



POST OFFICE LIMITED STRATEGIC EXECUTIVE GROUP REPORT

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| Title: | Postmaster Losses Overview/ Branch Discrepancies | Meeting Date: | 20 th May 2024 |
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Input Sought: For Noting

Lack of operational compliance and robust processes/systems in both branch and POL contributes to an annual loss of between **IRRELEVANT** the purpose of this pack is to provide SEG with a more detailed understanding of:

- The drivers of loss, their annual cost, and savings embedded in the 2024/25 budget
- The initiatives already delivered and in flight, to reduce the number of discrepancies in the network and ultimately the loss value
- Recommendations for further activity requiring more detailed consideration by SEG

Executive Summary

1. The annual cost to Post Office of loss of cash and cash equivalents due to process failures is between **IRRELEVANT**. If this were reduced the saving could be diverted into more beneficial activities such as strategic growth projects or postmaster remuneration.
2. The purpose of the presentation in the reading room is to give SEG confidence that activity is underway to start to reduce the risk of loss to both POL and branches, including:
 - improving the branch support framework to reduce discrepancies
 - earlier identification of discrepancies to improve the investigation outcome
 - better management information and insight to drive action plans
 - recover losses where appropriate.
3. In addition to the activity described in point 2 above and delivered within existing business as usual budget and resource, the report below (paragraph 10) details recommendations for increasing resource to support prevention of losses and also on whether POL should start recovery activity for any of the losses.

Report

4. The presentation attached to this paper gives a detailed explanation of all drivers of loss, how they are accounted for, and any current process in place to recover the loss where appropriate.
5. Whilst the amount each activity contributes to the total loss number varies significantly, branch transactional discrepancies being by far the biggest contributor (2023/24 circa **IRRELEVANT**), it's important to ensure all activities are identified and processes improved to reduce their impact. These improvements should look to both prevent the loss as well as facilitating recovery where appropriate.
6. The Operational Excellence Programme, established in July 2023 has already identified and delivered significant improvements to the operational processes and support provided to branches (over 10,300 data led Operational Excellence visits were conducted by Area Managers in 2023/24, improved Network Monitoring data and process, changes to the Branch Assurance visit process).
7. Excluding Lottery exit, the volume of transaction corrections reduced by circa **IRRELEVANT** in 2023/24 and the underlying postmaster loss was circa **IRRELEVANT** lower than forecast. This was

not however reflected in the total loss number due to some one-off charges detailed at appendix 2.

8. Further initiatives are due to land in 2024/25, the benefits of which have been embedded within this years budget. Key ones of note are:
 - i. Operational Excellence remuneration incentive (September 2024)
 - ii. Auto Stock Rem in (15 branch pilot Sept 2024)
 - iii. 2,700 note counter roll out (July – October 2024)
 - iv. Relaunch of Operations Manual
 - v. Relaunch of 0-6 months branch support framework
 - vi. Recovery of established losses where the Postmaster has agreed with the outcome of a discrepancy review and also for overdue invoices related to branch property works where appropriate (see additional SEG Paper)
9. With the exception of note counters and auto stock rem in, all improvements landed to date, or in progress, have been implemented within existing business as usual resource and budget and will therefore have a limited impact on reducing the loss. The tables below highlight further recommendations that would:
 - i. step change the operational robustness in branches
 - ii. enable an improved contract performance management framework
 - iii. provide POL with greater clarity on the value of cash and cash equivalents in the network
 - iv. facilitate loss recovery when appropriate
10. Funding to support a significant number of these recommendations (circa IRRELEVANT per annum) has been requested through the SPM budget, as having an operationally robust and 'clean' network is a key enabler to a successful NBIT implementation. The outcome of the funding request is expected in June 2024.
11. The table below summarises the key drivers of loss, what additional activity is required to improve prevention of the loss and also recommendations on whether POL should start recovery activity on any of these losses.

| Loss Driver | £m | Recommendations for prevention | Recommendations for recovery |
|--|------------|--|---|
| Current PM discrepancies post April 21 | IRRELEVANT | <ul style="list-style-type: none"> Additional resource in Network Monitoring (5), Field trainers (17), Branch Assurance (30), Contract Advisor (7) and Cash Centre Teams to improve operational support and training for branches and to develop and implement a robust contract management framework Funding IRRELEVANT per annum (circa 70 additional fte's) has been requested through the SPM project which is due for decision in June | <ul style="list-style-type: none"> Do not start recovery until clarified Horizon data used in the discrepancy review process is robust Proposed established loss recovery process currently undergoing external legal assurance and will return to SEG for approval once clarification on Horizon is received |
| Current PM discrepancies pre April 21 | | <ul style="list-style-type: none"> Falls within the scope of the Remediation Team but outside scope of the HSS. SEG Paper being produced in the Rem Team to recommend next steps | <ul style="list-style-type: none"> No current recommendations to seek recovery of existing debt |
| Former PM discrepancies | | <ul style="list-style-type: none"> End to end review of the 'Leavers' process to identify and agree repayment of outstanding account balances | <ul style="list-style-type: none"> No current recommendations to seek recovery of existing debt Retail will return to SEG in August with recommendations following the end to end Leavers process review |
| Strategic Partners discrepancies | | New processes in place to support SP's investigate and resolve discrepancies. This should avoid any further non recovery of discrepancies | <ul style="list-style-type: none"> Review of aged discrepancies by individual SP underway. Outcome of review will determine if recovery will be made or write off required |
| Current PM Property Invoices post April 2021 | | <ul style="list-style-type: none"> End to end project process and documents reviewed and improvements made External legal assurance underway | Start recovery of outstanding invoices via new process as soon as external legal assurance provided (est July – see additional SEG paper) |
| Current PM Property Invoices pre April 2021 | | | No current recommendations to seek recovery of existing debt |
| Former PM property invoices | | | No current recommendations to seek recovery of existing debt |
| Counterfeit notes | | <ul style="list-style-type: none"> Updated training materials issued to branches to support identification of counterfeits Note counters to be issued to top 2,700 cash taking branches Further funding for automation to be requested via BF4 | <ul style="list-style-type: none"> Recommendation not to seek recovery Retail will return to SEG in Sept 24 with a proposed overarching cash policy which will include the approach to recovery of counterfeits passed through to the cash centre |
| Robbery/Burglaries | | Additional A&CI resource required to support the police improve outcomes of criminal investigations | No current recommendations to seek recovery |
| Missing cheques | | End to end process review to see if can improve/automate the process | This is a cost of accepting of cheques as a method of payment an is unlikely to reduce unless POL stops accepting cheques as a payment method |

Financials

The balance sheet provision as at the end of 2023/24 totalled [IRRELEVANT] and the detailed breakdown of the provision is shown at appendix 1. The total balance on Postmaster Accounts at the end of P12 was [IRRELEVANT] the different of [IRRELEVANT] being less than 60 days old and therefore not provided for.

The breakdown of losses over the last 2 years and budget for 2024/25 is shown at appendix 2. We recognise the cost for 2023/24 of [IRRELEVANT] (excluding the central year end provision) is too high and through the Operational Excellence Programme commenced a number of initiatives in 2023/24 that are budgeted to deliver a saving in 2024/25 (budget [IRRELEVANT]).

The [IRRELEVANT] year on year reduction for 2024/25 includes:

- [IRRELEVANT] note counters (counterfeits [IRRELEVANT] and cash pouch discrepancies [IRRELEVANT])
- [IRRELEVANT] operational excellence project and BAU activity ie rem incentive, op ex visits, 0-6 months support framework
- [IRRELEVANT] robbery/burglary run rate reduction
- [IRRELEVANT] Non-transactional losses - recovery of o/s invoices from current postmasters and reduced
- [IRRELEVANT] Lottery exit: reduction in transaction corrections and resulting discrepancies due to complicated branch accounting process

Next Steps

The purpose of this paper and the more detailed presentation in the reading room is to align SEG on the current loss landscape and make recommendations for further activity to reduce the risk of loss to both postmasters, strategic partners and POL.

These recommendations will also ensure the network is ready for NBiT implementation.

Following discussion at SEG, the presentation will be updated and used to facilitate a conversation with the new Chairman and Board.

Where requested, more detailed papers will be presented to SEG on each of the recommendations.

The paper on the proposed process to recover outstanding property invoices is the first one of these.

Appendix 1 - Breakdown of Postmaster Loss Balance Sheet Provision

The table below details the split of the provision between (1) pre and post April 2021, (2) current and former postmasters, and (3) transactional balances and outstanding invoices:

| Postmaster Account Balance Sheet Provision | | Pre-21 | Post-21 | Total |
|---|---------|------------|---------|-------|
| Non-Transactional losses (small branch property works) | Former | IRRELEVANT | | |
| | Current | | | |
| | Total | | | |
| Transactional losses (Horizon balancing discrepancies) | Former | | | |
| | Current | | | |
| | Total | | | |
| Current & Former PM Provision | Total | | | |
| Multiples/SP | Total | | | |
| Total Provision | | | | |

Appendix 2 – Profit and Loss account loss charge

The table below highlight the different drivers of loss and their actual cost for the previous two years and budget for 2024/25. In addition, it highlights where the loss is charged to within Retail.

| P&L | 22/23 Actual | 23/24 Actual | 24/25 Budget | Area |
|---|-----------------|-----------------|-----------------|--------------------|
| Current Postmaster Discrepancies | IRRELEVANT | | | Central Operations |
| Former Postmaster Discrepancies | | | | Central Operations |
| SP Losses | | | | Central Operations |
| Robbery / Burglary | | | | Supply Chain |
| Counterfeit Notes | | | | Retail Operations |
| Missing Cheques/AP errors | | | | Central Operations |
| RMSD | | | | Supply Chain |
| Personal Banking errors | | | | Central Operations |
| Cash assurance | | | | Central Operations |
| Supply Chain Losses | | | | Supply Chain |
| Property Losses | | | | Property |
| Other (FX, TC errors, other) | | | | Central Operations |
| Other - Stock adjustment | | | | Supply Chain |
| Customer release * | | | | Central Operations |
| TOTAL Finance and losses (excl. period end provision movement) | | | | |
| Central Provisions (for known and unknown losses) | | | | Central Operations |
| Total P&L Finance and Losses | | | | |

* Customer receipts we've been unable to allocate to a payee nor contact the customer to return the payment are released back to the P&L after 6 years

Within the actual 2023/24 cost of IRRELEVANT is:

- a single significant single branch loss of circa IRRELEVANT which is currently under police investigation
- a change to the strategic partner provisioning policy, which was brought into line with that for Independents, with all discrepancies fully provisioned after 60 days (cost IRRELEVANT)
- A central provision of IRRELEVANT made at year end to recognise that not all branches have a full cash and cash equivalents count annually and therefore there is a risk that the value held on the balance sheet is not present in the network