in the scenario above involving a stamp purchase and cash withdrawal, the branch's cash will have decreased by £90 and stamps by £10). The basket is also simultaneously recorded to the central data centre.
39. For many transactions carried out in a branch, the accounting process via Horizon of recording the transaction and delivering the sale or service to a customer is completed at the point of sale or service, with the customer present. For example, a banking cash withdrawal or a barcoded utility bill payment are completed wholly on Horizon with no related paperwork to process and no use of other terminals not connected to Horizon.
40. There are exceptions to the above, due to the specific accounting requirements of certain products (e.g. lottery game sales and scratchcard packs must be transacted on the separate lottery terminal). Horizon is then updated the next day by transaction acknowledgement (see **Transaction acknowledgements** below).

41. There may also be various other steps that the postmaster needs to take to complete the transaction that are specific to the product in question (e.g. completing and sending off various receipts and paperwork).

### ***Stock units***

42. Horizon has the capability to create 'stock units'. These in effect are separate ring-fenced sets of sub-accounts within the branch's general accounts on Horizon.
43. The creation of a stock unit by a postmaster causes Horizon to create a separate subset of accounts connected to that stock unit. Stock units are typically designated AA, BB etc.
44. If cash and stock are transferred from the main branch stock to a stock unit, this cash and stock is recorded in the separate set of accounts for that stock unit (and correspondingly removed from the general branch accounts).
45. When a member of staff is serving a customer, they can log on to Horizon with their own user ID and password, then tag themselves to a stock unit. Any transactions conducted will then be recorded against that stock unit, with the corresponding changes to cash and stock levels being recorded against that stock unit's accounts.
46. One of the reasons for using stock units is so that the branch can operate on 'individual' stock units. Each member of staff is allocated their own dedicated stock unit. The person allocated a stock unit normally has a separate drawer in which to store cash and stock associated with that stock unit, so that it is physically separated from the cash and stock in other stock units or the general branch holdings. When branches have balancing problems, it is normally recommended to adopt this approach so that miss-balances can be identified to specific individuals.
47. Some branches operate 'shared' stock units. In effect, this means that all the branch staff serve from one pool of cash and stock and transactions are recorded against one set of accounts.
48. Stock units can also be set up for individual product categories (e.g. lottery and ATMs). This can help the postmaster record all transactions for a particular product within a separate set of accounts, so that any discrepancies can be more easily identified.
49. There are no mandatory business requirements for how many stock units a branch has to have. However there are some requirements for separate stock units e.g. ATM for branches with ATMs on site.

### ***Reconciliation with clients***

50. A number of the products and services available at Post Office branches are provided by third parties – see the product list at Schedule 1. These third parties are commonly referred to as 'clients'.

51. When a client product is transacted, details of this transaction are communicated to the client. In most cases, there is then reconciliation between the client's records and Horizon's records. Sometimes, this reconciliation is conducted in real time, and sometimes it is conducted at a later point. Significant volumes of data are therefore scrutinised in great detail by third party clients – as yet none of those clients have raised a complaint about that data that could not be resolved through standard reconciliation processes. Following the reconciliation, the Post Office is liable to account to the client for the transaction value (or vice versa).
52. The interconnectivity with, and the transfer of information and records to and from, clients, is part of the overall Post Office IT infrastructure. Some client links are direct from Horizon and others are supported by daily or weekly batch files delivered from central finance systems in the Post Office.
53. An example of online connectivity from Horizon to a client would be as follows:

*At Post Office branches, a customer can deposit cash in or withdraw cash from his or her bank account with a number a major banks, such as Lloyds or Santander.*

*If a customer wishes to withdraw £100 of cash from an account, the Horizon system connects to the client's computer banking system to confirm that the cash is available for withdrawal. Once authorised, Horizon will tell the postmaster to proceed with the transaction and give £100 in cash to the customer (assuming that there are no other transactions in the basket). The amount of cash recorded in the branch's accounts on Horizon will be automatically reduced by £100 to reflect the withdrawal. This way, the branch's accounts are kept in balance with the amount of cash actually on hand.*

*Likewise, the customer's account at the client bank will be reduced by £100 to reflect the cash withdrawal undertaken in the Post Office branch.*

*The branch books balance as above. The Post Office obtains its money back from the relevant partner bank by way of client settlement activities administered by the Finance Service Centre (FSC).*

*This process would happen in reverse for a £100 deposit into a bank account, with the result that the cash position on Horizon at the transacting branch is increased by £100, the branch holding £100 more cash on hand and the Post Office later making a payment to the client bank of £100.*

### **Transaction acknowledgments**

54. Some Post Office transactions (e.g. lottery, Paystation and Post & Go) are not transacted through a Horizon terminal, but instead via separate machine. However, the cash taken and stock vended for these transactions needs to be accounted for on Horizon as part of the overall branch cash and stock holdings. To ensure Horizon is kept in sync with the records on the third party equipment, a 'transaction acknowledgement' (TA) is often used.
55. Overnight the third party equipment reports the volume and number of transactions to the Post Office. Its data centre then sends an electronic message to each branch's Horizon terminal, containing details of the volume and number of transactions conducted within the branch on the third party equipment. This is the TA.

56. The TA will make an adjustment to the branch's accounts. For example, if the TA is for sales of lottery products, it will increase the amount of cash to be held in the branch to reflect the value of the sales (more detail below at paragraph 165).
57. When the postmaster logs on to Horizon the following morning, he will be presented with the TA and asked to confirm it is correct. Once accepted by the postmaster, the above adjustments to the branch's accounts will take effect.

### ***Associated equipment***

58. Within a Post Office branch there may be various pieces of equipment that are separate from Horizon that are used to conduct specific transactions. The key pieces of associated equipment are set out below.

### ***ATMs***

59. In 2005, the Post Office awarded a contract to Bank of Ireland to provide ATMs in its branch network.
60. Bank of Ireland is a member of LINK (the UK network of ATM providers). It provides and installs the ATMs in branches, delivers training to branches and offers technical and some maintenance support. It also performs the settlement of withdrawals between the Post Office and customers' bank accounts. Finally, it handles customer queries about ATM transactions. Bank of Ireland provides some of these services through its sub-contractor, Wincor.
61. Through its branch network, the Post Office provides space, cash, cash-loading, basic first line maintenance services and support for accounting for ATMs on Horizon (see below).
62. As at the end of Feb 2014 there were 2,470 ATMs in the Post Office network, transacting around 149m withdrawals each year.
63. On installation of an ATM, training on operating the ATM is provided by Wincor with further on-site training provided by Post Office. When a Post Office branch that already has an ATM transfers to a new postmaster, ATM training is provided solely by the Post Office as part of its standard training package.
64. Each branch is also provided with a Bank of Ireland ATM Operator Manual on how to use the ATM which includes descriptions of how to load cash into an ATM, obtain the ATM totals receipts and use the ATM's cash management menu.
65. Also, each branch is provided with 'accounting instructions for Bank of Ireland ATMs', which explains how activity on an ATM should subsequently be recorded by the postmaster on Horizon.
66. The cash in an ATM forms part of a branch's cash holdings, but is set up as an individual line item in the branch's accounts on Horizon.

67. Each day, the postmaster must print from the ATM a 'totals' receipt that shows the number and value of withdrawal transactions and retracted cash transactions (where a customer forgets to take their cash and it is retracted into the ATM). The figures on this receipt must be manually input into Horizon by the postmaster (in the rare circumstance of a retracted transaction, the retracted cash must be physically removed from the ATM, counted, and the amount also recorded on Horizon).
68. Once a week, the postmaster must remove and count all the cash in the ATM and manually record this figure on Horizon (in addition to recording the totals shown on the ATM receipt as per above).

### *Paystation*

69. A Paystation is a standalone payment device located either behind the Post Office counter or at the retail point of a Post Office branch. It allows customers to conduct certain bill payments, e top-ups, electricity key top-ups and Quantum gas card top-ups.
70. Paystation is predominantly used as a cash only payment device, although it does have the facility to accept debit card payments.
71. In 2004, approximately 2,000 Paystation devices were installed in selected Post Office branches, initially as a trial. The trial was extended to a full roll-out across the entire branch network in 2006. This resulted in 12,000 terminals being installed including at least one in each branch, with a few larger branches having more than one device. In 2013, Paystation handled 41 million transactions. Paystation has obtained the Payment Card Industry Data Security Standard accreditations.
72. The Paystation equipment in each branch consists of the main terminal, along with a magnetic card reader and a barcode scanner, which are provided by a separate company, Ignenico.
73. Paystation works as a simple operational interface and is activated by either scanning a barcode (e.g. on a bill) or swiping a card (e.g. on a Quantum gas card). The Paystation machine can also be operated manually using the buttons on the machine (e.g. for electricity key top-up). Once a transaction is complete, receipts are printed for both the customer and branch.
74. Paystation transactions usually require third party authorisation. For example, a mobile telephone top-up will go from the terminal to e-pay, on to the mobile network provider, which will then confirm the mobile telephone network is correct, that the customer's handset is a prepayment telephone, then issue a unique code for the customer to get credit.
75. Each day the postmaster obtains a record from the Paystation terminal showing that day's transaction totals. Overnight, the Paystation terminal reports the day's transactions to the Post Office data centre, which in turn sends a transaction acknowledgement to the branch. When logging on the next day, the postmaster checks the transaction acknowledgement against their receipt. On confirming the transaction acknowledgement, the branch's cash position on Horizon is adjusted accordingly to reflect the value of the previous day's transactions.

## Lottery

76. National Lottery products are provided and serviced by Camelot UK Lotteries UK Ltd. These transactions are processed through a separate on-line terminal in each branch that is not directly connected to Horizon. This is often referred to as the 'lottery terminal' or 'Camelot terminal'. The lottery terminal is either located on the retail counter of a branch or behind the Post Office counter. In most instances it is located on the retail side of the branch.
77. The lottery terminal supports:
- National Lottery draw-based games
  - Lotto, Euromillions, Thunderball and Hotpicks
  - National Lottery scratchcards
  - Prize payment services
78. National Lottery products are (as of Feb 2014) available to sell in around 6,000 Post Office branches. Two-thirds of annual sales come from online games and the remainder from scratchcards.
79. The lottery terminal is used to transact online games (e.g. all lottery products other than scratchcards) and to activate scratchcards before they are sold. The paying out of lottery prizes and the recording of scratchcard sales are conducted on Horizon.
80. Each day, after the last customer has been served, a daily summary of lottery transactions for that day is printed from the lottery terminal by the postmaster and retained in the branch. This is so that it can, if the postmaster wishes, be reconciled later against any transaction acknowledgements or discrepancies – see below. No further transactions should be conducted through the lottery terminal after this time until the following trading day.
81. Overnight, Camelot will send details of all lottery transactions undertaken by the lottery terminal to the Post Office by way of a data file. The data file is used as follows:
- 81.1 **Sales:** The value of all online sales is sent to each branch overnight as a transaction acknowledgement (TA). Horizon assumes that all online lottery sales are conducted for cash (as this is the only method of payment permitted by the Post Office for lottery sales) and the TA therefore increases the amount of cash recorded in the branch accounts on Horizon by the value of the sales conducted the previous day.
- If the lottery terminal is kept on the retail side of the business, and payment for lottery products is processed through the retail till point, the postmaster must physically transfer a corresponding amount of cash from his retail business to the Horizon cash holdings.
- If the Lottery terminal is kept with the Post Office counter, then the payments will already have been taken through Horizon.
- 81.2 **Scratchcard stock:** Packs of scratchcards are sent to branches by Camelot. Before selling the scratchcards, the branch must record the receipt of them, so that they are tracked within the branch's stock holdings. This is done by activating each pack on the lottery terminal. Each scratchcard and pack has a unique identification number.

If a pack is not activated, Camelot may decline to pay out any prize on any winning scratchcard within it.

The overnight data file contains details of the number of scratchcards activated at each branch. A TA is then sent to each branch, which increases the amount of scratchcards recorded on Horizon as being in the branch's stockholdings.

Before February 2012, this process was manual. The postmaster was required to activate scratchcards on the Lottery terminal and then manually record the new scratchcards on Horizon as an increase in branch stock.

- 81.3 **Prizes:** Where a customer claims a prize on a winning lottery product, the ticket or scratchcard must be scanned on the lottery terminal to validate the prize. If the prize is less than £500, the value is paid out in cash by the retail side of the business. If the value is over £500, then the prize must be paid by cheque. These are generated by the Horizon terminal.

Where a postmaster pays out prizes in cash from the retail side, they will be recorded on the daily receipt generated by the lottery terminal. The postmaster then uses this information to manually enter the prize payouts on Horizon each day. By recording prize payouts, the cash position on Horizon is reduced and the surplus cash should be physically removed from the Post Office cash holdings and transferred to the retail cash holdings.

The Post Office reconciles the prize payouts recorded on Horizon (both cash and cheque) against the overnight data file from Camelot. Discrepancies are corrected by way of a transaction correction (see **Transaction corrections** on page 19).

82. The sale of scratchcards is not recorded on the lottery terminal. Scratchcards can be sold directly through the Horizon terminal or are permitted to be sold from the retail side of the business and later recorded on Horizon. Sales conducted directly through Horizon will automatically make the necessary adjustments to the branch's recorded cash and stock holdings to reflect each sale.
83. If a postmaster chooses to sell scratchcards from his retail business, he needs to keep a record of his scratchcard sales so that, at the end of each day, he can manually input into Horizon the volume and value scratchcard sales for that day. Horizon will assume that all the sales have been for cash and so the postmaster must also physically transfer the corresponding amount of cash from his retail business into the Post Office cash holdings.

### **Remittances**

84. Branches send or receive cash and stock (to and from Post Office central processing centres). This movement of cash and stock is called a 'remittance' (and is often referred to as 'remming in' or 'remming out'). Branches may also take cheques as a method of payment from customers. These are treated as a 'stock item' on Horizon and require remming out (sending) to the cheque processing centre.
85. The Post Office monitors the cash levels of each branch. Branches are either classed as 'cash surplus' or 'cash deficit' in terms of cash management. Those branches that are classed as cash surplus receive more customers who make deposits (e.g. by

making cash deposits to bank accounts or by buying products with cash) than customers who require cash withdrawals. For example, cash surplus branches tend to be in areas where there are lots of business customers making large deposits, but not many customers making withdrawals. These branches do not require cash remittances to be sent to the branch from the Post Office, as they will have a net inflow of cash from customers. These branches are, however, required to return cash to their nominated Post Office cash depots via a Cash Vehicle in Transit (a secure means of transporting cash), in order to prevent the branch holding too much cash on site. Post Office cash depots are placed in geographical locations around the UK and each branch will be 'tagged' to a particular depot.

86. Cash deficit branches are those where the money deposited by customers to the branch does not cover the amount the branch has to pay out. These branches rely on Post Office cash depots to send cash to the branch in order to ensure there is sufficient cash in the branch to meet its needs.
87. Post Office's Retail Cash Management team are responsible for monitoring the cash levels within the branch network to ensure that branches have enough cash to serve customers and to support effective working capital management for the network. All this cash is owned by the Post Office.
88. The decision on how much cash a branch needs to rem in or out is determined by the Post Office's Flexible Planning System, which is an IT SAP-based software tool used by the Retail Cash Management team. In essence, it compares the cash declaration figures that are entered into Horizon by postmasters against the sales (receipts and payments) information. It also takes account of the average transactions occurring over the past six weeks' trading history to identify how much cash the branch should return or send back on its next scheduled cash delivery. This information is communicated to postmasters via Horizon, which will show a Flexible Planning Advice Note. The postmaster has the option to amend or cancel the cash that is planned to be returned or sent to the branch by contacting the Retail Cash Management team.
89. Where cash is to be remmed out to Post Office cash depots, the branch is responsible for placing the correct amount of cash into a remittance pouch, entering the amount that is being remmed out on to Horizon, and then either handing the remittance pouch to the Cash in Transit Driver, or sending it back to the Post Office via Royal Mail Special Delivery. This will decrease the amount of cash recorded in the branch accounts on Horizon.
90. Where cash is remmed into a branch, the cash remittance is sent by the Post Office to the branch either via a Cash in Transit Driver or via Royal Mail Special Delivery. The branch is responsible for checking the remittance pouch contains the amount of cash stated on the remittance and then logging the receipt of cash on to Horizon. This will increase the amount of cash recorded in the branch accounts on Horizon.
91. Royal Mail Special Delivery is only used, based on risk assessment, for lower value remittances and, for example, remittances to Scottish Islands where ferries and logistic constraints prohibit the use of large, heavy armoured cash delivery vans.
92. Cheques are required to be remmed out daily by branches. This is to enable overnight processing and next day 'clearing' of the cheque by the relevant bank. Friday and Saturday cheques should be sent together, as Saturday is not a 'banking day'. There are dedicated Horizon processes, batch control vouchers and special envelopes that branches should use as part of standard end-of-day mail collections.

93. The Post Office contracts with a banking industry cheque processing organisation that validates cheques received, highlights any anomalies to the FSC, submits the paper cheques and provides data to the FSC about cheques successfully processed and those that bounced ('unpaid cheques').

## Branch reporting and management

### Reporting

94. Postmasters are required to run and review in-branch reports to ensure that the branch is functioning effectively and to allow Post Office to monitor cash and stock levels against its records. These include:
- 94.1 **Daily cash declaration:** It is a procedural requirement for staff at each branch to count and declare the cash stored in each stock unit at the end of each day (for explanation of stock units, see **Stock units** on page 10). The actual cash on hand is input on to Horizon by the postmaster or his or her assistants. Horizon then shows any 'discrepancy' between the cash on hand and the amount of cash that should be in the branch in order for the branch to balance.

If a discrepancy is identified then the cash should be recounted and the paperwork re-checked. If there has been an error in the counting of the cash, then the cash should be re-declared. It is also best practice to open and check any stock and cash pouches made up ready to return to the Post Office in case there has been any error when filling the pouches.

There are a number of tools on Horizon that can assist postmasters with tracing or identifying discrepancies. For example, transaction logs can be run that show the transactions that have taken place; these logs can be searched using parameters such as product type, user and time of the transaction. Event logs also provide information about user activity and a balance snapshot shows what Horizon believes is the state of the branch accounts at that point in time. Therefore, postmasters can ascertain what transactions have taken place in branch and the amount that has been recorded against that transaction. Pre-Horizon Online (before 2010), Horizon reports were available in branches for 42 days. Now these reports are available in branch for 60 days.

- 94.2 **Weekly balance:** Post Office policy recommends that every week, a branch undertakes a full cash and stock count. The actual amounts on hand of cash and stock can then be compared to the figures recorded in Horizon. This helps the branch to identify and correct any discrepancies.

In the event that a discrepancy is found on a weekly balance, the discrepancy can be declared. If the discrepancy is declared, it will be transferred into a 'suspense account' until it is resolved. This is a separate line in the branch accounts which records any losses or surpluses, so that the daily trading accounts can be put into balance. Amounts are typically held in suspense for a period of time to allow the postmaster time to try to resolve the discrepancy. On weekly (balance period) rollovers individual stock units (SU) commit losses or gains that move the cash values into the discrepancy account. This results in a clear balance in the stock as the next (weekly) balance period commences.

The daily cash declaration and the weekly balance are tools for the postmaster to use to manage their branch. Declaring a loss or surplus through either of these reports does not trigger any action by the Post Office.

- 94.3 **Monthly trading period rollover:** This is similar to the weekly balance, but is mandatory every month. It requires any discrepancies (including those put into suspense during the month) to be resolved. This process is also called 'rolling over,' or the 'end of trading period' process. At the end of the process, the postmaster is required to print off and sign a 'Branch Trading Statement'. This statement confirms the cash and stock shown in the accounts reflect the cash and stock held in the branch (with any discrepancy having been declared – see below).

Contractually postmasters are required to complete a monthly balance. If a branch does not roll over into the next trading period when scheduled to do so, the Post Office will contact the branch to rectify the situation.

In order to address discrepancies or transaction corrections, the postmaster will follow the processes set out in **Resolving surpluses or losses of cash or stock** or **Transaction corrections** below. This allows an issue to be immediately resolved or to be further investigated by contacting the Post Office's Finance Service Centre ('FSC'). In the latter, a disputed item remains suspended until the Post Office has investigated the matter.

- 94.4 **Cut-off routines:** Mandatory daily and weekly 'cut-off routines' are in place in to enable branches to validate transactions and ensure that paper records match Horizon. This also assists in identifying errors. For example, validating the physical cheques held in branch (as against Horizon's records) to send to clearing or banking summaries to send to Santander. Validations of physical paperwork against Horizon records can detect errors or omissions, for example, if a cheque transaction has incorrectly been recorded as a cash transaction on Horizon.

### ***Resolving surpluses or losses of cash or stock***

95. There is no requirement for postmasters to separately calculate losses or gains. Branches are required to accurately report the actual cash and stock holdings on hand and Horizon then calculates any loss or gain when compared to the branch's accounts.
96. If a loss or gain is shown, then a postmaster may take some or all of the following steps to remedy that situation:
97. For stock issues, they should process a sale or sales reversal to correct the volume of stock shown on Horizon, making sure it balances to the volume of stock held in the branch.
98. For a surplus of cash (when the cash on hand in branch is more than the amount of cash recorded in Horizon), the postmaster removes sufficient cash to bring the branch back into balance. It is common practice for postmasters to keep surplus cash in a separate location (like the retail business safe), until their investigation into the gain is completed and /or a transaction correction is received.

99. Following the monthly rollover, if there is a shortage of cash (when the cash on hand is less than the amount of cash recorded in Horizon), Horizon presents the postmaster with three options:
- 99.1 **Make good:** The postmaster can elect to put cash or a cheque into the branch from their personal funds to make up the shortage.
- 99.2 **Settle centrally and pay:** The shortage is transferred to the postmaster's personal account with the Post Office. The cash figure on Horizon is reduced to bring it in line with the actual cash on hand at the branch. At this point the postmaster owes the cash loss to the Post Office as a debt. This debt can be repaid by either a direct payment from the postmaster to the Post Office, or by deductions from the postmaster's remuneration.
- 99.3 **Settle centrally and dispute the shortage:** If the postmaster believes that the shortage was not his or her fault, or could be resolved through other means (see below), then the debt will be suspended to allow time for the shortage to be investigated and remedied. The postmaster disputes a shortage by contacting the Network Business Service Centre, Cash Centre (for remittance disputes) or the FSC at the Post Office to have the debt suspended, pending an investigation. This option has been available to postmasters since August 2005.
100. Prior to 2005, branches were required to balance weekly and produced a Horizon generated 'Cash Account'. Discrepancies (shortages and surpluses) were, with authorisation from Post Office, placed in the branch 'suspense section' of their cash account. This discrepancy was held until enquiries into the discrepancy were concluded and then removed by the issuing of an error notice (now known as transaction corrections) by the Post Office, or by the postmaster putting the money into the branch to cover the loss, or removing the value of the gain from the branch to balance the account. In effect, the process both pre and post-2005 was similar, in that postmasters could dispute losses and surpluses at the end of trading periods, albeit that the process for doing so was slightly different.

### ***Transaction corrections (TC)***

101. The FSC (often referred to as 'Chesterfield' by postmasters because of its geographical location) is the Post Office's behind the scenes account processing centre. It provides daily services to clients, branches, multiple partners and customers.
102. The FSC is the originator of TCs. These are sent by the FSC to branches when errors are found that have not been resolvable by the branch itself. Even if the branch's accounts are balancing (e.g. there is no discrepancy between cash and stock on hand and the cash and stock levels on Horizon), it may be that the branch has processed transactions erroneously, or in a way that causes a Post Office client to refuse to reconcile the transaction with the Post Office, thereby causing a discrepancy.
103. TCs can be issued for a wide range of issues resulting from matters, such as errors or omissions in data entry like mis-keying or forgetting to enter the date. In 2012/13, the most common reason for TCs being issued to branches was due to errors in 'cash remittances from branch'.

*Example:*

*A branch records remitting out £100 in cash and sends the cash pouch to the cash centre. However, upon opening the cash pouch at the cash centre the pouch contains £110. This creates a discrepancy at the cash centre and (assuming the branch is otherwise balancing) the branch will report a £10 shortfall during the next cash declaration. The FSC will then raise a credit TC to the branch. When the branch formally accepts the TC, it will have the effect of reducing the reported Horizon cash balance by £10 in line with the reality of cash on hand. The double entry to this is to increase the values recorded as remitted out. The branch should then balance in respect of this specific incident.*

104. Due to the fact TCs are often generated due to a discrepancy between Horizon and a client's records, there can be a time lag between the error occurring and the TC being issued.

*Example:*

*A customer deposits £100 into their bank account but, through a keying error, the branch only records a deposit of £10 on Horizon.*

*In this scenario, the records on Horizon and at the client bank will reconcile, as both will show a £10 deposit. The branch will have a £90 cash surplus (as the branch will have taken £100 from the customer, but only recorded receipt of £10 in Horizon). The customer may raise a complaint with the Post Office directly or could raise the complaint with his/her bank, which will then contact the Post Office.*

105. The time taken to identify the error is therefore sometimes outside of the Post Office's control. When a TC is sent to a branch through Horizon, the branch is provided with hardcopy evidence of how the error has occurred, or contact details for further information to be provided. TCs are often preceded by enquiries to the branch, particularly if a large number of TCs are being sent to that branch. For example, the FSC can make interventions by letter and telephone to obtain further details.
106. Branches are required to accept a TC through Horizon before completing their Branch Trading Statement. The branch does not have to accept the TC on receipt (although it may be prudent to do so) and can instead print the transaction correction narrative off and take the necessary action within the days remaining until that trading period ends.
107. Processing a TC often results in an adjustment to the cash or stock position at the branch within the branch's accounts. TCs can debit or credit the branch's cash figure in Horizon. It is, however, important to note that this often (as the name implies) corrects the recording of the transaction such that the reported balance in Horizon will align with the physical cash handled in the transaction.

*Example one:*

*If a branch processes a bill payment of £100 as £10 on Horizon, the branch would see a cash gain of £90. The customer receives a bill reminder that full payment has not been received and contacts the Post Office to resolve the issue. The error is identified and a debit TC is issued to the branch in the next trading period, because the Post Office will need to pay an additional £90 to the customer's service provider. The branch processes the debit TC, which increases the cash position on Horizon, thereby creating a £90*

*shortfall against the cash on hand. This shortfall offsets against the corresponding gain in the previous trading period.*

*Example two:*

*A customer presents a Transcash deposit slip to make a bill payment, but it is then established that an appropriate method of payment is not possible (e.g. debit card is declined), so the transaction is not recorded on Horizon and no cash changes hands. However, the branch incorrectly retains the deposit slip and does not follow the end of day procedure to compare the slips on hand with the Horizon record of slips received that day. The failure to conduct this check causes the postmaster to send the slip to Santander, which administers Transcash bill payments taken through Post Office branches, leading to the bill payment being processed (e.g. money is paid from the Post Office's account to the customer's service provider's account).*

*When the Post Office later reconciles the bill payment against the Horizon records, there will be no matching payment record in Horizon and a TC will be sent to the branch. If the branch accepts the TC, this will alter the branch's cash position (to reflect the postmaster's error) and the relevant cash should be put in the till at that point. If the money is not put in the till, then there will be an equivalent shortage at the end of the trading period.*

108. TCs can be disputed with the FSC. If the TC dispute is upheld, a compensating TC will be issued to the branch. If it is not upheld, a written appeal can be made to the relationship manager in FSC who will review the case and make a final decision. Any payment required from the postmaster will be suspended until the review is completed.
109. In the financial year 2012/13, 84,217 transaction corrections were issued for errors caused by branches, with an average value of around £100 credit each. This is against a backdrop of an average 2.5 billion transactions being completed on Horizon each year.

## Training

### *Standard training*

110. New postmasters receive training prior to and after taking up their position in branch. Training covers matters such as how to transact products and services, reconcile the day's transactions, remming in and out cash and stock and despatching cheques to processing centres. Postmasters are also trained on how to balance the branch on a weekly basis and roll over in to the next balancing period. As part of this training, postmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise, as well as how to accept discrepancies, make good any losses and gains, and how to raise issues about errors/discrepancies.
111. Examples of the types of training Post Office has offered in the past are as follows:
- 111.1 **2001-2002:** Classroom training was offered to new postmasters followed by 10-to-11 days of on-site training and support. This would be followed with one day of 'follow up balance' support, which would include supporting them in the completion of their office balance.
- 111.2 **2003:** Between five and 10 days of classroom training was offered to new postmasters (the training being optional) and six-to-10 days of on-site training and support was given, depending on whether the classroom training was attended. This would be followed with one day of follow-up balance support.
- 111.3 **2004-2005:** Between five and 10 days of classroom training was offered to new postmasters (the training being optional) and five-to-10 days of on-site training and support was given, depending on whether the classroom training was attended. This would be followed with one day of follow-up balance support.
- 111.4 **2006:** Between five and 10 days of classroom training was offered to new Postmasters (the training being optional) and six days of on-site training and support was given, depending on whether the classroom training was attended. This would be followed with one day of follow-up balance support.
- 111.5 **2007-2011:** New postmasters received five, eight or 10 days of training on foundation, sales and other specialised modules. Six days of on-site training and support was provided, followed with one day of follow-up balance support. In 2007 following a pilot scheme follow-up telephone calls were introduced at intervals of one and six months after the branch was taken over by the postmaster, with a one-day site visit taking place three months after the branch was taken over.
112. A postmaster may choose not to attend training or only parts of a training session if, for example, he or she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. This would need to be agreed with the Post Office Contract Advisor. Once initial training is provided, it is up to the postmaster to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is up to the postmaster to ask for further training and/or assistance if it is required (please see **Support for subpostmasters** below for details of the support available to postmasters).

113. In 2012, as part of the wider steps being taken to 'transform' the network, the Post Office tailored its training depending on the specific role being undertaken and rolled out further training depending on, for example, the experience of those specific postmasters, the type of contract they would be operating and the number of employees they may have. The precise training given to postmasters would therefore depend on a number of factors such as whether the postmaster is completely new to the role, whether he or she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (e.g. main or local) and the types of products and services transacted.

## Support for postmasters

### *Network Business Support Centre (NBSC)*

114. The NBSC was established on 15 December 1999 to help and support postmasters and their staff with customer transactions and navigation of Horizon. NSBC can support postmasters with a wide range of issues such as providing assistance with transactions carried out through Horizon, navigation, how to address and deal with mistakes, and any issues arising out of the weekly branch trading statement.
115. When NBSC came into being, it was open 8am-6pm Monday to Friday (except for Wednesday, when it was open until 10pm) and on Saturdays it was open 8am-5:30pm. Due a decreasing number of calls, caused mainly by the introduction of branch trading on a monthly basis and balancing typically taking less time on Horizon than it had previously, Wednesday's opening hours were reduced to 8pm in 2006. Saturday opening hours were also amended in 2008 to 8am-2pm (again, due to low volume calls).
116. NBSC is now open 6am-11pm Monday to Saturday and 7am-5pm on Sundays and Bank Holidays. Post Office branch opening hours are extending as part of Network Transformation and as such the NBSC has extended its opening hours to support the branch network.
117. New NBSC staff receive a four-week training course and two-week floor support. Ongoing training is provided to NBSC staff on new products and services as they are introduced. Through quality monitoring and coaching, the Post Office identifies any gaps in training and provide further support to advisors.
118. The Post Office currently employs 70 people to sit within the NBSC and receive calls, undertake second line support (where a query cannot be addressed during the telephone call, second line support will liaise with Post Office product teams to source the answer) and carry out administration roles. NBSC staff are experienced in Horizon and how branches operate. The NBSC receives around 1,700 calls a day (based on data obtained for 2012/13).
119. The NBSC has always operated a two-tier escalation process. If the NBSC advisor is unable to resolve the query or issue with the caller, the call is escalated to tier two, where more expert advice will be provided. If this still does not resolve the issue the Branch Support Team will decide if further training or face-to-face branch support is required. The Branch Support Team provide a further tier of support to arrange training or intervention to assist branches outside of the NSBC's remit.
120. The NBSC performance is measured on the time advisors take to answer the phone, referred to as a 'Grade of Service'. The target is to answer 70% of calls within 30 seconds and to have no more than 5% of abandoned calls (e.g. where the caller hangs up before reaching an advisor). For complaints, the NBSC's target is to resolve 95% within 10 working days.

### *Horizon Service Desk (HSD)*

121. In addition to the NBSC, postmasters can access Horizon On Line Help and call the HSD.
122. The HSD deals with technical issues concerning Horizon, for example, if Horizon appears to be 'offline' or there are log-in issues. In the event that a technical issue cannot be resolved over the telephone, the HSD can request an engineer to attend the branch to investigate the issue further.
123. Postmasters can directly contact the HSD. A small number of calls by postmasters are made to the wrong helpline, for example, if a postmaster contacts the HSD about navigation issues, it will transfer the call to the NBSC. Approximately 5-6% of calls received by the HSD are misdirected calls (e.g. do not relate to a technical issue) and are transferred to NBSC. Approximately 2% of calls received by the NBSC require transferring to the HSD because they relate to a technical query. The percentage of misdirected calls is higher to the HSD because often postmasters believe their query is technical, without realising it is human action causing the issue.

### **Field Support**

124. The Post Office has a large network of branches and postmasters, which is currently managed in the following way:
  - 124.1 **The top 2000 branches:** These are usually the largest branches with the highest sales potential, are managed by an Area Sales Manager ('ASM'). These branches receive face-to-face visits from the ASM on a regular basis (at least monthly), primarily to assist with improving business and sales performance, but other non-sales issues are also addressed if required. Whilst the ASM is trained to be a sales coach, they are not considered by the Post Office as 'trainers' and would go to other 'expert domains' such as the Field Support Team to obtain assistance for postmasters with, for example, balancing issues and using Horizon (see paragraphs 124.2 and 125 below). The postmasters of these branches are also invited to attend quarterly business updates, where a range of topics are discussed.
  - 124.2 **The next 2000 branches:** These are selected either because they have the sales potential or because the geographical location is such that it is not cost effective to be managed by an ASM as part of the top 2000 branches (e.g. branches located in remote parts of Scotland, Devon and Cornwall), are actively account managed from a sales perspective by the Telephone Account Management Team. Face to face visits do not routinely occur (unless there are, for example, specific issues to address), but the Telephone Account Management Team make regular calls (usually every two weeks) to the branch to monitor sales progress. The team can also refer branches to be visited by a Regional Sales Trainer, who can visit to coach the postmaster and their staff on sales.
  - 124.3 **Remaining branches:** These are classed as 'Branch Support' branches. They are not visited pro-actively and do not have a manager assigned to them. Their first point of contact is NBSC, where they can seek assistance with issues such as balancing queries and resolving mistakes. If NBSC cannot resolve the query, there are a number of escalation points depending on the nature of the issue and, ultimately, if it cannot be resolved over the telephone a visit by a Field Support Advisor can be arranged.

The Post Office has a dedicated Field Support Team, which is responsible for induction and ongoing transactional training for all postmasters. The team currently consists of 154 Field Support Advisors ('FSA') and 18 Field Team Leaders ('FTLs'). FSAs are multi-skilled advisors who provide support to the network of branches. This includes delivering training, dealing with postmaster queries and auditing.

125. The team is responsible for matters such as:

125.1 Delivering classroom training to all new postmasters, who are going through the NT Programme. This training takes place before a new postmaster starts work in the branch and further detail is set out at paragraph 112 above.

125.2 Training on-site following a branch transfer. FSAs will attend the branch for a number of days after the transfer and cover a range of topics so that the branch can operate effectively. This will be followed up with site visits, telephone calls and an audit.

125.3 Requests from branches for remedial training from FSAs throughout the year. This training is delivered as and when requested on a wide range of topics such as ATM accounting, DVLA transactions, balancing issues and unexplained losses. The team received 409 requests for extra support in YTD Period 10 14/15. Generally, the postmaster will receive the training and is then responsible for training their own staff. However, each request for training is considered on a case-by-case basis and the Post Office endeavours to provide the best support necessary to address the issues raised by the postmaster.

125.4 Undertaking compliance and financial audits, which also includes providing further training to postmasters on matters that arise out of any issues identified by the audit. In 2014/15 YTD Period 10 there were over 12,100 compliance audits undertaken and cash and stock checks were completed in 1,041 Post Office branches.

126. The Field Support Team is not the only team within the Post Office that provides training and support, either on a face to face basis or remotely via the telephone, for example:

126.1 **Mails Development Managers** were established in 2010 to visit branches that receive high volumes of mail. They train these branches on products and sales to increase business growth in this area.

126.2 **The Branch Standards Team** was established in 2009 and is a telephone-based intervention team. The team contacts branches regarding a wide range of performance issues. Whilst the purpose of the call is to notify the branch of any errors, they also ensure that the branch knows the correct procedures to follow. If the branch requires further support at any time, the team request a visit by an FSA.

127. There are also a number of teams across the Post Office who come into contact with postmasters (such as product-specific teams like the National Lottery team) and may feel that a visit or further training would be beneficial for support. These teams can request further visits and training for postmasters through the Branch Support Team, which will decide the most appropriate resource to resolve the issue.

128. Post Office has gone through a number of structure reviews which have influenced the support Post Office provides to postmasters and their branches. As a result, Post

Office's approach to structuring its agency relationships with postmasters has changed over the years. For example:

- 128.1 **Up to 2005:** Branches were either designated Urban or Rural. Each Urban branch and the largest of the Rural branches was assigned a Retail Line Manager (each Retail Line Manager would manage around 40-60 branches). The smallest of the Rural branches would be managed by a Performance Advisor (each Performance Advisor managed approximately 100 branches). Both Retail Line Managers and Performance Advisors were responsible for performance. The Post Office training team that sat within the Post Office's HR department was responsible for matters such as transactional training.
- 128.2 **2005-2006:** The network of postmasters was operated under a structure of Diamond, Platinum and Gold. This structure was known as a Sales and Service structure. Most branches operated under the Diamond or Gold network. The structure had a series of Sales Managers and also had Area Performance Managers. Again, most branches had an allocated manager who would visit and the training team were an extra resource to use for matters such as transactional training.
- 128.3 **2006-2008:** In 2006 there was a full review of the Post Office's structure. Sales Managers were replaced by either Commercial or Community Business Development Managers ('**BDM**'). Each branch had a BDM assigned to it. In the Commercial network, the BDM would manage about 40 branches and in the Community network about 100 branches. The Commercial network concentrated largely on sales and the Community network was responsible for picking up non-sales issues. The Branch Support Team was also established to assist with sales issues. It was also at this point that the Training Team were renamed Network Field Support Advisors.
- 128.4 **2008:** The Financial Audit Team merged with the Network Field Support Advisor Team, so Support Advisors would conduct both training and audits in branches.
- 128.5 **2009:** The Post Office took the decision to remove the BDM role and the Area Sales Manager structure was created. As a result, if a smaller branch required a site visit, it would need to be requested from the NBSC.

### **Auditing**

- 129. In order to monitor and validate performance, the Post Office will often conduct audits of branches. This allows it to assure and verify its assets which are held in branches and ensure compliance with regulatory and business requirements.
- 130. Audits can take place:
  - 130.1 when a risk at a branch has been identified (e.g. the branch is continually suffering shortfalls)
  - 130.2 on the transfer of the branch to a new postmaster (a further audit will often take place six-to-nine months after the date of transfer)
  - 130.3 following a robbery or burglary.

131. Audits also take place when a handover of the branch takes place or a new postmaster is appointed. For example, on the day of transfer to the new postmaster an audit is arranged. The outgoing postmaster completes a final balance; the auditors check that the cash and stock on hand is correct as they would in any other audit and the incoming postmaster, who has been present throughout is then asked to check that what they are accepting as their opening balance is correct. This is then transferred to the new postmaster and he signs to confirm receipt.
132. As it is not possible for the Post Office to visit and audit every branch each year, it also undertakes random sampled audits whereby branches are selected at random to be audited. Whilst this has the benefit of validating the stock and cash held within a branch and ensuring the Post Office's systems and practices are being adhered to, it also assists Post Office with risk profiling (e.g. if 5% of randomly selected branches show a particular discrepancy, it could be projected that the Post Office is exposed to that discrepancy across 5% of its branches).
133. Whilst the precise nature of the audit will depend on the reason for the audit, primarily it consists of an inspection of the cash and stock held by the branch. This may be followed by a Compliance Audit to ensure regulatory and business requirements are met. Audits will include checks such as:
- 133.1 for branches with paystations or lottery terminals, ensuring any overnight transaction acknowledgements (an automated way to account for transactions carried out for clients such as Camelot, see **Transaction acknowledgements** above) have been properly accepted
  - 133.2 checking the cash declaration for the previous trading day
  - 133.3 counting and recording the cheques held in the branch against the record maintained on Horizon
  - 133.4 verifying the currency held in branch
  - 133.5 counting and recording the amount of stock held in branch against the record maintained on Horizon.
134. The results of the audit are discussed with the postmaster and, in the event of financial irregularities, may result in the postmaster being suspended or being asked to 'make good' the loss (e.g. to pay the loss to Post Office from the postmaster's own funds). Alternatively, transaction corrections may be required (see **Transaction corrections** above) and if compliance issues are identified this may be followed up by the Branch Standards Team, which will identify and assist the postmaster in rectifying the compliance issues. If the Branch Standards Team cannot rectify an issue, it can arrange for a Field Advisor to visit the branch for further training.

## Branch errors

135. There are a variety of reasons why a branch may encounter a discrepancy between the amount of cash and stock on hand and the amount of cash and stock recorded on Horizon – this situation is commonly referred to as a 'balancing discrepancy'.
136. Below are a number of situations in which a balancing discrepancy can occur due to simple errors in the operation of a branch. It should be noted that some of the situations below may cause a gain for a postmaster or only cause a temporary loss. However, this can cause real losses to be hidden:
- 136.1 if an error causes a surplus of cash in the branch, this may off-set a smaller loss caused by another error. In that scenario, the loss error may not be revealed, as the overall branch accounts will balance or show a surplus.
- 136.2 if a surplus error occurs in one month but is later discovered and corrected via a TC in a subsequent month, then the TC will have an affect against that later month's account and the accounts for the later month may show a loss, even though all transactions in that later period have been conducted correctly.

### *Example:*

*A branch suffers two errors: one creating a £100 gain and another causing a £100 loss. At the end of the trading period, the branch's accounts will balance as the two errors effectively cancel each other out for balancing purposes.*

*If in the next trading period the surplus error (e.g. the gain of £100) is discovered, a TC will be sent to the branch which increases the amount of cash recorded in the branch accounts. If all the remaining transactions throughout the rest of that trading are conducted correctly, the branch will still show a loss at the end of the later trading period due to the TC. Therefore, whilst the loss of the branch shows in the current trading period, the error that caused the loss occurred in the previous trading period.*

137. A number of the errors below will only be visible to those working in the branch. It is often not possible for the Post Office to identify these errors remotely, as it only has access to the transaction information recorded in Horizon by the branch staff (as described below, this may not accurately record the actual cash and stock movements in the branch). When discrepancies occur, the Post Office looks to find possible explanations other than those below. If no other source of the discrepancy can be found then, by a process of elimination, the discrepancy will have most likely occurred through an error in the branch.

## **Miss-key**

138. A miss-key is the term used when staff enter the wrong value of a transaction into Horizon compared to the actual amount of the transaction. The difficulty with a mis-key error is that only the employee who conducted the transaction will be able to prevent or retrospectively identify this error.

*Example:*

*A personal banking customer may wish to deposit £1,000 into their account. The person serving the customer mistakenly enters £10,000 but only £1,000 cash is taken from the customer. This would create a shortage of £9,000 for the branch.*

*In order to rectify this mistake, the Banking Team within the FSC has to contact the associated client bank, which in turn contacts its customer. The customer will be asked to confirm the amount deposited at the branch. However, the receipt printed from Horizon and provided to the customer will show a deposit of £10,000 and, therefore, the rectification process relies largely on the actions of the customer and their bank.*

**Mixing retail and Post Office business**

139. Generally, a branch must keep physical separation between retail and Post Office cash. Mixing these two sets of cash can lead to Post Office cash being lost to the retail business, as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.

**Errors in cash handling**

140. At the end of a customer transaction, payment needs to be made to or received from the customer. Even if the transaction is correctly recorded on Horizon, branch staff may take or hand out the wrong amount of cash. This error could be as simple as miscounting cash before handing it to the customer.

*Example:*

*A business banking customer may present documentation to deposit £1,000 into their business banking account. If, at the end of the transaction £1,000 in cash is given to the customer instead of taking £1,000 in cash from the customer there will be a shortage to the branch of £2,000, made up of the deposit entry £1,000 being correctly input on to Horizon (Horizon then expects to receive £1,000) and the settlement out to cash of a further £1,000 which will reduce the cash in branch.*

**Accidental loss**

141. Losses may occur accidentally in branches. For example, money dropped in bins with rubbish, money dropped or knocked into mail bags, and money left on counter tops that is snatched by a customer without branch knowledge.

142. In the first two of these examples, the honesty of the finder and the ability to identify the money as coming from the branch is required to return the money to the branch.

143. In the third example, unless the person is caught in the act of snatching the cash, it is probable that the loss would only be discovered at the end-of-day cash declaration or at the time of completing the Branch Trading Statement. The branch staff may be unaware of how the loss had occurred.

144. If cash is temporarily mislaid one day and found the next, it can lead to related shortages and surpluses on different days or in different trading periods. In the midst of many other activities, branches may not associate the two and may dispute part or all of the outcomes.

### **Miscounting cash on hand**

145. Cash must be physically counted at the end of each day and when rolling over at the end of a trading period. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether.
146. Another instance of where this can happen is where a Post Office product is sold on the retail side of the business. Most Post Office products must be sold from the Post Office counter in the branch premises. A few Post Office products, such as lottery scratchcards, are permitted to be sold from the retail business. However, it is the postmaster's responsibility to make sure that any cash taken from the sale of such products is transferred from the retail business to the Post Office side, and properly counted in any cash declaration.
147. Cash remittance pouches that have also been made up in preparation for the Cash in Transit collection drivers may be erroneously counted as part of the cash declaration. Horizon does not include this amount within the cash holding figure (as it is deemed to have been remitted out of the branch, even if the pouch has not yet been physically collected) and, therefore, the branch could be declaring a gain or inadvertently hiding a loss.

### **Cash remittance errors**

148. If there is a mistake made between the amount that is remmed in or out and what is received by, or sent to, the Post Office cash centre, this will lead to a branch discrepancy. However, cash received into and out of the cash centres is recorded and monitored on CCTV. When a pouch is received from a branch, the handling clerk at the cash centre opens the seal and empties the contents their workstation, which is monitored by CCTV. This is the same for pouches that are made up in the cash centres and sent to branches.

#### *Example:*

*If a branch has bagged up £25,000 to send to the cash centre, but enters £20,000 into the system then there will, in the short term, be a shortage of £5,000. If the cash has left the branch, then the branch cannot rectify the mistake. The cash will be counted at the cash centre and a TC will be sent to the branch to rectify the branch account.*

### **Stock remittances**

149. Branches receive their stock (e.g. postage and MVLs) from the Post Office either via Cash in Transit or Royal Mail Special Delivery. The branch is responsible for checking

that the amount of stock received matches the advice note delivered with the order and remitting the stock on to the correct lines in Horizon.

150. Branches are required to return some value stock items to Swindon. This is usually connected to Special Stamps, which should be withdrawn from sale. The branch has to remove the stamps on Horizon and return the amount via the same method as receipt.

### **Cheque handling**

151. Branches can accept cheques as payment for certain products and services. Customers can cash personal cheques up to a certain amount or accept deposits for certain partner banks. There are set procedures that must be followed in branch at the end of each day to ensure that the cheques are handled correctly, the customer's bank account is debited accordingly and the Post Office can settle the client accounts. Typically, there are two scenarios where postmasters do not follow the operational process that can cause a loss:
  - 151.1 A cheque has been accepted for a non-cheque acceptable product (e.g. foreign exchange sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. This is because the postmaster may have taken the cheque for payment from the customer, but because the product did not permit cheque payment, Horizon would not present this option on the counter terminal. The postmaster would therefore have to erroneously select another payment option.
  - 151.2 The method of payment has not been correctly recorded on Horizon.

#### *Example:*

*If a cheque is presented by a customer to pay for a transaction, but the transaction is accidentally settled as a cash transaction, the value of cheques held in the branch recorded by Horizon will not match the value of the actual cheques held in the branch. At the end of each day, a cheque listing is printed from Horizon. This printout should be checked against the cheques held in branch and, if it does not match, Horizon should be corrected before remitting out the cheques to the Post Office. After remitting out the cheques, a further cheque listing should then be printed to confirm that no cheques are held in branch. If a branch has not ensured that cheques in branch match Horizon's record before remitting out, then the cash in the branch will show a shortfall and the amount that is received at the cheque processing centre will not match the amount entered on to Horizon. This is because Horizon calculates how much cash should be in a branch based on the 'cash' settlement option that is pressed at the end of each transaction. Therefore, if the 'cash' option has been pressed instead of the 'cheque' option, Horizon will expect there to be more cash in the branch than is actually held. This may generate a TC to correct the account unless the branch reverses the transaction and records it accurately as a cheque transaction.*

152. Branches must follow a process to ensure the amount of cheques recorded as held in branch balances to zero. This process is called 'cutting off'. If the cheques are not 'cut off' at the end of the day, the cheque listing on the following end-of-day procedure will not agree with the actual value of cheques held in branch. This is corrected in exactly the same way by amending the 'cheque on hand' figure to show the correct value of

the actual cheques held in branch. The value of the cheques in branch is then sent out, before a further cheque listing to confirm a zero entry is printed.

153. It is Post Office policy that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside of the branch, the Post Office will absorb this loss and not pass it on to the postmaster. In the vast majority of cases, the Post Office either mitigates the loss caused by a lost cheque by obtaining a replacement cheque from the customer, or absorbs the loss itself. Only a small number of missing cheque cases result in TCs being issued.

### **Connectivity**

154. Each Horizon terminal requires a telecommunications signal in order to record transactions to the central Post Office data centres. Each branch uses the signal to communicate with a data centre where all transaction data is sent, and this in turn communicates with the Post Office's clients (e.g. banks, DVLA and local authorities) to complete transactions. The router in each branch, which communicates with data centres, needs to be connected to both a power supply and a communication channel to complete customer transactions. Connectivity issues can arise when there is an interruption in power supply or a breakdown in the communications line provided by the postmaster.
155. When serving a customer, transactions for certain products send information directly to data centres during the transaction (e.g. MoneyGram, online banking, postal orders, all known as recoverable transactions), and there are some where no interaction with the data centres happens until the customer transaction is completed on Horizon (e.g. mail transaction and automated bill payments, both known as non-recoverable transactions).
156. If there is an interruption to the power supply during a customer transaction, such as a power cut due to severe weather, the Horizon user will be prompted, once the system is reconnected and the user is logged back on, with a message containing instructions on how to recover the interrupted transaction. The message explains whether the customer's transaction was completed and whether any payment needs to be received or made. The steps which need to be taken (as directed by Horizon) will depend on whether the transaction is recoverable or non-recoverable.
157. Similarly, if there is an interruption to the communication channel, for example, a telephone line cut or a failure to connect to the mobile backup device during a customer transaction, Horizon will prompt the user with an on-screen message explaining what to do to and whether to cancel or retry the transaction.
158. If the Horizon user does not follow the recovery instructions correctly, this could result in a balancing error, as well as having a negative impact on the completion of the customer's transaction.
159. Fujitsu proactively monitors the primary and back-up connectivity between branches and data centres. If Fujitsu is alerted to a connectivity issue, it will investigate and resolve the issue. As a result, Fujitsu will not wait for the branch to contact the Post Office to raise an issue about connectivity – as soon as an issue is detected, it will seek to resolve it.

***Transacting from the wrong stock unit***

160. If a user accidentally tags themselves to the wrong stock unit and serves a customer or transfers cash or stock, then the accounts will record the transactions against one stock unit, but the physical cash and stock will move in and out of a drawer allocated to a different stock unit.
161. This can be corrected by either reversing the transactions and putting them through the correct stock unit, or calculating the cash value of the transactions and transferring the money to the correct stock unit.
162. In theory, there should be no net overall discrepancy to the branch, as any losses in one stock unit will be compensated by the gains in the other stock unit. However, taken in isolation this can appear like an error has occurred in one of the stock units and can cause confusion obscuring other errors.

***Outstanding transfers between stock units***

163. Where a branch has more than one stock unit in use (see ***Stock units*** on page 10 for an explanation), there may be times when cash and/or stock are transferred from one stock to another.
164. For example, if stock unit AA is running short of cash, stock unit BB may transfer money to allow customer service to continue smoothly. The user in stock unit BB should choose the transfer out option in Horizon and choose the correct stock unit (in this case stock unit AA) and transfer the cash out. A receipt is printed, which is kept in stock unit BB to confirm this. The user in stock unit AA then needs to accept the cash on Horizon and print their own receipt to confirm this. A report called 'transfer reconciliation' can be printed from Horizon to confirm that there are no outstanding transfers pending and that all totals are equal to zero. Failure to do this can cause cash or stock to be caught in transfer and missed from cash and stock counts.

***Transaction acknowledgement (TA)***

165. Prior to TAs being launched, the postmaster would have to obtain the relevant print outs from each machine (e.g. the lottery terminal) and then input these figures Horizon and reconcile any cash owed. The launch of TAs removed the need for the postmaster to manually input figures on to Horizon. Historically, errors could occur in manually reconciling these transactions.
166. Even with the TA process, errors can occur if the cash from the lottery terminal is not transferred to Post Office. Therefore if the postmaster accepts the TA but does not pay in the relevant cash then there will be a shortage.

***Product-specific errors (e.g. DVLA Motor Vehicle Licences)***

167. Failure to follow the correct process for accounting for certain products can cause errors. A historic example is the accounting process for MVL discs (commonly referred to as tax discs).
168. Branches will receive MVL discs from the Post Office, which they have to rem into their stock using Horizon. When the discs have passed their expiry date, the branch is responsible for destroying the discs and following a process to inform the Post Office they have been destroyed.
169. When destroying the discs, if the branch does not follow all of the steps of 'spoiling the disc' and remitting it out to the Post Office, Horizon will still record the disc as being in the branch, even though it has been destroyed.
170. When the branch comes to rollover at the end of the trading period and a full count of the discs is undertaken as part of the stock balance, the number of discs in branch will not match the amount recorded by Horizon. Whilst this does not create a cash shortage, branches are held liable for 'missing' discs at a charge of £41.50 per disc, because the Post Office is liable to the DVLA for the 'lost' disc.
171. Failure to follow the reversal procedure for a MVL disc may also lead to a branch discrepancy. For example, a customer asks to buy a car tax disc and the transaction is completed on Horizon, but no payment is actually taken, then the branch has to reverse the transaction and the disc. There are a number of steps to follow. The branch has to reverse both the disc and the payment. If it only reverses the disc out of the system, then the stock of discs will balance, but the branch will miss-balance in terms of the cash.

***Theft from the Post Office***

172. Theft by branch staff can and has occurred. It may involve staff taking cash or stock directly from safes or drawers where the branch has not put sufficient controls in place. These shortages would be identified when a physical cash count and declaration is made, but it is not possible for the Post Office to remotely identify when the theft occurred. Some thefts may also be accompanied by an effort to disguise the theft (e.g. creating false transactions or gains).
173. It may be possible to identify the user ID that was used to undertake these transactions, but it is difficult to prove exactly when the actual theft occurred.

## Schedule 1: List of Products

Service	Availability	Description of service
<b>Government Services</b>		
Post Office Card Account	All branches	A basic account for customers who are in receipt of state pensions, benefits & tax credits and who do not have a UK bank or building society account. Payments are made into the account by the paying department and customers can withdraw cash at all Post Office branches or the Post Office cash machine network.
Local council services	Local Area based	Services on behalf of over 300 local councils covering a wide range of applications and payment services both from and to residents and customers. Services include cash collection from residents for rents, rates, council tax, parking fines and licence fees, payment services including asylum seekers allowances, and rebates, form checking including benefits, planning and concessionary travel applications and identity checking and verification services.
Car Tax – Motor Vehicle Licence Issue	4,600 branches	Car Tax - Motor Vehicle Licence and Statutory Off Road Notification (SORN) services provided. Customers can have their documents checked and get their licence at issuing Post Office branches nationwide.
Driving Licence photocard renewal	750 branches	Allows photocards to be renewed and makes sure the photocard renewal application meets DVLA requirements by taking a photo to the required DVLA standards, ensuring that the application is error free, capturing an electronic signature and sending the application electronically and securely to the DVLA.
International driving permit	Selected branches	Applications can be made in selected branches for an International Driving Permit which is required to drive legally in many places overseas alongside a UK driving licence.
Passport Check & Send	2,500 branches	Customers can take their passport applications to a Post Office where the application form and documentation are checked to ensure that everything is correct. The application is then despatched by Royal Mail Special Delivery priority processing.
Identity checking services	Selected branches	Customers who need to have photocopies of identity documents certified (for example when applying for a mortgage, bank account or new job), can have original documents checked and photocopies certified at the Post Office.
Biometric Residence Permit Application for	Selected branches	Customers who need to apply to stay in the UK who are from outside the European Economic Area (EEA)

the Home Office		may need to apply for a Biometric Residence Permit and can do so at selected Post Office branches if they receive an invitation letter from the Home Office. The Post Office captures the customer's biometric details by taking their photograph, fingerprints and digital signature and sends the information securely to the Home Office.
CQC – CRB registration service	Selected branches	The Care Quality Commission (CQC) is the independent regulator of all health and social care services in England. Customers who need a Criminal Records Bureau (CRB) check from the CQC can get their application checked at the Post Office to verify their identity.
Rod fishing and game licences	All branches based on demand	A range of rod licences available for angling in England and Wales and game licences to hunt game are stocked in branches where there is local demand. Fishing licences are available in England and Wales only. Game licences are available in Scotland and Northern Ireland only.
<b>Financial services</b>		
Personal banking	All branches	Free over-the-counter cash withdrawals, cashing of personal cheques, cash deposits or cheque deposits (the latter in most cases) for partner banks, e.g. Bank of Ireland, Bank of Scotland, Barclays, Cahoot, Clydesdale Bank, First Direct, First Trust, Halifax, HSBC, Lloyds TSB, Nationwide, NatWest, Northern Bank, Santander, Smile, The Co-operative Bank, Royal Bank of Scotland, Ulster & Yorkshire Bank.
Business banking	All branches	Business banking services available in branch on behalf of Santander, Co-operative, Bank of Ireland, Barclays and Clydesdale.
Cash machines	Over 2,000 locations nationwide	Over 2,000 free-to-use cash machines are available at Post Office branches nationwide.
Bureau de Change	All branches	A wide range of commission free currencies and American Express travellers cheques, 1,600 branches offer a range of currencies on demand. An additional 2,500 branches offer Euro and Dollars on demand, a further 3,436 offer Euros on demand as well as Turkish Lira in the Summer. An additional 4,500 branches offer Euros on demand either in branch or online. Currencies can be pre-ordered for collection at any branch.
Travel insurance	All branches	All branches and available on demand in 9,000 branches and via phone.
Travel Money Card	Selected branches	The Post Office Travel Money Card is available in three currencies – Euro, US Dollar and Sterling – it is a pre-paid card that customers can load with currency. It can be topped up at selected branches or over the phone.

Moneygram	All branches	International money transfer of up to £6,000 to over 150 countries.
Automated bill payments	All branches	Acceptance of payment and pre-payment towards a variety of bills including gas, electricity, water, phone, council rent, mail order and insurance. (Some schemes available on an area basis as agreed with local authorities.)
Paystation and charging of electricity smart cards	All branches	To charge electric keys, Quantum Gas Cards, E-pay Transactions. (Stocks of electricity tokens for meters are also available in selected branches based on local schemes.)
Mortgages	Selected branches & online	A range of mortgages are available including fixed rate mortgages and tracker mortgages.
ISA	All branches	The Post Office offers a fixed rate and variable rate ISA: applications by phone, post or at the Post Office. A junior ISA is also available which is a stocks and shares Junior ISA: applications on-line or by phone.
Growth Bonds	All branches	Fixed term bond product offering 1, 2 & 3 yr terms. Apply by post, phone or at the Post Office.
Reward Saver	All branches	Variable interest rate product with a bonus for the first 12 months. Apply by post, phone or at the Post Office.
Instant Saver	All branches	Easy access variable rate product with a bonus for the first 12 months. Available across over 60,000 LINK cash machines. Apply by phone, post or at the Post Office.
NS&I Premium Bonds	All branches	Premium Bonds are an investment where, instead of interest payments, investors have the chance to win tax-free prizes. When someone invests in Premium Bonds they are allocated a series of numbers, one for each £1 invested. Minimum purchase is £100. Customers can hold up to £30k. Apply by phone, at a Post Office branch or online.
<b>Mail Services</b>		
UK Parcels Guaranteed	All branches	Guaranteed UK Parcel services for next day deliveries: <ul style="list-style-type: none"> <li>- Royal Mail Special Delivery Guaranteed by 9am®</li> <li>- Royal Mail Special Delivery Guaranteed by 1pm®</li> <li>- Parcelforce Worldwide express<b>24</b></li> <li>- Parcelforce Worldwide express<b>9</b>, (available in selected branches), express<b>10</b> and express<b>AM</b></li> </ul>
UK Parcels Confirmed	All branches	Confirmed UK parcel services:

		<ul style="list-style-type: none"> <li>- Royal Mail Signed For® 1st Class</li> <li>- Royal Mail Signed For® 2nd Class</li> <li>- Parcelforce Worldwide express<b>48</b></li> </ul>
UK Parcels Standard	All branches	<p>Standard UK parcel services are reliable and easy to use and offer a range of delivery options for non-valuable items:</p> <ul style="list-style-type: none"> <li>- Royal Mail 1st Class</li> <li>- Royal Mail 2nd Class</li> <li>- Parcelforce Worldwide express<b>48</b></li> </ul>
International Parcels Guaranteed	Selected branches	<p>Guaranteed international parcel services for international parcel delivery, with the added security of end-to-end tracking and online confirmation of delivery:</p> <ul style="list-style-type: none"> <li>- Parcelforce Worldwide global<b>express</b></li> <li>- Parcelforce Worldwide global<b>priority</b></li> </ul>
International Parcels Confirmed	All branches	<p>Confirmed international parcel services with tracking or signature on delivery:</p> <ul style="list-style-type: none"> <li>- Royal Mail Airsure®</li> <li>- Royal Mail International Signed For®</li> </ul>
International Parcels Standard	All branches	<p>Standard International parcel services:</p> <ul style="list-style-type: none"> <li>- Royal Mail Airmail</li> <li>- Royal Mail Surface Mail</li> <li>- Parcelforce Worldwide global<b>value</b> (available in selected branches)</li> <li>- Parcelforce Worldwide global<b>economy</b> (available in selected branches)</li> </ul>
Drop & Go	All branches	<p>Drop &amp; Go – a free, fast-track service, aimed at Small Businesses, internet sellers and customers sending regular amounts of mail. Uses a prepaid card, and helps speed up the branch journey for these customers.</p>
Additional postage services	All branches	<p>Articles for the blind, HM Forces letters (British Forces Post Office) etc.</p>
Philatelic	Selected branches	<p>Royal Mail special issue stamps and associated products, such as presentation packs and first day covers (stocked based on demand).</p>
Local Collect	9,771 branches	<p>Undelivered postal items are taken to the nearest participating Post Office by the postal delivery staff for later collection or customer has opted for the collection at their local Post Office branch.</p>
Redirection	All branches	<p>Mail redirection service for customers who are moving</p>

		home.
<b>Telephony</b>		
Home Phone	All branches	The Post Office phone service offers customers line rental and calls. Application process at Post Office branches, online or by telephone.
Broadband Essential with HomePhone	All branches	Capped usage broadband service available nationwide, minimum 12-month contract. Application process at Post Office branches, online or by telephone.
Broadband Premium with HomePhone	All branches	Unlimited usage broadband service, wireless router, available coverage. Application process at Post Office branches, online or by phone.
Phone cards	All branches	UK International calling card offering calls to national and international destinations.
Mobile E top-ups	All branches	Top-up service for all pre-pay mobile providers through Horizon and Paystation.

**Annex H: Case Progress**

Case progressCase progress

Applications to the Scheme	150
Applications rejected (ineligible)	4
Cases resolved prior to entry into the Scheme	10
Cases resolved during investigation	5
Cases resolved prior to the mediation meeting	2
Cases mediated	12
Cases POL declined to Mediate against WG decision	6
Cases not approved by WG for Mediation	2
Cases recommended for deferred mediation	10
Cases with CEDR	16
Cases closed due to withdrawal or Applicant's whereabouts being unknown	3
<b>Cases left in the Scheme</b>	<b>80</b>

**I: Thematic Issues and Post Office Responses**

## Post Office Investigations and Findings

1. As noted in Section 4 of this Report, Second Sight identified a number of what they have termed 'thematic' issues.
2. Although Applicants have raised a number of issues that relate to similar parts of the Post Office's business, having investigated those cases thoroughly, it is evident those issues turned on the individual circumstances of each case. They could not, therefore, be said to be thematic. For example, although a number of Applicants raised questions in relation to the operation of ATMs:
  - there are number of different ATMs in operation across the Post Office network and operating practices have changed over time (given that cases dated back over 10 years);
  - even for one single ATM there are a number of individual processes that need to be followed (e.g. loading cash, dispensing cash, jammed ATMs, weekly balancing, accounting for retracts, ATM entries on Horizon etc.) and Applicants often only raised issues with one or two parts of the operating process;
  - it is necessary that the conduct of ATM transactions be put in context of the branch under review, and the Post Offices experience of ATM transactions across its wider network and ATM estate. Issues such as fraud or theft by assistants, training, etc. may influence the assessment of how any issues with an ATM may have arisen.
3. These factors mean that there are many permutations of ATM related operations that a Postmaster may encounter and nothing that in the Post Office's view could be called a thematic issue with ATMs i.e. one of sufficiently consistent and serious incident so as to require a system or process change.
4. As noted in Section 4 of this Report, now that the Post Office has investigated all complaints and applications made to the Scheme, the findings and potential improvement opportunities have been cross referenced with Second Sight's thematic issues. The Post Office's headline findings are at Section 4 of this Report. The following section provides further detail of each of the thematic issues and the Post Office's response to each of them.

## 1. Transactions or transaction corrections not entered by the Postmaster or staff

It was alleged that Horizon transactions appeared to have been entered, or cash or stock balances changed, when the branch was closed and/or no one had access to any of the Horizon terminals. The inference in this allegation is that the Post Office could manually edit a branch's transaction data.

There is no functionality in Horizon for the Post Office or Fujitsu (suppliers of Horizon) to edit, manipulate or remove transaction data once it has been recorded in a branch's accounts. The Post Office can only post additional, correcting transactions to a branch's accounts but only in ways that are visible to postmasters e.g. transaction corrections (TC) and transaction acknowledgements (TA). It is also possible for Fujitsu to view branch data in order to provide support and conduct maintenance but this does not allow access to any functionality that could be used to edit recorded transaction data. Having reviewed all the cases, no-one (including all the Applicants and Second Sight) has been able to identify a specific transaction that did not originate in branch. A number of different explanations were found for the 'unknown' transactions:

- The transaction was conducted by the Applicant but they could not remember the transaction. Every input into Horizon is logged against the unique identity of the user. Each user ID is personal to that user and protected with a password that must not be shared. Where the transaction data was available, the Post Office was able to identify the user entering the questioned transactions. In some cases, this was the Applicant (where the Applicant had confirmed that their password was secure).
- The transaction was entered using the Applicant's user ID but the Applicant had shared their password with other staff members. In these cases, the most likely explanation is that a staff member had conducted the transaction without the Applicant's knowledge.
- A staff member had conducted the transaction with their own user ID without the Applicant's knowledge (albeit that a postmaster is able to determine this himself by accessing the branch records available through Horizon).
- The entries correlated to periods when relief or temporary postmasters were running a branch.
- The entries were conducted by Post Office staff conducting audits of branches and who had logged on to the branch terminals with the Applicant's full knowledge but these entries were determined not to affect the branch's accounting position.

## **2. Transaction anomalies associated with cash or stock remittances**

A number of Applicants raised issues concerning 'Rems' i.e. remittances of stock or cash to or from the Post Office's central processing centres. Branches had occasionally reported that a Rem '*pouch*' had not been received or that it contained fewer items, or lower value, than the sender claimed. Similarly, it was said that the Post Office sometimes found that a Rem pouch sent by a branch was missing or the branch had overstated its content. Some Applicants also described instances of foreign currency shipments being accidentally sent to the wrong branch and issues relating to counterfeit notes were also reported by Applicants.

The Post Office found that, on occasions, cash pouches were not being received or there was less or more cash within the pouch than stated. However, processes were (and remain) in place to correct these errors typically in the form of a TC being raised.

It should be noted however that if the cash centre remits a cash pouch to a branch and it is not received this would not result in a loss to the branch. The cash centre would investigate why the pouch had not arrived and ultimately bear the loss. The cash pouch would be scanned upon receipt by the branch and manually checked and therefore it was only at this stage that the cash would be registered on Horizon as being held in branch. From this point, any loss of cash would be the responsibility of the branch and postmaster.

There may have been some occasions when the pouch barcode would not scan. In such circumstances, the pouch would be entered as received manually by keying in the barcode number. If there is more or less cash within the pouch than stated, the branch should have reported this within 24 hours of receipt. This would have resulted in a loss or surplus to the branch and a TC would be issued to correct the balance on Horizon. This process is however reliant on branches accurately counting the cash they receive.

The same process outlined above applies to foreign currency. If a pouch was not received by a branch it would not be scanned into Horizon and there would be no increase in cash holdings. If the pouch was not received, there would be no loss to the branch.

Where the pouch was taken to a different branch in error it could be rejected and would be returned to the cash centre. If an alternative branch accepted the pouch, it would be scanned into Horizon and increase the cash, stock or foreign currency held at that branch. TCs would be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

## **3. Transaction anomalies associated with Pensions and Allowances**

A small number of Applicants reported problems with Pensions and Allowances (P&A) where the Post Office's Investigators discovered that they, or their branch employees, had taken money by manipulating P&A payments. There were instances of amounts being recorded as having been paid out when they were not (over claims) and Green GIRO cheques or Pension & Allowance dockets being re-used (reintroductions). A postmaster should easily identify P&A fraud by branch staff before any loss occurs so long as he/she conducts proper end of day

checks on P&A transactions. For example, and in respect of re-introduction fraud involving P&A vouchers being entered into Horizon twice, a Post Office branch would only be held liable for any loss if they had been negligent, had not followed correct acceptance and processing procedures, or if the actions had been fraudulent.

#### **4. Transaction anomalies following telecommunication or power failures**

It was reported branches with unreliable hardware or poor telecommunication and power supplies suffered a disproportionate incidence of the problems raised in the Scheme. A number of Applicants also reported that transaction anomalies had arisen from telecommunication or power failures.

Horizon is capable of handling power and telecommunications problems. In Post Office branches, postmasters are responsible for power supplies and the cabled telecommunications lines. Interruptions in power supplies and telecommunication lines are a risk faced by all IT systems. There are, however, recovery systems built into Horizon to prevent losses occurring where there is a power or telecommunication failure.

There is no evidence to suggest that either of these events would cause losses in branches where the recovery process has been correctly followed by branch staff. There is however evidence of branch staff failing to follow the recovery process properly. This would cause discrepancies in a branch accounts and could be a cause of losses. It is however the result of human error by Applicants or their staff, and not a failing of the Post Office or Horizon.

It is recognised that a power or communications failure could cause severe disruption to a branch and create customer pressure as queues form. However, the recovery process is there to protect postmasters from losses and it is their duty to manage this pressure to ensure that transactions are recorded properly.

#### **5. Transaction anomalies associated with ATMs**

Instructions given by the Post Office in relation to ATMs have been said to be inadequate and that problems have arisen as a result of 'out of sync' issues or retract fraud.

##### **Out of sync**

When postmasters fail to accurately record the amount of cash dispensed from an ATM in the branch accounts, it causes the Horizon record of ATM transactions to be 'out of sync' with the ATM's own record of transactions.

No evidence has been found to suggest that the accounting process, if properly followed, causes any discrepancies. In any event, even if a postmaster makes an error, this will be

identified and corrected by the Post Office when it reconciles a branch's Horizon record of ATM transactions with the ATM's own records.

It is recognised that this reconciliation may take several days or exceptionally weeks to filter through to a branch and that in the interim period the branch will bear a discrepancy. However, where this discrepancy is identified and agreed with the Post Office the loss in branch can be settled centrally and held until the Transaction Correction is processed.

### **Retract fraud**

Retract fraud occurs where a customer conducts a withdrawal transaction from their own bank account using an ATM. When the cash is vended, the customer looks to remove the middle notes, leaving the top and bottom notes behind, thereby hoping to trick the ATM into believing that the cash has not been taken. The ATM then retracts the cash back into the machine, believing that it has retracted the entire sum withdrawn.

When a postmaster comes to count the cash in an ATM which has been subject to retract fraud, there would be a shortfall between the amount of cash physically in the ATM and the amount recorded on the ATM as being retracted.

However, as long as a postmaster follows the correct ATM balancing procedures and accurately records the amounts of cash in the ATM, the postmaster will not be liable for any ATM cash loss caused by retract fraud. A loss of cash from an ATM caused by retract fraud falls on Bank of Ireland as the ATM provider. It is not passed to a postmaster and there will be no negative impact on a branch's accounts if the postmaster has followed the proper accounting process.

### **Accounting instructions**

The Post Office does not agree that the instructions and support in relation to ATMs is inadequate. No evidence has been provided to support this position.

## **6. Transaction anomalies associated with lottery terminal or scratch cards**

Branch Horizon systems were said to become 'out-of-sync' with the separate Camelot system and thereby generate material surpluses or deficiencies that would eventually be corrected by TCs. These instances were said to have been most serious and frequent between 2005 and February 2010, when the Post Office made a change to its Standard Operating Procedures.

Procedures have evolved to assist postmasters and reduce the number of TCs that are necessary in relation to scratch cards, especially in relation to their activation. Changes to the Post Office's Standard Operating Procedures were made to reduce the possibility of having packs of inactive scratch cards recorded in Horizon or having activated packs that were not recorded in Horizon.

Either incorrect/non activation of scratch cards or not correctly recording the out of hours' sales creates the 'out of sync' effect. The lottery discrepancies were due to user errors and not due to either the Post Office or Horizon.

## **7. Transaction anomalies associated with Motor Vehicle Licences (MVLs)**

A small number of Applicants have claimed that a misprinted bar code on V11C MVL forms resulted in Horizon recording the sale of a 12-month tax disc, when in fact a six-month tax disc was sold. If this error was not immediately noticed at the Horizon terminal, it was said that a discrepancy, being the price difference between the six and 12-month MVL tax discs, would occur and the postmaster would be held accountable.

The Post Office found that only one Applicant raised a problem with a misprinted V11C form. This was not therefore a '*thematic issue*'.

In any event, the V11C form is not produced by the Post Office but by the DVLA and is therefore an external error. The barcode on the V11C form does not define the duration of the tax disc but the overall cost whether taxing a vehicle for six or 12 months. A V11C is printed with tick boxes for the customer to confirm whether they would like to tax a vehicle for six or 12 months.

Upon scanning the V11C, which identifies the registered vehicle, Horizon prompts the user to enter whether the customer wants a 6 or 12-month tax disc. If the barcode printed was incorrect this could lead to a charge based on a different vehicle, which could be potentially more or less than the appropriate charge if the vehicle identified by the barcode is in a different tax band to the customer's actual vehicle. If there was an error with a barcode, it would be an issue with the tax banding, not whether a vehicle is taxed for 6 or 12 months. This issue could benefit or disadvantage the customer. However, Horizon would invite payment at the level requested by the barcode. Provided that payment was taken for the amount requested by Horizon, the branch would not suffer a loss as there is no loss or gain from the transaction from the branch's and the Post Office's perspective.

## **8. Transaction anomalies associated with foreign currency**

It was reported that some of the Applicants had described instances of foreign currency shipments being accidentally sent to the wrong branch.

As stated at 2 above, if a branch does not receive a pouch it would not be scanned into Horizon and there would be no increase in cash holdings. If the pouch is not received, there is no loss to the branch. Where the pouch was taken to a different branch in error it could be rejected and returned to the cash centre. If an alternative branch accepted the pouch it would be scanned into Horizon and increase the foreign currency held at that branch. TCs would be issued to correct any discrepancies that may have been created but overall there would be no loss to either the branch that received the foreign currency or the branch that accepted it.

## **9. Transaction anomalies associated with bank / Giro / cheques**

It was reported that some cheques got lost when being sent from branch to the Post Office or were accidentally spoiled at the Post Office's main processing centre in Chesterfield. It was suggested that branches were being improperly held liable for these lost or damaged cheques.

If the correct procedure for processing the cheques in branch is followed by postmasters, no loss is caused. The cost of a lost or bounced cheque is only passed to a postmaster where there is clear evidence that the postmaster has failed to follow proper acceptance or remittance processes and the Post Office has exhausted all other possibilities of recovering the missing cheque.

The branch accounts treat cheques like a stock item. So long as the branch accurately records the receipt of cheques from customers and the remittance of cheques to the Post Office, then the branch is not concerned with the banking of any cheques. The banking of cheques and recovery of payment from customer's bank is conducted by the Post Office. The Post Office absorbs the credit risk posed by accepting payment by cheque and should a cheque bounce, the Post Office will absorb the resulting loss. The only exception to this rule is where the branch has failed to follow operational procedures. This may have included not completing the details in accordance with a cheque guarantee card (until these ceased in 2011) or taking payment for a product where payment by cheque is not permitted.

## **10. Transaction anomalies associated with stamps, postage labels, phone cards or premium bonds**

The Post Office was asked to describe the procedure whereby postmasters can recover the cost of a missing postage label in circumstances where the missing label has not been processed as a 'reject'. The explanation has been provided and there is no evidence that any of the issues reported were caused by anything other than human action.

## **11. Hardware issues e.g. printer problems, PIN pads, touch screens and PayStation**

The most commonly raised issues concerned printers, PIN pads, touch screens, telecommunications equipment and base units.

The Post Office's position is that while hardware issues are undoubtedly inconvenient for branches, there is no evidence that such issues are capable of causing discrepancies in the branch accounts. Equipment is replaced as and when needed, this is industry standard practice. The average time that equipment remains in service before being replaced is:

- Horizon terminal: 7.41 years
- PinPad: 6.17 years.

The Post Office considers that these performance levels are acceptable and show that equipment is not routinely failing.

## **12. Failure to follow correct procedures or mis-advice by Post Office Limited's Helpline**

Though all calls to the helpline are recorded by the Helpline operators in the NBSC call logs it has been asserted that the call logs often do not provide enough detail about exactly what advice was provided.

The Post Office considers that if Applicants calls were not being answered or addressed appropriately then either the matters would be escalated (which would be noted) or there would be repeated calls about the issue that the postmaster was facing. There would be evidence that the advice had not resolved the problem or the Applicant was not happy with the advice. The absence of this or other evidence to the contrary suggests that the calls had generally been resolved satisfactorily.

There is no evidence of a systemic failing in Post Office's Helpline support and therefore this is not a thematic issue but rather one that turns on the specific advice given in particular cases.

## **13. Training and support issues including helpline and audit**

Thousands of postmasters, in receipt of the same training and support as Applicants to the Scheme, have been operating the Horizon system successfully for years. Like any other responsible organisation, the Post Office always strives to improve its training and support and has undertaken further initiatives since the publication of Second Sight's report in 2013. The Post Office created a new Branch User Forum as a way for postmasters and others to raise issues and insights around business processes, training and support, feeding directly into the organisation's thinking at the highest level. One of the tasks for this forum is to review support processes and training to ensure they meet the standards expected of, and by, the Post Office.

The training of new postmasters is an area that Post Office has recently reviewed and identified that by using modern technology a proportion of the existing classroom training could be delivered online. Although the duration of the on-site training remains unchanged, postmasters and their staff will be able to access online training at any time and from a location that is convenient for them. An added benefit is that this online training will be accessible to the whole network and not just new postmasters.

Technology has also been used to reduce paperwork and administration time within the support team. The overall impact of these changes means that fewer people are needed to deliver an enhanced level of support to the network.

Where, in what is a small number of individual cases, the Post Office has found that the support provided in that case has fallen short of the desired standards, those issues have been addressed as part of the investigation and review process.

It has been suggested that it is ineffective to rely on postmasters to identify on-going training needs in their branches.

There are a number of factors that can affect a branch's performance and the need for training e.g. changes in an Applicant's assistants, changes in the way a postmaster may operate his/her business, seasonal pressures, changes to the connected retail business, lifestyle issues affecting a postmaster etc. None of these factors will be known to the Post Office but will all be known to the postmaster. The Post Office therefore considers that it is most effective for each postmaster to be tasked with seeking further training rather than it being proposed by the Post Office.

Also, the Post Office is only required to train postmasters – postmasters are required to train their assistants, and they are entitled to employ as many assistants as they like and deploy them in any role they wish. It could be that a postmaster is fully competent but has poorly trained or supervised his/her assistants which in turn could be causing losses. This is a matter for a postmaster to monitor and remedy and it would be inappropriate for the Post Office to interfere in this employer to employee relationship.

#### **14. Limitations in the transaction audit trail available to postmasters**

A number of Applicants, whilst acknowledging some errors were caused by their own mistakes, claimed that they were often unable to determine the root causes of discrepancies (both shortfalls and surpluses) reported by Horizon because the underlying transaction data was not available to them. Applicants' claims fell into three categories:

- data that is not available even on the day of the transaction;
- data that was at first available, but after 42 days (later extended to 60 days following a system change by the Post Office) is no longer available which may inhibit a postmaster's ability to challenge TCs;
- data that isn't available after suspension, meaning that some postmasters were unable to defend themselves from any claim made by the Post Office for the recovery of monies.

The position in relation to each of these categories is that:

- all branches have access to line-by-line transaction data each and every day;
- while it is correct that after 60 (previously 42) days all Horizon data is no longer accessible via Horizon, this level of information is not required to challenge TCs. The data needed to challenge a TC varies on a product-by-product basis. Typically, the necessary data is kept in branch records (e.g. branch daily reports which should be retained for two years) rather than on Horizon. The Post Office offered to investigate any product specific allegation that there is insufficient data or

information available to postmasters to challenge and review TCs but no such allegation was made;

- branch records are the property of the Post Office. In the event of a postmaster being suspended, the Post Office may take away some branch records for investigation. In the event that a claim was made by Post Office for the recovery of monies, the relevant branch records would have been provided to the postmaster as part of the disclosure process, if not before.

If, at the end of a day or the end of a trading period, a branch discovers that it has a discrepancy it has access to a range of reports on different products and transactions which can be used to investigate the possible causes of the discrepancy, including a complete line-by-line listing of all transactions that day. A postmaster can also call the Post Office Helpline for advice on interpreting that data.

## **15. Process issues at the end of each trading period**

A number of Applicants stated that whilst they considered their initial training to be adequate in terms of 'Business as Usual' transaction processing, they believed it was predominately sales-focused and weak in regard to 'end of day', 'end of week' and in particular, 'end of trading period' balancing. Some Applicants also felt that there was little or no coverage of how to deal with discrepancies (both surpluses and shortfalls), how to identify the root causes of recurring problems, or how to deal with TCs.

It was also suggested that the Post Office provided little help to Applicants when trying to find the cause of losses and that this lack of support may have been a motivation for some Applicants to submit falsified accounts to the Post Office.

### **Training**

No evidence or analysis has been presented that shows that the Post Office's standard training is defective. The Post Office stands by its training practices as being effective. The Post Office considers that the training and support that is provided is fit for purpose and adequate to meet the needs of postmasters. This is demonstrated by the thousands of postmasters who are successfully operating Horizon, having received Post Office training.

### **False accounting**

Some Applicants suggested that when they discovered a discrepancy they had no option but to conceal it by inflating cash or stock figures to balance the accounts so that they could continue to trade the following day. The reality is that when a postmaster encounters a discrepancy they may either accept it, on the basis that they are responsible for it, or dispute it which triggers a further investigation. This does not affect their ability to continue trading. Any suggestion that a postmaster must commit a crime in order to continue trading is categorically not true.

It is however true that where an Applicant submits false entries in their branch's accounts in order to cover up losses, then this makes finding the root cause of those losses very difficult if not impossible. The Post Office primarily relies on reviewing the branch accounts to help postmasters identify errors but because where accounts have been falsified, it is not possible to distinguish between genuine errors and intentionally false entries.

### **Post Office's investigation support**

As noted above, support is available from the Post Office Helpline in relation to dealing with discrepancies. Further support is also available from the Post Office's Finance Service Centre (FSC).

FSC could become aware of issues owing to:

- a branch calling FSC directly or being referred to FSC via the Helpline;
- FSC identifying an anomaly in a branch from its accounting records;
- a customer raising an enquiry to the Post Office about a transaction in a branch.

FSC works with a branch to try to identify the cause of any erroneous transaction. This may include speaking to the branch about how they have conducted the transaction, asking the branch to provide missing customer details, checking the paper records held at the branch against the transaction data on Horizon, liaising with clients (whether customer banks, utility companies, etc) to gather different data streams on a transaction and contacting customers to get their consent to remedy errors.

It is, however, noted that the Post Office is unable to determine the precise nature of some errors as, by their very nature, those errors happen in branch at the counter and are therefore outside of the Post Office's knowledge or control (such as mis-keying a transaction into Horizon or taking the wrong amount of cash from a customer in payment). Only a postmaster is able to identify these types of error and only they have the requisite knowledge of what happens in their branch.

### **16. The contract between the Post Office and postmasters**

This issue is addressed in Section 8 of this Report.

### **17. The lack of an outreach investigations function**

This issue is merged with item 15 above.

### **Other**

Though a number of further issues have been raised and described as 'thematic', no evidence or analysis has been presented to suggest that a systemic failing in any part of the Post Office's business exists.

**Annex J: Branch Support Programme**

## **Business Support Programme**

The Business Support Programme was established to consider what more could be provided to improve the effectiveness of the support the Post Office provides to postmasters and operators in the running of their Post Office branches from an operational and engagement perspective. This work is continuing and involves:

- reviewing the life cycle of the postmaster and all touch points with the business;
- taking input from owners, users and recipients of Post Office policies and processes;
- designing policies and processes that deliver improved ways of working with the postmaster network in a cost effective and engaging way;
- developing an implementation plan to move to new arrangements.

The focus of the Programme is predominately how the business supports the agency network and the policies and processes that impact on the postmaster. However, where the issues are the same for the Crown network then these are also included within the scope of this Programme.

### ***Improvements to training***

The content of the classroom training provided to new postmasters has been refreshed with more focus on:

- balancing and how to look for discrepancies when they occur within branch;
- contractual obligation regarding discrepancies that do occur and how to process discrepancies correctly;
- a detailed explanation of false accounting and the seriousness of the offence.

A revised balancing guide has been introduced to help new postmasters balance their accounts correctly. A further best practice guide to identify discrepancies in branch has also been introduced. This is a hand-out at on-site training for new postmasters and follow-up visits where branches are experiencing balancing difficulties.

A revised training offer that replaces approximately two thirds of the classroom training for new operators with online training to be completed prior to attending classroom training has been designed. The online training for postmasters, and their assistants went live on 5 February 2015.

- The learning material wraps in messaging around customer service and sales conversations, and has been developed with a cross-Post Office team including Crown, Network and Commercial teams. The first classroom training for the blended training offer took place w/c 23 February 2015.

- Compliance testing is a precursor to new postmaster training and is an annual regulatory requirement for all branch staff. This is now being provided online to the branch network, replacing the traditional paper workbooks.

### ***Balancing/accounting support improvements***

A refreshed approach to supporting branches with discrepancy issues was introduced in 2013. Where the Network Business Support Centre (NBSC) is unable to resolve a caller's query/issue, this caller is referred to the Branch Support Team who can provide more in-depth telephone support to the branch. This team also assesses whether on-site additional support or further training is required and will organise if appropriate. The learning from the Mediation Scheme investigations is that the recording of the support given needs to be consistently documented. A revised approach will be introduced in the first quarter of 2015/2016.

### ***NBSC Improvements***

The volume of calls from branches is now assessed by the Network Business Support Centre (NBSC) with the branches that have a higher than average call volume being proactively contacted by the Branch Support team to understand the reason for the high level of calls; establish what extra support can be offered and whether any changes need to be made to training.

Using a new information tool NBSC is able to review branch data when assisting a branch with an accounting problem and establish exactly what the branch has done rather than relying on what they say they have done. This assists in providing the branch with the correct advice.

A new approach has been developed to analyse the calls received by NBSC to identify the root cause of the issue; to identify the solution for the branch in the first instance and implement wider business changes if appropriate e.g. content of and method of delivering new product training.

### ***Managing postmaster material contract breaches***

The suspended termination approach was launched in April 2014 to deal with postmasters where mitigating circumstances are such that it may be inappropriate or necessary to terminate the contract. The postmaster 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. A condition of remaining in post is that the postmaster makes good the audit deficient.

### ***Horizon system transaction improvements***

The transaction for customers paying by debit or credit card for bureau transactions was changed in September 2014. The transaction now includes an automatic re-print of the receipt which includes the card and identification details of the customer, which needs to be presented in case of fraudulent use of the card. Previously, the branch would have to remember to request a reprint and would be liable for the loss if they failed to provide it to Finance Service Centre.

### **Business User Forum**

Within the Branch Support Programme sits the Branch User Forum. The Branch User Forum meets around six times a year and enables postmasters and Crown colleagues to raise issues and insights about business processes. The forum is made up of postmasters, Crown colleagues and senior leaders and looks to address the day to day issues and frustrations faced by branch teams. It provides a link between the decision makers in the business and the teams serving Post Office customers each day.

The Branch User Forum is already making an impact on how things are done in branches by instigating a number of changes to transactions, including travel money and the Health Lottery. Further, the information shared and the ideas generated at the Business User Forum inform the Business Support Programme.

**Annex K: Post Office Response to Westminster Hall Debate**

**POST OFFICE RESPONSE TO WESTMINSTER HALL DEBATE**

**17 DECEMBER 2014**

**COMPLAINT AND MEDIATION SCHEME**

January 2015

## **PURPOSE AND STRUCTURE OF THIS PAPER**

1. During the Westminster Hall debate on 17<sup>th</sup> December 2014 a number of statements and allegations were made by MPs about Post Office Limited (Post Office). This note sets out the Post Office response.
2. This paper is structured into two parts. Part A provides some background to the Complaint and Mediation Scheme (the Scheme), details of its working arrangements and some statistics which reflect its current state of play. Part B provides Post Office's response to the various statements and allegations made during the course of the debate.
3. In reading Part B, it should be noted that Post Office cannot comment publicly on individual cases within the Scheme. So that they could feel comfortable in raising their issues with Post Office, Applicants were assured of confidentiality under the terms of the Scheme. In any event, Post Office would not make public statements which disclose personal information about individuals without their consent.
4. Post Office is committed to its responsibilities to the Scheme and the Applicants by adhering to the obligations of confidentiality agreed to by all.

## **PART A: BACKGROUND TO THE COMPLAINT REVIEW AND MEDIATION SCHEME**

### *What were the circumstances giving rise to the Scheme's establishment ?*

5. The Scheme was established to help understand and ideally to resolve the concerns of Subpostmasters regarding the Horizon system and other associated issues.

6. Post Office has been determined to ensure that Horizon, together with its associated processes, operates effectively, reliably and fairly so that Subpostmasters can have confidence in the system. It is in Post Office's interests to do so, with 78,000 people using the system to process six million transactions for customers every working day.

7. However, a number of Subpostmasters within the Scheme have alleged that Horizon has failed to operate in this way, and/or supporting processes were flawed, causing them detriment.

8. In June 2012, in order to address these concerns and in collaboration with the Justice for Subpostmasters Alliance (JFSA) and a group of MPs led by the Rt Hon James Arbuthnot MP, Post Office appointed independent forensic accountants, Second Sight Support Services Limited (Second Sight), to investigate. Following a year's work with a number of Subpostmasters, Second Sight published an Interim Report on 13 July 2013, a copy of which may be found at: <http://www.postoffice.co.uk/post-office-statement-horizon>.

9. The report set out six preliminary conclusions, the first of which was that they had found no evidence of system wide problems with the Horizon software, but they did identify a small number of areas where individual Subpostmasters may have encountered difficulties, around training and support.

10. To address the unresolved issues and the questions left open in that report, Post Office established the Scheme in order to provide an avenue for any Subpostmasters to raise their specific concerns directly with Post Office. The Scheme, developed jointly by Post Office, Second Sight and the JFSA as the way of continuing investigations that Second Sight had already begun into individual cases, also provided any other Subpostmasters with a relevant complaint to make an application to the Scheme with a view to resolution. The Scheme was open to both serving and former Subpostmasters as well as to counter clerks employed by Post Office. Applications were invited through the Post Office's internal communications channels as well as through the JFSA.

11. The Scheme is supervised by a Working Group comprising representatives from Post Office, Second Sight and the JFSA. The Working Group's role is to ensure the Scheme is run in a fair and efficient manner and to make decisions on how particular cases should be managed. To ensure its impartiality, the Working Group has an independent Chair, Sir Anthony Hooper.

How the Scheme works

12. In an initial application process, Subpostmasters with a complaint were invited to submit details of their case to Second Sight. The Working Group's role at this juncture was to make a recommendation as to whether or not the case should be investigated.

13. On acceptance into the Scheme proper, Applicants were given the opportunity to apply for a funding contribution of £1,500 +VAT, payable by Post Office, so that they could appoint a professional advisor to assist with setting out the detail of their complaint. Having done so, that complaint was passed to Post Office for comprehensive investigation. It is important to bear in mind that, except in a small number of cases where the issue had not previously been raised with Post Office, this represents a further detailed examination of all the available facts including a review of the investigation which took place at the time of the original incident.

14. When Post Office has completed this fresh investigation, its results, together with all supporting documents, are passed to Second Sight. It is then for Second Sight to complete their own review and analysis of all the material before completing a draft report which includes a preliminary recommendation to the Working Group on that individual case's suitability for mediation.

15. The applicant is provided with the Post Office and Second Sight reports to comment on before Second Sight complete a final report which is considered by the Working Group to decide whether it should be recommended for mediation.

16. In cases where the Working Group recommends mediation, the case details are then passed to the Centre for Effective Dispute Resolution (CEDR), the independent organisation administering the mediations. Mediation is a voluntary process, so it is then a matter for the parties to decide whether they wish to mediate. This is consistent with the process set out in the original documentation which explained the Scheme and was agreed to by the Working Group.

Scheme Statistics

17. During the debate, the Minister referred to a letter from the Working Group Chair, Sir Anthony Hooper, setting out the progress of cases within the Scheme to date. This letter, which can be found [here](#), has subsequently been placed in the Library of the House and contains the following statistics in relation to the progress of cases as at 12 December 2014:

Applications to the Scheme	150
Applications rejected (ineligible)	4
Cases resolved prior to entry into the Scheme	10
Case resolved during investigation	2
Cases awaiting Working Group recommendation pending further information/review by either Post Office or Second Sight	23
Cases recommended for mediation by the Working Group	24
Cases passed to CEDR to arrange mediation	20
Cases not recommended for mediation by the Working Group	2
Cases mediated	7
Cases where Post Office declined to mediate	2
Cases resolved prior to the mediation meeting	2
Cases with CEDR awaiting mediation (of which 3 were scheduled to take place before Christmas)	9
Cases remaining in the Scheme	110

## **PART B: QUESTIONS RAISED DURING THE DEBATE**

18. As noted in paragraphs 3 and 4 above, Post Office is bound by the obligations of confidentiality it has to Applicants in the Scheme. It is not, therefore, possible for this document to address the specific cases raised during the debate.

19. Post Office is writing to each of the MPs who raised specific cases during the course of the Debate, offering to meet with them in confidence to explain Post Office's investigation findings in those cases.

20. However, a number of statements, allegations and questions of a more general nature were also raised in the debate and these are addressed below.

### *Post Office's Approach to the Scheme*

21. During the debate, the Scheme's scope and Post Office's approach to it were called into question. The Scheme was described as a "sham" and Post Office was accused of bad faith and of undermining its own Scheme. Post Office does not accept this.

22. The Scheme is entirely voluntary, and its overall objective is to try to achieve the mutual and final resolution of individual Applicants' specific concerns about Horizon and related issues. The Scheme considered issues wider than just the software involved. This encompasses, as recorded in Second Sight's interim report, the following:

*"...Horizon relates to the entire application. This encompasses the software, both bespoke and software packages, the computer hardware and communications equipment installed in Branch and the central data centres. It includes the software used to control and monitor the systems. In addition, ..... testing and training systems are also referred to as Horizon"*

23. In a manner consistent with its determination to establish the nature and degree of any such problems, and resolve those that emerged fairly, Post Office:

- instigated an independent review of the Horizon System by Second Sight;
- subsequently established the Scheme in collaboration with JFSA and Second Sight;
- set up and funded a Working Group to oversee the Scheme, with an independent Chair – Sir Anthony Hooper – and JFSA and Second Sight as members;

- provided funding for Scheme Applicants to obtain professional advice in articulating their complaints against Post Office;
- established a 20 strong team dedicated to re-investigate every case in full;
- produced over 130 investigation reports on individual cases in the Scheme (each typically running to over 20 pages in length, together with up to 80 separate pieces of supporting evidence); and
- provided Second Sight with thousands of pages of information to inform their investigation over the past two and a half years.

24. To date, and after two and half years of investigation and independent review, the facts are that Post Office has found no evidence, nor has any been advanced by either an Applicant or Second Sight, which suggests that Horizon does not accurately record and store branch transaction data or that it is not working as it should. This offers welcome reassurance to everyone who works in the Post Office network, all of our customers and our partners and the millions of people who support and depend on the Post Office. Post Office has now completed its investigation of nearly all cases within the Scheme.

25. Post Office continues to act in good faith in responding to the sustained questioning of the reliability of the system upon which millions of people rely every day, including through the independent review it itself initiated. Put simply, if there were a problem, Post Office would want to identify it and correct it as quickly, fairly and effectively as it possibly could.

26. However, just as it would be wholly wrong for it to fail to respond to allegations of flaws in Horizon, Post Office cannot be expected to ignore evidence that shows the opposite.

#### Transparency and the Scheme

27. During the debate, the suggestion was made that Post Office's approach to the Working Group, and to the mediations itself, is secretive in nature and that Post Office is seeking to undermine the Scheme it created. These criticisms are unfounded.

28. From the outset the Scheme and the work of the Working Group was intended to be confidential. The original Scheme documentation made clear to Applicants that they and Post Office must endeavour to keep details of their case confidential and that all matters discussed in any actual mediation will be strictly confidential. This is because the cases involve sensitive personal information which should not be made public as well as to permit

a full and frank assessment and discussion of the issues to take place. This is in the interests of Applicants themselves. That requirement for confidentiality is, however, balanced by the fact that the Scheme and its Working Group was designed to be, and is, overseen by an independent Chair.

29. In addition, confidentiality is an integral part of *all* mediations, not just those in this specific Scheme. The mediations for the Scheme are being conducted by CEDR, and the confidentiality arrangements which CEDR has put in place (and which were agreed by the Working Group) are in line with CEDR's own Code of Conduct and the European Code of Conduct for Mediators which the Civil Mediation Council requires all UK providers to observe in order to maintain accreditation.

30. The reason independent, well established and reputable mediation experts were appointed to conduct the mediations was specifically to ensure that the mediations are undertaken in line with best practice. As part of the mediation process offered by CEDR and accepted by the Working Group, all the parties – Post Office being only one – are required to sign a mediation agreement which binds them to confidentiality so that the parties are free to explore fully the issues raised. A letter from CEDR to the Working Group setting this out was also placed before the House by the Minister and can be found [here](#).

31. Accordingly, the Post Office is simply respecting the obligations it has in handling individuals' sensitive personal data, the agreement signed on entering mediation as required by CEDR in particular, and a fundamental principle of mediation generally.

#### Exclusion of Cases from Mediation

32. During the debate, Post Office was also accused of using the Scheme and the Working Group to exclude some 90% of cases from mediation in circumstances where this had been understood would be the exception.

33. For the reasons already made clear, Post Office is limited in the details that it can share on the Working Group's discussions. However, the statistics at paragraph 17 of this document, provided by the Working Group Chair, demonstrate that suggestions that Post Office is seeking to exclude 90% of cases from mediation are inaccurate. In fact, of the 24 cases in which the Working Group had by then recommended mediation, Post Office declined to mediate just 2.

34. It was never envisaged that all cases would automatically proceed to mediation between Post Office and Applicants. Mediation is one of the possibilities that may occur at a later stage of the process. However, this would follow the re-investigation and independent external review of each and every case, consideration by the Working Group and its recommendation about whether a case might be suitable for mediation.

35. Mediation is, by its very nature, a voluntary process designed to help reach a consensual resolution. Post Office considers every case on its merits, but mediation will not be successful where no evidence has emerged through the process to suggest that Post Office is responsible for the issues complained or has acted improperly.

36. However, where a case does reveal genuine and substantiated areas of dispute potentially capable of being resolved, Post Office will mediate and has already done so in a number of cases. In doing, Post Office takes a positive approach to seeking a mutually agreeable resolution. However, what it cannot do is to ignore the facts and evidence to emerge from the various investigations.

37. Every mediation is conducted by an experienced and entirely independent mediator appointed by CEDR, and Applicants typically attend mediation with their own professional advisor.

#### Exclusion of Cases involving Criminal Convictions

38. The accusation has also been made that Post Office is seeking to exclude all cases involving criminal convictions. It is important to note that the majority of Applicants to the Scheme do not have criminal convictions. As stated earlier, Post Office is considering every case on its merits. All information which Post Office has as a result of these fresh investigations is shared with Applicants. Moreover, it is under a positive duty immediately to disclose any information that would have been disclosed during the prosecution, i.e. which would assist a Subpostmaster's defence or undermine the prosecution.

39. However mediation is not a process capable of overturning a conviction. Convictions can only be overturned through established Court processes. This was made clear in the original Scheme documentation:

*"Post Office does not have the power to reverse or overturn any criminal conviction – only the Criminal Courts have this power.*

*"If at any stage during the Scheme, new information comes to light that might reasonably be considered capable of undermining the case for a prosecution or of assisting the case for the*

*defence, Post Office has a duty to notify you and your defence lawyers. You may then choose whether to use that new information to appeal your conviction or sentence.”*

40. This position was also recognised and accepted by JFSA who advised, on their website:

*“Did you have a court finding against you? – If yes, and although this Scheme will consider that to some degree (READ THE PACK) [sic], we, JFSA also recommend that you should enter a parallel scheme with a firm of criminal lawyers who will look into your case with a view to consider using the appeals court to overturn the findings against you. ”*

41. To date no evidence has been identified by Post Office as part of its reinvestigation of each and every case, nor advanced by Second Sight or an individual Applicant, to suggest that the conviction of any Applicant to the Scheme is unsafe.

42. As noted above, had any such evidence come to light, Post Office’s duty of disclosure would immediately be engaged. Post Office takes these responsibilities very seriously. Post Office has written to everyone who has suggested that they have or have seen evidence that a conviction is unsafe and asked them to disclose that evidence so that it can be acted on. To date no-one has provided that evidence.

#### Extension of the Scheme beyond Horizon

43. Suggestions have been made that the Scheme ought now to encompass issues beyond those for which it was established. The fact that no evidence of system wide flaws with Horizon has emerged does not provide grounds for extending the scope of the Scheme retrospectively.

44. In this regard, a degree of focus was placed on the contractual arrangements between Post Office and its network of thousands Subpostmasters, with one Member suggesting during the course of the debate that Second Sight had told him that:

*“...in [his] view, a person would have to be an economic and legal illiterate to be willing to sign [the contract]”.*

45. The core principles of the Subpostmasters’ contract are broadly similar to those used in franchising arrangements by other organisations across the UK and reflect well established legal principles. This is the basis on which Post Office and thousands of Subpostmasters have successfully conducted business for decades.

46. Subpostmasters are independent business people, with a similar position to franchisees in other sectors. They may therefore obtain legal advice as they see fit on any aspect of running their business, including in respect of the decision to enter into a contractual relationship with Post Office itself, and the specific terms of that relationship.

Remote and Malicious Access to Branch Accounts

47. During the debate it was suggested that Subpostmasters' accounts can be amended remotely, in Horizon, without their or their staff's knowledge. There is no functionality in Horizon for either a branch, Post Office or Fujitsu (suppliers of the Horizon system) to edit, manipulate or remove transaction data once it has been recorded in a branch's accounts. It is possible for Fujitsu to view branch data in order to provide support and conduct maintenance but this does not allow access to any functionality that could be used to edit recorded transaction data.

48. Post Office can send transaction acknowledgements (TA) or transaction corrections (TC) to branches. TAs are used to record transactions that have been processed in branch through other systems (e.g. the sale of Lottery products on the Camelot terminal) and TCs to correct errors made by branches. Both TAs and TCs need to be accepted by a user logged into the branch Horizon terminal before they are recorded in the branch accounts. They are therefore fully visible to each branch.

Post Office's Approach to Prosecutions

49. When confronted by potentially criminal conduct within its network, Post Office can exercise the statutory right to bring a private prosecution open to all persons in England and Wales under the Prosecution of Offences Act 1985, or by supplying evidence to the national prosecutors in Scotland and Northern Ireland (where a private prosecution cannot be brought). This is the same as for any other individual or organisation and Post Office is not unique in bringing its own prosecutions. We take these responsibilities very seriously.

50. Interviews under caution, with investigators, are always carried out in accordance with the Code of Practice of the Police and Criminal Evidence Act (PACE), which means that interviews are recorded on tape and people can seek legal advice and have their legal representatives present. These interviews are in connection with suspected criminal conduct. Before these interviews, a person is always reminded of their right to have legal representation present and signs a form to confirm their understanding of the position.

51. These are not the same as meetings about a postmaster's contract, which are to explore, for example, failure to follow proper processes and procedures, for example where

this might create a security risk. This will usually be part of a process to decide whether or not there has been a serious enough breach for the contract to be terminated. Another person can attend with the Subpostmaster. This can be a friend, or another Subpostmaster or assistant or a representative of the National Federation of Subpostmasters. They can make a statement in support and working practice is that they can speak on behalf of the postmaster, if the postmaster agrees to this. Any evidence that is obtained which is not compliant with PACE can be excluded from a prosecution. This would apply to evidence from meetings about contracts that are not held under caution.

52. All cases of potentially criminal conduct are thoroughly investigated and decisions about appropriate courses of action are taken on the basis of the available facts and evidence. The serious decision to prosecute a Subpostmaster or employee, in the small number of instances where this in fact occurs, is always taken following numerous checks and balances and Post Office is confident that its approach is proportionate and fully compliant with legal requirements. When Post Office decides to prosecute a case, its conduct of the prosecution is scrutinised by defence lawyers and ultimately by the Courts themselves.

53. In deciding whether a case is suitable for prosecution, Post Office considers (among other factors) whether it meets the tests set out in the Code for Crown Prosecutors. That Code is issued by the Director of Public Prosecutions and followed by Crown Prosecutors. Post Office does not have to inform the CPS that a private prosecution has commenced, but the CPS can take over a private prosecution if circumstances warrant. Like the CPS, Post Office keeps cases under continuous review all the way up to and during any trial.

54. Once a decision has been made to prosecute and a defendant is charged, he is entitled to receive private and confidential legal advice. Post Office has a duty to disclose the evidence in the case to the defendant and his lawyers, including all evidence that would assist the defence or undermine the prosecution. Post Office refutes the allegation that it has put pressure on Defendants to plead guilty to criminal offences. This is completely untrue. Post Office is duty bound to communicate with a defendant's lawyers, and any decision by a defendant to plead guilty is made after he has had the opportunity to take private and confidential legal advice and consider, with his lawyers, all the evidence against him.

#### Statute of Limitation

55. Limitation periods for bringing legal actions are a long and firmly established part of the law. The periods, currently established by the Limitation Act 1980, balance the interests of the claimant (who may need time to bring a claim) and the defendant (who must be protected from stale claims, e.g. because relevant materials are no longer available).

56. The limitation defence is available to all defendants, no matter how strong the claim they are asked to answer. Post Office should not be prevented from exercising this legal right.

57. The Scheme does not affect postmasters' legal rights, including the right to start Court proceedings if they believe their case has merit. Many of the complaints in the Scheme are very old, with the typical 6 year limitation period expiring well before the Scheme was established.

#### Training and Support for Subpostmasters

58. Post Office disagrees with the contention made during the debate that the training, help and support provided to Subpostmasters was inadequate. Thousands of Subpostmasters, in receipt of the same training and support as Applicants to the Scheme, have been operating the Horizon system successfully for years. Post Office provides comprehensive training, both in the classroom and onsite, and follow-up support and visits are also offered to those who may benefit from them or who request them. In addition, our helpline is available to support Subpostmasters in addressing any queries, alongside providing a service for technical enquiries. If these are not resolved quickly, further expertise is available, including visits to Post Offices as necessary.

59. Like any other responsible organisation, Post Office always strives to improve its training and support and has undertaken further initiatives since the publication of Second Sight's report in 2013. Post Office created a new Branch User Forum as a way for subpostmasters and others to raise issues and insights around business processes, training and support, to feed directly into the organisation's thinking at the highest level. One of the tasks for this forum is to review support processes and training to ensure they meet the standards expected of, and by, Post Office.

60. In addition, making better use of technology will enable Post Office to enhance the effectiveness of the support it offers in a value for money way. The training of new Subpostmasters is an area that Post Office has recently reviewed and identified that by using modern technology a proportion of the existing classroom training could be delivered on-line.

61. As a result new Subpostmasters and their staff will be able to access on-line training at a time and from a location that is convenient for them. The duration of the on-site training remains unchanged. An added benefit is that this on-line training will be accessible to the whole network and not just to new Subpostmasters. Technology has also been used to reduce 'paperwork' and administration time within the support team. The overall impact

of these changes means that fewer people are needed to deliver an enhanced level of support to the network.

62. Where, in what is a small number of individual cases, Post Office has found that the support provided in that case has fallen short of the appropriate standards, those issues are addressed as part of the investigation and review process.

Options for Subpostmasters in the event of an accounting discrepancy

63. Post Office rejects the suggestion that Subpostmasters have ever been instructed to commit criminal offences. Post Office wishes to make it clear that there are no circumstances capable of justifying the criminal offence of false accounting.

64. If Subpostmasters face accounting losses, they have a clear choice to accept these on the basis that they are responsible for them or, instead, dispute them for further investigation. This does not affect their ability to continue trading. It is categorically untrue to suggest, as it was during the debate, that any Subpostmaster must commit a crime in order to continue trading.

Treatment of Cases Outside the Scheme

65. During the debate the issue of late applications and the potential for new cases was raised. The Scheme opened to applications on 27<sup>th</sup> August 2013 and closed on 18<sup>th</sup> November 2013 in line with the process designed and agreed with JFSA. The Scheme was advertised within the Post Office network and on JFSA's website, and followed earlier invitations to Subpostmasters to raise their concerns with Second Sight.

66. While the Scheme is closed to new Applicants, Subpostmasters and/or their Members of Parliament may, of course, raise any concerns direct with Post Office at any time, and Post Office will investigate the issues raised as part of its normal business. There have been a very small number of cases raised with Post Office since the Scheme closed. In each case, Post Office has offered to investigate the individual's concerns and this has been generally welcomed.

**January 2015**

**Annex L: Sir Anthony Hooper's Letter to Jo Swinson MP**

**Working Group  
Initial Complaint Review and Mediation**

Ms Jo Swinson MP

Minister for Employment, Consumer Affairs  
and Equalities

148 Old Street  
LONDON  
EC1V 9HQ

Tel: **GRO**  
Email: **GRO**

By Email

Dear Ms Swinson

**Initial Complaint Review and Mediation Scheme**

I understand that you have requested some information about the Scheme in advance of a Parliamentary debate on the subject. I am limited in the information which I can give because the Scheme requires the cases to be treated confidentially. I can however give you a general update.

The progress of cases at every stage of the Scheme has taken longer than the Working Group would have wanted. This includes the submission of case questionnaires by the applicants (or their advisors), Post Office's investigations, Second Sight's reviews and applicant responses to Second Sight draft case reviews. In addition disagreements within the Working Group as to whether individual cases should proceed to mediation has led to further delays because such disagreements can only, for reasons of fairness, be resolved at face to face meetings. The Working Group also awaits Second Sight's review of, and views on, the many generic issues raised by the applicants. That review will not be ready before about March 2015 and a number of cases will not be mediated until it has been produced.

I should add that the Working Group meets regularly to review progress and I have made it a priority to push the Scheme ahead as quickly as possible. The cases have proved to be far more complex than originally envisaged.

I attach an appendix setting out the progress of cases within the Scheme. I am unable to tell you how many cases have been resolved at mediation. Neither I nor JFSA have access to this information. I attach a letter (with permission) from CEDR which sets out why that is so and the arrangements for updating the Working Group. CEDR has subsequently agreed to provide its first update after 15 cases have been mediated.

I hope this information is helpful to you.

Yours sincerely

**GRO**

Sir Anthony Hooper  
Chair of the Working Group

**Appendix 1**

Case progress as at 12 December 2014

Applications to the Scheme	150
Applications rejected (ineligible)	4
Cases resolved prior to entry into the Scheme	10
Case resolved during investigation	2
Cases awaiting Working Group recommendation pending further information/review by either Post Office or Second Sight	23
Cases recommended for mediation by the Working Group	24
Cases passed to CEDR to arrange mediation	20
Cases not recommended for mediation by the Working Group	2
Cases mediated	7
Cases where Post Office declined to mediate	2
Cases resolved prior to the mediation meeting	2
Cases with CEDR* awaiting mediation (of which 3 are scheduled to take place before Christmas)	9
Cases remaining in the Scheme	110

\*Centre for Effective Dispute Resolution – the external mediation provider

**Annex M: Post Office Evidence and Supplementary Evidence to the BIS Select Committee**

## **Business, Innovation and Skills Committee: Inquiry into Post Office Mediation**

### **Supplementary evidence from Post Office Limited**

Further to the written and oral evidence already provided for this Inquiry, Post Office wishes to take this opportunity to provide further evidence to clarify a number of points that were raised by Committee members and other witnesses during the evidence sessions on 3<sup>rd</sup> February 2015 about the Complaint Review and Mediation Scheme (“the Scheme”). We are grateful to the Committee for the opportunity to do so.

#### **Executive Summary**

- Suggestions that Horizon suffered from system-wide flaws triggered both Second Sight’s initial investigation and the Scheme itself. After two and a half years of investigations it is now evident that the Horizon system is robust and works as it should. This is also the broad consensus of those who have given evidence to this Inquiry.
- There are extensive recovery processes in place in the event of communications or power failure, and Horizon is regularly reviewed, improved and audited.
- At the time of Horizon’s introduction we provided extensive training and support for Subpostmasters and continue to provide full training for new Subpostmasters. This training has evolved over time. Furthermore, there is a variety of comprehensive additional support available for Subpostmasters.
- User feedback tells us that the service provided by the Horizon Service Desk has improved since it was outsourced last year.
- A range of reports and data are available to enable Subpostmasters to investigate discrepancies in their branch accounts.
- There is no fundamental difference between processes in Crown and agency branches. However Post Office is responsible for its own employees working in Crown branches just as Subpostmasters are responsible for the people they employ. This includes responsibility for losses.
- The Scheme was designed with independence in mind, so that complaints could be considered in a fair and impartial manner. The Working Group, which supervises the Scheme, comprises JFSA and Second Sight alongside Post Office, and has an independent Chair.
- One of the roles of the Working Group is to consider whether a case would proceed to mediation. It was never envisaged that all cases would automatically proceed to mediation. Both these points were clear in the original Scheme documentation.

- Post Office has declined to mediate just 5 of the 41 cases passed to the Centre for Effective Dispute Resolution (CEDR) for mediation.
- Post Office has now completed its investigation reports of all cases in the scheme. Each report is passed to Second Sight for independent review.
- There is a broad consensus amongst Working Group members, acknowledged at the evidence sessions, that the Post Office reports are thorough and of a high quality.
- If there are other individuals who wish to have cases investigated, we would urge the JFSA and MPs to refer these to us. Post Office is willing to investigate any issue if sufficient details are provided.
- Post Office considers that the terms of the Subpostmaster Contract are reasonable. The Contract is, in effect, a franchise agreement between the parties and is comparable to other franchise agreements used across the UK. Under the terms of the Contract Subpostmasters are only liable for losses arising from their "own negligence, carelessness or error" and for losses caused by their assistants.
- Post Office refutes the serious allegation that it has put pressure on defendants to plead guilty to criminal offences. Post Office is duty bound to communicate with a defendant's lawyers, and any decision by a defendant to plead guilty is made after they have had the opportunity to take legal advice and consider, with their lawyers, all the available evidence.
- The Post office is not seeking to frustrate the work of Second Sight through inappropriate control of information. As part of its investigation, Post Office provides all the information it holds relevant to the case and continues to work with Second Sight to provide additional information required as part of their investigations and in line with the requirements agreed by the Working Group.

## **Horizon System**

1. Over two and a half years ago Post Office appointed Second Sight to undertake an investigation into questions raised about the integrity of the Horizon system and suggestions that it suffered from systemic flaws. Following the publication of Second Sight's report in July 2013, Post Office established the Complaint Review and Mediation Scheme ("the Scheme"), to provide a mechanism for individual complaints to be investigated and so that action could be taken if that proved necessary.
2. It is now evident that the Horizon system is robust, works as it should and does not suffer from system-wide flaws. This is supported by Second Sight's own conclusions; the complete absence of any such flaws arising from Post Office's comprehensive re-investigation of all cases in the Scheme and; moreover, reflects the broad consensus expressed by witnesses before the Committee in answer to direct questions on 3 February 2015.
3. The system has been used by nearly 500,000 people since it was brought into service and is currently used by 68,000 people to perform millions of transactions each day for Post Office customers across the Country. It is both effective and resilient. This is welcome news.
4. Post Office understands that a number of Applicants will, when faced with problems they appear to have been unable to explain, have come into the Scheme believing Horizon is or was flawed. However, the evidence does not support that belief. Instead, human error appears to be the cause of discrepancies in a majority of cases.

### ***Multiple Applications on the System***

5. During the course of the evidence session, the system was criticised as having a very "chaotic, behind – the scenes set of circumstances in IT terms".
6. The suggestion that, since its introduction in 2000, the addition of functions to Horizon over time was unplanned is incorrect. The system was designed to allow for the addition of commercial capabilities such as new products. The IT architecture is robust and well-organised.
7. All changes to Horizon are controlled through a robust change management and operational governance process. A joint Fujitsu (who designed, built and now operate Horizon) and Post Office test team is in place to ensure that changes are subject to full testing prior to implementation.

8. Furthermore, third party interfaces do not cause problems. In both of the examples provided to the Committee (ATMs and Lottery), the cause of errors was human error rather than the product of failings in the IT systems.

### ***Recovery Process***

9. The Committee was told that power cuts or telecommunications interruptions have caused errors in branches' accounts. This is not the case.
10. There are standard recovery processes built into Horizon to ensure that no data is lost or corrupted during power cuts or telecommunications failures. This recovery process was reviewed in detail by Second Sight in their Interim Report in 2013 and found by them to work.
11. In the cases reviewed so far, Post Office has seen no evidence of a causal link between power or telecommunications failures and discrepancies in branch accounts. Interruptions in power supplies and telecommunication lines are a risk faced by all IT systems. With this in mind, and as noted above, Horizon has robust recovery protocols in place, for example:
  - A single customer visit to a Post Office may include several individual transactions e.g. a withdrawal of cash from a bank account and the payment of a utility bill. This group of transactions is called a "basket".
  - After entering each individual transaction on the Horizon terminal in the branch, the last stage in the process is for the terminal to contact the Post Office Data Centre in order to record the customer's basket.
  - If the terminal cannot contact the Data Centre, for example, owing to a problem with the communications line, a message is displayed to the user (e.g. the Subpostmaster) informing them of the failure to make contact with the Data Centre and asking them if they wish to Retry or Cancel.
  - If the user selects "Cancel" this results in a Forced Log Out of the Horizon terminal and the following happens:
    - o Horizon cancels those transactions in the basket that can be cancelled (some transactions cannot be cancelled once entered on Horizon e.g. a withdrawal from a customer's bank account cannot be cancelled because the bank will have already withdrawn the funds from the customer's account).
    - o Horizon prints out 3 copies of a Disconnected Session Receipt (one for the customer, one for branch records and one to attach to the till to aid with recovery). The Receipt shows which transactions have been cancelled and which could not.
    - o Horizon then logs out.

- The Receipt will show whether, based on those transactions that could be cancelled, any payment should be made or taken from the customer. The user should follow the instructions on the Receipt in either giving or taking any payment from the customer.
  - The system will display the Log On screen and the user may then log on again.
  - As part of the Log On process, Horizon checks the identity of the last basket recorded in the Data Centre against the last basket recorded on the terminal. If the last basket on the terminal includes transactions that could not be cancelled, that basket will then be uploaded to the Data Centre.
12. In short, this recovery process ensures what happens physically in the branch mirrors what is recorded in the branch's accounts regardless of the point in the customer transaction at which the communications failure occurred.
13. These robust recovery systems built into Horizon work as they should. Discrepancies would only arise where the appropriate operating protocols are not followed correctly by branch staff.

#### ***Review, Improvement and Audit***

14. The Committee was told that Post Office has failed to review and improve Horizon since its introduction. This is not the case.
15. Post Office has a number of processes in place for regularly reviewing and improving Horizon. These include:
- incident and problem management processes - both of these processes ensure that where a branch reports an issue it is investigated and resolved. Where several instances of the same issue occur, then a problem record is created and the cause of the issue is identified and fixed. The resolution of problems can sometimes be minor amendments to processes or can result in a change to the software code via the next release of upgraded software;
  - operational reviews undertaken with Fujitsu - these take place on a monthly basis across a number of different specialist teams in both Post Office and Fujitsu. The purpose is to monitor and review past performance, addressing any issues as required, and to prepare for known changes or upcoming events;
  - operational reviews with the National Federation of Subpostmasters (NFSP) - these have been in place for over 10 years and have operated on either a monthly or quarterly basis across this entire period. NFSP Executives meet with senior representatives from Post Office's IT Services, Network and Financial Services Centre (FSC) teams. Operational issues are raised via these meetings and action is then taken to resolve and improve either Horizon

or associated processes. Other systems are also discussed as and when relevant, for instance in relation to other equipment such as ATMs; and

- continuous service improvement - this is a standard process that Post Office IT Services operates with all of its suppliers.
16. Moreover, Horizon is audited and accredited in the following ways:
- Ernst & Young produce an annual ISAE3402 service auditor report over the Horizon processing environment;
  - each year Bureau Veritas perform ISO27001 certification – this is the industry standard security accreditation;
  - Information Risk Management (IRM) accredit Horizon to Payment Card Industry Data Security Standards on an annual basis;
  - Fujitsu undertake regular industry standard testing on the system; and
  - the Post Office audit team perform risk based reviews.
17. In summary, Horizon is regularly subjected to comprehensive and independent reviews, testing and audit procedures.
18. Questions were raised about Post Office's plans to change to a new system when the Post Office's current contract with Fujitsu in respect of Horizon comes to an end in March 2017.
19. Post Office's intention to move to a new system does not reflect any dissatisfaction or lack of confidence in Horizon. It is simply that the current contractual arrangements are due to expire.

### **Training and Support**

20. A number of questions were raised during the evidence session in relation to the training and support offered to Subpostmasters by Post Office, the majority of which attempted to suggest that it is somehow inadequate. Post Office does not accept this.
21. Post Office has already acknowledged that, in a small number of specific instances, the training and support provided to certain Applicants was, for whatever reason, not as comprehensive as it could have been. Where this has happened in relation to individual cases, all of which are different, Post Office is addressing this as part of the Scheme.
22. However, scale is important in this context. With nearly 500,000 users since its introduction and 68,000 current users, the number of complaints is small and

whilst Post Office considers that every complaint is important - hence its comprehensive investigation of those complaints – they are by no means evidence that the training arrangements were inadequate overall.

### ***Training***

23. The Committee heard evidence on the training available to Subpostmasters at the time of Horizon's introduction. This evidence focused on the pack of training materials provided to Subpostmasters at the relevant time and questioned whether this had been sufficient. Although this pack was indeed provided, it formed only one part of a whole package of training provided to Subpostmasters which included a range of other training and support during the implementation of Horizon.
24. On the introduction of Horizon, two different training courses were provided. The first course was for Subpostmasters and the second was for Subpostmasters' staff (of 2 and 1 days' duration respectively). This training was delivered prior to the branch migrating to Horizon. All Subpostmasters left the course with a Horizon user guide and they were also subsequently provided with quick reference guides.
25. The next phase of training and support took effect as branches went live on Horizon. Each branch was assigned a Horizon field support officer (HFSO) who physically attended the branch to assist with the migration onto Horizon. The number of HFSOs attending would depend on the branch size. This migration process was that:
  - the branch completed a paper balance, showing any losses or gains of cash and stock;
  - the HFSO checked the calculations of the paper balance; and
  - once the HFSO was happy the paper balance was calculated correctly they would transfer the information onto the Horizon system and receive confirmation from the system that the entries made as part of the migration balanced.
26. The HFSO then stayed with the branch for a further two days helping with issues including:
  - navigation of the system to transaction buttons;
  - instilling good practice, for example, always clearing the last transaction before serving the next customer;
  - end of day reporting for the daily despatch of paperwork;

- if one of the 2 days covered the scheduled weekly balance then the HFSO would support this as part of the 2 days training; and
  - if the 2 days did not include a scheduled balance day then an HFSO would be scheduled to attend an hour before the closure time of the branch on that scheduled balance day to support the manager in the weekly branch balance.
27. Additional support was also provided to some Subpostmasters where Area Managers felt it was needed. In some instances, Subpostmasters attended a Preview Event, prior to attending the standard training. The Preview Event was to help familiarise the Subpostmaster with Horizon before their formal training.
  28. If branches were found to be struggling with Horizon following migration, Area Managers and their teams or HFSOs would work with the relevant Subpostmaster to assist them to identify and correct where they were completing activity incorrectly.
  29. Moving forward, and contrary to the assertions made to the Committee, continuing back-up training has always been provided after the initial Horizon migration. Post Office has a full and effective training regime for new Subpostmasters coming into branches which are already Horizon enabled.
  30. Post Office provides new Subpostmasters with training both prior to and after taking up their position in branch. Training can cover matters such as how to transact new products and services; reconcile the day's transactions; "remming" in and out cash and stock management; and despatching cheques to processing centres.
  31. Subpostmasters are also advised on how to balance the branch on a weekly basis, roll over into the next weekly balancing period and how to balance at the end of the monthly trading period, a central requirement of their duties. As part of this training, Subpostmasters are shown how to verify transactions and the cash and stock on hand if discrepancies arise; how to accept or to challenge Transaction Corrections (described further below); how to make good any losses; and how to raise issues about errors/discrepancies.
  32. As one might expect from any sensible, learning, organisation, this training has evolved over time as set out below.

*2001 – 2002*

33. Classroom training was offered to new Subpostmasters followed by ten or eleven days of onsite training and support. This was followed by one day of follow-up support on how to carry out balancing at the end of the trading period, referred to as "balance support".

*2003 – 2006*

34. Between five and ten days of classroom training was offered to new Subpostmasters and five to ten days of onsite training and support was then given depending on whether the classroom training was attended. This was followed by a further day of follow-up balance support.

*2007 – 2011*

35. New Subpostmasters received five, eight or ten days of training on foundation, sales and other specialised modules. Six days of onsite training and support was provided, again followed by one day of follow-up balance support. In 2007, after a pilot scheme, follow-up telephone calls were introduced at intervals of one month and six months after a branch was taken over by a new Subpostmaster, with a one-day site visit taking place three months after the branch was taken over.
36. A Subpostmaster may choose not to attend training, or only attend part of a training session if, for example, he or she has worked in a branch previously and therefore already knows how to operate Horizon and carry out transactions. Once initial training has been provided, it is the responsibility of the Subpostmaster as an employer to train his or her staff and ensure that updates or new procedures are followed and communicated to their staff. Equally, it is for the Subpostmaster to ask for further training and/or assistance if it is required.

***Other Support***

37. In addition to the training arrangements set out above, there is a comprehensive package of additional arrangements to provide support and assistance for Subpostmasters as set out below.

*Network Business Support Centre (NBSC)*

38. The NBSC was established in December 1999 to provide phone-based support to Subpostmasters and their staff.
39. The NBSC's primary function is to provide assistance to Subpostmasters with problems arising from the processing of transactions performed through Horizon, as well as how to deal with mistakes and issues arising out of the monthly branch trading processes.
40. Post Office currently employs approximately 70 people within the NBSC to receive calls, undertake second line support as required and carry out administrative roles, although the number of staff actually on duty at any one time to receive calls will vary. The NBSC receives approximately 1,700 calls a day. Potential peaks of call volumes to the NBSC have been addressed by

spreading branches across four trading groups, so that required monthly submissions from branches with associated queries to the NBSC, do not all fall on the same day in each month.

41. The NBSC operates a two-tier escalation process so that if the NBSC adviser is unable to resolve the query/issue with the caller, the call is escalated to Tier 2 where more expert advice can be provided. If this still does not resolve the issue, the Branch Support Team will decide if further training or face to face branch support is required.

#### *Horizon Service Desk (HSD)*

42. In addition to the NBSC, Subpostmasters can access Horizon On-Line Help and, the Horizon Service Desk.
43. The HSD deals with technical issues concerning Horizon and in the event that a technical issue cannot be resolved over the telephone, the HSD can arrange for an engineer to attend the branch to investigate the issue further.

#### *NBSC and HSD Performance*

44. The Committee was told that calls made to the helpline were not dealt with or were marked as low priority. This is inaccurate.
45. There is, in fact, no priority system in place for calls to the Post Office Helpline with the exception of matters relating to robbery or burglary. Whilst those calls are dealt with as a priority, other calls are answered and dealt with in the order they are received.
46. Calls to the Helpline are logged. Relevant and available call logs have been disclosed to Applicants with Post Office's Investigation Reports within the Scheme procedures. Those logs may have included "low priority" flags which may have given rise to confusion. However, this is a redundant data field automatically populated by the call logging software and it is not used in practice by Post Office.
47. In respect of the responsiveness of the helpline, the NBSC is measured against a number of service levels, including how quickly calls are answered. If for any reason there is an issue within the branch Network, there can be a sudden high volume of calls and it can therefore be more difficult to get through. If the branch calling decides to hang up before being answered, this call is classed as having been abandoned. NBSC answer all calls if the caller does not hang up.
48. NBSC has a high proportion of staff with more than 12 years' experience. Staff also have access to a database with approximately 6000 types of incidents to support any query that may come into the Helpline. The use of manuals is

necessary to help NBSC staff answer questions on the wide range of queries raised by the branches swiftly, effectively and on the basis of tried and tested solutions.

#### *Field Support*

49. Post Office has a dedicated Field Support Team responsible for induction and on-going transactional training for all Subpostmasters. Although the structure of the team has changed over the years, it currently consists of 227 Field Support Advisors (FSAs) who, together with 18 Field Team Leaders (FTLs), provide training and support to branches. In addition, they deal with Subpostmaster queries and carry out audits.
50. The Field Support Team is responsible for matters such as:
  - delivering classroom training to all new Subpostmasters;
  - training on site following a branch transfer;
  - requests from branches for additional or remedial training; and
  - undertaking compliance and financial audits, which can also include providing further training to Subpostmasters on matters identified by such audits.
51. In addition to the Field Support Team, there are others within Post Office who provide training and support, either on a face to face basis or by telephone. These include Mail Development Managers (for branches which receive a high volume of mail) and the Branch Standards Team.
52. There are a number of other teams across Post Office who may also come into contact with Subpostmasters (such as product specific teams, for example the National Lottery team) and who may, in some cases, recommend additional training. The Subpostmaster can also request further visits and training from the Field Support Team.

#### *Finance Service Centre (FSC)*

53. As well as the support offered by the Helplines and other support teams, help with accounting issues is provided by Post Office's Finance Service Centre (FSC).
54. FSC could become aware of issues either owing to:
  - a branch calling FSC directly or being referred to FSC via the Helpline;
  - FSC identifying an anomaly in a branch from its accounting records; and / or

- a customer raising an enquiry to Post Office about a transaction in a branch.
55. FSC will work with a branch to try to identify the cause of any erroneous transaction. This may include speaking to the branch about how they have conducted the transaction; asking the branch to provide missing customer details; checking the paper records held at the branch against the transaction data on Horizon, liaising with clients (whether customer banks, utility companies, and so on) to gather different data streams on a transaction and contacting customers to get their consent to remedy errors.

### **Outsourcing**

56. The Committee was told that Post Office outsourcing the HSD was having a detrimental impact on service levels to Subpostmasters. This is not borne out by the evidence.
57. The HSD was outsourced to the Philippines in 2014 thus post-dating any applications to the Scheme. Nevertheless, outsourcing back office functions is standard practice across UK industry as a cost reduction measure provided quality is not compromised. Far from this having had a detrimental effect on service levels, feedback from surveys about the service is that it has improved as a result of this measure. To be clear, this particular helpdesk is for technical queries, not queries about financial or other transactions, all of which are serviced by staff based in the UK.
58. The key “Quality of Service” measures are all performing above target (Service Desk Availability, Speed to Answer, First Contact resolution and Call Abandonment rate). In addition to these hard measures, Customer Satisfaction is at 98.34% for January 2015.
59. Measures from the latest report are listed below:
- Service Desk Availability, target 100%, actual 100%
  - Speed to Answer, target 80%, actual 80.73%
  - First Contact resolution, target 90%, actual 94.19%
  - Call Abandonment rate, target 5%, actual 2.05%

### **Handling Discrepancies**

60. The Committee was told that Subpostmasters do not have access to information to enable them to identify reasons for discrepancies.
61. Post Office considers this to be incorrect and is not aware of any evidence or examples of a transaction that could not be verified and explained by the paper

records which should be held and retained in branch for between two and six years.

### ***Information Available to Subpostmasters to Investigate***

62. Post Office considers the proposition put to the Committee that information is not available to Subpostmasters to enable them to investigate discrepancies, is driven by a misunderstanding of the nature of the information needed by branches to undertake such an investigation. Each branch has access to all the necessary information and Post Office has explained this process in detail to Second Sight. It is summarised below for the Committee's benefit.
- The system, like all computer systems, relies on accurate inputs. If branches conduct transactions accurately when serving customers (for instance by taking the correct cash from the customer and recording the transaction accurately on Horizon), then there will be no discrepancy between cash and stock on hand and the cash and stock levels registered on Horizon.
  - At the end of each day, every Subpostmaster is required to count and declare the amount of cash in the branch. If at the end of a day, a branch makes a cash declaration that subsequently shows a discrepancy, then the branch will have access to a range of reports on different products and transactions to investigate the possible causes for the discrepancy (including a complete line by line listing of all transactions that day). This also applies at the end of the trading period (a trading period is either 4 or 5 weeks) and since the introduction of Horizon the above reports and data have always been available in branch for a minimum of 42 days (now 60 days).
  - The other situation in which a branch may need to retrospectively review their trading records is where Post Office generates a Transaction Correction (TC).
  - A TC is an electronic message sent through Horizon to a branch notifying them that Post Office has detected a possible accounting error. Even if a branch's accounts are in balance (meaning that there is no discrepancy between cash and stock on hand and the cash and stock levels recorded on Horizon), it may be that the branch has processed transactions erroneously or in a way that causes a third party to refuse to reconcile the transaction with Post Office, thereby causing a discrepancy. TCs can be issued to rectify accounting errors arising from a wide range of issues including errors or omissions in data entry such as mis-keying or not entering the transaction date.
  - Subpostmasters are required to accept or reject a TC. There is no automation here – a positive action is required on the part of the Subpostmaster. Crucially, where a TC is sent to the branch, the information needed to verify it will not be the Horizon data (Post Office has this data and takes this into account when generating the TC) but will, instead, be in the paper records held only at the branch. It follows that only the Subpostmaster can provide the missing information to verify the TC or prove that it is incorrect. It is for this

very reason, among others, that paper records are required to be kept by branches for between 2 and 6 years. For example if a TC is sent to a branch claiming that the branch has under-recorded on Horizon the amount of cash dispensed from its ATM, the branch can verify or reject the TC by producing the paper receipt from the ATM that shows the amount of cash dispensed.

63. There are some errors that cannot and could never be detected by Post Office because these take place in branch. For example, where a member of staff hands £10 change to a customer rather than £5 or a branch records a £100 cash deposit as a £1000 cash deposit. Only the Subpostmaster and their staff can monitor and prevent such errors. It is therefore unsurprising that, in some cases, the precise errors that have caused losses cannot now be identified some years after the events in question.
64. However, where a branch accurately counts and declares its cash every day (as required under the terms of the Subpostmaster Contract), this will flag up any discrepancies. With the day's trading fresh in the mind, it is usually possible to identify and correct erroneous transactions. It is where Subpostmasters do not keep accurate records or fail to undertake daily checks in accordance with standard operating procedures that errors can accumulate and then it can be difficult to disaggregate them into their root causes.
65. It is a Subpostmaster's responsibility to ensure their branch accounts are accurate. The information available means this is wholly within their control.

#### ***Retrieving Data to Investigate Discrepancies***

66. Post Office can retrieve a certain amount of Horizon transaction data under the terms of its contract with Fujitsu but there is a limit to the data that can be retrieved without triggering further payments. Like any organisation, in the first instance Post Office will look to resolve any investigation without the need to spend money unnecessarily. However, there has by no means been an "extreme reluctance" to investigate shortages or surpluses as was suggested at the hearing on 3 February 2015. Where there has been cause to request further information from Fujitsu, Post Office has done so.

#### **Crown and Agency Processes**

67. The Committee heard suggestions of differences in the experience of staff in Crown branches as compared to agency offices owing to the fact that different processes are employed by them. This is an incomplete picture.
68. Broadly speaking, staff in both office types follow the same operating protocols. Best practice on in-branch balancing is shared across the Post Office network.
69. One point of difference between Crown and agency branches is that Post Office must absorb all losses in Crown Post Office branches because they are

operated by Post Office employees. By contrast, Subpostmasters are independent business people who run Post Office branches from their own premises.

70. Post Office is accountable for the performance of the people it employs directly, just as Subpostmasters are accountable for the people they employ. Therefore, if any of Post Office's employees cause losses, Post Office has to absorb these and Subpostmasters have similar responsibilities in respect of the people that they employ.
71. Post Office has robust procedures in place to investigate and deal with shortages in Crown branches through its branch management processes. Tolerance relating to losses at Crown branches is set at individual level. As a general rule an 'escalation' investigation is initiated after 3 losses of in excess of £30, although there are variations to this depending on local and individual circumstances. Branch Managers also implement a series of surprise checks on stock units and separately carry out supervisory misbalance checks when a stock unit is showing £30 or more loss on two consecutive daily cash declarations.
72. Discrepancies can also be identified at the end of each trading period where the Branch Manager undertakes a full cash and stock reconciliation. An 'escalation' investigation can be initiated as a result of errors found as part of that process.
73. Discrepancies in Crown and agency Offices are rectified using the same TC process as described above. TCs are sent to the Branch Manager who is responsible for accepting or querying the TCs based on the evidence in Branch. This process could also identify discrepancies which could result in initiation of an 'escalation' investigation.
74. Depending on the circumstances, actions against an individual member of staff in cases of persistent negligence or wrongdoing can include disciplinary action, dismissal and/or prosecution.
75. There is no difference in the design or maintenance of Horizon in a single counter agency branch or a multi corner Crown branch. The design of the communications for each branch is determined by the availability of services in the area. Further, the processes for recovering transactions in the event of a local outage (whether power or communications) are consistent across the Post Office network. In many cases, the communications design will be no different between a large branch (multi counter) and a Crown branch.

### **Mediation Scheme**

76. A number of observations, assertions and criticisms were levelled at aspects of the Scheme, and Post Office's actions in relation to the Scheme. Post Office

considers these painted an inaccurate and incomplete picture for the Committee.

77. First, Post Office would like to highlight the fact that the Scheme was designed and is overseen and supervised by a Working Group that comprises JFSA, Second Sight and Post Office. Post Office is simply a member of the Working Group. Most importantly the Working Group has an independent Chair in Sir Anthony Hooper, a former Court of Appeal judge. Among other things, the Chair determines matters of disagreement between the members of the Working Group.
78. Under such arrangements it is not clear how Post Office has skewed the Scheme.

### ***Scheme Design***

79. It was suggested to the Committee that all Scheme Applicants had, from the outset, been promised their cases would be mediated. It was also suggested that it was never the role of the Working Group to express an opinion on which cases went to mediation but that Post Office had made it so. This is inaccurate. The original Scheme documentation, agreed by JFSA and Second Sight and published on JFSA's website, contained statements making it clear that these decisions were part of the Working Group's role. These statements are set out below.

The Case Review Mediation Pack<sup>1</sup> states at Page 2, paragraph 5

*"The Working Group's role is to ensure the Scheme is run in a fair and efficient manner. It will also be involved in making decisions on how particular cases should be managed through the Scheme."*

Case Review Mediation Pack - Page 5 - FAQs

*"My case is very old. Can I still mediate it?"*

*Post Office's records only date back seven years and therefore it may be more difficult to investigate very old cases unless you are able to provide information and documents.*

*If your case is very old, you may still submit it to Second Sight for consideration. **However it may be decided by the Working Group that your case is not suitable for investigation or mediation.** [emphasis added]*

---

<sup>1</sup> The Case Review Mediation Pack was and remains publicly available to download from the JFSA website and was the initial documentation sent to potential applicants about the Scheme.

Case Review Mediation Pack – Page 8 – FAQs

*"Will my case definitely be referred to mediation?"*

*[...] the Working Group may consider that some cases are not suitable for mediation. For example, if there is insufficient information about a case or the case is not one requiring resolution."*

80. It is clear from this documentation that Applicants were not given any guarantee that their cases would, in fact, be mediated. It is also clear that the Working Group's functions definitively do entail expressing an opinion as to whether a case is suitable for mediation.
81. In relation to other points made about independence, the Committee will have noted that Applicants accepted into the Scheme have been supported with funding for independent professional advisors to help them build their cases and support them in mediation if this takes place.
82. The level of financial support for Applicants was agreed with JFSA and made clear to professional advisors at the outset of the Scheme. Post Office had no obligation to provide any funding. The fact that it volunteered this support demonstrates its commitment to ensuring that all Subpostmasters could access the Scheme and do so effectively.
83. The Committee was also told that none of the Applicants were satisfied with the Scheme. The facts do not support this assertion. The figures provided by the Chair of the Working Group to the Committee show that ten cases out of the initial 150 applications were resolved prior to entry into the Scheme and a further six cases were resolved during their progression through the Scheme.
84. In line with CEDR's requirements, the details of the ten cases mediated are confidential to the parties. CEDR will provide this to the Working Group after 15 cases have been mediated. Given this, the basis for the assertion is unclear.

***Progress***

85. Of the 136 Applications that were admitted to the Scheme, so far 41 have been recommended by the Working Group for mediation. Post Office has declined to mediate just 5 of these cases. At 3 February 2015, there were 87 cases left in the Scheme.
86. In relation to the erroneous 90% statistic, Post Office agrees with the explanation provided by Second Sight in their evidence that the 90% figure may reflect the number of cases that Post Office wished to discuss with the Working Group at one particular meeting. What it does not reflect is the number of cases Post Office has declined to mediate – this is much lower at only 12% of cases so far recommended as suitable for mediation by the Working Group.

Nor does it reflect the number of cases that Post Office passed directly to CEDR for mediation without the need for discussion at the Working Group.

### ***Duration***

87. As was made clear by Post Office in its evidence, it accepts that the process as a whole has taken considerably longer than anyone involved expected or would have wished. However, to suggest that Post Office is solely responsible for delays is quite wrong – every stage of the process is taking longer than first envisaged, whether conducted by Applicants, their advisors, Post Office or Second Sight. This reflects the complexity of the matters raised and the rigour and thoroughness being brought to bear by all those involved – a point that was acknowledged by both JFSA and Second sight in their evidence to the Committee.
88. In addition, many Applicants have been unable to identify specific alleged problem incidents or transactions – sometimes being unable, for example to specify the year in which something occurred. This has required Post Office to then look over years of data to identify the origin of any issue before it can even begin its investigations.

### ***Late Applications***

89. The Committee was told that a number of individuals – around 150 – would have wished to apply to the Scheme but have been unable to do so since it is now closed.
90. In designing the Scheme, JFSA agreed that the application period for the Scheme should be three months. There were three late applications to the Scheme, all of which were accepted by the Working Group. Since then there have been a handful of additional cases that have come direct to Post Office (usually via MPs) and that are being investigated by Post Office in a way that mirrors the investigations conducted in the Scheme.
91. Post Office has made it clear to MPs and JFSA that it will investigate any complaint raised by a Subpostmaster. If cases are not referred to Post Office then they cannot be investigated and addressed. We have and continue to urge JFSA and MPs to refer any further cases to Post Office.
92. It is worth adding that there is a difference between most of the cases of Scheme applicants and current Subpostmasters.
93. Some Applicants' cases go back years, are complicated, raise multiple issues, recollections have faded and information is sometimes no longer available. Significant work was therefore required to investigate these cases. Any former Subpostmaster could have applied to the Scheme. The Scheme has therefore provided former Subpostmasters with an adequate forum for their complaints.

94. By contrast, current Subpostmasters are in post, have immediate and contemporaneous access to information and Post Office can go in branch and work with them at the coal face. It is more advantageous for everyone concerned for Post Office to deal with current Subpostmasters directly rather than through the Scheme or any other process.
95. As it has always done, Post Office will investigate issues raised by Subpostmasters to help them manage their branches effectively. Or, to put it another way, there is simply no advantage to Post Office in ignoring Subpostmasters. A successful Post Office depends on successful Subpostmasters - so it is in its own interest to make sure that relationship is managed professionally and fairly.

### **Contracts**

96. The Committee was told the terms of the contract that Post Office has with Subpostmasters are 'unfair'. Notwithstanding the fact that an examination or review of the contract between Post Office and Subpostmasters has never formed part of the exercise under consideration, Post Office considers this statement to be incorrect and paints a misleading picture for the Committee.
97. Subpostmasters are not employees of Post Office. They are independent business people who choose to enter into a contract with Post Office, like they may do with any other commercial arrangement they may have. They can seek legal advice before doing so.
98. The Subpostmaster Contract is, in effect, a franchise agreement between the parties recording the basis on which they agree to do business in their particular circumstances.
99. The current Subpostmaster Contract dates back to 1994 and has been subject to a number of amendments since then. Post Office discusses variations to the contract with the NFSP on behalf of Subpostmasters. In a network of several thousand Subpostmasters, it is sensible for the contract to be negotiated collectively on behalf of Subpostmasters.
100. Moreover, the Subpostmaster Contract provides that Post Office may only require Subpostmasters to offer new products and services where it is 'reasonable' to do so. The contention that the Subpostmaster Contract provides Post Office with a carte blanche to dictate to Subpostmasters is simply wrong, as is the proposition that Post Office has been gradually transferring risk from itself to Subpostmasters over time, which is ultimately being reflected in the losses they are bearing.
101. Subpostmasters are only responsible for losses caused through their "own negligence, carelessness or error" and for losses caused by their assistants. Thus, Subpostmasters are only liable for losses arising from those operations

that are under their control and responsibility. On any objective assessment, this provision is reasonable and comparable to the risk sharing arrangements in other franchise agreements in use in the United Kingdom.

102. Subpostmasters employ their assistants directly and are responsible for organising their staff and implementing controls to prevent opportunities for theft. They are therefore responsible for the actions of their employees, even if those employees act dishonestly.

### **Prosecutions**

103. The Committee also heard opinions being expressed over the appropriateness and practical operation of Post Office's prosecution policy. Post Office refutes these serious allegations in the strongest possible terms. In addition, the making of such comments could cause an individual to act on them, believing, incorrectly that they may be based on a legally correct assessment of the position.
104. As noted in Post Office's written evidence to the Committee, all cases of potentially criminal conduct are thoroughly investigated and decisions about appropriate courses of action are taken on the basis of the available facts and evidence. The decision to prosecute a Subpostmaster or employee, in the small number of instances where this occurs, is always taken following numerous checks and balances. Post Office is confident that its approach is fully compliant with all legal requirements. When Post Office decides to prosecute a case, its conduct of the prosecution is scrutinised by defence lawyers and ultimately by the Courts themselves.
105. It was suggested that it is "more than likely" that a Subpostmaster will be "thrown out or even charged" after an audit. This is not the case. In fact, Post Office records show that in the financial years 2011-12 and 2012-13, for example, approximately 12% of all audits conducted led to the suspension of a Subpostmaster and approximately half of those Subpostmasters suspended saw their contracts terminated. Only 2.5% (approx.) of the audits during this period led to criminal prosecutions.
106. In deciding whether a case is suitable for prosecution, Post Office considers (among other factors) whether it meets the tests set out in the Code for Crown Prosecutors. The Code requires prosecutors to be satisfied that there is sufficient evidence for a realistic prospect of conviction and that the prosecution is in the public interest. The Code is issued by the Director of Public Prosecutions and followed by Crown Prosecutors. Post Office is not required to inform the CPS that a private prosecution has commenced but the CPS can take over a private prosecution if circumstances warrant. Like the CPS, Post Office keeps cases under continuous review all the way up to and during any trial.

107. Once a decision has been made to prosecute and a defendant is charged, he/she is entitled to receive private and confidential legal advice. As with all criminal prosecutions Post Office has a duty to disclose the evidence in the case to the defendant and his/her lawyers, including all evidence that would assist the defence or undermine the prosecution.
108. Post Office refutes, in the strongest possible terms, the allegation that it has ever put pressure on defendants to plead guilty to criminal offences. Post Office is duty bound to communicate with a defendant's lawyers, and any decision by a defendant to plead guilty is made after he or she has had the opportunity to take private and confidential legal advice and consider, with their lawyers, all the available evidence.
109. The evidential requirements for proving the offence of theft is a matter of law.
110. Post Office does not bring charges for theft as a tactical device to drive a guilty plea for false accounting. It is possible to bring a charge for theft where someone with access to money, takes steps to hide a loss and can offer no credible explanation for where the money has gone. This important point was not explained to the Committee during the exchanges on this topic.

#### **Provision of information**

111. Evidence given to the Committee that Post Office has been unwilling to provide information to assist in Second Sight's work or is otherwise seeking to frustrate that work through inappropriate control of information is rejected by Post Office.
112. In the two and a half years since Second Sight began investigating Horizon, both in their initial broad investigation and subsequently in relation to their review of individual cases in the Scheme, Post Office has provided the equivalent of thousands if not tens of thousands of pages of information. This includes more than 130 investigation reports on each of the individual cases in the Scheme which totals almost 2,000 pages in length and anything up to 80 pages pieces of supporting evidence in each case. Each piece of evidence can run to many pages.
113. JFSA, in their capacity as a member of the Working Group, also have access to all of Post Office's investigation reports and evidence. Any concerns about the provision of information by Post Office can be raised and addressed through the Working Group.

#### ***Prosecution Documents***

114. During the course of the evidence session, Post Office was accused of refusing to provide Second Sight with access to legal files and asked whether it would provide Second Sight access to these.

115. It may be helpful to provide some background before turning to the Committee's question.
116. For each prosecution conducted by Post Office, it prepares a file of relevant papers. These files contain factual information such as interview transcripts, schedules of charges, case summaries, witness statements and original documents. These are made available to the defendant and courts and contain all the information necessary for a defendant to, if they wish, attempt to refute any charge brought against them. Post Office though does not make available to the defendant or court, legally privileged material such as advice from Post Office's lawyers on how to conduct an individual prosecution. This is standard practice for prosecutors including the CPS.
117. In October 2014, the Working Group (of which Second Sight is a member) discussed the matter of which documents relating to prosecutions associated with individual cases in the Scheme should be provided to Second Sight. It was agreed that Post Office would provide the bundle of documents which would have been made available to the defence lawyers and the Courts. This would include documents such as witness statements and exhibits – in short, anything which Post Office relied on to support the charge. In addition, Post Office agreed to provide, where held, other Court documents such as a memorandum of conviction.
118. Post Office has never refused to provide this information. Post Office has, and continues to provide what information is held in relation to individual prosecutions in line with the agreement with the Working Group.

### ***Emails***

119. During the evidence session, Post Office's approach to the provision of email account data for certain Post Office employees was questioned.
120. It is correct that in 2013 Second Sight asked for email accounts for a number of Post Office employees dating from 2008. This was in response to an issue raised by Second Sight as part of its initial investigation, prior to the publication of its Report in July 2013. The allegation related to whether the Horizon test environment in the basement of Fujitsu's office in Bracknell could have been used to edit live branch data. Post Office explained at the time that it may be difficult to provide such information in view of its age but did, in May 2013, provide the email data it was able to retrieve at the time.
121. In response to the allegation Post Office also provided Second Sight with a witness statement from a key member of staff who worked at Bracknell. This confirmed that the basement was a secure test environment; there was no connection with any live transaction data; live transaction data could not be accessed from the basement and the basement was never used to access,

change or manipulate live transaction data in branches, which cannot in any event be edited, remotely or otherwise. In addition, Post Office provided Second Sight with a considerable amount of policy documentation relating to the Bracknell Office covering systems access, building access and security.

122. In light of this, Post Office has asked Second Sight to clarify its request for further data and the questions it is seeking to answer beyond those which Post Office has already answered.
123. Post Office appreciates the need for the Scheme to proceed as quickly as possible. Post Office does not consider that at this stage of the process, the further transfer of bulk data without any clarity as to what analysis of this data could produce will add anything to an already comprehensive answer on this point. Nevertheless, Post Office is continuing to engage with Second Sight to decide what information can be provided to answer Second Sight's specific questions.

#### ***Suspense account***

124. The Committee was also told that Post Office was denying Second Sight access to information about movements into and out of an account referred to as its "suspense account".
125. In June 2014, Second Sight asked Post Office to explain the operation of its suspense account. Post Office replied to that request in a written paper in July 2014.
126. In response, Second Sight asked for some data on the accounting entries being posted to the suspense account. The suspense account relates to the movement of monies between Post Office and its corporate trading partners ("clients").
127. Second Sight agreed to clarify why they needed this data, which they did in October 2014. Following some residual uncertainty over the focus and purpose of the request, Post Office sent a further written paper to Second Sight explaining the aspect of the operation of its suspense account that it understood to be of specific interest in more detail. Second Sight was invited to meet with Post Office's Chief Finance Office to discuss the issue.
128. At the meeting in January 2015, it became apparent that the information being requested was to allow Second Sight to assess a theoretical risk to Subpostmasters in general. It was therefore agreed that Post Office would provide 'contextual data' giving a sense of the scale and complexity of the account and the information available. An initial follow-up letter sharing data has been sent and a meeting being arranged with Second Sight to agree the next steps.

129. Whilst Post Office acknowledges it has taken longer to respond to Second Sight's requests than it would have wished, it does not accept that it has withheld access to information about its suspense account and we continue to work with Second Sight to ensure that it receives the information needed to answer the questions put by Subpostmasters through the Scheme.

**Conclusion**

130. Post Office has welcomed this inquiry by the BIS Select Committee as an opportunity to set out its approach to the Complaint Review and Mediation Scheme, established to help resolve the concerns of a number of Subpostmasters about the Post Office's Horizon computer system and associated issues.

**Annex N: Sir Anthony Hooper's letter to Adrian Bailey MP**

**Working Group  
Initial Complaint Review and Mediation Scheme**

Mr Adrian Bailey MP  
Chairman, Business, Innovation and  
Skills Select Committee  
**By email only**

148 Old Street  
LONDON  
EC1V 9HQ

Tel: **GRO**

Email: **GRO**

30<sup>th</sup> January 2015

Dear Mr Bailey

I am writing to you in advance of the Business, Innovation and Skills Select Committee inquiry into the Initial Complaint Review and Mediation Scheme. I am the independent Chairman of the Working Group that oversees the Scheme.

Prior to the debate in Westminster Hall on 17 December 2014, I wrote to Jo Swinson MP, Minister for Employment, Consumer Affairs and Equalities to provide a general update on progress with the Scheme. My letter was referred to in the debate and the Minister placed a copy in the library of the House. I enclose a copy for ease of reference.

Since then, the Working Group has continued to consider cases in the Scheme and in order to assist your Committee's inquiry, I attach an updated version of the table I provided to the Minister on the progress of cases at appendix 1.

I hope that this information is helpful to you and the Committee.

Yours sincerely,

**GRO**

**Sir Anthony Hooper**  
Chair of the Working Group

Cc Jo Swinson MP, Minister for Employment, Consumer Affairs and Equalities

## Appendix 1

Case progress as at 30 January 2015

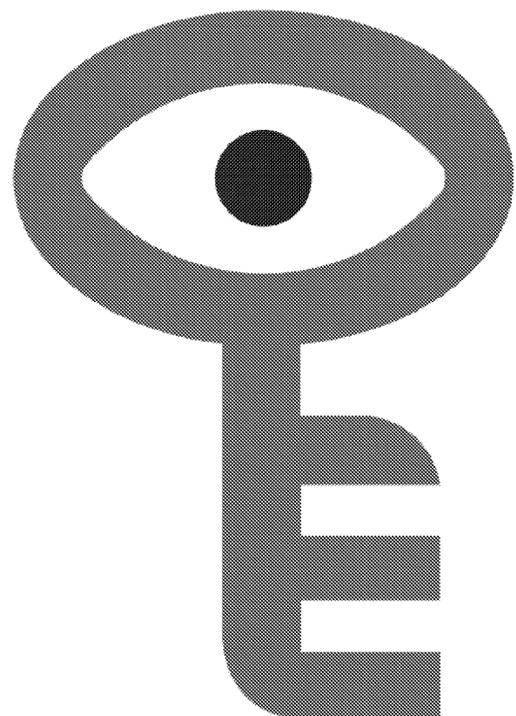
Applications to the Scheme	150
Applications rejected (ineligible)	4
Cases resolved prior to entry into the Scheme	10
Cases resolved during investigation	2
Cases awaiting Working Group recommendation	24
Cases recommended for mediation by the Working Group	41
Cases not recommended for mediation by the Working Group	2
Cases mediated	10
Cases where Post Office declined to mediate following decision by Working Group on the Chairman's casting vote that case suitable for mediation	5
Cases resolved prior to the mediation meeting	3
Cases with CEDR* awaiting mediation	15
Cases remaining in the Scheme	87

\*Centre for Effective Dispute Resolution – the external mediation provider

**Annex O: CEDR Mediation Process Guidance notes prepared for the Initial Complaint Review and  
Mediation Scheme Working Group**

# CEDR Mediation Process

Guidance notes prepared for the Initial Complaint Review and Mediation Scheme  
Working Group  
May 2014



### **Referral by the Working Group**

The Working Group will refer cases to CEDR for Mediation with a bundle that will comprise:

1. Applicant's CQR and associated evidence
2. Post Office Investigation Report and associated evidence
3. Both parties' comments on Second Sight's draft Case Review
4. Second Sight's final Case Review
5. The mediation pack for the case

CEDR will then send the bundle to both parties.

CEDR advises that cases where the claim is not quantified in advance of the mediation, or where the claim changes dramatically at the last moment, are far less likely to be successfully resolved. CEDR suggests that un-quantified claims should be referred back to the applicant in order to address this question before being referred to CEDR for mediation.

**NOTE:** the Working Group is to consider how and at what stage un-quantified cases are referred back to the Applicant in order to establish quantification.

### **Appointment of the Mediator**

CEDR will appoint mediators from a Panel on a rota basis, or as close to a rota basis as circumstances allow. This rationale is based on the experience of administering the Court of Appeal Mediation Scheme for the last three years and in particular the improvements following a review of the process 18 months ago. The Court of Appeal Scheme has some similarities to the Scheme in that CEDR is required to provide a mediation service within six weeks of referral and there is a specific panel of mediators assigned to it.

To be specific, CEDR's reasons for suggesting a rota are as follows:

1. It is essential that the panel build up their experience in dealing with these cases as quickly as possible. If one or two of the Panel have undertaken most of the early cases the rest of the Panel will have not had a great deal of experience on these cases when the volume reaches its peak.
2. It is essential that cases are shared relatively equally between the Panel to ensure consistent availability and maintain standards. CEDR would not be comfortable asking a mediator to undertake more than two mediations a week for reasons of ensuring a consistent quality of service. We would not, for example, wish to be in a position where a mediator is conducting a mediation having only had a few hours' sleep after getting home in early hours from a mediation that occurred the preceding day. If the parties

**CEDR Mediation Process  
May 2014**

are to choose the mediator this could cause delays due to availability, whereas if CEDR undertake the allocation they can work around the Panel's availability.

3. It will eliminate delays that are common where the parties are given a shortlist of mediators to choose from. CEDR's experience is that this is the number one reason for delaying the scheduling of a mediation. The Court of Appeal Scheme initially allowed the parties to agree to a mediator rather than CEDR allocating the mediator. This created significant delays and, therefore, the process was streamlined with CEDR taking over the allocation. As a result the mediations are held in a more timely manner and the number of mediations taking place has increased.
4. It eliminates the possibility of legal advisors who are acting for multiple applicants from using the same mediator on multiple cases. It is quite common for law firms to have a list of preferred mediators but over time these individuals can at times be labelled as in some way 'their mediator' due to the volume of cases which causes additional friction between the parties. This is of course a misguided assumption but we see it referred to by parties on a regular basis.

**Engagement with the Applicant**

Early engagement between the mediator and the Applicant and/or their representation is key to ensuring the best chance of a successful outcome and managing expectations. It is our intention, therefore, to make the mediator available to both parties for pre-mediation contact as soon as the appointment is made.

**Venue**

Venues for mediations will be selected near the base of the applicants. Venues will always provide three rooms. One for each party to base themselves for their private meetings and a large room big enough to host joint sessions of all participants.

Other venue specifics:

1. Ensure the rooms are available for as long as needed on the day, since there is no way to predict when the mediation will come to an end.
2. Ensure the rooms are either physically separated from each other or have excellent sound proofing.
3. Ensure the parties rooms do not have line of sight views of each other.
4. Ensure there are restrooms available all day and into the evening.
5. Ensure refreshments are available all day and into the evening.
6. Ensure there are flipcharts and markers available in the rooms to assist the mediator on the day.

**CEDR Mediation Process**  
**May 2014**

7. Make sure IT equipment is available at all times, e.g. internet connection, printer as the parties may need to print settlement agreements in the evening, for example.

**Capacity**

CEDR recommends no more than 3-5 mediations take place per week as a maximum based on the assumption that Post Office and applicants' representatives will only have finite resources.

**Reporting**

Based on our experience with the Court of Appeal, CEDR will provide the Working Group with information on the following:

1. Number of mediations conducted
2. Claims settled
3. Claims progressed (Progress has been made towards settlement)
4. Not Settled

CEDR will not provide the Working Group with any case specific information or any information on the size of settlement's reached.

Prepared by John Munton

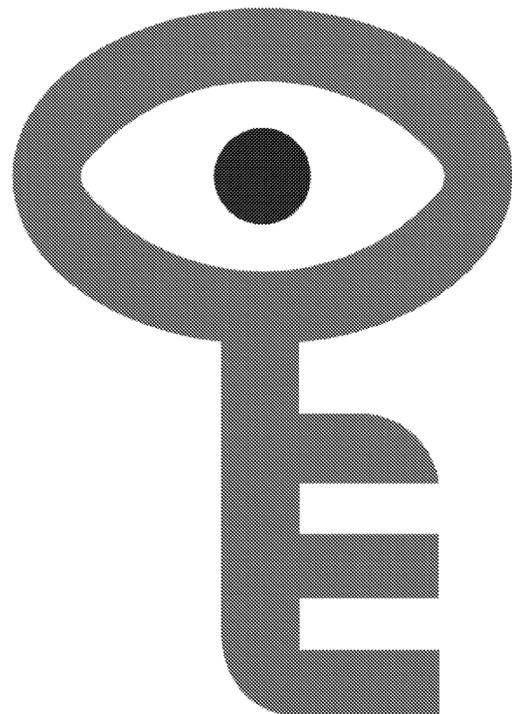
*Director of Dispute Resolution Services*

Direct line:   
E-mail:

**Annex P: Model Mediation Procedure: Initial Complaint Review and Mediation Scheme ('The Scheme') Edition 2014**

# Model Mediation Procedure

Initial Complaint Review and Mediation Scheme ('The Scheme') Edition 2014



© CEDR 2014

Registered in England as Centre for Effective Dispute Resolution Limited  
number 2422813 Registered Charity number 1060369

## CEDR Mediation Model Procedure

### 1. What is mediation?

Mediation is a flexible process conducted confidentially in which a neutral person actively assists the parties in working towards a negotiated agreement of a dispute or difference, with the parties in ultimate control of the decision to settle and the terms of resolution.

The principal features of mediation are that it:

- involves a neutral third party to facilitate negotiations;
- is without prejudice and confidential;
- involves party representatives with sufficient authority to settle;
- is flexible, with no set procedure, enabling the process to be designed and managed by the Mediator to suit the parties, in consultation with them;
- enables the parties to devise solutions which are not possible in an adjudicative process such as litigation or arbitration, and which may benefit all the parties, particularly if there is the possibility of a continuing relationship between them;

Many commercial and government contracts now require parties to use mediation in accordance with CEDR's Model Procedure. While mediation is essentially flexible, the Model Procedure set out in this document, taken with the CEDR Mediation Agreement, will give sufficient certainty to enable the process to be set up and used.

### 2. Preparation for the mediation

CEDR will make the necessary arrangements for the mediation as required or agreed by the parties or under the terms of the Initial Complaint and Mediation Scheme (the Scheme), including:

- drafting the mediation agreement, submitting it for approval by the parties and preparing the final form for signature, incorporating any agreed amendments;

**CEDR Mediation Model Procedure  
Post Office Scheme Edition 2014**

- facilitating agreement as to the date, venue and start time for the mediation;
- organising delivery of case files to the mediator;
- arranging for pre-mediation conference calls between the mediator and the parties, individually if required.

**The parties will:**

- agree with CEDR the date, venue and start time for the mediation;
- notify CEDR of the names and roles of all those attending the mediation on their behalf, so that CEDR can inform all Parties and the mediator in advance of the mediation;
- bring photographic identification to the mediation session (this must be either a passport or drivers licence);
- where an Applicant has been made bankrupt, provide evidence that the claim rights have been assigned to the Applicant;
- ensure that a lead negotiator with full authority to settle the dispute attends the mediation to sign the mediation agreement;
- alternatively notify the mediator, CEDR and (unless very good reason exists to the contrary) the other parties of any limitation on authority to settle, for instance lack of legal capacity, or the need for ministerial committee or board ratification, in which case the lead negotiator will need to have power to recommend acceptance of any settlement. Late disclosure of limited authority to settle can call into question that party's good faith involvement in the mediation process, and have detrimental effects on the prospects of success of any mediation.

**The mediator will:**

- ensure at all times that the CEDR Code of Conduct is complied with in respect of the mediation of the dispute, reporting any conflict of interest or other relevant matter, if any, to CEDR and (subject to any question of confidentiality or privilege) the parties immediately it emerges;
- make contact by telephone call with a representative of each of the parties no less than 3 days before the mediation to assist in preparation for the mediation.

### 3. Appointing the Mediator

CEDR will appoint the mediator from a panel of mediators who have been selected by CEDR for the Scheme.

CEDR will only appoint a mediator who, in their view, possesses the relevant skills and experience to mediate the dispute for the parties effectively, and who will comply with the CEDR Code of Conduct for Third Party Neutrals (“the Code”). Any appointed mediator will be required to confirm immediately to CEDR if there is any matter which might prevent them from complying with the Code in relation to the mediation of the dispute, such as a conflict of interest. CEDR will then notify the parties of any such matter immediately it is disclosed to them.

### 4. Documentation

The mediator will be provided with a bundle of documents by the Working Group, which administers the Scheme, that has already been circulated to both the Applicant and /or their professional advisors and Post Office. These documents will consist of:

1. Applicant’s QOR and associated evidence
2. Post Office Investigation Report and associated evidence
3. Both parties’ comments on Second Sight’s draft Case Review
4. Second Sight’s final Case Review
5. The mediation pack for the case

The parties may also provide to the mediator a written statement in advance of the mediation if they wish. It is not mandatory to do so and it is up to each party whether, if such a statement is submitted, it is disclosed in full or in part to the other party or if it is to be kept confidential by the mediator.

Documentation intended to be treated as confidential by the mediator or CEDR (such as a counsel’s opinion, an undisclosed expert report, a draft proof of evidence or a confidential briefing for the mediator) must be clearly marked as such, and will not be circulated further without express authority.

While documents brought into existence for the purpose of the mediation, such as written statements, are clearly privileged from later production in court proceedings, the fact that a

**CEDR Mediation Model Procedure  
Post Office Scheme Edition 2014**

document which is otherwise disclosable in proceedings is produced for the first time during the mediation does not normally confer privileged status on it. The parties must take legal advice on such matters if they arise.

**5. The mediation agreement**

The agreement to mediate provides the essential legal basis for the mediation. Its signatories (the parties to the dispute, the mediator and CEDR) all agree by signing it that the mediation is to be conducted consistent with both this CEDR Model Procedure and the Code.

A draft mediation agreement will be sent for approval to the parties as part of the preparation process for the mediation. The mediation agreement (which is CEDR's standard form of mediation agreement) will be signed at the beginning of the mediation day on behalf of each of the parties and the mediator, having been pre-signed on behalf of CEDR. On signing the agreement, parties must show CEDR their photographic proof of ID and any other original documents as required (see page 3). In any pre-mediation contact with the parties, CEDR staff and the mediator will observe its terms as to confidentiality, even though the agreement has not yet been signed.

**6. The mediation**

It is normal for each of the parties to have a private room for confidential consultations on their own and with the mediator during the mediation. There should also be a further room large enough for all parties to meet with the mediator jointly.

The mediator will chair and take responsibility for determining the procedure at the mediation, in consultation with the parties.

The likely procedure will comprise:

- preliminary meetings with each of the parties when they arrive at the venue;
- a joint meeting of all attending the mediation, at which each of the parties will normally be invited to make an opening statement;

**CEDR Mediation Model Procedure  
Post Office Scheme Edition 2014**

- a mix of further private meetings and joint meetings (which may involve all or some of each party's team), as proposed by the mediator and agreed by the parties.

Professional advisers, particularly lawyers, can and usually do attend the mediation. Such advisers play an important role in the exchange of information and opinion on fact, evidence and law; in supporting their clients (particularly individuals) in the negotiations; in advising clients on the implications of settlement; and in drawing up the settlement agreement and any consent order.

No verbatim recording or transcript should be made of the mediation by the parties or the mediator in any form, but participants can make their own private notes which will be undisclosed to anyone else, including in any subsequent litigation or arbitration.

Mediations can last beyond a normal working day and it is important that the key people present for each of the parties remain present or at worst available by telephone for so long as the mediation continues. Any time constraints should be reported to CEDR or the mediator as soon as known, as any unexpected departure can be detrimental to the progress of the mediation and perceived as disrespectful by other parties.

## **7. Confidentiality in relation to the mediation**

The CEDR standard agreement provides that what happens at the mediation is to be treated as confidential by the parties, the mediator and CEDR, including the fact and terms of settlement. However, the fact that the mediation is to take place or has taken place is not normally made confidential, as either or both of the parties may wish to claim credit for agreeing to engage in the process.

Apart from where the parties agree in writing to consent to disclosure of what would normally be confidential, there may be rare circumstances in which the confidentiality of the mediation process cannot be preserved, such as where:

- the mediator or any party or their representative is required by law to make disclosure;

**CEDR Mediation Model Procedure  
Post Office Scheme Edition 2014**

- the mediator reasonably considers that there is a serious risk of significant harm to the life or safety of any person if the information in question is not disclosed; or
- the mediator reasonably considers that there is a serious risk of being personally subject to criminal proceedings unless the information in question is disclosed.

Such questions might arise in relation to duties under the Proceeds of Crime Act 2002 or related legislation or under any other legislation. Legal representatives (who may themselves be under a comparable duty of disclosure in their own capacity) must take full responsibility for advising their clients of the implications of disclosure in relation to any such matters at a mediation session.

As part of its role in the process, and based on its experience of the Court of Appeal Mediation Scheme, CEDR has agreed to provide the Working Group with limited information on the cases referred to mediation under this scheme as followings:

1. Number of mediations conducted
2. Claims settled
3. Claims progressed (Progress has been made towards settlement)
4. Not Settled

CEDR will not provide the Working Group with any case specific information or any information on the size of settlement's reached.

## **8. Conclusion of the Mediation**

The mediation may end in a number of ways:

- by settlement of the dispute in whole or part, when all agreed matters must be written down and signed by the parties to be binding;
- by one or more parties leaving the mediation before settlement is achieved;
- by an agreed adjournment for such time and on such terms as the parties and the mediator agree;
- by withdrawal of the mediator in accordance with the mandatory and optional circumstances set out in the Code.

The parties will facilitate the drawing up of any settlement agreement. Where proceedings **have not** been started in respect of the dispute, the settlement agreement will (if so

**CEDR Mediation Model Procedure  
Post Office Scheme Edition 2014**

intended and drafted) be a contract enforceable by legal action. Where proceedings **have** been issued in relation to the dispute, it is normal for a Consent Order to be agreed either at or after the mediation and later lodged to end the proceedings on the terms agreed.

Where the mediation does not end in complete settlement, the Mediator may make contact with the parties thereafter to see whether further progress might be possible. Many disputes which do not settle at the mediation settle later, usually as a result of what occurred or was learned at the mediation.

CEDR endeavours to make contact with all the parties, after every mediation, to obtain their feedback on both the process itself and, in particular, the mediator. Any feedback obtained regarding the mediator will be given in full to the mediator as part of the mediator's continuing learning and development.

## **9. Complaints**

Any formal complaint about CEDR or any mediator nominated by CEDR should follow the procedure set out on the CEDR website at [www.cedr.com](http://www.cedr.com).

**Annex Q: Centre for Effective Dispute Resolution letter to the Working Group in Respect of  
Confidentiality**

CEDR  
International Dispute Resolution Centre  
70 Fleet Street  
London EC4Y 1EU



**The Secretariat  
Post Office Mediation  
Complaint Review Working Group**



10<sup>th</sup> September 2014

Dear Sir/Madam

**POST Office Mediation Complaint Review and Mediation Scheme**

I write further to recent discussions regarding the data that CEDR is able to provide to the Scheme Working Group.

Mediations are conducted on the basis of having a confidential and without prejudice status and that is the expectation of the parties. The specific terms of that status are detailed in paragraphs 4 and 5 of the mediation agreement currently being used for the scheme.

Specifically, the agreement states:

*Every person involved in the Mediation:*

*4.1. will keep confidential all information arising out of or in connection with the Mediation, including the fact and terms of any resolution, but not including the fact that the Mediation is to take place or has taken place or where disclosure is required by law to implement or to enforce terms of resolution or to notify their insurers, insurance brokers and/or accountants; and*

*4.2. acknowledges that all such information passing between the Parties, the Mediator and/or CEDR, however communicated, is agreed to be without prejudice to any Party's legal position and may not be produced as evidence or disclosed to any judge, arbitrator or other decision-maker in any legal or other formal process, except where otherwise disclosable in law.*

*4.3. CEDR is, however, authorised to communicate the following data to the Scheme Working Group from time to time: number of mediations conducted per month, disputes resolved, disputes progressed (progress has been made towards resolution), disputes not resolved. CEDR will not provide the Working Group with the names of the parties, any information related to how the mediation process itself was conducted or any details related to the nature of any resolution.*



*5. Where a Party privately discloses to the Mediator any information in confidence before, during or after the Mediation, the Mediator will not disclose that information to any other Party or person without the consent of the Party disclosing it, unless required by law to make disclosure.*

**Providing data**

CEDR is a contractual party to all the mediations we undertake but the Working Group does not have that status and as a consequence, could not be given any information about the mediations by CEDR in normal circumstances. In order to address the need to provide some information to the Working Group paragraph 4.3 of the agreement (above) was added which gives CEDR explicit consent from the parties to pass on the data indicated.

Reference to reporting to the Working Group is also made in the process guidance note which is provided to the parties as follows:

*Based on our experience with the Court of Appeal, CEDR will provide the Working Group with information on the following:*

- 1. Number of mediations conducted*
- 2. Claims settled*
- 3. Claims progressed (Progress has been made towards settlement)*
- 4. Not Settled*

*CEDR will not provide the Working Group with any case specific information or any information on the size of settlement's reached.*

For clarity the three classifications detailed above can be described as follows:

- |                    |  |
|--------------------|--|
| Claims settled:    | The parties agree a resolution to all of their differences.  |
| Claims progressed: | The differences have been significantly narrowed. Further negotiations may or may not be undertaken. |
| Not Settled:       | No significant progress in terms of a resolution was achieved.                                       |

The first report is scheduled to be provided after 25 mediations and then again after 50, 75 and 100 mediations. These milestones were chosen in order to provide enough data to reach useful conclusions and to protect the confidentiality of the parties.

My understanding is that the Working Group has requested that more detailed information about each mediation be provided. However, the mediation agreement is very clear on what data the parties are agreeing will be passed onto the Working Group. If CEDR were to provide any additional information above and beyond the provision of P.4.3 we would be in contractual breach of the agreement with the parties, CEDR's own Code of Conduct and European Code of



Conduct for Mediators which the Civil Mediation Council requires all UK providers to observe in order to maintain accreditation.

Obviously for the reasons detailed above we are not in a position to provide any information outside the remit of P4.3 to the Working Group or indeed any other third party.

We do understand the Working Group has a remit to oversee the process but the only way that would allow CEDR to provide more specific information would be to expand the remit of P.4.3. and therefore release information by agreement of the parties.

I would, however, advise caution in considering how far to extend the remit of P.4.3 because of party sensitivities to publicity of what is meant to be, a private process. Consideration should also be given to the potential for some applicants to be dissuaded from using the scheme at all if the outcome of any mediation process is to be disclosed to a third party outside their control as they may wish, or be advised, to reserve their own position for subsequent legal proceedings.

Yours sincerely

**GRO**

John Munton  
*Director of Dispute Resolution Services*

Direct line: **GRO**  
E-mail: **GRO**

**Annex R: Feedback from CEDR to the Post Office on the mediations that have taken place to date**

**CEDR**  
70 Fleet Street  
London  
EC4Y 1EU



CEDR's Dispute Resolution Service

## Post Office Mediation

6 March 2015

Dear Mrs MacLeod

### Post Office Complaint Review and Mediation Scheme

I am writing to provide initial feedback and recommendations regarding the mediation element of the Post Office Mediation Complaint Review Scheme. This includes some feedback on how our experience with this scheme compares with the wider commercial and employment related mediation that CEDR conducts to provide some context.

As you know, since July 2014, CEDR has been referred 31 cases for mediation under the scheme. So far 12 mediations have been taken up by parties, using six different mediators, and 2 are currently being scheduled for mediation this month. With the other cases CEDR is awaiting further instruction to proceed to mediation (for a number of reasons that are not within CEDR's control).

Obviously this is a very small sample of cases to go on so one can only speculate on how the outcomes will measure up once a larger number of cases have been undertaken. The current settlement rate of approximately 45% is somewhat lower than the average settlement rate that we see across all the mediations that CEDR conducts (although with a couple of cases still outstanding this might increase slightly). In an average year the settlement rate tends to range between 65% and 75% with a further 10% to 15% of cases resulting in some progression i.e. where the parties have not reached a resolution but progress has been made in crystallising the position of the respective parties.

### Process Observations

There are a number of process observations and recommendations I would like to share which might be helpful:

#### *Subpostmasters' expectations*

On a number of the mediations that have taken place so far the subpostmaster has not fully comprehended the nature of mediation as a process. They have attended with the expectation that they are going into a compensation process rather than a facilitated dialogue with the Post Office in which claims made by either party do require some prior notification and explanation. It would appear that some applicants and/or their representatives consider the approval for mediation does in some way indicate an acceptance of liability by the Post Office, which is not the case. It has been noted that, where a contractual relationship is still in effect, and where both parties would like it to continue, the mediation process has been more effective.

#### *Clarity of Issues*

Mediator reports have indicated that on at least two occasions the subpostmaster and/or their representatives raised claims that had not been disclosed before the mediation. Having spoken to all of the mediators used so far there is a consensus that perhaps some of the cases referred to

mediation under the Scheme would not have made it to that stage within a litigation process given the uncertainty over the issues. It is, of course, understood that this Scheme has been set up to address specific circumstances.

In more 'routine' mediation work we see the parties have established the scope of their differences well before the mediation day is fixed and both parties know exactly what they are in dispute about. In our experience new or previously unarticulated claims aired at the mediation for the first time invariably lead to an unsuccessful mediation or at best a much more difficult process.

### **Representation**

There are some indications that legal representation provides better support. On a number of mediations it would appear that the professionals engaged to represent the subpostmaster who are not themselves legally qualified have not fully understood the mediation process and were not able to argue legal principles well.

### **Recommendations**

**Below are recommendations to consider to address the above points. Again, I would stress that our views are currently based on a small sample so cannot be an indication of definite trends. But potentially helpful measures you might consider include:**

1. More information provided to the subpostmaster prior to the mediation day in order assist them with understanding the nature of the mediation stage. CEDR can draft a one page sheet of key facts that can be added the information already provided if that is considered helpful.
2. Applicants and their professional advisors to be advised to clearly set out their claim in advance of mediation.
3. Applicants should be strongly urged to seek legal advice and if at all possible legal representation at the mediations. Where subpostmasters chose not to have representation a cooling off period could be implemented for them to determine if they wished to confirm a provisional settlement. This should assist the applicant in understanding the reality of the legal position, crystallise realistic expectations and give them the opportunity to consider any offer without the pressure of a mediation day timeline which can be very stressful.

I hope this information is useful to you and please let me know if you would like to discuss further.

Yours sincerely

**GRO**

John Munton

Director of Dispute Resolution Services