

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 3rd 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 Pack¹ 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]*

¹ 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.

Project Sparrow – Options

Assumptions and Constants

- Increasing the pace of the process is beneficial to POL in order to minimise costs and long term reputational damage.
- Mediations are currently proceeding at an approximate rate of 1 every 3 weeks. Under any option this will need to increase and be resourced.
- If a decision is taken to change the Scheme we will need to implement a comprehensive media and Parliamentary strategy (e.g . briefings, interviews WMS, third party advocates etc).
- Under all options Post Office should anticipate public criticism – the variables are when and how long it lasts.
- We should expect Second Sight’s Part Two Report to be critical (however unjustified); and plan on the basis that it will leak if Post Office seek to mitigate that criticism or block the report.
- Post Office do not anticipate the need to pay very large sums in compensation – thus far the average is £10k per case with merit that has been settled whether through mediation or outside of the Scheme process. This is contrary to many applicants’ expectations.
- Thus far just under half of the cases that have gone to mediation have been resolved through that process. The more cases that are put through to mediation, the more likely it is that that proportion will fall.
- 16 cases have been resolved outside of mediation (usually prior to Working Group consideration). We continue to look for opportunities to settle cases with merit early but there are unlikely to be many more capable of resolution in this way.
- It is highly likely that JFSA will pursue litigation against the Post Office under all options.
- The risk of a successful Judicial Review is considered low on all options.

Indicative rating of options for Post Office (1 poor – 5 good)

Option	Cost	Time	Impact	Risk profile over time
1) Mediate all cases	1	2	2	Amber moving Red
2) Mediate all non-criminal cases	2	3	3	Amber/Red moving Amber
3) Payout or pay to litigate	3	3	1	Red remaining Red
4) Mediate cases with merit	3	4	3	Red moving Amber
5) Status Quo	1	1	2	Amber/Red moving Red