

Filed on behalf of the: Defendant
Witness: Angela Margaret Van Den Bogerd
Statement No.: First
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Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

**IN THE HIGH COURT OF JUSTICE
QUEEN'S BENCH DIVISION
ROYAL COURTS OF JUSTICE
B E T W E E N:**

ALAN BATES AND OTHERS

Claimant

AND

POST OFFICE LIMITED

Defendant

**WITNESS STATEMENT OF
ANGELA MARGARET VAN DEN BOGERD**

[Comments for AVDB in yellow]

[Comments for Rod in green]

[Comments for WBD / Counsel in blue]

I, ANGELA MARGARET VAN DEN BOGERD WILL SAY as follows:

1. I am Angela Margaret Van Den Bogerd, People Services Director, of Post Office Limited (**Post Office**).
2. I make this statement in support of Post Office's Defence in these proceedings.
3. The facts set out in this statement are within my own knowledge, or if they are outside my knowledge, I have explained the source of my information or belief.

INTRODUCTION

4. In this statement, I describe the Post Office business, the role of a Postmaster and the operations of a Post Office branch. I conclude by providing some commentary on the real-world effects of the Claimants' implied terms.

INTRODUCTION.....	1
A. MY BACKGROUND.....	3
B. POST OFFICE AS A BUSINESS	4

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

Public ownership.....	5
Commercial operating model.....	6
Network size and coverage	8
Brand	10
Market change and competition	11
Technology change	12
Client products and requirements.....	13
Regulatory requirements	15
Change programmes	16
C. POSTMASTERS AND THEIR BRANCHES	17
Postmasters' businesses	17
Operating a branch	22
Assistants	24
Horizon.....	27
Training	30
Initial training	31
Assistants.....	33
Further training.....	33
Support for Postmasters	34
Causes of shortfalls	35
Reliance on Postmasters.....	37
Post Office's investigations into shortfalls	43
Responsibility for shortfalls	45
D. IMPLIED TERMS	46
STATEMENT OF TRUTH	46

5. In this statement:

5.1 Paragraph references are to paragraphs in this statement unless otherwise stated.

5.2 The term "Postmaster" is used to generally refer to agents of Post Office who run branches, including subpostmasters, subpostmistresses and operators.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 5.3 References to "all material times" means from 1999 to present, unless the context indicates otherwise.

A. MY BACKGROUND

6. I started my employment with Post Office on 1 April 1985. I have operated at all levels during my career – from branch level to senior positions remaining at all times close to the operational procedures.
7. A Branch Counter Assistant as part of the directly managed network of branches (see paragraph XX) for around 2 years. During this time I was also called upon to undertake on-site training for newly appointed Postmasters.
8. A Branch Manager responsible for day to day management and financial performance of Directly Managed Branches between 1987 and 1996.
9. A Retail Network Manager between 1996 and 2001 responsible at an area level for the operational and financial performance of 24 post offices: 6 directly managed branches employing approximately 130 staff and 18 agency branches. As part of this role I was responsible for interviewing the Postmaster, appointing the Postmaster, managing performance and dealing with any contract breaches including contract termination as appropriate.
10. Head of Area for the rural agency in Wales between 2001 and 2005 responsible for maintaining the provision of post office services and the operational and financial performance of the rural network of 950 branches in Wales & the Marches. As part of this role I was accountable for a line management team of 18 and 950 Postmasters, and for the delivery of Post Office services to quality and efficiency standards.
11. General Manager for the Community Network of branches in the UK between 2005 and 2006, responsible for a team of 9 senior managers and a field based team of 40 managers, and for the day-to-day operational and financial performance of 9000 rural and 500 urban deprived branches.
12. As National Network Development Manager between 2006 and 2009 I designed, developed and deployed the process (known as the Network Change Programme) to deliver 3000 changes to the Post Office network (2500 closures and the establishment of 500 new type services ie outreaches including mobile post offices).

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

13. As Head of Network Services between 2009 and 2012 with a UK wide geographically dispersed field team of 200 people, I delivered a yearly average of (a) 1200 network change projects (i.e. branch relocations, refurbishments, closures and re-openings) across the Post Office network, (b) in excess of 5500 financial and compliance branch audits and interventions (c) new entrant training to approximately 1000 agents/franchisees and employees and (d) 2000 recruitment and/or contractual interviews.
14. As Head of Network Services, I was responsible for maintaining the size and reach of the post office network. As part of this role I made the decision on whether a branch should be advertised in a given situation e.g. whether a branch in a new location was warranted.
15. As Head of Partnerships between September 2012 and August 2013, I was responsible for the relationship between Post Office various representative bodies, such as the Communication Workers Union, Unite the Union and the National Federation of Subpostmasters (**NFSP**, see paragraph XX).
16. As Programme Director for the Branch Support Programme between August 2013 and March 2015, I was responsible for making improvements to ways of working across Post Office, including the handling of the more complex in-branch transactional issues.
17. As Director of Support Services between April 2015 and December 2016, I was responsible for our helpline for Postmasters (**NBSC**), our customer helpline, the Financial Service Centre (**FSC**), the Human Resources Service Centre (**HRSC**) and also managing the Contract Advisors and the Contract Administration team.
18. From January 2017 until January 2018 I was the People and Change Director, responsible for HRSC, Health and Safety and the Change Portfolio across the organisation.
19. Since January 2018 until present, in my role as People Services Director, I am responsible for HR services within the Finance & Operations business unit, Health, Safety and well-being and the HR Service Centre.

B. POST OFFICE AS A BUSINESS

20. In this section, I describe the Post Office business, its commercial model and the changing world in which it operates.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248**Public ownership**

21. A Post Office service has existed in England for nearly 400 years and throughout that time it has always been owned by the English or UK state. It was originally an organ of government known as the General Post Office and then the Post Office Corporation. In 1986 Post Office Counters Limited was formed as a subsidiary of the Post Office Corporation, with services being split between the two entities: the delivery of mail was handled by the Corporation and the Post Office retail network was transferred to the new subsidiary. In 2001, the Post Office Corporation became Royal Mail Group and Post Office Counters Limited was renamed Post Office Limited. On 1 April 2012, the UK government privatised the Royal Mail Group, with Post Office Limited remaining in public ownership, its shares being transferred to and held directly by the UK Government. Up to this point, although Post Office was a separate legal entity, it shared some back-office services with Royal Mail and key decisions would be taken by, or at least approved by, Royal Mail as its parent company.
22. Today, the sole shareholder of Post Office is the Secretary of State for the Department of Business, Energy and Industry Strategy (**BEIS**). Post Office acts, and has at all material times acted, under the direction of its chairman and board of directors, rather than ministerial control. However, because the ultimate owner of Post Office is, and always has been, the UK Government, it is not a fully independent commercial business. Those at Post Office describe it as a commercial business with a social purpose. This sets it apart from nearly all other organisations in the UK and means its decisions are not driven solely by commercial returns, but also by its public purpose to support local communities and to deliver services to the general public.
23. Can we say more about POL's public purpose? The Post Office is a crucial part of the commercial and social infrastructure of the United Kingdom. Through its 11,500 branches and an increasing digital presence, it provides convenient access to essential services - mails, banking, government services, telecoms - for households and small businesses throughout the country.

The Post Office serves an important public and social purpose. As part of its funding agreement the Post Office is under a public service obligation to maintain a network of post offices beyond its optimal commercial size. That network must meet a number of minimum access requirements in order to be eligible for this funding:

- Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of the nearest post office
- 95% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 95% of the total urban population across the UK to be within 1 mile of their nearest post office outlet
- 95% of the total rural population across the UK to be within 3 miles of their nearest post office outlet.

In addition, the following criterion will apply at the level of each and every individual postcode district, establishing a minimum level of coverage at a very local level.

95% of the population of the postcode district to be within 6 miles of their nearest post office outlet.

24. What other requirements are there imposed by Govt? POL is required to provide this network of post office branches with a number of services of general economic interest. These are:

- Processing social benefit and tax credit payments to the public
- Processing of national identity and licensing scheme applications
- Universal payment facilities for public utility services
- Access to postal services
- Universal access to basic cash and banking facilities, especially for rural customers and those on social benefits.

We also have a wide range of further contractual requirements as part of individual agreements for further products and services provided to government and its agencies.

(N.B We can go into more detail here, full detail of services and products are included within Annex A of the entrustment letter).

25. Have there been any other major changes in govt policy over the last 20 years that affect Post Office? Can we say that there is a difference between Labour, Coalition and Conservative governments? As a government owned organisation, we are subject to legislative decisions made by different Governments; which can create significant change.
- For example, in 2011 the Conservative and Liberal Democrat Coalition Government introduced the Postal Service Act, formally separating the Royal Mail and the Post Office. This had significant implications for both organisations.
 - Furthermore, included within the Labour party's most recent manifesto was a commitment to renationalise the Royal Mail; which, in the event of a Labour Government, would lead further significant changes for the Post Office. This illustrates the changing nature of politics and the implications this could have for the Post Office.
 - In addition to any changes to POL's governance model, we are also subject to a Government's legislative priorities and the changes that they may introduce throughout a parliamentary term. For example, any changes to financial services regulations, telco regulations or wider legislative changes which may impact the markets in which we operate.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- However, from a day to day perspective, the Government is not involved in the running of the Post Office.
- Neither Postal Services Holding Company nor BEIS, through UK Government Investments Limited (UKGI), have any day to day involvement in the operations of Post Office or in the management of its branch network and staff. However, UKGI has the right to appoint nonexecutive directors to the Board. Tom Cooper is the current representative of UKGI on the Board.
- As a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board adopts these principles both in its decision making and in its responsibility for organisational culture.

Commercial operating model

26. Post Office is the UK's largest retail network and financial services chain with around 11,500 branches. To put this in context, Tesco has around 3,400 stores¹ and Lloyds Bank has about 1,100 branches².
27. Post Office acts as the "shop front" for the general public to access a range of products and services, from government benefit payments to postal and banking services. The [all / nearly all / a majority – are there any products directly provided by Post Office – Postal Orders?] of these products and services (just referred to as **products** in this statement for ease of reference) are provided by third parties (known as **clients**). Post Office sells the Client's products to the public, charging the Client a fee or commission for that service. This allows a range of businesses and government departments to have a physical access point for their products without the need to directly invest in real estate. For example, customers can do their banking through Post Office. If they deposit cash into their bank account at a Post Office branch, Post Office takes the cash and effects an electronic transfer of the cash to the customer's bank who deposit the customer's account. It then charges the customer's bank a fee for this service. This allows a bank to have a virtual network of bank branches without needing significant investment in new properties.
28. Post Office tries to provide all its services for a commercial profit. This applies even when providing government services (eg. driving licence renewals) where its government contracts are negotiated at arms' length and often following a competitive open market tender exercise. It made a profit last year (2016/17) of

¹ <https://www.tescopl.com/about-us/our-businesses/tesco-uk/tesco-in-the-uk/>

² <https://www.lloydsbankinggroup.com/media/media-kit/faqs/lloyds-banking-group-fast-facts/>

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

£13m against operating revenue of £957m, being the first time it has made a profit in 16 years. Post Office is however still reliant on a government subsidy to support transformation activities and rural services (see paragraph X). A combination of nationwide austerity measures, government spending cuts and a corporate desire to be self-funding has seen that subsidy reduce from £210m in 12/13 to £80m in 16/17.³

29. Post Office provides its services through Post Office branches. These fall into two categories. Crown branches (now known as Directly Managed Branches) are directly operated by Post Office. Post Office owns or rents the physical branch premises and the branch staff (known as counter clerks) are employees of Post Office. Crowns tend to be larger branches. As at April 2018, there are approximately 250 Crown Branches.
30. The majority of the network are "agency" branches. These are also sometimes referred to as Subpostoffices. These branches are run by third parties, who own the branch premises and employ their own staff. Agency branches take a variety of different forms. The majority are owned by independent small business owners, who locate the branch within a larger retail offering like a newsagent or convenience store. Some branches are operated by larger commercial chains such as WH Smiths or The Co-operative. Post Office pays Postmasters a remuneration for this service (see the Witness Statement of Nick Beal for more details) which is, and has at all material times been [correct?], its single largest line item of operating expenditure and currently accounts for a third of Post Office's operating costs.⁴
31. Last year, around 47m transactions were undertaken in Post Office branches every week, with a value of around £XXm per year. At any time, around £XX in cash is in circulation within the network. On average, each agency branch in the network has around £XXX cash on hand and conducts XX transactions each day, for a value of £XX. [Can we get these stats? Do we have a public source for them?]
32. The Post Office branch network has 17 million customer visits a week and this footfall is driven by a wide range of services. 25% of customers visit a Post Office fortnightly or more regularly and 14p in every £1 spent in the UK is channelled through a Post Office. [Stats to be sourced and verified]

³ Statistics taken from Post Office's public Annual Report for 16/17:
http://corporate.postoffice.co.uk/sites/default/files/ARA%20Master_FINAL.pdf.

⁴ Postmasters fees of £388m against trading costs of £978m: page 56-57, Annual Report 16/17.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

33. [Is there any other angle that we can raise to make clear that Post Office is a complex business?]

The Post Office operates in every constituency across the country and has the largest retail network in the EU. Within our network of 11,500 post offices, we have a number of different operating models, which enables us to tailor our offer to meet the needs of the communities in which we serve. These include, but are not limited to, directly managed branches, mains, local, local plus, community, outreach (including mobile, hosted, partner), home services and British Forces Post Offices. (N.B we can include an annex here of different models, but not sure we want that level of detail)

The Post Office offers an unparalleled range of products and services (over 170), some of which we are required to offer as part of our public service obligation. Of these products and services, POL only has end-to-end ownership of one product, Postal Orders, the rest of our product range is provided in partnership with a wide range of other organisations. As a result of this, we have contractual arrangement with a large and diverse number of third parties across the public, private and third sectors.

We therefore operate in a number of different markets; including financial services, telecoms, mails, government services, bill payment services, identity services, retail and lottery. We also have a subsidiary business, Post Office insurance, and we are in the process of acquiring a further business, Payzone bill payments Ltd (subject to CMA approval).

We also sell our products through a range of different channels; including counter services, online, phone, by post and through self-service kiosks.

34. In simple terms, for the Post Office network to be financially sustainable, Post Office needs to generate more revenue from clients than it incurs in transaction costs and remuneration paid to Postmasters. However, it's a fine balance as

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

insufficient remuneration would make the position of Postmaster unattractive, leading to branches closing or vacancies in the network, which could cause the network to shrink below commercially viable and legally required levels (see paragraph X).

35. More often than not the interests of Post Office and Postmasters are aligned, in the sense that a strong sustainable network is good for both. However Post Office needs to look at the network as a whole, and what might be good for the network as a whole, might not be good for some Postmasters in particular circumstances (see below in relation to Change Programmes at paragraph X).

Network size and coverage

36. The UK government considers it important that a large proportion of the public have easy access to branches. This is driven by a number of factors including:
- 36.1 Post Office is a key route through which government services, particularly pensions and benefits, are provided. The elderly and those on low incomes have a higher propensity to have limited means of transport and need a branch close by.
- 36.2 The decline in bank branches and local shops over the last decade means that the Post Office branch is sometimes the "last shop in the village". This leads to political pressure from local politicians and MPs to keep branches open, even where a branch may be making a trading loss. These small branches are now referred to as "community branches".
37. Accessibility criteria were originally laid down by the Government in 2007 and have been reconfirmed by successive Governments since. The Government's national access criteria are: 99% of UK population to be within three miles of their nearest Post Office branch; 90% of the UK population to be within one mile of their nearest Post Office branch; 99% of total population in deprived urban areas across the UK to be within one mile of their nearest Post Office branch; 95% of the total urban population across the UK to be within one mile of their nearest Post Office branch; and 95% of the total rural population across the UK to be within three miles of the nearest Post Office branch. In addition the following applies at local level to ensure a minimum level of access for customers living in remote and rural areas: 95% of the population of every postcode district to be within six miles of their nearest Post Office branch.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

38. Post Office produces a Network Report against this criteria.⁵ The Network Report contains tables of figures showing fluctuations of number of branches over time including quarterly change figures showing the quarterly change in network size. The Network Report for 2017/18 shows that at the end of March 2018 there were 11,547 Post Office branches. The size of the network has been stable for about a decade. It has been significantly larger in the decades before: at its peak in 1965/6 it was 25,056 branches. The decline over subsequent decades has been driven by a number of factors including Government business reducing, changes in consumer trends, and increasing competition (see paragraph XX). To reflect such marketplace changes, improve the network's prospects and avoid unmanaged decline there have been periodic closure programmes (see paragraph XX).
39. I set out below the numbers of open branches split by Government office regions reported to BEIS in April 2018:

[Note to WBD: Is this taken from the Network Report, in which case we should say Network Report?]

Total number of Outlets split by Govt Office Regions		Rural	Urban	Urban Deprived	Total
1	East Midlands	543	266	72	881
2	East of England	677	396	41	1,114
3	London	7	536	126	669
4	NI	324	76	87	487
5	North East	244	151	94	489
6	North West	387	468	265	1,120
7	Scotland	918	333	145	1,396
8	South East	693	625	56	1,374
9	South West	867	342	61	1,270
10	Wales	631	157	130	918
11	West Midlands	364	377	160	901
12	Yorkshire and The Humber	470	321	165	956
Total		6,125	4,048	1,402	11,575

40. Beyond its legal obligations to maintain a network of a certain size, a large network also brings economies of scale. There are substantial fixed or capital costs in building and maintaining complex IT infrastructure, designing a new sales process or negotiating a new contract with a client. These costs only marginally increase with the size of the network. If the network were to shrink too much, this

⁵ This is publicly available – it is placed in the House of Commons Library and the Post Office publishes it on its corporate website. [ADD LINK TO 2017 REPORT](#)

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

would reduce Post Office's overall revenue and these overheads would not be commercially sustainable.

Brand

41. Post Office is in the top three most trusted brands in the UK. [CAN WE ADD SOME REFERENCE TO AN INDUSTRY REPORT THAT SAYS POL'S BRAND IS STRONG] quoted from Brand Asset Valuator from 2014
42. Post Office is deeply embedded in the hearts and minds of many local communities. Postmasters are sometimes well-known to local residents and problems with a Post Office attracts a higher level of attention in the local press than it would for other local retailers. A simple google search will usually show up a number of stories about local branch issues.
43. Local branch issues also attract the attention of MPs. MPs regularly write to BEIS or direct to Post Office to raise issues on behalf of their constituents regarding their branches. The allegations that underlie this litigation led to questions to the Prime Minister in the House, Parliamentary debates and a Select Committee hearing before these proceedings began.
44. Major changes in the network often attract national media attention. Again, as an example, the allegations that underlie this litigation were subject to a Panorama documentary on the BBC.
45. This heightened level of media attention means Post Office has to carefully protect its brand at all times. The strength of its brand is one of the key features that draws customers to branches. It is important that Postmasters act in a way that does not damage the brand. A consistent presentation of services at the Post Office counter and good customer service are important elements. Post Office also needs to take prompt action to stop any improper conduct, at its worst this means preventing fraud by Postmasters.
46. Post Office also needs to maintain continuity of service to customers. Customers become frustrated if branches are not open when expected or cannot provide services as promised. This is also important in helping ensure that Post Office continues to meet the access criteria and avoid the migration of customers to Post Office's competitors (see paragraph X). Achieving continuity of service has many elements including ensuring that branches have the stock and cash they need to trade, branches are opening and closing on time and that new Postmasters are found to take on branches that would otherwise close.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248**Market change and competition**

47. Over my time at Post Office, its business has been subject to market changes and increased competition which have led it to change its operating and commercial models so to achieve its twin objectives of maintaining network access whilst also reducing its government subsidy. I set out below a few of the key changes I am aware of to illustrate this.
48. As mentioned above, the decline in numbers of bank branches has led to more banks becoming clients of Post Office so to provide their customers with a physical access point to their services. This has led to financial services becoming a key product offering in branches.
49. From 2003 Post Office began to increase its own-branded financial products, such as bank accounts, loans, mortgages and insurance. Post Office is not a financial services business and so these products are provided by, or through a joint venture arrangement with, selected clients. For examples, Post Office mortgages are provided by Bank of Ireland.
50. There has been a nationwide reduction in mail volumes. More communications are delivered by email with less need to communicate by letter. Traditional mails volumes declining by 2-3% pa due to increased digitisation and competition. The postal services market was also liberalised in 2006, breaking Royal Mail's monopoly. This led to new entrants into the market which caused Post Office to.. [what?].
51. There has been a gradual but material decline in government business, particularly the number of customers drawing pensions and benefits from branches. Traditionally this was done by way of paper pensions or benefits books being presented at the Post Office counter and exchanged for cash. The government now pays more benefits by direct bank transfer. This is an important trend because it was common for a person to draw their benefits at the Post Office counter and then spend some of that money in the Postmaster's associated retail business. Government business fell from 43% of revenue in 2003/4 to 26% in 2007-2008.⁶ This pattern of change continues today. The Post Office Annual Report for 2016/17 notes a £14 million decrease in turnover from Department of Work and Pensions contracts.⁷

⁶ Source?

⁷ Page Ref?

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

52. The growth of online transactions has also led to Post Office developing its digital offering (now the preference for financial services products) and increasing consumer demand for fast and flexible fulfilment solutions has also driven the modernisation of the network. [In what way? How did this impact postmasters?]

Around 60% of customers in our target segments prefer to access services online. This is particularly crucial for financial services and identity, but even in mails many customers want to be able to start their journey online, accelerated by developments like the roll out of eBay's online shipping platform.

53. [please can we add about 2-3 more examples of market changes]

- While the convenience store sector is growing (some segments e.g. multiples are faring better than others e.g. independents), there is competitive pressure on retailers. This implies that we need an attractive value proposition to attract the best retailers.
- Traditional business models are being disrupted in our core mails and financial services markets. For example – Logistics & fulfilment disruptors such as amazon logistics, Shuti, UberRush, etc; Financial Services disruptors such as TransferWise (International Money Transfer), Monzo (Banking) and Revolut.
- With increasing digitisation and cost pressures, the UK banks are closing down their branches. This places Post Office Banking Framework at the centre of communities as the essential provider of cash banking services
- Government's 'Digital by Default' agenda has partially disintermediated POL, sharply declining our traditional Government services business

54. Post Office has also seen an increase in direct competitors. One such competitor is Paypoint. Setup in 1997, originally PayPoint was a way for customers to pay utility and energy bills. Small retailers would sign up to be part of the PayPoint network who then install a bill payment terminal in the shop. Paypoint has now expanded to new areas. In 2006, it became the exclusive cash payment network for the BBC's TV Licence fee [and service that was previously provided by Post Office – CORRECT?]. In February 2011, it launched its Collect+ parcel sending and collection service. This was a joint venture between PayPoint and Yodel; the

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

latter being an entrant into the postal services market following that market being liberalised.⁸

55. [Please add examples of two more competitors]

Competition in specific business areas: Mails (Hermes, Doddle, etc); Identity (Other IDPs such as Experian); Travel Money & International Money Transfer (Western Union, Fintechs such as TransferWise, WorldRemit etc)

56. [Can we give an example of where Post Office has lost a government service to a competitor? Or lost a service due to a competitive tender?]

Recently Post Office lost the Biometric Resident Permits service which was awarded to Sopra Steria. The new contract (starting November 2018) is very different to the biometric data capture service POL currently delivers for UKVI requiring a much broader range of services (such as outsourcing of back office processing from the Home Office). As a result, from November of 2018 Post Office will no longer offer this service.

57. [Can we provide an example of changing consumer preferences as opposed to client side changes]

Consumers are increasingly preferring to access services online or start their customer journey digitally and increasingly adopting digital payments. These digital services & customer journeys would continue to innovate with the changing regulatory environment post PSD2 (Post PSD2, Financial Institutions must allow access to trusted Third Party Providers (TPP's) via secure API's for Access to Accounts, creating a vast range of opportunities for new fintechs)

58. Should we say something about Brexit?

Brexit could have a potential negative impacts on travel money & insurance, mortgages, savings and parcels. Positive impact or opportunities would be through Passports & Identity, international parcels, etc.

⁸ <https://www.paypoint.com/en-gb/about/our-history>

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

Technology change

59. Improvements in technology have changed the way that products have been transacted and delivered to customers. These changes are invariably to reduce transaction costs which is frequently achieved through a reduction in the amount of manual labour required in branch for each transaction. Due to the size of the network and volumes of transactions even removing, say, a 30 second manual task from each transaction can deliver a considerable cost saving to a client. This does however reduce the work done in each branch and therefore reduces, albeit may be not directly, the remuneration for a Postmaster that can be attributed to that transaction.
60. An example of this is the Post Office Card Account. With the government's decision to pay benefits via direct bank transfers this created the need for everyone to have bank accounts. Due to various factors, including poor credit history, there are thousands of people in the UK who cannot get a regular bank account. The Post Office Card Account is the bank account of last resort. It is intended only to be available to people in receipt of benefits who cannot get a regular account. This change from paper-based benefits to digitalised benefits through the Post Office Card Account required new contracts to be entered into with the Department of Work and Pensions and JP Morgan, who provide the banking facilities. It also caused changes to ways of working in branch, from handling paper vouchers to using a card swipe / chip and pin system.

[Red – disclosure risk. Freeths may ask for the POCA contracts.]

60. Another example of a technology change is the removal of paper paying in slips for customers making banking deposits, who now instead use a chip and pin card. This change was made by all the banks at the behest of the Post Office, to ensure consistency, security and standardisation throughout our branch network. The changes were implemented from 2016-2018, in favour of utilising the well-adopted chip and pin system, proven to be more secure and less prone to fraud. This required the banks to change their internal systems and communicate accordingly to their customers, and the Post Office to ensure all chip and pin terminals in branches were fully compliant and able to accept the changes, and then to change the operating and accounting processes for these transactions. This in turn changed ways of working in branches.

- 61.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

62. [Any other technology changes that changed the ways of working in branch? Postal orders: When sold, the date, value and unique serial number are recorded onto an online database via Horizon. The online database verifies the order was genuinely sold and for the value shown before it is cashed, reducing the risk of fraud from counterfeit orders.

Transaction Acknowledgements: an automated way to account for transactions; mainly lottery & paystation.

Postage Labels: used on items posted over the counter, containing a mail segregation indicator .

Introduction of Branch Trading: moving from weekly to monthly (4/5 weeks periods) balancing.

Paystation: A stand-alone terminal that is sited mainly in the retail area and enables customers to carry out a number of automated transactions (e.g. recharging of gas and electricity keys, top up of mobile phones, etc) during normal office hours, but also 'Out of Hours'.

63. Barcodes on bills?]. The introduction of barcodes on bills resulted in a reduction of paper slips being despatched nightly from branches. As these transactions were now treated as automated payments, the information was downloaded overnight resulting in quicker settlement for our clients and a reduction of pouches delayed in the post, preventing client settlement and inconvenience to customers.

Barcoded documents are read using the barcode reader on the Horizon. The types of payment that can be accepted using a barcoded document include utility bills, V11 Motor Vehicle Licence applications and Post Office Local Collect. All Post Office branches are able to process barcoded documents as Automated Payments.

Client products and requirements

64. Post Office provides dozens if not hundreds of products and services to the public.⁹ The Post Office has approximately 130 clients [Has this been verified?]

⁹ Setting an exact number depends on how you define a "product" or "service". For example, you could say that "lottery" is a single product, but there are several different types of lottery service:

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

including large companies such as Royal Mail, Bank of Ireland and the High Street banks. Working with its clients, Post Office is active in the mail delivery, financial services, banking, telecoms and bill payment marketplaces amongst others.

65. A key benefit for Post Office's clients is its large physical network which reaches customers throughout the UK. Many of our client contracts contain provisions that require Post Office to maintain a minimum level of geographic coverage and continuity of service. [Note for Rod: if we say this, Freeths may ask for disclosure of these contracts.]

66. Clients also often require their products to be represented in branch and sold in a particular manner. I set out below a few examples.

66.1 [Please can we give some examples of practical things that clients require Post Office to do? Please avoid regulatory examples, there will go in the next section.]

66.2 Customers can cash ATM security requirements?

66.3 Historically, but at material times, customers were able to come into a branch and cash a Giro slip. They handed over the paper Giro slip and in return they received the amount of cash stated on the slip. Girobank¹⁰ required Post Office to submit to it the Giro slip in order for Post Office to recover payment from Girobank for the cash it had paid to the customer. This required Post Office to design and implement a process in branch for slips to be stored in branch and dispatched, via a delivery service, to Girobank. CORRECT?]

67. Many of the products offered by Post Office relate to the communication of information. Financial services and bill payments, for example, are really the communication of information about money transfers. This requires the IT systems in branch to tie into and communicate with client's IT systems. I am not a technical expert on IT systems but I understand from discussions with colleagues over the years that clients set strict parameters for how those IT systems interact, the nature and format of data transferred and security requirements. [Angela – are you comfortable saying this?]

68. Some clients also place restrictions on Post Office from providing competing products in branches. For example, Royal Mail restricts Post Office from offering any other postal services. [Rod – Disclosure risk] These restrictions are passed

Lotto, Scratchards, Prize payouts, etc. I believe it would be fair to say that there are over XX obviously distinguishable services offered at most Post Office branches.

¹⁰ Girobank was part of the General Post Office. In 2003, it was sold to Alliance & Leicester which was subsequently acquired by Santander in 2008.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

down to Postmasters who are not allowed to sell "restricted products" in their retail businesses. These restrictions change over time with the evolving nature of clients' products, their businesses and their competition, which means Post Office needs the flexibility to be able to flow down these changes to Postmasters.

69. There is a minimum list of products that are sold in every branch so that a customer has a guaranteed minimum offering no matter which branch they go into across the country. This currently includes [give some examples]. It would be a very frustrating customer experience if these basic products were not available, causing damage to the Post Office brand and general damage to the network. This minimum product range changes over time in accordance with customer preferences and the other factors set out in this section.

70. Not all products are sold in all branches. This is due to a combination of reasons:

70.1 meeting client requirements (e.g. DVLA), lottery
 70.2 meeting market/customer demands e.g. on demand travel money; ATMs
 70.3 the type of post office i.e. Post Office Local models are designed with intention of only selling simple products

[Why does not every branch offer every product? Why can't branches pick their products? What would happen if every branch could pick their own products? If Can we give a couple of examples of where a product might be appropriate eg. lottery terminal and ATM?]

Regulatory requirements

71. In 2001 the UK Government obtained clearance under the EU State Aid Regulations for £180 million to enable the Urban Network Reinvention programme and between 2010 and 2017 the Government allocated £2 billion to fund the Post Office's modernisation and transformation programme, which included investing £20m in more than 3000 community branches. [Note for WBD / Counsel - Does state aid prohibit what Post Office can and cannot do? Can someone ask Andrij about this?]
72. What other statutory requirements are directly placed on Post Office other than network access? Managing public money? Procurement rules? Rod – any thoughts on this?
73. Beyond direct regulatory requirement, the wide range of products offered by Post Office means that it encounters considerable regulations specific to those clients. Not all those regulations apply directly to Post Office; some apply to its clients,

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

who then flow down those obligations, or at least mandate steps to implement their obligations, in their contracts with Post Office. [Rod – disclosure risk] I set out below a few examples of how regulations affect Post Office's business.

74. Foreign exchange transactions are a high risk area for money laundering and fraud. Post Office is required to [what?... obtain proof of identity of the customer before conducting a transaction. It also does not allow FX transactions to be conducted by cheque due to the risk of fraud / default on payment. Post Office has a hotline for branches to call in the event that they suspect money laundering by a customer.]
75. There are statutory and international restrictions on sending "dangerous goods" through Royal Mail postal services unless specially marked.¹¹ Royal Mail requires Post Office, and therefore its Postmasters, to comply with those restrictions.
76. [Please can we insert 2-3 more regulatory examples? I'd like one about Telcoms products if possible, because we haven't mentioned those yet. Also something from a financial service perspective.]

Change programmes

77. In light of the above objectives, requirements and pressures on Post Office, it is almost always in a constant state of change and improvement and as far as I can predict this will continue into the foreseeable future.
78. There have been over the last 20 years a number of major transformation projects and I describe these below. When Post Office makes major network-wide changes, they come under intense scrutiny from MPs and the media, especially where it leads to large scale branch closures. Closing a single branch, say because the incumbent Postmaster has retired or been dismissed, can soak up a lot of time but is manageable in the grand scheme of Post Office given its size. When that scales up to thousands of branches, the impact on Post Office could be significant. Where a large transformation programme is underway, the government and Post Office prefer to close branches on a voluntary basis and this generally means offering a payment to exiting Postmasters that goes above and beyond their usual termination rights. This payment is one of pragmatism: it

¹¹ ADD WEBPAGE LINK TO RM WEBSITE

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

smooths the exit process to avoid the programme becoming unmanageable if every closure was contested.

79. Outside nationwide planned closure programmes, Post Office very rarely gives notice to terminate a Postmaster's contract because it wishes to close a branch because there is no commercial need for it. If a branch is closing for other reasons (retirement of the Postmaster, termination for breach, etc.) it will generally consider whether the branch is still needed in its current format and location, but a decision not to re-open a branch in these circumstances is rare. Generally the pressure is the other way around: Post Office is keen to maintain the size of the network and keep branches open. [Correct?]
80. The first major change programme was the Urban Network Reinvention Programme. This programme was primarily a 'voluntary closure' programme within the urban segment of branches and took place between 2001 and 2004. This was Post Office's first major work on network optimisation. The Government provided the funding for Post Office to carry out rationalisation in areas where there were too many Post Office branches serving the same district for them all to remain viable. Post Offices in the 10% most deprived urban areas with no other branch within half a mile were ring-fenced and protected from consideration for closure (other than in exceptional circumstances to warrant consideration). The programme involved around 2,500 closures. The programme also involved a £30 million investment fund to make remaining Post Office branches more attractive for customers, as well as compensation to exiting Postmasters.
81. The Network Change Programme was a compulsory closure programme which impacted all the network and took place between 2005 and 2008. It was also Government funded. The predecessor to BEIS, the Department for Business Innovation and Skills, and Post Office agreed a £1.7 billion strategy to make the network financially sustainable, including a £150 million annual subsidy. One element of the plan was the Network Change Programme, whereby up to 2,500 Post Office branches were to be closed. The other elements of the strategy, alongside Network Change, were the restoration of Crown branches to profitability, central cost cutting efficiencies and developing and expanding new business.
82. . The Network Transformation Programme which started in November 2011 and is continuing to March 2019 sought to change the way that Post Office services were offered in branches. Network Transformation is the biggest retail transformation ever in the UK and has transformed c. 7700 branches for Postmasters and customers. The purpose of Network Transformation was to modernise and sustain Post Office services for customers so that every

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

community that had a Post Office service at the start of NT would retain that service and in most cases have a modern open plan counter service with longer opening hours so that customers could use services outside traditional hours. Longer opening hours were achieved through utilising retail staff to offer Post Office services. Postmasters had the choice to receive investment into their business along with a conversion payment in Mains or transition payment in Locals; or leave the service with compensation as a leaver. Under the Network Transformation programme agency branches transferred to either a "Main" branch model in which a dedicated counter, physically separated from the Subpostmaster's retail business; or a "Local" branch model which fully integrated Post Office services within the retail business so the Subpostmaster could offer Post Office services from the retail counter (see the Witness Statement of Nick Beal for more details on these branch types). This often means that Post Office services can be offered for longer hours than before, in some cases from early morning until late at night, seven days a week.

83. It also moved Postmasters away from fixed remuneration to variable remuneration based on volumes of sales. The change was made to provide better customer services with Post Office products offered to customers in an open plan modern environment where Postmasters are remunerated per transaction without a fixed annual remuneration fee. In addition to remunerating Postmasters for the products sold and transacted this change also reduced the annual burden on the taxpayer through the Post Office Network subsidy payment as fixed remuneration ceased under NT for the majority of branches. Community branches under Network Transformation are branches where there is no other suitable retailer to run a Post Office within half a mile of the existing community branch. These community branches had the further option of retaining fixed remuneration under NT. Where this option was taken by community branches they did not convert to a Main or a Local and stayed on the traditional contract. The vast majority of community branches stayed on the traditional contract.
84. There were no branch closures under NT; any community that had a Post Office at the start of the programme retained a service by the end of the programme, NT improved customer service and access to services. Postmasters that chose to convert to a Main received £10,000 each as a conversion payment to convert to a Main and investment from the Post Office of on average £45,000 to build the new Main branch on site. Postmasters that chose to convert to a local received a full year's remuneration as a transition payment and in addition on average £18,000 each to build the local branch. The Post Office determined in

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

each area whether a Main or Local branch was required based on customer demand. Postmasters also had the option to leave with compensation as long as The Post Office could find a suitable new Postmaster in the local area. In cases where an existing Postmaster left with compensation this was based on 26 months remuneration based on the best years remuneration from the previous 3 years of service.

C. POSTMASTERS AND THEIR BRANCHES

85. In this section, I explain the role of a Postmaster and the basic operation of a Post Office branch. This is only a high-level overview as it reflects information that I believe that new applicants for Postmaster would reasonably know before being appointed as a Postmaster or would have obtained through foreseeable questions they might ask.
86. [NOTE FOR WBD / Counsel: We need to tie into to SR, TD and JB's statements here to make sure that we have laid a clear narrative as to why Postmasters would know this before they are appointed]

Postmasters' businesses

87. By joining the Post Office network, Postmasters get access to a wide range of benefits that would be very difficult for them to procure independently. The key benefits are as follows:
- 87.1 Postmasters get the right to use Post Office's brand, which immediately gives their business credibility without needing to build up its own goodwill.
- 87.2 Postmasters are able to sell wider range of products than a small business would normally be able to sell. Post Office negotiates all the terms with its clients for the sale of client products. Without these often long term and complex framework agreements, small business owners would need to contract directly with each client to provide these services which I think would be practically impossible for them to do.
- 87.3 Post Office provides the cash and stock needed to conduct transactions. It does this on an unsecured basis¹² and therefore the Postmaster has no working capital requirements for branch trading. Given that the average branch is holding around

¹² Where the Postmaster is a company, Post Office may require a shareholder or director guarantee.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

£XX in cash, I doubt that many Postmasters would have the financial means to fund this working capital.

- 87.4 Post Office provides the IT equipment needed in branch to conduct customer transactions and maintain the branch accounts, including Horizon, printers, barcode scanners and chip and pin machines. It also provides the back-end IT infrastructure that connects each branch with Post Office's clients. No small business owner could put this infrastructure in place on their own.
- 87.5 Post Office facilitates the payments required for each transaction. It provides cash management planning and cash delivery vans to get cash to and from each branch, its banks customers' cheques, recovers payment for debit and credit card transactions and processes payments to clients. A small business owner could arrange this themselves but it would be an added admin burden for them to manage.
- 87.6 Post Office provides customer helplines so that branches do not need to field some queries. This helps save Postmaster's time.
- 87.7 Post Office (or its clients) are responsible for building legally compliant processes. Postmasters get the benefit of Post Office's expertise in doing this and Post Office or its clients bear the legal and regulatory risks of non-compliance so long as a Postmaster follows the stipulated practices.
88. These benefits generally all come back to three main advantages for a Postmaster:
- 88.1 First, the Postmaster gets an extra source of revenue in the form of remuneration from Post Office. Postmasters receive fixed monthly remuneration and / or variable remuneration according to the volumes of sales of products in branch. The amount and structure of remuneration has changed over time but broadly speaking larger branches receive more remuneration. The Witness Statement of Nick Beal discusses Postmaster's remuneration in more detail.
- 88.2 Second, the Postmaster avoids the costs and difficulties in having to set up the infrastructure to sell a similar range of products: those costs being prohibitively expensive for small businesses.
- 88.3 Third, the presence of a Post Office, its brand and the wide range of products offered attracts customers. This increases footfall in the Postmaster's retail unit and has the potential to increase the profits on the retail side of the business.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

89. This last factor is a major (and in many cases the dominant) reason why people become Postmasters. Post Office does not maintain aggregated information on whether a branch is located within an associated retail unit. However, in my experience I would say that less than 5% of agency branches are pure Post Office branches offering nothing but Post Office services. Those that are pure Post Office branches tend to be the very large branches that are profitable as a freestanding Post Office (having typically been converted Crown branches). In my 30 years at Post Office, I can only recall coming across a handful of small or medium sized branches that had no associated retail offering at all.
90. When taking on a branch, the Postmaster will have some costs and capital outlay. These include the following:
- 90.1 The Postmaster needs to acquire a legal interest in the branch premises if they do not already own it. This may be either a lease or the freehold. They will likely incur transaction costs in securing the property interest (eg. legal fees, stamp duty, etc.) and may also incur finance costs (eg. mortgage interest repayments). However, the capital value of the property can often be recovered when selling the property.
- 90.2 If acquiring an existing business, then they may need to pay for the goodwill associated with the business. That goodwill will usually be higher if there is an existing Post Office branch in the retail business because, as explained above, the Post Office usually increases the profit made on the retail side. Again, however, the price paid for the goodwill can often be recovered on the sale of the business.
- 90.3 The Postmaster may need to pay for some fit out works to bring the branch up to Post Office standards. This is more likely needed for a new branch than an existing one. I note that the **Witness Statement of John Breedon** describes this in more detail. Again, it may be possible to recover some of these costs on a future sale if they have improved the premises' or business' value.
- 90.4 A Postmaster may incur some time / salary costs in recruiting and training assistants when opening a new branch. These are ordinary business costs. They are only as long term as the assistants' employment contracts. For Postmasters taking on existing branches, it is likely that the incumbent staff of the outgoing Postmaster will transfer to the new Postmaster, so in some cases there will be no recruitment or training costs at all.
- 90.5 [Anything else?]

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

91. Post Office historically charged an introductory fee, licence fee or franchise fee when an incoming Subpostmaster began to operate a new branch. The rationale for charging this fee was that there was a commercial benefit to a retailer in operating a Post Office branch. This tended to be for larger, more profitable branches. This fee took the form of an fixed percentage abatement of the Postmaster's remuneration for the first year and so was not a capital outlay. [CORRECT?]
92. One allegation made in these proceedings is that the Postmaster loses the ability to "sell" his branch, and therefore the ability to recoup any capital outlay, if his contract is terminated by Post Office. This is not necessarily correct. Regardless of his contractual status, a Postmaster cannot "sell" a branch because it is not a saleable asset. The Postmaster has the benefit of a contract for services with Post Office that cannot be assigned. However, the goodwill of his business attaches to the branch's location, premises and customers. This is not destroyed because the Postmaster's contract is terminated. Often a temporary Postmaster¹³ takes over the branch and so the business (retail and Post Office) continue to trade together. Due to the need to maintain a minimum network size and continuity of service, it is likely that Post Office will want to continue to locate a branch in the Postmaster's retail unit. Often the buyer of a retail unit will make the acquisition conditional on the buyer being appointed as Postmaster. The combination of these factors means that the value of the business is usually preserved, and initial capital outlays recovered, even if the Postmaster is terminated.
93. For the above reasons, I do not consider the investments made by the Postmaster to be significant; they reflect the ordinary start-up risks taken by any small business owner. Most are recoverable capital investments that can be recouped on a sale. Like any capital investment, their value can go up and down, depending on many factors, some within the Postmaster's control (eg. how well he or she runs their business) and some not (eg. general economic conditions, property prices, changes in competition when other local business open or close, etc).
94. Their investments are also not long-term. Most Postmasters have the right to terminate their contracts on notice of between three to six months and this gives them protection should the branch not turn out as profitable as they had hoped or they have a change in personal circumstances. By contrast, Post Office does not routinely close branches unless there is a problem (see the Witness Statement of John Breedon for more details on this) or the branch has been selected for closure

¹³ See the Witness Statement of Nick Beal for more information on temporary Subpostmasters.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

under a change programme (see paragraph XX). This is because of its need to maintain network coverage and continuity of service. [CORRECT?]

95. Combining a retail business with a Post Office can create a highly valued community service and business. In the 2016 Local Shop Report published by the Association of Convenience Stores, Post Office was recognised as the number 1 service for the impact it has on the local area, ahead of both convenience stores (2nd) and banks (8th).¹⁴ When joining the network, Postmasters therefore make an assessment about whether the additional cost in running a branch (principally setup costs, labour costs and the reduction in retail floor space) and the risks (principally in the form of liabilities for shortfalls) are outweighed by their Post Office remuneration and the potential for increased profit in their retail offering.
96. In addition the commercial advantages, the role of a Postmaster also offers a lot of choice and flexibility. Most of the Postmasters whom I have appointed or worked with relished the autonomy of the role. They are proud to be independent small business owners, with the ability to grow their businesses as they see fit. This autonomy includes:
- 96.1 Being able to hire assistants (see paragraph X in relation to assistants). This allows each Postmaster to strike their own balance between working in the branch and delegating that work to others.
- 96.2 It is possible for a Postmaster to completely delegate responsibility to an assistant to run the branch, with the Postmaster being absent. Some Postmasters have no involvement in their branches at all, to the extent that they would not even know how to run a branch or they may even live abroad. These Postmasters treat the branch as nothing more than a financial investment and may have multiple businesses or even be a Postmaster of multiple branches.
- 96.3 Postmasters are free to allocate responsibilities within the branch. Postmasters could treat all assistants equally or could have a hierarchy with more senior staff supervising junior staff. In larger branches, assistants may have designated roles eg. just doing mail-work or having authority to cash up and submit monthly accounts.

¹⁴ [ADD WEBPAGE LINK](#)

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 96.4 Postmasters can flex their employees between their retail and Post Office businesses. It may be that staff work mainly on the retail side but help out in the branch during busy periods or vice versa.
- 96.5 [Any other ways that Postmaster's are autonomous]?
97. This autonomy is not absolute. The key control asserted by Post Office is that it sets down minimum operating standards on the way Post Office business is conducted and the way transactions are recorded. This is described below.

Operating a branch

98. Unlike an ordinary retailer, Post Office branches do business in both debit and credit transactions. Most retailers are one way: they take in payments and hand out goods or services. Post Office branches are different in that they often make payments out, nearly always in cash. The most common type of physical asset transferred by a Post Office is not stock or goods but physical cash. [ADD SOME STATS FOR CASH MOVEMENTS ACROSS POL]. Bank withdrawals and benefit payments are examples of outflows of cash. In some branches, the outflows are greater than the incoming cash, leading them to be "cash negative".
99. Post Office provides every branch with a quantity – varying according to local demand and branch size – of Post Office cash and stock (such as stamps) with which the Postmaster may undertake transactions on behalf of Post Office. The physical cash and stock remain the property of Post Office, even though it is in the Postmaster's possession. Postmasters are required to keep Post Office cash and stock separate for their retail cash and stock [Is this still true for Local branches?]
100. In order to meet the demands on Post Office described in Section B above, Post Office sets down operating rules on how Post Office business is to be conducted in branch. These rules are also sometimes set to reflect best practice eg. keeping cash in a safe overnight is not a legal or client requirement but is a very good idea for obvious reasons. These operating rules require Post Office's assets to be handled in a certain way and require certain information to be captured, recorded and dispatched (digitally or physically) in relation to each type of transaction.
101. When a client product is transacted, details of the transaction are communicated to the client. Post Office is liable to account to the client for the transaction value or vice versa (depending on whether the payment is a credit transaction eg. bill payment, or a debit transaction eg. bank withdrawal. Before 1999, these records

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

were kept in paper form, known as the branch accounts. In around 1999/2000, Post Office rolled out the Horizon IT system in branches. This digitised the branch accounts. The basic operation of Horizon is that it records, like a traditional double entry bookkeeping account, all movements of cash and stock in and out of a branch.

102. For example, if a customer pays a £80 utility bill by cash then, if entered correctly by the Postmaster, the branch accounts, whether in the old paper form or on Horizon, will record an increase in £80 in the branch's cash holdings.¹⁵ Post Office will then pay the £80 recorded in the branch accounts to the customer's utility company. The Postmaster is not responsible for this onward payment to the utility company so long as he has recorded the transaction correctly in branch. If, for some reason, the onward payment to the utility company failed to go through, this would not directly affect the branch's accounting position. The branch accounts would still show a £80 bill payment and the receipt of £80 in cash. A similar allocation of responsibility exists for all transactions, with the Postmaster being responsible for keeping his end of the transaction records accurate, namely the branch accounts.

[Note to WBD / Counsel: Do we need to say more about this cover off the real-loss argument?]

103. Post Office's operating rules require a Postmaster to submit the branch's accounts to Post Office at regular intervals. This is now all done online through Horizon. In submitting the accounts, the Postmaster must count all the cash and stock in the branch and compare it to the cash and stock holdings on Horizon which reflect the net effect of all transactions recorded by the Postmaster in a given period. Should the actual cash on hand be less than the cash position recorded in the accounts by the Postmaster, there will be a loss, which is frequently referred to as a 'shortfall'. If the opposite is true, there would be a surplus, which is frequently referred to as a 'gain'.
104. When setting operating rules Post Office consciously balances the need for consistent practice across the network with respect for the autonomy of Postmasters to run their businesses as they see fit.
- 104.1 A consistent approach is needed because it would be unworkable if each branch operated in its own way, conducting transactions as it saw fit and submitting accounts in a variety of formats. It would be very onerous for Post Office to

¹⁵ I put to one side here the Claimant's allegations regarding defects in Horizon as these are not within the scope of the Common Issues Trial.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

interact and cooperate with a branch if each one did things differently. This would likely requiring Post Office to hire [hundreds?] more back-office staff to run the network. The cost would be massive and the Post Office business would likely not be sustainable in that scenario.

- 104.2 The rules however cannot be too prescriptive as this may then put an undue burden on Postmasters. An operational change can cause more or less labour time to be needed in branch, which has a direct impact on a Postmaster's staffing costs (or their own time). A change that would require an extra hour of work each week for all 11,000 branches would be equivalent to the workload of around 300 full-time assistants.
- 104.3 The rules need to be capable of being applied to branches of all sizes. What may be appropriate in a large branch may be unduly onerous in a small branch. The operating rules therefore reflect minimum required practice and Postmasters may decide to go further. A good example of this is whether Postmasters undertake more accounting checks than are required by Post Office. A small branch run by a single long-serving and experienced Postmaster who has no track record of shortfalls may be comfortable only doing a full set of cash and stock accounts at the end of each month. To do it more often would be time-consuming and costly, and be for little benefit. A larger branch with, say, 4assistants and 2customer serving positions which is suffering from repeated shortfalls may decide it necessary to do a full cash and stock count every day or week. .

Assistants

105. Postmasters are allowed to employ staff, known as assistants, to conduct Post Office business on their behalf. Postmasters are free to decide how many people to employ (if any), who to employ, for what working hours and in what roles. Postmasters are responsible for assistants' wages and set their salary levels. Postmasters are responsible taking disciplinary action, dismissals and for all the legal requirements that come with being an employer.
106. Post Office only has one role in selecting assistants: it undertakes criminal records checks on assistants – see the Witness Statement of Sarah Rimmer for more detail on this.
107. Postmasters are required to register assistants with Post Office. However, Post Office cannot accurately know how many assistants are active in the network because:

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 107.1 Post Office is not present in branches so cannot monitor first-hand who is serving customers or handling Post Office cash and stock.
- 107.2 Some Postmasters do not register assistants. Post Office trusts Postmasters to do this.
- 107.3 Even if an assistant is registered that does not mean that they are actively working in a branch.
108. It is therefore not possible to accurately state how many Postmasters are actively employing assistants to work in branches are any one time. In my experience, only in very small branches would the Postmaster be able to run the branch on their own. I would estimate that over 93% of branches have assistants working in them. According to a combination our BizX Database (sits alongside SuccessFactors and hold information for all Assistants) and Horizon terminal use data there are currently circa 50,500 'active' assistants registered with Post Office.
109. In the above section on "operating a branch", any reference to actions in branch by Postmasters could also be actions by assistants. Postmasters are free to delegate as much or as little of branch work to an assistant as they see fit.
110. It is for the Postmaster to decide on whether an assistant is suitable for the role. Post Office cannot do this because it does not know the assistant and cannot regularly supervise their work in branch. Put simply, Post Office does not generally know which assistants are good and which are bad. It cannot therefore make informed decisions about an assistant.
111. It would also be inappropriate for Post Office to strictly and directly control the use of assistants when the consequences of those decisions will fall on the Postmaster. For example:
- 111.1 If a Post Office decides an assistant should be dismissed, any resulting grievance or tribunal claim would be against the Postmaster as employer. Post Office could not therefore sensibly exercise those dismissal powers, being the ultimate sanction for poor performance or gross misconduct by an assistant.
- 111.2 If Post Office were to compel mandatory training on an assistants, he or she would be entitled to be paid by the Postmaster for that training. The Postmaster may prefer not to pay that cost and be happy to run his branch with untrained assistants or dismiss an assistant. Alternatively, it may be that the Postmaster has given the assistant only has a limited role in the branch such that some parts of the training may not be needed for their job. It could also be that training was

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

conducted at an inappropriate time, say during peak trading or when the branch is short staffed due to illness or resignations of other assistants.

- 111.3 Post Office does not know what, if any, supervisory regime the Postmaster has put in place. It may be that the Postmaster is closely supervising his staff or providing no supervision at all in the case of an "absentee" Postmaster. Post Office may therefore cut across the instructions of a Postmaster causing confusion in the branch.
112. Post Office may offer advice to Postmasters on their assistants but the only [correct?] circumstance in which it would get directly involved is when an assistant has acted dishonestly. Post Office may then require the Postmaster to exclude that assistant from the branch in order to protect Post Office cash and stock.
113. Given Post Office's lack of first-hand knowledge about, and control over, assistants, it would be impossible for Post Office to directly supervise them on a day to day basis. Again the size of the network needs to be taken into account. With 11,000 agency branches, I would expect Post Office to need to employ [thousands] of additional staff if did have direct responsibility for assistants. Again, this would make the network financially unsustainable.
114. The better, more cost-effective and in reality only commercially sustainable arrangement is for Postmasters to supervise their assistants. They are in the best position to detect incompetence or dishonesty by assistants or to put in place a supervisory regime and operating controls to detect these things when they are not there. As they are exercising control (and not Post Office) it is therefore reasonable for the Postmaster to be liable for the actions of their assistants. If they were not liable, then this would lead to the perverse situation whereby the Postmaster would be incentivised to train and manage his staff as little as possible, knowing that he would benefit from a cost saving and Post Office would bear the adverse financial and commercial consequences.

Horizon

115. Horizon is Post Office's accounting IT system used in branches. I am not an IT expert but have used or been involved with the system since its rollout in 1999. The Horizon Issues are being addressed in a separate trial so I only briefly describe the Horizon system below. I would expect any reasonably diligent applicant for the position of Postmaster to be aware of this information or to be provided with this level of information if requested during the application process. [Please feel free to amend below as appropriate]

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

116. I describe Horizon to new users as a big calculator. It records the transactions input and then adds or subtracts from the branch cash or stock holdings depending on whether it was a credit or debit transaction. The Horizon user just needs to remember what they need to do to initiate a transaction (eg scan the barcode or touch the screen) on the Horizon system and then follow the on-screen prompts.
117. The system keeps a record of transactions and allows easy access to that information. It automatically generates the branch accounts (subject to a manual cash count by the Postmaster) and flags any shortfalls or surpluses to the user. This is better than the old paper ledger system which would require multiple ledgers to be tallied and manual calculations made before the true branch position could be seen. Horizon therefore saved Postmasters and Post Office time, and cost, by automating these exercises.
118. Horizon also allows transaction information to be quickly filtered and sorted, giving the Postmaster the ability to more quickly target areas of interest than in a paper system, making investigating problems easier. The introduction of Horizon represented a general all round improvement over the old paper ledger system used in branch.
119. It is possible for the user to press an on-screen touch button and move on the screens without reading the prompts to try to shortcut the process. If this happens the user may have input incorrect information into the system eg processing a deposit as a withdrawal or vice versa. And of course the system is only as good as the information input into it and Horizon does not know whether the user has entered correct data. Entering incorrect data or not using the system properly could cause shortfalls in branch and it could be difficult or in some instances impossible for the user to realise or remember they have done this.
120. As with any IT system, there are instances where the system or the screen goes down. The system was built with safeguards against the occasions when connectivity could be lost, a power line could go down or the communication link could be faulty. The system is not perfect, but I am not aware of any material bug in the system that could cause shortfalls in branch. I am aware of some historic small-scale bugs but to the best of my knowledge these have been corrected and any harm to Postmasters put right. It would be adverse to Post Office's interests to leave bugs unresolved. They could cause a loss of confidence in the system by Postmasters, customer complaints, incorrect payments to clients, regulatory breaches and brand damage.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

121. In light of this inevitable risk, which exists in any IT system, Post Office provides helplines and support manuals so that users can get guidance on how to deal with issues. The helpline for IT technical support is known as Horizon Service Desk. Some Postmasters would say that the level of support could be improved, with for example faster response times, but I believe that on the whole the support is adequate.
122. I am not an IT expert but I have every confidence in Horizon. In my experience the system accurately records transactions as entered by branch staff and only very, very rarely have there been instances where this has not been the case. In my experience, Horizon is not the cause of shortfalls in branches. It is much more likely that an accounting error by the Postmaster or his assistants has caused the shortfall. I also believe that Horizon is fit for purpose. Some might say that Horizon could be slightly easier to use, but it is common to want more from an IT system. No-one truly expects an IT system to be perfect but they would expect it to be robust and for Post Office to have in place reasonable processes for detecting and correcting any problems. I believe that my view of Horizon is held by the vast majority of Postmasters in the network. The NFSP has publicly supported Post Office's view that Horizon is robust.¹⁶ I would therefore expect any applicant for the position of Postmaster, who has done a reasonable level of due diligence or spoken to other Postmasters or Post Office, to have a similar view about Horizon when they took on the role of Postmaster. It would be very odd if a person agreed to join the Post Office network, with the personal liability that entails, under the belief that they would be using a defective IT system.
123. One untenable allegation in this litigation is that Post Office or Fujitsu may have been improperly edited transaction data in Horizon that has been recorded by branches. Although this question will be addressed in more detail in the Horizon Issues trial, it is important to make clear now how ridiculous this allegation is. It is tantamount to an allegation of a fraudulent conspiracy between Post Office and Fujitsu. Neither Post Office nor Fujitsu has any incentive to do this. Both benefit when the accounts are as accurate as possible so it would make no sense to corrupt the audit trail on those accounts through malicious manipulation of data. If true, this would cause a devastating loss of confidence in both businesses, legal and regulatory breaches and a public outcry.
124. [Note to WBD / Counsel: The below section is likely inadmissible. Should we delete it?]

¹⁶ Can we find a source for this that is not the Select Committee hearing because that is likely covered by Parliamentary privilege?

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

125. [The evidence plan included a section on balancing transactions but this is far over the line of admissibility and the subject of the HIT. It has not been included in this draft.]
126. Post Office keeps transaction information for 7 years, which enables it to go back and extrapolate that data. It is not an easy process to do this as this information is archived. When Horizon was built Post Office did not anticipate it would need to analyse the data on such a large scale as has been required as a result of this dispute.
127. Sometimes it was not cost effective for Post Office to provide all of the Horizon data to the branch requesting it. For example, a branch might request the data for 7 years which would cost many times more to get the data than the value of the loss particularly when the loss was small. There have been cases where Post Office have pushed back in such circumstances as it was not a commercial resolution to the loss. The Postmaster in a number of cases has requested all of the data in what appears to be a last hope attempt at identifying the issue, rather than because there is some evidence that there is an issue to be searched for and addressed.
128. There have been software changes to Horizon since it was implemented in 2000. Post Office has moved from Horizon to Horizon Online. Prior to the online facility transaction information would be extracted from the branch overnight. The key difference between Horizon and Horizon Online is that transaction data is sent to the central data centre in real-time rather than being stored in branch.

Training

129. The aim of training is to equip the Postmaster with the skills to perform the role that they have been asked to do. There are strong incentives for Post Office to deliver effective training:
- 129.1 It reduces the chance of an accounting or cash / stock handling error in branch, thereby reducing shortfalls.
- 129.2 It helps deliver a better customer experience, thereby improving the Post Office brand and the prospects of the whole network.
- 129.3 It helps ensure consistent practice across the network.
- 129.4 It may reduce the amount, and therefore cost, of other support needed by Postmasters (eg. calls to the NBSC helpline).

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 129.5 It avoids the cost of having to repeat training.
- 129.6 It may reduce other costs at Post Office (eg. back-office processing of transaction corrections; handling customer complaints, etc.).
130. Training nevertheless comes at a [high] cost to Post Office because it can be very labour intensive. Training is currently delivered by around XX employees of Post Office at a cost of around £XX each year.
131. Training is not, on its own, a cure for all problems. For some issues, it may be more effective and cost-efficient for Post Office to, for example, send out a reminder notification to each branch, update in-branch user guides, provide better advice through NBSC, develop an improvement to Horizon, build more on-screen prompts into Horizon, change the way it communicates with branches and / or re-design a sales or accounting process. Training cannot therefore be considered in isolation but only as part of wider Post Office and branch operations otherwise significant cost could be wasted in delivering training when there may be better solutions.
132. A good example of this was sale of scratchcards. Before a lottery scratchcard can be sold, the pack of scratchcards needs to be "activated" on the Camelot lottery terminal in branch and then recorded as live stock in the branch accounts.¹⁷ Before January 2012 there were an increasing number of Postmasters who were activating scratchcards but not recording them as stock in branch. This was leading to a high number of transaction corrections being issued and causing additional administrative costs in Post Office having to account to Camelot for the scratchcards. Rather than re-train all Postmasters on the correct process, Post Office rolled out an update to Horizon. Now, Horizon prompts a branch each morning on first logon to record their scratchcard activations and provides a number of activated scratchcards from the previous trading day based on data received overnight from Camelot. This change dramatically reduced the number of issues with scratchcard activations.

Initial training

133. One common feature of Post Office's training was that at all material times initial training was offered to new Postmasters. This has evolved in line with the changing size of the network, the costs of providing training and the mix of products offered in branches and improvements in technology. [Any other

¹⁷ An un-activated scratchcard has no value because a prize cannot be claimed on a winning but un-activated scratchcard. Because they have no value, they are not classed as branch stock until they are activated.;

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

factors?] The general pattern has been a move away from only in branch training to classroom and in-branch based training and now to a training and on-boarding approach that starts with online training; then classroom training, followed by on-site in branch training with follow-up visits at the end on month one and month three

134. Not all 'new' Postmasters needed training. A postmaster 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. Some may already been Postmasters of other branches, some may have worked in branches as assistants or some may have no intention of working in their branch – as an absentee Postmaster there may take the view that there is little need for them to know how the branch operates. For those Postmasters who were truly new to Post Office and even for those who werenot intending to work in their branch, Post Office would strongly insist that they attended and it would be very rare and odd if they did not do so, to the extent that Post Office might reconsider their suitability for the role.
135. No matter the method of delivery there are some core features that have always been covered in initial training programmes:¹⁸
- 135.1 How to conduct basic transactions.
- 135.2 How to deal with remittances of cash and stock in and out of the branch.
- 135.3 How to make daily cash declarations and submit the weekly / monthly accounts.
- 135.4 How to declare, investigate, make good and dispute shortfalls.
- 135.5 How to process and / or dispute transaction corrections.
- 135.6 How to get further advice and support.
136. I set out below a short summary of how initial training was delivered over the years. This reflects the standard training that most Postmasters received but there would be exceptions and variations from this due to individual circumstances eg. very remote branch, Postmaster was ill during training, etc.
137. Pre-Horizon, initial training was carried out on site (at the branch) over a period of around two weeks, as "on the job" training. I recall that training at this time was one week for branches with no car tax and two weeks for those that did car tax.

¹⁸ NOTE TO WBD: Can we source this please in relevant documents?

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

This was due to the volume of car tax renewals being processed through branches at that time; that business now having reduced greatly due to car tax now being done online. Post Office would come back on site to help the Postmaster complete his first two sets of accounts that were due to Post Office – known as "follow-up balances".

[What happened in 2000 – 2001: there is a gap]

138. From 2001 to 2002, classroom training was offered to new Postmasters followed by around ten days of onsite training and support. There would then be a follow-up balance .
139. From 2003 to 2006, between five and ten days of classroom training was offered to new Postmasters (the training being optional) and then five to ten days of onsite training and support was then given depending on whether the classroom training was attended. This would be followed by a further day of follow-up balance support.
140. From 2007 to 2011, new Postmasters 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.
141. In 2007 follow-up telephone calls were introduced at intervals of one month and six months after a branch was taken over by a new Postmaster, with a one-day site visit taking place three months after the branch was taken over.
142. In 2012, as part network transformation (see paragraph XX), Post Office tailored its training to reflect the specific role being undertaken, whether he/she is taking over an existing branch with existing staff, the size of the branch, the branch operating model (i.e. Main or Local) and the types of products and services to be transacted. The number of days over which the training took place depended on which model of training was provided. The training usually took place over 8 to 10 days and involved some classroom and some on-site training.
143. The current position is that the Postmaster will be sent a link to the online training that they access on their own device eg laptop. The online training is interactive and requires user participation. The online training is a precursor to classroom and on-site training. This is a change I introduced in 2015; this approach ensures the Postmaster has a variety of methods to take in the training, namely online, classroom and on-site.

Assistants

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

144. The training for Postmasters has always emphasised their responsibility for the safekeeping of cash and stock, the accuracy of their branch accounts and the actions and competency of their assistants.
145. Before Network Transformation, if there was space on an initial training course it would sometimes be suggested that the Postmaster bring their assistants with them to utilise the spaces on the course. With the new Mains and Local contracts the training is set out explicitly: for Mains the Subpostmaster and up to 50% of their staff are invited to attend the training. For Locals if the Subpostmaster has more than 5 staff then in addition to the Subpostmaster sufficient spaces will be offered to train 50% of their staff. [WBD TO DOUBLE CHECK THE CONTRACTS]
146. Where training was delivered on-site, there was of course the opportunity for those assistants who were present to get involved in the training.

Further training

147. If the trainer has any concerns about the competence of a Postmaster following their initial training, they may arrange further training for the Postmaster.
148. After this point further training can be provided to Postmasters where necessary. As Post Office is not present in branches, it is often not possible for it to know whether training is needed by the Postmaster. It could be that the Postmaster is absent from the branch and requires no further training at all. It could be that the Postmaster is well trained but there are errors in branch caused by assistants. For most branches, where all Post Office sees its accounting data, it is difficult to determine a Postmasters (or an assistant's) training needs.
149. Where a specific concern has been reported by a Postmaster or there is a re-occurring problem in branch, Post Office may pro-actively contact the branch to enquire as to what is happening and that may lead Post Office identify a need for further training need. Even then, Post Office cannot directly impose more training on Postmasters¹⁹ because this training also comes at a cost to them, in that it takes up their time. Most further training is therefore request driven, where a Postmaster asks for more training of their own volition or agrees to training suggested by Post Office.

¹⁹ Save maybe in circumstances where there have been breaches of contract and Post Office requires a Postmaster to undertake further training as a condition of it not exercising its termination rights.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

150. When Post Office introduces new products or changes to products, the need and type of training is determined by the type of change or the level of complexity around the new product. If a new product is introduced that is similar to a product Post Office has already trained its Subpostmasters to use, then Post Office would likely not do face to face training. Instead it would more likely issue instructions and easy to user guides.

Support for Postmasters

[Note to WBD / Counsel: Is this section admissible?]

151. Some Postmasters run their branches successfully for years, rarely calling for help, suffering minimal, if any, shortfalls and generally get on with running their businesses without incident. Some Postmasters do not have a face to face interaction with Post Office for years. It is perfectly possible to run a branch without problem, using only the operational manuals and help guides provided by Post Office. [True?]
152. Most branches will require some degree of support and guidance from Post Office at some points in time. Most of this support is in the form of routine queries about how to do something and is of little consequence. It is a minority of Postmasters that require regular or pro-active intervention and it is those types of Postmaster that make up a fair proportion of the Claimants. I do not therefore believe that the Claimants' complaints in these proceedings are representative of the views of the wider body of Postmasters, as can be seen from the fact that the NFSP is supporting Post Office in this litigation.²⁰
153. Historically, an Area Manager would be responsible for the whole life cycle of the Postmaster, including supporting any issues in branch. Over time the Area Manager position has had different names such as Retail Network Manager (**RNM**) or Business Development Manager (**BDM**). Area Managers knew the branches very well due to this high level of personal contact. [Note for Counsel: How do we square this with above statements on Post Office no being present in banche?]
154. Around 1995 Post Office started to centralise its business. As part of this, in around 1999, Post Office set up a helpline for Postmasters. This was partly because improvements in technology made it more cost-effective to run a telephony support service but also to support continuous improvement. All calls

²⁰ Source?

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

are logged and the type of enquiry categorised. A summary of the information given to the branch is recorded on the call log. This data can then be used to identify any trends in the type of calls enabling a better understanding of any issues and enable us to reach a resolution more quickly. For example if the helpline receives a higher than usual volume of calls regarding a transaction this triggers an investigation into what's driving the increase in call volume. . It was first implemented on a regional basis and was later centralised when it became known as the National Business Support Centre (**NBSC**). [Correct? Or was it known as a the NBSC before this?]

155. It was important that Postmasters used the Helpline as Post Office wanted a record of the calls reporting issues so that we could understand trends in the volume of calls and also the type of calls. Again, technology allowed Post Office to collate this data and produce trend analysis at a national level to ascertain whether there are particular things taking place that are not just one offs. If, for example, Post Office brought a new product in and the Helpline received a large number of calls, Post Office could consider whether the training had not landed properly; or that the product design is not quite right.
156. Even if the Postmaster wanted to get hold of me as an RNM, I would inform them that they needed to go through the helpline. I would inform them that the contact at the helpline would then page the relevant RNM or BDM and ask the person to contact the Postmaster.
157. As the Area Manager role became more focused on business development and sales NBSC became the primary point of contact for Postmasters seeking support on operational questions. NBSC is dealt with in more detail in the Witness Statement of Kendra Dickinson.
158. In [year], Contract Advisors were introduced. Contract Advisors were responsible for managing the contracts of Postmasters and took over this role from area managers. They were centrally based and did not visit branches unless addressing a specific issue. They were involved in the appointment process, handled any contract breaches and dealt with suspensions, resignations and terminations. These matters are dealt with in more detail in the Witness Statement of John Breedon.

Causes of shortfalls

159. When becoming a Postmaster, a person will know that there is a risk of losses of cash and stock from a branch. This is a known risk in any retail environment and

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

is commonly called shrinkage.²¹ There are innumerable ways that a shortfall or surplus may arise. I set out some examples below.

160. Mis-key. If a Postmaster enters the wrong value of a transaction into Horizon compared to the actual amount of the transaction this could cause a discrepancy. By way of example, a banking customer wishes to deposit £1000 into his/her account and 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.
161. Mixing retail and Post Office business. Generally, a branch will maintain a 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 and vice versa as it can become difficult to track the amount of cash that should be allocated to the Post Office and retail sides.
162. Errors in cash handling. At the end of a customer transaction, payment normally needs to be made to or received from the customer. Even if the transaction is correctly recorded in 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, or receiving it from, the customer. This error may also happen when excess cash is sent from a branch to Post Office or vice versa.
163. Miscounting cash on hand. When completing the physical cash count, notes and coins can sometimes be miscounted or missed altogether. 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.
164. Cash remittance errors. If there is mistake made between the amount that is "Remmed" in or out and what is received from, or sent to, the Post Office Cash Centre, then this will lead to a branch discrepancy. When a pouch is received from a branch, the handling clerk at the Cash Centre opens the seal and empties the contents onto 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. By way of 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 mistake cannot be rectified by the branch. The cash will be counted at the Cash Centre and a Transaction Correction will be sent to the branch to rectify the branch account.

²¹ Can we cite an industry report on retail shrinkage?

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

165. Stock handling. In the same way that cash can be mishandled, stock can also be mishandled eg. giving the wrong type of stamps to a customer.
166. Cheque handling. Branches can accept cheques as payment for certain products and services. There are set procedures that must be followed in branch to ensure that the cheques are handled correctly and submitted to Post Office promptly so that they can be entered into the banking system. A failure to follow these processes may make it impossible to recover the value of the cheque and the cost of this may be passed back to the branch.
167. Product specific errors. A failure to follow the correct process for accounting for certain products can also cause errors. A good example is the accounting process for Motor Vehicle Licence (MVL) discs (commonly referred to as tax discs). Branches will receive MVL discs from Post Office, which they have to record as part of their stock using Horizon. When the discs have passed the time where they can be put onto a vehicle, the branch is responsible for destroying the discs and following a process to inform Post Office that they have been destroyed. When destroying the discs, if the branch does not follow all of the steps of "spoiling the disc" and remitting it to Post Office, Horizon will still record the disc as being in the branch even though it has been destroyed.
168. Accidental loss. Other 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 taken by a customer without branch knowledge.
169. Theft. Theft by branch staff can and has occurred involving staff taking cash or stock or colluding with a customer to generate a gain for the customer and an offsetting loss for the branch.
170. [Note for WBD / Counsel: Do we want to say here that Postmasters will have known they were to be responsible for losses before starting the role? Is this even a "fact" that can be properly put in a witness statement or is this a question of legal responsibility? Would this be better in SR or JB's statement re the appointment process?]

Reliance on Postmasters

171. Post Office is not present in branches, except when its staff are on site providing training or support or conducting audits, which would perhaps give it at best visibility of maybe 1 in every 10,000 transactions. It does not have first-hand knowledge of:

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 171.1 The interaction between the Postmaster and the customer, what was said or what was handed across the counter.
- 171.2 Whether the Postmaster entered a transaction correctly on Horizon. Post Office only sees what was recorded by Horizon and what may be communicated to its by clients and customers. It does not know whether that entry accurately reflects the transaction that actually happened.
- 171.3 The handling and counting of cash and stock, and whether the correct amount of cash was taken from the customer or paid out to the customer.
- 171.4 Whether the correct related paperwork is completed for certain transactions (eg. endorsing backs of customer cheques with the transaction details).
- 172. Because of this lack of first-hand knowledge and direct control, Post Office relies on Postmasters to accurately conduct and record transactions undertaken in their branches. This is important because:
 - 172.1 Post Office pays or receives money from clients based on the value of the transactions recorded in branch. Incorrect transactions could lead to it paying more or receiving less than it is due, thus creating a loss to Post Office.
 - 172.2 Customers trust Post Office to complete their transactions accurately. Its brand would be damaged and customers would stop coming to Post Offices if, for example, when they paid a bill or deposited money, their bill remained unpaid or their accounts were not credited in the correct amount.
 - 172.3 Failing to complete customer's transactions could also damage Post Office's relationship with clients. If clients receive complaints from customers this could lead to clients taking their business elsewhere or demanding compensation.
 - 172.4 Post Office receives fees and commissions from its clients based on the transactions recorded in branches.
 - 172.5 Postmasters are remunerated with reference to the transactions completed in branch.
 - 172.6 Postmasters are responsible for the handling and security of Post Office cash and stock in their possession.
- 173. [In what other ways is Post Office reliant on Postmasters doing their jobs properly?]

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

174. Post Office sets minimum requirements for accounting checks so to ensure the accurate handling of cash and stock and recording of transactions. These currently include daily cash declarations²² and the submission of monthly accounts²³. The exact frequency and nature of accounting checks have changed over time but are, and have at all material times been, in line with the practices of other retailers (big and small), where the industry standard is for the tills to be "cashed up" at the end of every day. This is good practice because (i) it allows a retailer to quickly spot any problems and (ii) for security reasons a retailer will want large volumes of cash to be secured in a safe overnight. I would expect any reasonable person entering the retail business to understand the importance of regular cash and accounting checks, and I would also expect them to know that it is best practice that this is done at the end of every trading day and to promptly correct any problems found.

[Note to WBD / Counsel: Can we find any retail accounting standard or industry guide that says that cash should be counted daily]

175. With over 11,000 agency branches each producing a daily cash declaration, this would amount to over 26,000 cash declarations each month.²⁴ It would be completely impractical for Post Office to review all these accounting submissions. It would also be pointless. The only information Post Office would have at the end of each day's trading would be the cash declaration. If there was a shortfall, it would have no way of knowing which transaction on that day may be the problem. The only person with this information is the Postmaster.
176. The problem is exacerbated when looking at weekly or monthly accounts. An average branch conducts XX transactions per day, or XX transactions per week or XX transaction per month. As the period of time extends so does the pool of data and thus finding a problem transaction becomes more difficult.
177. A diligent business person would check their accounts daily to identify any discrepancies and will look to resolve them there and then. If a material problem is identified, I would expect the Postmaster to work hard to find the problem. The starting point is a recount of cash in the branch to make sure there have been no

²² This involves a count of all cash in the branch by denomination and the submission of that cash declaration to Post Office. This is done so that Post Office knows whether to send more, or collect excess, cash from a branch. Once the cash declaration is done, it is possible for the Postmaster to run a report from Horizon showing any shortfalls or surpluses that have occurred that day.

²³ Strictly speaking the accounts are submitted every 4 or 5 week trading period depending the accounting timetable set for each branch, but they are often referred to as the monthly accounts or "end of trading period" accounts. Historically, these accounts were submitted weekly.

²⁴ Assuming that there are 26 trading days in a month.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

counting mistakes. One would then look at the cash, cheque and stock remittances in and out of the branch to make sure everything has been logged as being sent or received. It would also be prudent to speak to any assistants to see if any of them had any idea of what might have happened.

178. The next step would be to review all the day's transactions looking for an anomaly. From the branch accounts, it has always at all material times been and is still now possible to review a list of all transactions completed that day, their value and the corresponding payment method (cash, card, cheque, etc). It would be sensible to start looking for a transaction around the value of the loss eg. if there was a loss of £900, I would be looking for a mis-key transaction where £100 was entered as £1,000.

179. Within Horizon this information is more accessible than in the previous paper accounts because reports can be run on Horizon looking for particular transactions. For example you could search for all transactions between specified dates, between particular values and / or for particular products. This information has always been available in branch for a minimum of 42 days (60 days since 2010) and so have been available when completing daily, weekly and monthly accounting checks.

[Note to WBD / Counsel: Admissible? This is also a Horizon Issue.]

180. Most small businesses like a Post Office branches have repeat regular customers eg. a customer who always draws their benefits on a Wednesday morning or the local garage that deposits its weekly takings on a Friday afternoon. You get to know the ebb and flow of trade in a branch and when you look down the daily transaction log, you do not just see numbers, you see patterns of customers. This allows a Postmaster to spot anomalies in a way that Post Office never could.
181. Postmasters also have knowledge of how their branch runs in practice: knowledge that Post Office does not have. They understand when they have had busy trading periods that makes mistakes more likely or have had difficult customers with complex transactions. They will know which assistants are more reliable, especially when new staff have just been hired. They will know if they or their assistants are having any personal or financial difficulties that may have affect their performance or create a greater risk of theft. Subtle little things, like rushing to close the branch early one evening so to go to an event or see your family, may change the risks of errors. The Postmaster's own risk for tolerance for errors will be important: some will want their accounts to balance to the last penny every day; others will be happy to allow small losses to rollover for a period of days without any investigation.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

182. [Is there any other information that the Postmaster has about the cause of losses that POL does not have?]
183. Given that each branch is different, each Postmaster will have their own way of investigating any shortfalls or losses. However I would say that the above steps, or a variant of them, is ordinary practice in a retail business.
184. It is fair to say that small shortfalls or gains sometimes cannot be tracked down. For example, a simple mistake of handing over to a customer a £10 note rather than a £5 note will be nearly impossible for either a Postmaster or Post Office to spot after the event. However, if a Postmaster conducts their business responsibly and with care, I am confident that they should be able to identify any material or re-occurring problems or at least localise them to a particular transaction, type of transaction or member of staff. In this context, I would consider a £100 shortfall (dependent on the size of the branch) to be a material error. It would be very rare that a Postmaster, having kept his accounts diligently, would have no idea where a material problem was arising from. [Can you add any more context as to why a SPMR would normally be able to track down material errors?] A diligent postmaster who accurately declares the branch cash accurately at the end of the day and discovers a discrepancy would be able to review the branch transaction log looking for transactions of a similar value – mis-keys on cash deposits for instance a £50 deposit keyed in as £500 would generate a £450 loss. The branch staff would usually remember the transactions they had done that day. The same would apply in a smaller branch with a smaller discrepancy for instance £10 deposit key in as £100 or £20 as £200 etc
185. By contrast, it can be very difficult, if not impossible, to find the root cause of shortfall if the Postmaster has not kept regular and accurate accounts. As explained above, it is easier to find a problem if it can be localised to one trading day, which can be easily done if daily checks are completed. Regular but inaccurate entries are also a problem eg. if a branch has recorded cheque payments as cash payments, then this may disguise a loss of cheques.
186. Compounding errors makes finding a loss more difficult. It could be that two errors are made in one day, a loss of £300 and a gain of £100, making it look like a net loss of £200 at the end of the day. Disaggregating these types of errors can be done on a small scale, but if not addressed for even a few days or weeks, they compound and make it increasingly difficult to locate the underlying cause of problems.
187. False accounting is a major problem when it comes to identifying and correcting errors. As with any business where accounts are kept, there is a risk that the

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

book-keeper may make false entries to hide problems. This could take a number of forms but the simplest way is to declare that the business has more physical cash than it actually has or to declare in the accounts that a shortfall has been made good when in fact it has not been. These would both make the accounts look like they are in balance (with no shortfalls or gains) when in the real-world there is a shortfall. Other types of false accounting include recording false debit transactions so to reduce the cash position recorded in the accounts so to bring it in line with the real cash position.

188. Save when opening new branches, closing branches and undertaking audits (see paragraph **XX**), Post Office does not undertake a first-hand manual count of a branch's cash. It only sees the accounts submitted by the Postmaster which would appear to balance. It generally does not know whether the Postmaster has submitted false entries or not.²⁵ False accounting causes two principal problems:
- 188.1 It makes it very difficult, if not impossible, to know on what day a real error occurred because the falsified accounts will likely show that they were in balance every day. It will likely not even be possible to tell from the accounts when the false accounting started.
- 188.2 There is no way for Post Office to know which transactions in the accounts are real transactions that are innocently incorrect and which are intentionally false. False accounting therefore puts the entire set of accounts under suspicion.
189. False accounting could in theory happen, and not be discovered by Post Office, for weeks, months or even years. This means that long periods of the accounts may be subject to challenge and genuine errors in these periods will have been hidden from Post Office. This often makes it impossible for Post Office to investigate retrospectively the root cause of problems at a branch where there has been false accounting. Post Office is reliant on the honesty of Postmasters for the network to function.
190. Post Office's position is that false accounting is always unacceptable. There is also no need for it. It is perfectly possible for a Postmaster to always submit accurate branch accounts; they just need to fairly disclose the shortfalls in their accounts so that Post Office can then work with them to understand the cause of a shortfall and whether the Postmaster is at fault for it.

²⁵ There are patterns of behaviour or transactions that could suggest a problem. For example, a branch asking Post Office to send out more cash deliveries even though its declared cash position in its accounts should be sufficient to cover its usual daily trading. These patterns only tend to come to light after extended periods of false accounting.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

191. [Note to WBD: Please can we ask Paul Smith or Alison Bolsover how does Post Office factor in false accounting and errors into its financial forecasts?]

Post Office's investigations into shortfalls

[Note to WBD / Counsel: This section is likely inadmissible. Should we delete it?]

192. Post Office does not investigate every shortfall encountered at every branch. With 11,000 agency branches conducting XX transactions per day, this would be impossible unless Post Office hired [hundreds/thousands] of new employees. [Is this correct? If POL to investigate every declared shortfall in every cash dec, how many staff would be needed?]. Post Office's investigations of shortfalls in branches tend to originate from three trigger events:
- 192.1 The Postmaster raises an issue with Post Office. This could be via a number of routes including where the Postmaster contacts a helpline, when Post Office staff are on site at a branch or through a Postmaster's line management.
- 192.2 There has been an audit of a branch by Post Office that has highlighted a shortfall.
- 192.3 Post Office receives information about a transaction in a branch from a customer or a client.
193. Where an issue is raised with Post Office, it can sometimes piece together what may have happened by looking at secondary sources of information eg. Horizon records, submitted paperwork, data from clients, information for customers, etc. But none of this can replace the Postmasters first-hand experience. Post Office therefore works with its Postmasters to help them understand what has happened in their branch but it requires the cooperation of the Postmaster to do this.
194. There are lots of different teams who might "investigate" an issue at a branch and this will depend on the nature of the issue and to whom it is reported:
- 194.1 Accounting and operational process concerns will usually be addressed by the NBSC.
- 194.2 A lack of competence by branch staff may be addressed by a field support team / trainer if the root cause was thought to be a training issue.
- 194.3 Suspected dishonesty or criminal misconduct will usually be investigated by Post Office's security team.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

- 194.4 Horizon Service Desk (operated by Fujitsu and now ATOS) would likely investigate an suspected IT problems
- 194.5 Anything related to a specific product or client would likely go to the team at Post Office responsible for that client or product.
- 194.6 Major issues that are potential breaches of contract will usually be investigated through the Postmaster's contract manager – see the Witness Statement of John Breedon for more details on this.
- 194.7 Sometimes Postmasters (or their MPs) will write direct to the CEO and the CEO's office may coordinate an investigation and response.
- 194.8 Threatened legal proceedings will get dealt with by Post Office's in-house legal team or external solicitors.
195. Most of these investigation routes (save for suspected dishonesty and threatened legal proceedings) are conducted in cooperation with a Postmaster. They are not adversarial processes
196. It is very much in Post Office's interests to understand the source of discrepancies so that everyone working in the network and its clients and customers have confidence in the robustness of the network. Understanding how discrepancies might arise also helps to drive improvements in training and processes to minimise risk from human errors.
197. Sometimes, Post Office will audit a branch. The audit is a detailed check of cash, cheques and stock on site by staff directly employed by Post Office. This is one of the few occasions when Post Office will have first-hand knowledge of the branch's cash and stock holdings.
198. The Subpostmaster is not usually given advance notice that the auditors will be attending. One of the reasons for an audit is to reveal any dishonest practices and this would be ineffective if a dishonest Postmaster was given sufficient prior warning to cover up their actions (eg. temporarily transfer cash from the retail tills to the branch tills to cover up branch losses).
199. The branch must be closed for the audit because the auditors need to work from a static set of accounts that are not changing due to further customer transactions. An audit is therefore disruptive to a Postmaster's business, but it is a necessary disruption. A Subpostmaster is asked sign the auditor's findings. The auditor will discuss any findings at that point in time so the Subpostmaster is completely clear on the audit output.

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

200. When I was involved with the audit team between 2009 – 2012, it was carrying out around 5000 audits a year. These were broken down into random audits, risk based audits, special audits, branch transfer and compliance audits. Around 100 random audits are carried out each year.
201. The "risk based audits" were for branches which had been identified using a risk model. The risk based audit system generates a list of between 50 and 100 branches [per month] that are potentially at risk of carrying a loss/funds at risk.
202. There are also "special audits" which were carried out when something does not appear quite right. This is not through the risk profiling system and could come from a myriad of sources: it may be from a conversation somebody has had with a Postmaster, some intelligence Post Office has received from a client, a tip off from a member of the public, customer or an assistant, through the NFSP or a Police report of unusual activity at a branch [Any other examples?].
203. A similar process to an audit is also carried out when opening a new branch, so to verify the opening levels of cash and stock, and when closing a branch, so to verify the final accounting position. A transfer of branch from one Postmaster to another could result in a close and open audit if there was a delay between these two things happening.

Responsibility for shortfalls

204. Where a Postmaster is at fault for a shortfall, it is reasonable that he should be held liable for that shortfall and should compensate Post Office for that loss. If a Postmaster was not held so responsible he would have a disincentive run his branch properly. This would lead to mounting losses in the network, with Postmasters, customers and clients taking the benefits of those errors and Post Office suffering the consequences. In this situation, the network would become financially unsustainable very quickly.
205. Postmasters are solely responsible for their branch accounts. There is no transaction that enters their accounts without their consent (or their consent by proxy through their assistants).²⁶ This includes transaction corrections²⁷ issued by Post Office that must be accepted by the Postmasters before they form part

²⁶ I dismiss here the groundless accusation about Post Office or Fujitsu maliciously editing branch accounts – see paragraph XX

²⁷ Previously known as Error Notices. [Note to WBD / Counsel: The evidence plan included an explanation of transaction corrections but this information would not be available to Postmaster applicants so is inadmissible. Should we still include this?]

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

of the branch accounts. Postmasters have a variety of ways to contest any shortfall. They should do so promptly and the usual route is via NBSC.

206. If there is a shortfall, the most likely cause is an error by the Postmaster given that he has control over (a) the transactions conducted (b) the entries made in the accounts and (c) physical control of the cash and stock in the branch. It is therefore fair to assume that, absent any complaint from the Postmaster, if a shortfall is declared then the Postmaster is responsible for it or at least accepts he is responsible for it.
207. It would be very arduous for Post Office if this assumption was reversed. If Post Office had to positively prove every shortfall was the fault of a Postmaster, even where the Postmaster raises no complaint, the administrative burden would be massive. To put this in context, as at the date of this statement, the level of declared losses by Postmasters that are outstanding to Post Office is £XXX. Only a fraction of these are disputed. See the Witness Evidence of Alison Bolsolver for more details.
208. In any event, for the reasons set out in paragraphs XX to XX, the Postmaster is best placed to investigate shortfalls and Post Office cannot often find the root cause of a shortfall without the Postmaster's cooperation. A reversal of burden for determining the root cause of shortfalls would also create the perverse situation whereby the greater the scale and sophistication of the false accounting by a Postmaster, the less likely Post Office will be able to find the root cause of a shortfall and thus the more likely the Postmaster would not be held liable for that shortfall. This would expose Post Office to uncontrollable losses.

D. IMPLIED TERMS

209. [Note to WBD / Counsel: We need to review all the implied terms and make sure we have addressed above why that term would not be obvious or necessary. Any residual facts not addressed above and which don't fit neatly above, can be addressed in this section.]

STATEMENT OF TRUTH

I believe that the facts stated in this witness statement are true.

Signed:

Date:

Claim No: HQ16X01238, HQ17X02637 and HQ17X04248

Filed on behalf of the: Defendant
Witness: Angela Margaret Van Den Bogerd
Statement No.: First
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HQ17X04248**

**IN THE HIGH COURT OF JUSTICE
QUEEN'S BENCH DIVISION
ROYAL COURTS OF JUSTICE
B E T W E E N:**

ALAN BATES AND OTHERS

Claimant

AND

POST OFFICE LIMITED

Defendant

**WITNESS STATEMENT OF ANGELA
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