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Prepared for the purposes of seeking/providing legal advice  
Statement No.: First  
Date Made: 12 January 2018

**Claim No: HQ16X01238, HQ17X02637 & HQ17X04248**

**IN THE HIGH COURT OF JUSTICE  
QUEEN'S BENCH DIVISION  
ROYAL COURTS OF JUSTICE**

**B E T W E E N:**

**ALAN BATES & OTHERS**

**Claimant**

**AND**

**POST OFFICE LIMITED**

**Defendant**

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**PROOF OF EVIDENCE ANGELA MARGARET VAN DEN  
BOGERD**

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Meeting to obtain proof of evidence took place on 12 January 2018 at Post Office Limited's offices in Swansea.

1. I, ANGELA VAN DEN BOGERD WILL SAY as follows:
2. I am Angela Van Den Bogerd, People Services Director, of Post Office Limited (**Post Office**).
3. I make this proof of evidence in support of Post Office's Defence in these proceedings.
4. 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.

**Background**

5. I started my employment with Post Office on 1 April 1985, and since that date have worked in a number of positions including as:
  - 5.1 A Branch Counter Assistant as part of the directly managed network for around 2 years. During this time I was also called upon to undertake on-site training for newly appointed postmasters.
  - 5.2 A Branch Manager responsible for the maintenance, day to day management and financial performance of directly managed post offices between 1987 and 1996.

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- 5.3 A Retail Network Manager between 1996 and 2001 responsible at an area level for the maintenance, day-to-day management and financial performance of 24 post offices: 6 main branch offices employing approx. 130 staff and 18 Sub-post offices managed via a contract for services. As part of this role I was responsible for interviewing the postmaster, appointing the postmaster, managing performance through the contract for services and dealing with any contract breaches including contract termination as appropriate.
- 5.4 Head of Area for the rural agency in Wales between 2001 and 2005 responsible for the maintenance, day-to-day management and financial performance of the rural network of 950 post offices in Wales & the Marches. Accountable through a line management team of 18 and 950 agent sub postmasters, for the delivery of post office services to quality and efficiency standards.
- 5.5 General Manager for the Community Network of post offices in UK between 2005 and 2006, responsible through a team of 9 senior managers and a field based team of 40 managers, for the day-to-day management of 9000 rural and 500 urban deprived post offices.
- 5.6 As National Network Development Manager between 2006 and 2009 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).
- 5.7 Head of Network Services between 2009 and 2012 with a UK wide geographically dispersed field team of 200 people delivered on average per year 1200 network change projects (i.e. post office relocations, refurbishments, closures and re-openings) across the Post Office network; in excess of 5500 financial and compliance branch audits and interventions; new entrant training to approx. 1000 agents/franchisees and employees; and 2000 recruitment and/or contractual interviews.
- 5.8 Head of Partnerships between September 2012 and August 2013, responsible for the relationship with CWU; Unite CMA for managers and also the National Federation of Subpostmasters.
- 5.9 Programme Director for the Branch Support Programme between August 2013 and March 2015, responsible for improvements to ways of working across Post Office. In parallel, I led the investigations of mediation scheme cases and was a member of the Working Group. At this time I took the opportunity to create a specialist team (Support Services Resolution Team (SSRT)) to support



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postmasters and colleagues in identifying the more complex in-branch transactional issues and where possible resolving them.

- 5.10 Director of Support Services between April 2015 and December 2016, responsible for NBSC (the Network Business Support Centre), our helpline for postmasters; our customer helpline; the Financial Service Centre (**FSC**), the Human Resources Service Centre (**HRSC**) and managing the Contract Admin team.
6. From January 2017 until January 2018 I was the People and Change Director, responsible for HR (HRSC) and Health and Safety and the Change Portfolio across the organisation. 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.
7. I have operated at all levels during my career – from branch level to senior positions remaining at all times close to the operational procedures. I worked in branch during the paper-based accounting system. When Horizon was introduced in my role as RNM I supported this transition from manual ways of working to the computerised system. This included supporting branches during roll-out by visiting branches before, during and after go live. I recognised that this was a new way of working and supported postmasters in this transitional period. I have a very hands on knowledge of how branches worked in the paper based system, Horizon and Horizon Online.
8. I have always lived in Swansea, however having been field based for the majority of my time with Post Office I have travelled around the UK.

**Location of branches**

9. As Head of Network Services, I was responsible for the maintenance of the network of post offices and part of that was the decision of whether a branch should be advertised in a given situation e.g. whether a post office in a new location (Greenfield) was warranted. Decisions were taken with input from the Network Modelling team and the business ACCs to ensure consistency of approach. The code of practice and consultation with consumer groups policed any proposals.
10. At that time (and today) Post Office had a Government requirement that it maintained the network at no fewer than 11,500 branches. There was certain criteria which Post Office had to fill as part of this requirement, such as a percentage of the population had to live within three miles of a Post Office branch

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and another percentage within one mile of a Post Office for example. That in itself was the starting position which drove the size of the network.

11. Post Office also has a modelling team, which I have worked with, who use software which analyses where would be a good location to have a Post Office branch. Post Office would also be approached by people who were purchasing premises and considering having a Post Office. If so, Post Office would, by walking the ground and observing local trading patterns, consider whether the location would be viable and a good opportunity or whether we would be poaching business from other established Post Offices. We also had a decision matrix to support all location decision making.

**Recruitment**

12. The recruitment and vacancy advertising process for appointing new postmasters has been relatively consistent over time.
13. The advertisement was historically by way of a poster which would be displayed in the branch of the postmaster vacancy and the nearest three branches. However in the case of family transfers, providing the family member was suitable, then no advertising was required.
14. Post Office later moved to advertising postmaster vacancies on our Post Office website. There are guidelines for how long advertisements were posted for and what was stated in them.
15. Post Office would advertise any vacancy for a minimum period. Depending on whether the vacancy was advertised 'AT' or 'AT or NEAR' applicants would for 'AT' be accepted for the existing site only. If 'AT or NEAR' then Post Office accepted applications for existing premises or suitable premises nearby.
16. If Post Office advertised a vacancy, it would state that we have an opportunity for a branch and this is a contract that Post Office is willing to engage on. The applicant can choose to engage with Post Office on the terms offered and be a part of the Post Office franchise or they can choose not to. There is very little room for contractual negotiation.
17. Post Office has previously advertised postmaster vacancies/franchise opportunities at franchise roadshows/trade fairs. Also in the local press when vacancies were long standing.
18. Some locations would only attract one applicant. It depended predominantly on the location and the retail opportunity. Following the economic downturn in 2008,

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we frequently only had one applicant per vacancy. On occasions where the applicant wasn't suitable and the existing postmaster wanted to leave the business, it could be a difficult conversation with the postmaster but nonetheless one we had to have.

19. As far as the recruitment process was concerned, Post Office operated on the basis that its responsibility was for the sustainability of the branch going forward and therefore assessed this through a financial and competency based assessment process.
20. Sometimes Post Office came under pressure from the outgoing postmaster to accept the applicant who had offered the highest price for that business. A postmaster once said to me "Can you appoint that one because he's going to pay me more" and I responded "I'll appoint the most suitable applicant as per our recruitment process."
21. As part of my role as Retail Network Manager, I interviewed prospective postmasters. The interview was always conducted by two Post Office interviewers. One would ask the questions whilst the other kept a note of the answers. To ensure objectivity and probity we always interviewed in pairs. Post Office processes had to be transparent.
22. As part of the application process, an applicant is required to put a business plan together, which set out their set up and ongoing operating costs and their projections for income generation. During my time as RNM the smaller branches had a slimmed down version of the business plan (couple of pages); for the very small branches no business plan was required.
23. The interview would last around two hours. Typically, the first part of the interview would be asking standard questions such as "why do you want to run a Post Office" and "what are your plans for the business?".
24. The second part of the interview would be the interviewers scrutinising the applicant's business plan and assessing the financial viability of the business proposed.
25. Post Office would also test the strength of that business plan around "are they being very optimistic in terms of x, y and z ". Our questioning aimed to test whether the applicant's business plan was built on fact rather than over optimistic sales projections or underestimated costs. We would question "if this is your remuneration, you've got this number of staff, what hourly rates are you paying them?" etc. Sometimes during the interview by getting under the skin of the business plan, the applicant would realise that their business plan wasn't as good

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or as well researched as it could be which could potentially result in less profit than they might have expected. If the business plan didn't demonstrate a viable business the applicant would not be appointed.

26. As part of the interview process, I made it clear that I am here to help you help yourself to make a really good business. As part of assessing their business plan, I took a very strong interest in how the retail was operating because in some cases that could be key to the overall viability of the business.
27. A "good chunk" of the interview would be going through the contractual obligations to make sure the applicant fully understood what they were signing up for. I would run through the key parts of the contract and explain the implications of the clause to the applicant. They would be given lots of food for thought. Post Office wanted to test that they were happy with what they were signing up for.
28. As I have said, part of my responsibility was interviewing prospective postmasters. This required me to be familiar with the contract they would be entering into (the Sub postmasters' Contract). I had read the contract cover to cover when I was a Retail Network Manager. I believe the contract was not too legalistic and could be easily read and understood by the postmasters. I understood it and the importance of explaining it to postmasters in the interview. The contract was part of the interview pack, so I believe that each interviewer would have gone through the same process as me.
29. There are a number of areas in the contract I would always refer to in an interview. This was partly done to protect the Post Office but also to ensure the applicant was aware of their obligations in entering into the contract. I would expressly refer to "You are expressly forbidden to use Post Office cash for anything other than Post Office". I would give an example such as if the bread man comes in and you have got a bill to pay, you cannot not take the cash out of the Post Office till as this would be a breach of contract and could result in Post Office terminating the contract.
30. I used to work from a crib sheet which would flag the key areas of the contract for me to discuss during the interview. I haven't got the crib sheet any longer. I remember that it covered providing and maintaining the premises at the postmaster's own expense, accommodation (we used to go through what that means and how we would verify that) and personal service (which involved explaining to the postmaster that you don't have to be there at the Post Office premises but that does not negate your responsibility under the terms of the contract). I would run through all of section 12 of the contract (this section covered responsibility for Post Office cash and stock). I would also explain how



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the books were balanced and explain Post Office's approach to losses i.e. the postmaster was responsible for all losses whether it's incurred by the postmaster or their staff members. I would talk through the fact that if there was a loss, the postmaster would need to make good those losses. Often the applicant would ask more questions around that and about gains. I would also cover sick absence and holiday substitution allowances.

31. I would also cover section 15 of the contract, which dealt with assistants. This involved discussing what they were meant to do around the P250 form (which the postmaster had to complete giving details of their assistants so they could be vetted before being employed) and explaining the process for when they take on new people. I always went through CRB (Criminal Records Bureau) checks for both the applicant and if they were offered the position, their staff.
32. I also used to discuss the implications of the Official Secrets Act. Very often the applicant would come from within the community and therefore we needed to really instil in people the importance of, "this is data you cannot share". A postmaster will see things which are confidential to the customer, such as their account balance, the amount in their pension or National Savings, how much they were paying into their bank account each month etc.
33. Incoming postmasters would often be advised by an accountant as to the best way to pay themselves, whether through a wage or receiving the profit. From my interview experience, the approach very much depended upon what type of business they've had in the past, what type of business person they were and how good their accountant was. Post Office always insisted that an applicant couldn't bring their accountant to the interview. Post Office wanted to ensure *they* fully understood their own business plan, rather than the person that put it together. I have rejected people on the fact that they couldn't give me confidence that they understood their business plan.
34. Post Office would take into consideration whether an applicant had worked for Post Office before. However, I can recall appointing an applicant with no prior post office experience rather than the applicant with post office experience. When it is your own business, you the postmaster have to pay the bills, manage your own accounts and look at your profit margin. So Post Office's assessment on who would be the best candidate can be very different, depending on the individual and their experience.
35. Sometimes, when the incumbent postmaster wants to leave, they want Post Office to appoint their staff or their family member as the new postmaster. For Post Office, it comes down to whether there is a good business case for this.



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36. When I was carrying out the interviews, I did get a bit of push back around family transfers because I carried out the interviews in the same way, despite the fact the applicant may have already worked at that branch and was seeking to take over that very business. However, I believe it was in Post Office's interests and that of the applicant's to check that the applicant knew everything about the business: I wasn't prepared to take them at face value. I just treated everybody as individuals and went through the process.
37. The process was largely similar for appointing a postmaster to an existing post office as for appointing to a new post office site. However, if an existing post office site, there was less need for a scoping visit as often there was no refurbishment required. If refurbishment was required, for example fitting in a new counter, one of Post Office's team would attend the site to meet with the shopfitters and look at their plans.

**CRB checks**

38. Once interviewed, Post Office would carry out checks on the applicant. We would do CRB checks and a credit worthiness check to inform our view of financial stability against their business plan.
39. Post Office also carries out CRB checks on an incoming postmaster's assistants. This was important as this requirement is built into our contracts with clients (so that clients can be confident about the people working in the Post Office network). In addition, Post Office is a financial institution and needs to comply with the FCA. Post Office is also protecting its assets and reputation by carrying out such checks.

**Contracts and legal advice**

40. If they are offered the position following interview, Post Office recommends that postmasters take independent legal advice on the terms of the contract before they sign it. This recommendation is mentioned at interview and also referred to in correspondence if the applicant is successful at interview. Whilst Post Office recommends the postmaster takes legal advice, it cannot force the applicant to take advice. Often as the applicant was moving home/purchasing a retail business also they incorporated their legal advice into the full package of the sale of the entire business. There were however instances when a postmaster signed the contract and I would ask, have you taken legal advice, and the answer would be no.
41. If the interviewee was offered the position, Post Office would send them a paper copy of the contract together with the appointment papers. A bound copy of the

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contract would also be present in the branch. Every postmaster therefore had a copy of the contract. Whether or not they referred to it, is a separate issue.

42. An outgoing postmaster should brief the incoming postmaster. I didn't rely on this process taking place, as I was aware that this didn't always happen. Part of this conversation between the postmaster and the applicant should have covered the practical operation of the contract.
43. If the postmaster had not completed the appointment paperwork by the time Post Office was transferring the contract, we gave them the opportunity to do so on the transfer day or the transfer was delayed. The postmaster's signature was required before Post Office allowed them to take on/ over the branch and before they were allowed to have access to Post Office cash and stock.
44. Once signed, the contracts with the postmasters were stored in a building in Leeds. The appointment papers were also retained and formed part of the postmaster's file. The administration site in Leeds has since closed. The hard copy files are now located in Chesterfield or archived with Iron Mountain/ Boxset. More recently these documents are uploaded onto our electronic filing system.

**Temporary subpostmasters**

45. Temporary Subpostmasters (often referred to as "temps") were utilised when we had an audit situation and a postmaster had been precautionary suspended. Post Office also used temps if, for example, a postmaster was declared bankrupt. At some points of its operation, Post Office has had a number of temporary sub postmasters in place.
46. There is a defined process for recruiting a temp. The process was not as detailed in terms of the business plan and financial implications for the business, as the key consideration was whether the temp could reach an agreement with the incumbent postmaster around using the premises. Post Office has changed their process slightly so that it also pays the temp an amount of money to pay the suspended postmaster for the use of their premises. Under the Mains contract Post Office has step-in rights. We have built that in to say "we will pay X amount of money to cover the use".
47. We have a number of people who are repeat temps. There are some companies Post Office engages with which have been set up to do just this temp work. If Post Office hadn't used the temp before, they would go through an interview process. They would be subject to the same compliance checking and training as a postmaster.

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48. Post Office sometimes faced difficult conversations where we had suspended the postmaster and he wanted his wife or vice versa to step in as the temp. That was always difficult. At one point there was almost an unwritten rule that we wouldn't allow the husband or wife to take over. I challenged that and changed it so unless the suggested temp was suspected of being involved in the situation which had deemed suspension necessary, then Post Office should allow them to cover the branch during the period of suspension.
49. The temp transfer process itself is relatively simple. Post Office will carry out a transfer audit on site and the temp will then take over responsibility of cash and stock. Post Office would also make sure the alarm codes had been changed and that the temp had a full set of keys. In some cases Post Office insisted that the locks were changed.
50. There were streamlined documents for the temps to sign. They were given a 7 day notice period. This short notice period gave enough time for the final audit to be carried out before the branch was handed over again. It was sometimes the case that the postmaster was re-instated in replacement of the temp.
51. If Post Office was unable to find a temp, the business was sometimes closed whilst the suspension and investigation was on-going. If the contract was terminated, the vacancy would be advertised.

**Contact / support during ongoing relationship**

52. Post Office had a team which account managed a number of branches. Pre-Horizon, these were known as "cluster offices".
53. The Area Manager would be responsible for the whole life cycle of the postmaster. Over time the Area Manager position has had different names, but it has been a similar role. Some of the names included RNM (Retail Network Manager) and BDM (Business Development Manager). The RNM or BDM would have a branch visiting cycle, which was usually quarterly. Area Managers knew the branches very well due to this high level of personal contact. Over time, the way we run our business has changed and there is no longer a planned visiting schedule for all branches.
54. The essence of the Area Manager role was account managing the branches so that they were as viable as possible for the postmaster and Post Office. Some postmasters confused this partnership as meaning something more, such as that this relationship means they are employees of Post Office. Clearly they are not.

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55. Post Office set the requirements of how postmasters run the branch. The contract stipulates what the expectations of customer service is, how the premises should be presented, opening hours and the products and services that the branch would transact.
56. I was the Retail Network Manager for Cardiff and surrounding area and would carry out quarterly visits to the branches under my remit. I had a really positive relationship with the postmasters as I had the background experience to be able to give them detailed support. Having worked in a branch before, I was able give the postmaster's practical tips on running the branch not only at the visits, but also on various calls with postmasters.
57. There are different ways of monitoring performance of a branch. I would have a conversation with the postmaster about performance at the quarterly visit. At this time we had Outlet Visit Reports to complete that included retail standards (branch presentation); customer service and transactional accuracy. By being in the branch, I could also physically see how they were performing.
58. The BDM had a certain amount of knowledge which they would use to try to improve the performance of a struggling branch through hints and tips. The BDM may have been required to escalate their concerns after a visit and it could be the case that the postmaster would be deemed to be in breach of contract. If so, Post Office would try to correct that situation with the postmaster. In some circumstances, Post Office would deem they were in breach of their contract and go through contractual breach procedures with them.
59. Postmasters were made aware of their contractual obligations through the interview process and training. At interview I checked their understanding. Their obligations were reinforced through the quarterly visits.
60. As we changed how we managed the network not all branches had frequent visits. These branches had their obligations reinforced through the branch standards team. Post Office has been made aware of possible breaches of contract through the customer helpline. Everything which comes through the helpline is recorded. This function enables Post Office to question a branch about its day to day running if a customer has raised concerns.
61. If a postmaster reached out to Post Office, we, the RNMs (or similar named roles over time) would do our utmost to support them. If they breached their contract by default or had unexplained errors they would get more of Post Office's time. In those instances, Post Office would sometimes proactively reach out to them.



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62. Another point of contact for postmasters was (and is) NBSC, which they were told to telephone as their first port of call. Kendra Dickinson ran the helpline function. Her team particularly would collate this information and would for example inform Post Office that this branch normally averages 2 calls a month and suddenly we have got 40 calls a month. Post Office would then reach out to the postmaster and try to ascertain whether there was a wider problem. It might be as simple as the postmaster is on holiday and they have brought in a temp who is not quite as familiar with the branch and Post Office processes. If that was the case, it was likely the issues will settle down upon the postmaster's return. However sometimes those calls would allow Post Office to identify issues we would not otherwise have been aware of. In that sense, the postmaster can to a degree influence the level of involvement we have in the performance of the branch, by how informed they keep Post Office of such issues.
63. As Post Office has less branch face to face contact than it did historically, it is harder to tell nowadays if there is an underlying problem or if a branch is struggling. When I was visiting the branches as part of my role as RNM, I would know intuitively if there was an issue, for example by looking at the stock on the shelves in the retail side. This knowledge came from my longstanding experience of being in the network in Post Office.
64. There has been a gradual change in approach as to managing the postmasters as technology has become more advanced. It is a costly model to maintain the field resource and frequent face to face contact with branches. Today we use technology where we can.
65. Post Office has always had a sales focus. This is a win-win approach because if the postmaster sells more they get paid more and Post Office in turn generates more income from that branch. It was in everyone's interest to have that approach.
66. There has always been a focus on how does Post Office make sure the postmasters generate sales in the right way and ensure that they are compliant with the regulations.
67. Post Office has become more focused on individual product sets, for example it may expect an Area Sales Performance Manager to set a target across the 50 branches for which he is responsible of, for example, 2000 sales of Post Office home phones.
68. Whilst the role of BDM wasn't as rounded as the role had been previously, it was still part of the role to assist the postmaster if he/ she was in difficulty.



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Postmasters would sometimes contact me directly and say I have asked for help and haven't received any. I would then get involved and escalate their complaint. There was therefore always the mechanism there for support, providing the postmaster told us there was an issue. Post Office weren't able to see that there were problems in a branch from ground level, so it couldn't be proactively identifying there were issues unless it was informed of them by the postmaster. Post Office didn't have a sophisticated system or level of operation to enable it to do this without input from the postmaster or a concerned member of the public or in some cases the client.

69. Around 2005/2006 Post Office became more sales focussed. It entered into a joint venture with Bank of Ireland around that time. The emphasis was about how we introduced the products and empowered the postmasters to sell them. It became much more of a selling conversation. At that point some of the postmasters would claim that it was all about sales and that Post Office was not giving them enough support. To some degree sales are always the focus. Post Office always had the helpline (NBSC) there to support the postmasters.
70. The level of support has transformed as Post Office started to segment the network and went away from geographical considerations to types of branches. The only physical support, as in assigning branches to Post Office individuals, was in the large branches. Around 2,000 of the more commercial branches had Sales Capability Managers or Sales Account Managers. There were a number of different versions of that role. The rest of the network had pastoral support through NBSC and the Branch Standards team.

**Training**

71. The aim of the training is that the postmaster is equipped to do the role that they have been asked to do. The training is offered to the postmaster as part of the induction process.
72. The training offered to postmasters has changed over the years. Post Office has continually sought to improve the quality of the training and how that training is received.
73. Pre Horizon (which was introduced in 2000), the training was carried out on site (at the branch) over a period of around two weeks, as "on the job" training. I believe training at this time was one week for branches with no car tax and two weeks for those that did car tax. There were two follow up balances and more if needed. For a short while I was an on-site trainer and used to visit and train

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postmasters on the manual system. It was a condition of the appointment that the applicant attended the training course.

74. Post Office wanted to ensure that before the postmaster took on the appointment, they had had the opportunity to ask questions because different branches have different transactions, depending partly on the location of the branches and the services and products they were responsible for. The training would therefore be tailored in part depending on what sort of branch the applicant was going to run.
75. More recently, since the introduction of new contracts, different models of training were provided to the postmaster depending on whether they were on a Mains or Local contract. 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. Both courses involved some classroom and on-site training.
76. When a trainer went on site, they did a transfer of a cash and stock and showed the postmaster how to put all their cash and stock into the system. The trainer would also run through balancing the books with the postmaster as well. Most often, it would be the same person who would come back to carry out the transfer audit after the applicant had completed the training.
77. It could be a stressful time for the incoming postmaster as they were often also moving house as well as buying a business and entering into a commercial transaction with the Post Office. I always stressed to them what this commercial relationship entailed and offered suggestions on how they may want to organise themselves in the branch. I also stressed how important it was to be "present" at the training to equip them properly for running the branch.
78. We would historically offer training to not only postmasters, but also their staff if there was space on the course. Now, it depends what type of contract Post Office has with the postmaster. I believe under the standard Local contract the postmaster is required to train their staff. In this situation, Post Office trains the postmaster, and they train their staff. In the Mains contract, there is an obligation that a number of their assistants are required to be trained by Post Office as well.
79. At the training sessions, I would impress on the applicants that they as postmaster were responsible for the branch and his/ her staff and potentially liable to Post Office under the contract for actions not only of themselves but also their staff. I would also impress the importance of the postmaster being comfortable that their staff were properly trained; that they were accurately declaring their cash and that when they as postmaster signed off the cash account it was accurate ie the amount of cash they said they had was what was in the branch.

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80. Even if a postmaster had experience with the Post Office before, it was important that they attend refresher training as the training was always evolving. If there was space on the course I would suggest that the postmaster bring their staff with them to utilise the spaces on the course. With the new Mains and Local contract the training is set out explicitly: for Mains the postmaster and up to 50% of their staff are invited to attend the training. For Locals if the postmaster has more than 5 staff then in addition to the postmaster sufficient spaces will be offered to train 50% of their staff.
81. Once the applicant has been accepted, the current position is that they will be sent a link to the online training that they access on their own device eg lap-top. The online training is interactive and requires user participation. Recently, Post Office has provided online training as 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 – on-line, classroom and on-site.
82. A postmaster is now required to complete the on-line training before attending the classroom training. This approach equips the postmaster with a certain level of basic knowledge to process to classroom training. The classroom training is intended to reinforce the online training, familiarise themselves with the Horizon equipment and navigation of the screens and put into effect the practical skills, such as working on the counter.
83. The postmaster is required to reach a level of competency through the online and classroom training. The on-site training reinforces the on-line and classroom training in the live situation. Once the training is completed the postmaster should be sufficiently competent to run their post office effectively. If the trainer has any concerns about the postmaster they would arrange further training for the postmaster.
84. The content and set up of the training courses has changed and improved over time. One noticeable change is that the current content combines integrated selling techniques into the transaction.
85. When Post Office introduces new products or changes to products, the type of training is determined by the type of change or the level of complexity around the product. If a new product is introduced that is similar to a product Post Office has already trained its postmasters to use, then Post Office wouldn't do face to face training. Instead we would issue instructions and easy to use guides.



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86. There have been examples where some postmasters weren't happy with the level of training they received in relation to the ATMs. When we first introduced ATMs into our network the training was done by the installing engineers and Post Office issued written instructions on how to balance the ATM and how to account for the transactions on the Horizon system. We later moved to Post Office trainers providing training when ATMs were installed in post offices. On transfer of a post office if there was already an ATM installed then training would be provided by the Post Office trainer during the on-site training period.
87. In recent years training on certain products has also been by way of video links (like you tube). These were typically filmed using NBSC staff.

**NBSC/ Helpline**

88. Around 1995 the Post Office started to centralise the business. As part of this, in around 1999, Post Office set up the Network Business Support Centre (NBSC) helpline. This is the corporate helpline for postmasters and Post Office employees which was firstly implemented on a regional basis and later centralised. There is also a customer helpline, which is currently an automated system.
89. The postmaster's point of contact changed from their regional helplines to the NBSC helpline. This was a period of transition for the postmasters. It was important however that they 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.
90. One of the purposes of the helpline was to give greater visibility of what the queries were, which would allow Post Office to 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. The helpline enabled Post Office to do that forensic analysis and the root cause analysis.
91. Even if the postmaster was to get hold of me as an RNM, I would inform them that they needed to go through NBSC. I would inform them that the contact at NBSC would then page the relevant RNM or BDM and ask the person to contact the postmaster. We were always contactable as the second tier of support.
92. The postmaster's call would be logged on the NBSC system. If that call was not returned by the RNM/ BDM, the only way Post Office would know would be if that

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same contact got back in touch with NBSC again. Overall though I think the system worked pretty well and that most RNM/BDMs followed up the calls.

93. Any issue in branch is reported to NBSC. NBSC correlates this information so that Post Office can understand the scale of the issue. If the Helpline advisor was unable to deal with that issue, they would tell the postmaster who they needed to contact.
94. If the RNM/ BDM was on annual leave, Post Office had a buddy system. There was always someone the postmaster could get hold of if they needed to.
95. After NSBC was implemented, Post Office informed the applicants at interview and training that NBSC was their first port of call for any query.

**Horizon**

96. Horizon is the Post Office's accounting computer system, provided by Fujitsu. As a computer program Horizon does exactly what Post Office asked it to do when we built it. It is fit for purpose. I have every confidence in the system.
97. I describe Horizon to new users as a big calculator. It processes the data exactly as it is input. The Horizon user just needs to remember what they need to do to initiate transaction (eg scan the barcode; put the card in the pin-pad or touch the screen) on the Horizon system and then follows the screen.
98. The system was tested before it was implemented. Part of this was questioning "what if this happens; what do you do." That thinking process is built into Horizon.
99. Horizon records every keystroke. Post Office keeps that 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.
100. The contract Post Office has with Fujitsu evidences that Post Office did not expect to be required to analyse the data very often. The contract only permits so many enquiries a month. If there are more queries than provisioned for in the contract for that month, it becomes very expensive. The cost would also increase depending on the volume of data required, for example the difference between two months of data or two years. The data retention function was built into Horizon to ensure we kept transaction records, but Post Office never expected to be routinely extracting data from the archived data.



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101. Sometimes it was not cost effective for Post Office to provide all of the data to the branch requesting the same. 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.
102. 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. However in a couple of instances I have felt that we should have been more receptive to providing the Horizon data.
103. The ability of the branch to access Horizon data has changed over time. Data was available to be accessed in branch for 42 days when Horizon was introduced; this later changed to 60 days.
104. Post Office's security team would request and use the data extraction function as part of its investigation into a shortfall at a branch, or a similar issue. The security team would analyse the raw data to assess what happened at that branch. This was a labour intensive task. This data would sometime be provided to the Contracts Advisers if they were considering a potential contract breach...
105. People expect the system to be fast and have the same reactivity as Google. One of the issues is that users try to compare it to a system we don't have or what idealistically the system would be. There is a mis-match between expectation and reality.
106. In my view the weakness with the Horizon system is that it is a bit "clunky" to use. It's not always easy to locate the information you want from the system.
107. The Horizon system requires the user to read the screen and follow the prompts. It appears that some users don't know how to use Horizon as well as they should or they have developed bad habits and do not use the system in the correct way. Unfortunately it is possible for the user just to hit a button and move on the screens without reading the prompts and trying 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 this could be difficult or in some instances impossible for the user to realise or remember they've done this.
108. As with any IT system, there are instances where the system or the screen goes down. The system was built recognising that sometimes connectivity could be

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lost, that a power line would go down or the communication could be faulty. Recovery steps have been built into Horizon to counter this risk.

109. If power or the connection was lost whilst serving a customer and the Horizon user was part way through a transaction, there are prompts built in to address that. For example, the customer might have given the postmaster money but the postmaster may not have completed the transaction on Horizon. If this is the case, when the system comes back up, it asks the postmaster questions to establish at what point he/she was at when they lost power. For example, "Have you given money to the customer? Have you taken money from the customer?" Depending on how the user answers these prompts, would result in Horizon either rejecting the transaction or completing the transaction.
110. I am aware there have been reports made that there were errors with Horizon and bugs which affected the system. I was involved with the communication of what those issues were to the affected branches.
111. Post Office did not notify the whole network of reported issues if they were isolated incidents. I think there were around 20 branches affected by the reported issues out of 11,500 branches. If the Post Office did flag an issue, the Helpline would tend to see a flurry of activity regarding that issue which the call centre would deal with.
112. I have also been involved with managing how errors or bugs are communicated to the media.
113. There have been some software changes to Horizon since it was implemented in 2000. Post Office has moved from Horizon to Horizon Online. Prior to the online facility the information would be extracted from the branch overnight. The key difference between Horizon and Horizon Online is that Horizon Online is a live record of the transactions carried out by the branch.
114. The hardware is the same as when Horizon was first implemented in 2000. It is only recently being refreshed. There has been some refinement around the screen (which has been touch screen from the start), the usability in terms of how the screens are set up and how many screens you need to go through to sell a stamp, for example. Horizon has been improved to try to make it quicker and easier to use, but in essence it has until recently been the same program built on the same platform.
115. The Horizon user uses the keyboard to type in numbers and words, such as the number £1,000. They also have use of scanner and touch screen. The hardware has a card swipe functionality and a pin pad for customer use.

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116. When the Horizon system was installed there were Post Office teams on site to make sure the implementation process went smoothly. The branch network also had a central coordinator in the office who would field the calls from the postmasters whose branches were being trained on Horizon.
117. Horizon relies on the individual using it to input the correct information. The training tried to address and mitigate the possibility of human errors.
118. Post Office supported the postmaster with balancing the accounts whilst transferring from the manual system to Horizon during site visits. Some site visits I arranged during Horizon's implementation phase lasted until early hours of the morning. From my experience I was able to share best practice tips with postmasters on how to organise themselves in branch in their transition from manual working to processing transactions and producing their cash account on the Horizon system.
119. Some postmasters were very competent with the manual system but had trouble with Horizon at first. They needed to follow computer prompts and input certain data into Horizon. There is a customer basket called a "stack". The prompts would tell the postmaster, or whomever was operating Horizon to, for example, take £x from a customer or pay £x to a customer. When they ended the session the stack should have been zeroed. The postmaster could then start the next transaction. In the mediations I dealt with there were postmasters who were forgetting to zero the stack at the end of a transaction. .
120. The system has functions built in to tell the user to physically "take £20 to customer" or "give £20 to customer". It is then up to the user to follow the prompts.
121. Horizon is also colour coded, for example the icons for banking deposit and withdraw, in which one is red and one is green.
122. A change made to Horizon to reduce human error was rather than typing in the customer's account number and sort code, the Horizon user would swipe the customer's card which brought up the relevant account details. This has been more recently updated to the customer inputting their pin number. This reduces the data the Horizon user needs to input, lessening the risk of a typographical error.
123. The system has changed in this way over time. I cannot recall when all of the changes were made.

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124. One of the issues which changes to the system cannot address, is when its users operate Horizon "on autopilot". This is where the user will just click through the screens without properly taking notice of the prompts and checking the data entry for errors at that point in time.
125. One of the areas where we saw autopilot in practice resulting in irrecoverable errors was with MoneyGram. This is an instant transfer of money from one country to another. For example, a customer may be sending money abroad to their family. Once the transaction is processed, the money can be withdrawn abroad within a matter of minutes. There is very little room for calling back an incorrect transaction. This was an area particularly open to fraud risks. To counter this risk, there are security checks built into the transaction eg typing in ID reference. Post Office also implemented a prompt that informs the user that they would never be asked to carry out the transaction over the telephone, such as where the user would receive a call purporting to be from a Post Office "engineer" carrying out some "tests of the system" but it is in fact a fraudster and the "test" transaction is a fraud.
126. Post Office can see where a postmaster has used Horizon to tell them how much their discrepancy is before they make a cash declaration. This can sometimes raise suspicions as they are carrying out the process the wrong way around. You should be checking cash and stock first, not asking the system what the discrepancy is and then declaring you have enough cash to balance.
127. Instruction manuals are stored on Horizon Online. Before Horizon, there was a hard copy Operations Manual in branch.
128. A Horizon user can use Horizon Online to search the Operations Manual, although there isn't a search engine function per se. The Horizon Online help function is not very easy to navigate, as the Operations Manual was simply copied and pasted into this online system.
129. Due to the Horizon Online help system being clunky, Post Office still receives a high volume of calls into NBSC regarding this issue. This is something Post Office is looking to address.
130. Post Office is looking to simplify its transactions well enough that a Horizon user ideally would not need Horizon Online help. When Post Office designs a transaction product, it tries to build it so that one click of a button on the screen will automatically take the Horizon user where they needed to go.
131. Post Office will never be able to remove the risk of human error, but it has sought to reduce the risk of that as much as possible by automating processes and the transfer of information where possible. For example, using barcodes to pull



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information directly into the Horizon system and sending transaction acknowledgements to branches rather than them having to manually input the data into the Horizon system.

132. Gayle Peacock (Head of Branch and Customer Support) is leading on the new case management system that will go into support contact centres. This means Post Office will get better information, which in turn enables Post Office to assess what that information is telling it. Post Office can then be more proactive in what support it provides to branches.

**Dealing with problems in branch/ shortfalls**

133. A postmaster will declare a discrepancy on a branch trading statement. At that point it is declared as a loss or gain. The postmaster then has the opportunity to dispute the discrepancy and ask Post Office to investigate by contacting NBSC.
134. If the postmaster had asked Post Office to investigate, Post Office would not usually seek to recover the loss then. The loss goes into the postmaster customer account and is put on hold until investigations are complete. The SSRT usually helps with these investigations.
135. Sometimes a postmaster would raise a shortfall directly with us. Other times, audits identified shortfalls.

**Audits**

136. Post Office used to have separate audit and training functions, so they ran as separate teams. These teams were later merged. When I took over the Audit and Training team in about 2009, they were already multi skilled for both the training and audit functions and have continued to be so. The audits were and are still carried out by the audit and training team.
137. The audit is not an audit in the traditional sense as carried out by accountants. It is a detailed check of cash, cheques, stock and vouchers on site. The auditors would use audit tools such as p32/FAT tool (accessed on the auditor's laptop) and guidance notes when carrying out the audit. It was a process driven approach.
138. The postmaster is not given advance notice that the auditors will be attending. The lead auditor would have a conversation about what would happen on the day. Around 2011 we introduced a document which explained what would happen in the branch on the day of the audit. This document was shared across the network to help make the audit process transparent. It explained that if a discrepancy was



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discovered on the day of the audit, the postmaster would have the opportunity to discuss it with Post Office.

139. The branch is closed for the audit. The auditor talks through with the postmaster what is going to happen. The lead auditor asks the postmaster to add them to the system so that they can call off the reports they need to do the audit. If the postmaster is absent and there is no-one with manager access then the auditor global password is used. This is recognisable by the "\*" and initials of the auditor followed by "1" usually.
140. Post Office would always inform the postmaster this is what it was going to do. For example, when checking the cash the auditor would request that the postmaster observes and checks what they are doing and would always recommend that they do so.
141. A postmaster is asked sign the auditor's findings. The auditor will discuss any findings at that point in time so the postmaster is completely clear on the audit output. A copy of the audit report is sent to the branch. The content of the audit reports has changed over the years. The report is now automated. It is called a Financial Audit Tool report, internally known as a "FAT" report.
142. 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.
143. Around 100 random audits are carried out each year.
144. 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 that are potentially at risk of carrying a loss/funds at risk. That list forms a schedule of audits that Post Office carries out on a monthly basis.
145. There are a number of factors that would deem a branch to be an "at risk branch". For example where Post Office knows how much working cash should be in the branch when it has considered the number of deposits and withdrawals (this is called their overnight cash holding target) and the branch is holding more than that. In that example, Post Office would investigate why. It might be that they are just holding too much cash and Post Office will ask them to send it back or it might be that they appear to be holding more in their accounts because they actually physically haven't got as much as they tell Post Office they have.
146. There are also "special audits" which were carried out when something doesn't feel quite right. This isn't through the profiling system. It may be from a

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conversation somebody might have with a postmaster or some intelligence Post Office has received from a third party or client. These audits are arranged within 24 to 48 hours due to the urgent nature of the circumstances which has deemed it necessary to carry out an almost instant audit.

147. Another type of audit is carried out when there was a transfer from one branch to the next. Post Office would carry out an audit at that time to enable the hand over process.
148. Due to the wide range of skills, the Audit and Training team were able to help with shortfall queries. They had a very good working knowledge of how the whole thing came together and were very competent users of Horizon. The team understood not just the numbers but also the transactions to get to those numbers.
149. The Audit and Training team could identify where postmasters could be hiding a loss and would work together with the Support Services Resolution team to identify where that loss may be hidden. An example the team dealt with (although the figures I give are made up) was where a postmaster declared that they had £40,000 in the ATM, when actually they only had £20,000 in the ATM. This was a way to hide the loss as the ATM was separate to the branch's main cash.
150. Post Office stores audit data so that it can analyse what the trend has been over the years in terms of the number of audits carried out. From this data, it can be seen what the average loss level for each of those audits is. Post Office can also sort this data by type of audit.
151. The format of the audit report and audit tool has changed slightly but the basic things checked have remained fundamentally the same.
152. The way we produce the report has changed due to Horizon. When Post Office operated using a manual system, it produced a handwritten paper report. We now use an electronic version which shows the cash count and stock and some narrative.
153. If there is a large loss, the auditor would tell the postmaster that they will need to take advice from the Contracts Adviser. The postmaster would then have a telephone discussion with the Contracts Adviser to discuss the loss.
154. The process was that the Contracts Adviser would gather more facts and evaluate the loss. Often, the Contracts Adviser would explain to the postmaster that they needed time to investigate the loss. They may say "I will come back to

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you because I am considering whether I need to precautionary suspend you or not".

155. The Contracts Adviser will then carry out their investigation. This is usually on the day of the audit but in exceptional circumstances can be later. Depending on the level of loss and what they find, the Contracts Adviser will then seek authority from their manager to take the recommended decision as to whether to suspend or not.
156. There is a process map which contains clearly defined steps, the process and what the consideration points are in terms of coming to a decision on whether the Contracts Adviser should precautionary suspend the postmaster or not. If the postmaster is suspended, the process map also covers whether the postmaster should be reinstated or have their contract terminated.
157. The Contracts Adviser will need to record the decision rationale. A series of letters will be sent to the postmaster during this time inviting them to a meeting; keeping them updated of the investigation and the outcome.
158. If a subpostmaster doesn't agree with the outcome, there is an appeals process. There is an appeals process documented in the subpostmaster Contract. There isn't an appeals process as part of Mains and Locals but the postmaster can request an audience with a senior manager if they feel they have something they want to discuss. I have attended such meetings myself before.

**Why should the postmaster be responsible for the loss?**

159. When Post Office enters into a contract with a postmaster it provides them with a starting amount of cash, stock and all the equipment. It also gives the postmaster practical training around how to carry out transactions and how to balance the branch.
160. Post Office engages them to run that branch. They are on site. The postmaster or their staff carry out transactions with Post Office customers, with Post Office cash and stock.
161. Post Office will also know what button they have pressed through Horizon, but only the Horizon user will know why they have pressed the button and whether it was the right button to press.
162. Post Office can review the Horizon logs to ascertain whether or not a transaction or pattern of behaviour looks normal. Post Office considers it normal behaviour to count the cash and enter onto Horizon as you count your cash. Then the Horizon

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user presses the button that tells you what your discrepancy is. If the stock unit is an individual stock unit the amount of discrepancy will automatically present. In the case of shared stock units then the branch user is required to request a variance check (the cash declaration is mandatory daily process but the variance check is not mandatory). If there is a discrepancy, it is normal to go back in and check it and then to make some adjustments because you've found a mistake somewhere. It is not normal behaviour to say how much am I out before I make my account declaration. This could suggest falsifying the accounts. There were instances where a postmaster may be less than £50 out and would think "I am not going to bother looking for that amount. I will accept this position and make good the loss".

163. At the heart of Post Office's relationship with postmasters is trust. Post Office trusts the postmaster to give it the right information and supports the postmasters with its systems and training. Post Office will build its processes to try and see where it is not getting that accurate information. Post Office can't possibly say it is better placed than the postmaster to know what is going on in that branch.
164. The relationship needs to be mutual for it to work. Post Office is not dishonest. We and postmasters need to have confidence and trust in each other. We are a financial institution and are held in very high regard. We are probably the most trusted brand in the country and Post Office holds that very dear. Post Office's reputation is partly why it has survived as long as a business.

**Implied terms**

165. I understand that the Claimants in this litigation have tried to argue a host of implied contractual terms. It is a commercial issue as to whether or not Post Office should agree to incorporate new terms into the contracts with postmasters. I have already explained that there was very little scope for negotiation on the terms of the contracts used with postmasters.
166. There is already a clause in the contract which states that Post Office will provide training and support. Under the new contracts the incoming postmaster is required to attend the training to secure the appointment, which is a reasonable request. I consider the Post Office does provide adequate training and support.
167. In relation to the proposed implied term that Post Office should provide an adequate system reasonably fit for purpose including any or adequate error repellency, this is something I consider Post Office provides. Horizon is fit for purpose. I have used the system and consider it to be adequate. Horizon has the functionality it was intended to deliver. It is however possible for the individual



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inputting information to make an error and the system requires human input. It does properly and accurately record transactions effected by Horizon.

168. In relation to a branch vacancy, the contract would be offered on a "take it or leave it" approach. An applicant can choose to do business with us or choose not to. It would not be viable to operate bespoke contracts across Post Office's vast network. Operationally, commercially and legally, it was important for the branches (which are effectively franchises) to operate from predominately the same contract.
169. Operationally, the contracts had to be standardised for the Post Office and branches to be able to operate as effectively and efficiently as possible. This was to the benefit of the postmasters as it helped keep Post Office's cost base in check. Post Office needs to ensure it is generating enough revenue to make reasonable commission payments to postmasters. Standardisation is the best way to be able to do that. If everyone operates in the same way, Post Office does not need build in additional costs for variances.
170. Commercially Post Office restricts a franchise's products and services in line with client agreements which in some cases restrict their products and services to certain branches. Post Office is also able to restrict the franchise's ability to sell certain products in its retail remit. For instance, Post Office has an exclusive contract with Royal Mail to transact mail and parcels through our Post Offices. There is therefore a clause in the contract which states a postmaster cannot enter into a private arrangement with another mail company, such as CollectPlus, to transact from the premises, as that is a breach of our contract with Royal Mail.
171. Legally, when Post Office enters into its contracts with our clients, these terms have to be carried across into the "franchise" contracts. For example, a client Post Office contract may cover how many branches would sell that product and the way that the client wanted that product to be sold. Post Office is doing business on behalf of its clients and is under its own contractual obligations that it must apply otherwise it will be in breach of its client contracts. Each of the products and services Post Office operates on behalf its clients comes with specific requirements on how it is transacted. A number of them would have financial regulation. On our counter service products, for example dangerous goods, there are a number of requirements that we have to adhere to. The contracts therefore contain a clause to ensure that we pass on that obligation to the postmaster. These must be standard obligations to ensure consistency between contracts.

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172. Although there is no specific obligation in the contracts, Post Office does properly and accurately obtain and record all transactions effected through Horizon. It retains this information for 7 years.
173. I understand postmasters have claimed that Post Office should properly and accurately produce all relevant records and/or to explain relevant transactions and/or any alleged or apparent shortfalls (GPOC 64.3). On the whole, Post Office is unable to do this due to the high level of cost, resources and time required to be commercially effective. What Post Office does do, if a postmaster has raised an issue, is investigate and pull up reasonable, relevant information. Such a term could not be implied into the contract. Under the distribution of responsibility under the contract, it is not Post Office's responsibility to carry out this function. This is the case even with our employees. Providing a postmaster adheres to their contractual obligations, we wouldn't expect them to have many causes to request such information.
174. Post Office does cooperate in seeking to identify the possible likely causes of any alleged or apparent shortfalls and/or whether or not there was indeed any shortfall at all (GPOC 64.5 and GPOC 64.11). A shortfall would come as a result of an error or an inter business loss. I have seen claims where postmasters have said there was a glitch in Horizon. Post Office is aware of a couple of issues with Horizon, which have already been disclosed. If Post Office does see a genuine "glitch", it will not just deal with that one, it will also investigate whether this has caused a problem somewhere else. If there was an issue, Post Office would reach out and put it right. We would inform those affected about what the issue was and what we were doing about it. Post Office does not, as alleged, conceal known problems or errors in or generated by Horizon that might have financial and other implications (GPOC 64.8).
175. Post Office cannot disclose possible causes of apparent or alleged issues experienced by individuals "candidly fully and frankly" without breaching confidentiality (GPOC 64.6). If there was a system error, all of those affected would be informed. An alleged shortfall might not actually *be* a shortfall. It wouldn't assist the affected postmaster to share this information with others nor those not affected without establishing if it is or isn't a shortfall. In addition, it would also be a breach of confidentiality to share with others the extent to which other subpostmasters are experiencing issues relating to Horizon as this may be due to the user's ability or competence (GPOC 64.9).
176. Postmasters have argued that Post Office should have a duty to automatically seek to identify shortfall causes. I don't agree with that at all. If it was Post Office's responsibility, what is the role of the postmasters? Managing the accounts is part

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of their role. The postmaster is responsible and therefore there are certain things that a postmaster needs to do before they come to us for help. Of course if the postmaster contacts Post Office with an issue they can't resolve, we will assist as best we can.

177. Post Office cannot allow branches to continue to operate in total oblivion. This is why we require them to inform the Post Office if they have made a loss. We cannot imply such a term and be responsible for identifying the postmaster's cause of the shortfall. Post Office does not have the level of sophistication in its systems to offer this. To do it would be so costly that it would make the commercial relationship unsound.
178. Post Office cannot physically be present to help determine the cause of the loss if caused by the human element. This would require, as a minimum, CCTV in every one of those premises with a view of every part of that building with 24/7 continuous monitoring. Commercially Post Office couldn't afford it. This way of operating would cost more money than Post Office was making out of that operation. No business would do this.
179. Post Office does make reasonable inquiry, undertake reasonable analysis and carry out an investigation if there is cause to (GPOC 64.7). It gives fair consideration for factual information available as to possible causes of the appearance of shortfalls in a commercial manner.
180. Alleged shortfalls do represent a genuine loss to Post Office. For the postmasters, it can be a paper loss (GPOC 64.12). However, we have to settle with the client and if the client expects to get £100,000 worth of payment and we are only giving them £90,000, the client will pass on to Post Office the £10,000 difference. As Post Office is liable to make good its losses to its clients, it is only reasonable that postmasters are also responsible if they have incurred that loss. The postmaster has done something that has created that loss and should make that good. In every case I have seen the postmaster's loss has caused Post Office loss somewhere along the line.
181. The Claimants have argued there needs to be an implied term that Post Office should carry out a reasonable and fair investigation as to the cause and reason for the alleged shortfall and whether it was properly attributable to the postmaster under the terms of the contract (GPOC 64.7). I consider it to be the postmaster's responsibility to carry out an investigation to establish the cause of the loss until they get to the point where they have exhausted what is within their gift to do.



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182. I consider Post Office exercises its powers, contractual or otherwise, honestly and in good faith for the purpose of which it was conferred.
183. I do not consider that Post Office has taken steps which undermine the relationship of trust and confidence. If anything, I think Post Office has gone the other way to try to build the relationship of trust. The way we changed the policy towards suspension is evidence of that, as set out below. Post Office has continually looked to improve the way it operates and understands the human element of the outcomes of investigations, suspensions and terminations (GPOC 64.13, 64.14 and 64.15).
184. There are things Post Office does which are not in its contracts, such as setting up the Support Services Resolution team to address postmasters' concerns (Shirley Hailstones and Kath Alexander lead this team). I set that team up in 2015 off the back of my involvement in the mediation scheme as I felt NBSC alone might be a bit too broad to provide support to postmasters. This new team can help sort a problem on the phone and talk to a postmaster to resolve the issue if NBSC cannot help. This service isn't in the contract but is an improved way of working and supporting the postmasters, which Post Office has put in place now to rebuild the relationship of trust.
185. Post Office has addressed a number of the implied terms the Claimants have raised, as can be evidenced with how the result of the investigation is communicated to the postmaster and the depth of information assessed before a decision is made to end the contractual relationship with a postmaster. This has improved over the passage of time and Post Office is much more inclined to go the extra mile to explain a decision to a postmaster rather than simply rely on the contract.
186. If Post Office ran its franchises under an onerous contract which contained all the terms the postmasters say should be implied, Post Office would not be able to operate anymore. It would be impossible to operate using such a business model as Post Office would not be financially viable. An element of reasonableness has to come into it because if a term is not reasonable, commercially Post Office cannot operate.
187. If Post Office made changes to the contract terms and conditions, it would inform the postmasters in writing. Post Office wasn't always obliged to consult with the postmaster before changes were made, but we would usually notify them. Sometimes the changes were woven into remuneration negotiations with the National Federation of Subpostmasters, the recognised representative body.



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**Contractual breach / performance issues**

188. If a postmaster made a complaint which was governed by the contract, Post Office's approach is to strictly interpret and apply the contractual provisions.
189. Postmasters are contractually liable for their branch's losses. If they have any accounting queries, they are aware they should contact NBSC and the process which is followed after such a declaration.
190. If the postmaster makes a gain, the approach was "you can withdraw them but bear in mind if you have a gain, like when you have a loss, then it's due to an error". Post Office would recommend that the money be kept to one side as typically that money would be required at a later stage to balance the branch account should the error be found.
191. Signing off false accounts is dishonest and harms Post Office. It is a criminal activity. Unfortunately some people haven't regarded it as such. This is clearly not the case.
192. At the very grass roots level, signing off an account and declaring that I, the postmaster, have £100,000 here when they don't is clearly wrong. They are in a position of trust, not just with Post Office in terms of the trust that we put in the branch, but also due to their position in their community. There is a certain status that goes with being a postmaster and it is held in very high regard.
193. We, on behalf of our clients, trade on our reputation of trust and integrity. When I have had conversations with postmasters regarding false accounting, sometimes they don't see it as being wrong let alone a criminal activity until I tell them what the consequences could be.
194. We didn't prosecute all individuals who falsely declared their accounts. Post Office didn't always explain its decisions in detail at the time. This was partly because Post Office wasn't obliged to do so and we didn't see that as our role to do so.
195. My view was that if we could give the explanation then we should. It could help people understand what had happened, why it shouldn't have happened and the consequences. From my first working group discussions with the JFSA (Justice for Subpostmasters Alliance), I agreed that giving an explanation and allowing the individuals to get some kind of closure on the incident was necessary.
196. I take this dispute very seriously. It is difficult because I have a responsibility to protect Post Office and as part of that, need to address postmasters' breaches of

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contract. This doesn't mean that I don't treat the postmasters as human beings, it doesn't mean I don't give them the respect that goes with that and it doesn't mean I need to be aggressive in any way. I did however need to be assertive in my position.

197. There are guidelines which we followed in deciding whether or not Post Office was going to press ahead with a prosecution. Typically the decision would be made following an audit review that identified a discrepancy. The Contract Advisers then need to make a decision following their investigation on whether or not to terminate the contract. Sometimes it is done in parallel with criminal proceedings.
198. Post Office has terminated contracts independently from any criminal investigation. We inform the postmaster at the relevant time. Post Office may then separately take the decision to initiate criminal proceedings which is subject to a separate review.
199. The decision to initiate criminal proceedings is not taken lightly and that would always be done in conjunction with General Counsel and the Security team. At its height over the last 10 years Post Office in 2012 brought 42 prosecutions against postmasters which is a fraction of the Post Office population.
200. Most of our postmasters are very honest people. Our postmasters are a representative population of the UK make-up, in terms of all ages and nationalities etc. As a result, you would expect to have some kind of representation of people who get themselves in to difficulty. I genuinely believe that no one comes in with a view to steal from Post Office. Circumstances happen and postmasters find themselves in a situation where they have easy access to money. With external pressures, they may be tempted in that way and there are some very sad situations where these pressures have overtaken people. When people stop seeing Post Office money as just paper i.e. the product, and start seeing what they can buy with that money e.g. a new car, that is potentially when we have a problem.
201. The process for dealing with a breach of contract or suspected misuse of cash has been the same for a long period of time. Post Office has however reviewed its mitigation circumstances criteria to take into account lessons learnt.
202. The way investigations were carried out has changed over time. Historically where there were losses the investigation was carried out by the Security Investigation team. Most often, issues would come up as part of an audit. The Security team would then carry out an initial fact find. The Contract Adviser would

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assist this part of the investigation and deal with the review of the contract in light of the fact finding exercise. That process has been the same for a long time.

203. To enable the Contracts Advisers to be able to carry out the investigation function, they were trained on Horizon and what certain products were and what the product's functionality was to assist in their review of whether the contract had been breached.
204. From my experience in the mediations, the Contracts Advisers typically had progressed to management through the branch route and therefore had a very good understanding of how to use Horizon on a day to day basis. However, sometimes if they had been outside of a branch role for a number of years they were less familiar with how things worked.
205. I believe Post Office had built a very good level of skillset in terms of where to look for discrepancies, how to build that case and do a thorough root cause analysis. It is one thing to be able to analyse that money has gone missing. It is quite another task to be able to explain *why* that money has gone missing, when and how.
206. From my experience working in the branch and working with postmasters, I understood that it was important that where possible we explain to the postmaster what we can see and what we can use the data to tell us. The process of elimination helped take everything else out of the equation.
207. Part of the reason for this dispute is that a number of people don't know what happened or why there was a discrepancy. As a result, they look to Post Office to explain it. In some cases we can and in some cases we can't. There have been numerous occasions when I have seen the explanation provided to the postmaster and seen the reality of the penny dropping and the explanation sinking in.
208. There has clearly in some cases been a breakdown of trust between Post Office and its postmasters. Postmasters often work with close family and friends, and trust these people with their lives. They do not believe such people would do anything to harm them. Postmasters believe they are running a tight ship and cannot possibly lose money. They believe their team are really careful, that they do not make mistakes and follow protocol, such as searching in their branch for the cash when they have a loss. . If they convince themselves of these things, the only thing left is to blame the Horizon system which they do not have in depth knowledge of.

**Suspension and termination**

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209. The way Post Office has dealt with suspension has changed over the years. Historically Post Office operated a black and white policy; this was before I was responsible for the Contracts team. If a postmaster had an audit, and the postmaster had a significant loss (thousands rather than hundreds), the default position was to suspend whilst we investigated.
210. When I became involved, in around 2013-2014, I changed the policy so that suspension was the last part of the equation.
211. The change in policy meant Post Office did more investigation in advance and on the day. Post Office would only suspend a postmaster if it was absolutely necessary. The default position changed to keep the postmaster in post unless we had good reason not to. A good reason to suspend was narrowed to situations where Post Office had a large loss or other identified area of risk e.g. significant reputational damage.
212. Post Office has a very well documented approach that it goes through when considering whether to terminate a contract or suspend a postmaster. There are a number of decision points and standard correspondence, within which Post Office would refer specifically to the section and the paragraph of the contract it believed had been breached to suspend the postmaster.
213. The process of dealing with a potential termination took a significant period of time to run through. We would review a certain amount of information and hold an interview with the postmaster. Post Office would consider mitigation circumstances and do all it could to ensure that it was making the right decision on the facts it was presented with.
214. Before reaching a conclusion, Post Office would check it had properly applied the contract. It would give the matter its due consideration and sufficient weight and would not make a hasty decision, as it takes suspension and termination very seriously.
215. When we precautionary suspend a postmaster, no matter how hard Post Office tries to keep it under wraps and not let customers know, it would usually become known in the community. Post Office would always argue that a precautionary suspension whilst we investigate doesn't imply anything, however it is aware of circumstances where a temporary suspension has caused reputational damage to the postmaster. Post Office recognises that reputational damage can be significant when you are running a small business.
216. The significant change in Post Office's default position around 4 years ago demonstrates how seriously Post Office regards suspension and termination.



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217. Post Office has data on how many postmasters it didn't precautionary suspend, which evidences the effect of the change of default position.
218. If we didn't precautionary suspend a postmaster, we would expect them to make good the loss. Post Office wants to keep someone in post where possible. It creates a bigger problem for Post Office if it has to suspend or terminate a contract with a postmaster and fill that position. It costs the Post Office more to terminate and rehire a postmaster than it does spending some time with the existing postmaster trying to resolve a contractual issue.
219. There are remedy periods in the Mains and Locals contracts. It can be more of an elongated process to deal with contract breaches within those contracts.

**Remuneration**

220. Post Office offers different remuneration levels for different types of products and types of contracts. Each product and service attracts a certain level of commission or remuneration.
221. Different model types would be paid different amounts, for example a Mains contract is different to a Local contract because there are different obligations in how they operate.
222. Post Office remuneration has declined over the years. The volume of transactions in some instances has generally remained steady but the amount of profit for those transactions has decreased. Post Office's margins have been reducing over the years. This meant Post Office had to review how it paid postmasters and the profitability of their post office is linked to the remuneration Post Office can offer its postmasters.
223. Part of the reason for implementing Horizon and updating the training to be more sales focussed was to encourage postmasters to sell as many products and services as they could, to generate more income for them.
224. Post Office has to be able to look to its central cost base and consider how it can reduce its costs by working smarter. The centralised network business support centre (NBSC) helped reduce base costs as it enabled Post Office to analyse the information it was receiving and form a more holistic view of the business. The centralised NBSC flagged issues of contentions and points for improvement. This is something Post Office continues to focus on today, which I think is very important.

**Subpostmasters as employees**

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225. I consider the contract with postmasters is a contract for services, rather than a contract of employment. I recognise some of the reasons why subpostmasters want to be granted employee status.
226. Postmasters operate as franchisees of Post Office. I was always keen to ensure applicants realised this from the outset and understood the contract. This is why I gave so much attention to the meaning of the contract when I carried out interviews and why Post Office recommended the applicant take independent legal advice before entering the contract.
227. The way the relationship operates also indicates that postmasters are not employees of Post Office. Contracts with the individuals were always offered on the understanding that they were self-employed and that the main provisions of the contract were non-negotiable.
228. Post Office employees and postmasters and their staff had access to the same products, system, equipment, helpline and general communications with Post Office. Post Office gave postmasters everything that they would need to be able to run the branch properly, in accordance with the contract and standards that we set. The postmaster is then responsible for running the business on our behalf under the terms of the contract. The key distinction between the franchises and the Crown/directly managed branches was the way the contract worked and the distribution of responsibility for the franchise.
229. Overall the content of the training Postmasters and Crown/managed branch employees received was the same. It could vary slightly due some of the restricted products like car tax and passports. Once the training was completed, the way employees and franchisees were managed was different. For example, an employee would have to declare a branch loss over a specific sum and this would be assessed as part of the employee's performance review. It could be escalated to a disciplinary and eventually to being dismissed. In contrast, if a postmaster had a loss which was not made good, the contract could be terminated. There was no disciplinary or performance review process, as they were not employees.
230. Postmasters were not entitled to the same holiday, sickness absence and maternity pay as Post Office employees. Postmasters, under the SPSO contract, instead are able to claim holiday and sickness substitution allowance and maternity to help cover their absence from the branch. The holiday and sickness contribution is worked out on a two year cycle.

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231. Post Office recognised that it would be good for the business for the postmaster to take a break from running the business by having a holiday. Post Office therefore considered it to be goodwill gesture to give the postmaster some financial contribution to assist them in doing that, partly to encourage them to take a break as it recognises we all need a holiday or to take time out sometimes.
232. It was in Post Office's interest to make a financial contribution to keep the branch open. It is not payment in the same way as an employee would be entitled to if they wanted annual leave. Post Office did not cover the full cost of the postmaster taking holiday. Instead, it made a contribution towards it, which is why it's an allowance.
233. It is the same with sick substitution. Post Office recognises that we all get ill at some point. Post Office considered that taking off the pressure financially should a postmaster be ill could potentially aid their recovery and as with holiday cover contributions, enable the branch to remain open. Post Office therefore offers a contribution for them enabling someone to come into branch and cover the work when they weren't able to do that.
234. Some postmasters chose never to take the contribution, either because they didn't put in a claim even though they had time off, or were never sick. Some people never take time away from their small businesses as they feel integral to its success.
235. The more recent contracts, such as the Mains and Locals contracts, do not contain an allowance for holiday and sickness substitution as we contract on a company to company basis.
236. Postmasters have to carry out their own tax returns, which points to the fact that they are not employees. They also have to do tax returns for the retail side of their business.
237. A number of Subpostmasters I appointed or worked with relished the way the relationship worked and the level of autonomy granted as a franchisee. For example, some postmasters were very good businessmen/ women. They would sell on the business with the goodwill element and hold onto the freehold and enter into a lease with the new postmaster. It was their own business. They would do this multiple times over. The goodwill element of the post office was at some point I recall as high as one and a half times remuneration, so this was a commercially sound plan.
238. The success of a postmaster very much depends on the type of individual they are. Some absolutely relished the fact that they are independent business people.

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They tended to be the better postmasters because they come in with the attitude that "I am here as my own boss, I want to be able to have the influence of running my own business and have my destiny in my own hands". Such postmasters would see Post Office as the umbrella under which they operated as a franchise banner. We also had postmasters at the opposite end of scale. The undertone was that they wanted to be employed with the security and benefits they thought this offered.

239. I am aware that there are some things which may not traditionally be seen as things which point towards self-employment, such as PAYE and NI contributions. Post Office in some instances deducts PAYE and NI contributions at source. Postmasters elect through their agreement with HMRC as to whether these payments are deducted in this way or whether they are responsible for paying the same.
240. There are some other things in the subpostmaster contract you wouldn't perhaps expect to see, such as allowing the postmaster to attend Territorial Army training.
241. Post Office also makes "small offices payments" to some of the smaller post offices that do not have the constant flow of business in relation to their opening hours. In these branches, remuneration worked out on the whole as less than national minimum wage based on the number of hours the branch was open. The purpose of the Small Office Payment is to assist subpostmasters at smaller branches with the financial consequences of the National Minimum Wage legislation applying to any staff they might employ to help them run their post office. It is not intended that these payments would mirror the National Minimum Wage or cover all financial circumstances that a subpostmaster may have.
242. I was very aware of the cost to Post Office of this policy when I was Head of Area for Wales, because in some of the rural communities in Wales the postmaster would have a small foot-fall and so would often require "small offices payments". The cost of this policy to the Post Office was I believe to be a few million back then. It is approximately £1.3 million per year now.
243. Post offices sometimes struggled in rural communities. I used to attend public meetings at which we discussed with the community the possibility of the Post Office closing down. Some options were reducing the opening hours if the branch didn't have the business for the operating hours. This could be attractive to potential postmasters whilst at the same time help reduce Post Office "small offices payments".



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244. I think the reason behind offering these extras was because of the ethos of Post Office. There is also an argument that in situations where the postmaster was struggling, Post Office offered goodwill gestures such as the "small offices payments" to stop the branch closing down and to maintain Post Office presence within that community.

**Practical Arrangements**

245. Having a Post Office element to a business creates a halo effect on that business' retail. It increases that business' foot-fall. This is one of the reasons why traditionally the Post Office counter was at the back of most branches. The customer would get their cash from the post office counter and then do their shopping as they walked through the shop.
246. The only way Post Office can measure foot-fall in a branch is through its transactions. Historically, in Post Office's directly managed network, it used door counters so it could track each time a customer stepped through the door. The Horizon data tells us customers have come and carried out a transaction. However, there might be people that come in to ask a question. This is not recorded through the Horizon system and so that part of the foot-fall isn't counted.
247. We expected the applicant to provide their own premises from which to operate a Post Office. They had to meet certain conditions in terms of size, so that Post Office could fit a counter in and make sure it was secure. It would do all the security checks and make sure that the Post Office element itself was secure and alarmed.
248. Post Office had specifications on the thickness of the walls, the quality of the door and how many mortice locks. Post Office's security team would also consider how to separate the Post Office counter from the domestic premises (if any).
249. The postmasters' premises are assessed to ensure they can operate out of them; that the premises are kept in good order and that they have liability insurance in place. This forms part of the contractual relationship with the postmaster and will be flagged to them in an interview.
250. Post Office's interest in the premises is establishing whether the postmaster owned or leased them and whether they have a license to trade from them. Post Office would require the postmaster to evidence that they have a legal arrangement to operate from there. This formed part of the recruitment process.
251. Not all postmasters live on the premises. Post Office did not restrict who lived in the property or worked in the premises save for standard checks and staff CRB checks.

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252. Post Office also needed to reduce the risk of a "tiger kidnapping". Postmasters are at risk to this crime (albeit a very low risk in later years) as they have access to large amounts of cash, often work with close family members who will not raise the alarm to protect the hostage meaning the police could not be notified until after the event. The first consideration is always to protect the Postmaster and his/ her staff whilst in the Post Office. Post Office offered guidance on the obvious security points and referred the postmasters to the Security Manual which is part of the appointment pack.
253. Post Office historically charged an introductory fee, licence fee or franchise fee when an incoming postmaster began to operate a new branch. The rationale for charging this fee was that there was an inherent commercial benefit to a retailer in operating a Post Office branch. Obviously, incoming postmasters traded under Post Office's brand and they often received additional foot-fall, however in my view the basis of the fee was never really explained well enough internally or externally. The fee was a bone of contention for a number of people.
254. At present Post Office does not charge introductory fees, or licence fees.
255. The circumstances when introductory payments were applicable were set out in an ACC but in essence if the postmaster was buying the business as a going concern, which we called "commercial transfer", Post Office wouldn't charge a fee. If it was a Greenfield site, a new business and there was no commercial transfer Post Office would charge the equivalent of 3 months remuneration. For Franchise contracts the fee was calculated on the number of counter positions.
256. Rather than paying the equivalent of the 3 months remuneration up front the postmaster was able to have a 25% reduction in the remuneration arrangement for the first year.
257. The incoming postmaster would be sent the contract, the conditions of appointment letter and the addendum. The addendum might state "these are the conditions on your appointment that you have to do", which would be things like "you are required to replace the counter screen".
258. Post Office influences the retail side of the business, as it has restrictions on what can be sold in the branch to tie in with Post Office products and services.

**STATEMENT OF TRUTH**

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I believe that the facts stated in this proof of evidence are true.

Signed: 

Date: 22<sup>nd</sup> May 2018