* Quick wins
* Longer term changes

Summary of discussion on Compliance, Conformance, Losses and Debt

Keith Woollard
Lynn P Hobbs

Shared papers on compliance, conformance, network costs and efficiency

Activity plan submitted indicating unscoped benefit of £500k (minimum figure to register during Strategic Planning round) plus a budget bid for £950k (undefined and again simply an initial figure to register there is likely to be some cost attached to this) — Show + tell

Neil
Outlet Support

The areas that could be in scope are: Rod - amounts
Doug - onsite + forward

Conformance – achieving a change in culture
Compliance – achieving a step change to reduce costs
Risk Management including the Risk Model
P&BA activities
Minimising losses and debt and management of losses and debt
Security issues
Investigation cases
Product design
Sterling and Foreign cash holdings

Approach
Consider cross functional programme with working parties 9th Jan - Rugby. 20-25

Workshop in January with all interested parties to scope the programme
Dates to be offered for January workshop: 7, 11, 15 - location likely to Rugby
Potential attendees: How do we split it up?

Steve Acham | ~~Doug [illegible]~~

Lynn Hobbs	Keith Woollard	Rod Ismay	Damion Taylor	John Scott
Andy Bayfield	Martin Rouse	Vicky Noble	Gayle Laverick	John Breeden
Marie Cockett	[Tony Hills]	[Security]	[Investigation]	[Cash Management] Doug Brown
Jill Kennedy	Ann Cruttenden	[Marketing input]	[Comms]	[Neil Ennis] LEAN

Working parties

Meeting to be held 30/11 to scope workshop
JB/GL/VN responsible for designing and organising workshop
Mixture of 'Show and Tell' in respect of current or planned initiatives plus syndicate work
Aim will be to prioritise and rationalise competing demands and initiatives to ensure we focus on what will deliver the biggest improvements for the limited resource available

Offer Gary Hockey Morley opportunity to send product managers to the workshop to make links between non conformance and product design

Need to understand how this links with initiatives within LEAN programme to avoid any double counting of benefits.

Need clarity from Strategic Planning session on any other activity plans focusing on these areas

* Need to understand current activities
* What people have got planned for next year

[Borton – consultants]
Swindon, P+BA,
3 Crowns

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High level Goal 1:	Network Transformation (includes Cost & Efficiency)	Financial Benefit: Year Three: 2008/09		Non-Financial Benefits:		Overall responsibility: Lynn Hobbs
		Year Four: 2009/10				
		Year Five: 2010/11				

Activities:

					Proposed Timescales											
No.	What are the list of activities that allow you to deliver this goal?	Who has Responsibility for delivering this?	What would success look like within 2008-09?	What are the risks of doing / not doing this activity?	Start Date	Finish Date	Which Strategic Theme does this most support?	How would you categorise this activity?	Will C&IS need to be involved in delivering this?	Which other directorates need to be involved in delivering this?	Have you aligned this activity with those directorates?	What (if any) incremental resource (headcount) is required to support this activity	TOTAL Estimated Cost for 2008-09 (£k)	Amount of estimated cost that is CAPEX (£k)	Further estimated spend beyond 2008-09	Are there any other comments / notes that will help explain / support this activity?
1	Establish a cross-functional programme with initial responsibility to: Define what's 'in scope' in terms of cost savings and efficiency improvements through increased compliance and conformance and improved debt management Quantify the potential 'size of the prize' Quantify the resource to deliver and impact on other activity Identify quick wins and priorities for 2008/09 and beyond	Lynn Hobbs	Programme has identified and implemented quick wins to deliver financial benefit and progressed/ begun implementation of longer term initiatives to significantly improve compliance and conformance	Non compliance continues as is or increases resulting in wasted costs, customer and client dissatisfaction and unrecoverable debt impacts negatively on the P&L	Pre-April'08	Beyond March '09	Operational Efficiency	Project - Compliance		F O	No	5	£400k			This could also be classified as 'Efficiency Driver - Incremental to 2008/09 Budgets'. Potential benefits are not quantified at this stage but would be in excess of any costs incurred Initial discussions held with Finance and Property on possible areas to include The resource is reflects a small project team - resource requirements need to be quantified as part of any scoping exercise
2	Consider radical approaches to branches costing money to run	Lynn Hobbs/ Kevin Gilliand	A small number of branches with excessive property costs and overscales payments may close, relocate or be replaced with an alternative operating model Other operating models e.g. PO Local, urban outreach, will be trialled	Continued and increasing costs to maintain service	Apr-08	Beyond March '09	Operational Efficiency	Efficiency Driver - Incremental to 2008/09 Budgets	Yes - Please complete Proforma	O S	No					This could also be classified as 'Business Project - New' Links into Network Innovation and PO Local May also link to WHS 14 additional sites Initial discussion with Property - savings may have been identified in Operations in respect of property costs - need to ensure these are not double counted
3																
4																
5																
6																
7																
8																
9																
10																
11																
12																
										Please ensure that you have agreed with the relevant person in the directorate(s) to align activity		Total forecast spend	£400k	£0k	£0k	

∘ Need to put business case together
– savings need to pay for people.

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Network Transformation (Cost and Efficiency)

There are a number of areas to consider under this heading. The whole subject of network transformation can be as narrow or as wide as we care to make it.

We need to scope the costs areas in the network, review all of these to understand the size of prize, the cost of delivering the prize and where the tipping point is i.e. where the level of additional activity exceeds the benefit.

Other teams are key to the success of this project and involvement from Finance (P&BA, Compliance and Security), Property, Marketing (Product managers) is essential

Compliance
We build in and expect non-compliance across the whole network. Compliance is the key to achieving a significant cost reduction in BAU activities, in reducing debt, in increasing customer satisfaction and therefore improving the overall bottom line.

LEAN
This would involve a fundamental review of everything we do and how we do it to achieve a more cost effective, customer focused approach that should deliver savings or provide opportunities to redirect resource to grow sales.

Neil Ennis is leading this programme and we need to work closely with Neil to ensure we maximise the benefits to network from LEAN

Losses and Debt management
We need to understand in financial terms the level of branch discrepancies resulting in real cash losses to PO Ltd to determine what we could do to reduce this figure and limit our exposure to unrecoverable losses accepting that to eliminate all losses and debt would probably require a cost in excess of the benefit. Crown Office losses should be included.

Branches
The cost of operating many of our branches far exceeds what we earn from them in income. The review should include:

- Feasibility of closing/ relocating specific branches including Crowns with potential expensive lease increases
- Operating models that reduce costs and deliver essential service

Recommendations

Compliance

- Establish a cross-functional programme with initial responsibility to:
- Define what's 'in scope'
- Quantify the potential 'size of the prize'
- Quantify the resource to deliver and impact on other activity
- Identify quick wins and priorities

LEAN

- Understand the impact of LEAN in terms of how it affects the Network Directorate and agree an approach to delivering cost efficiencies

Branches

- Consider radical approaches to branches costing money to run

Losses and debt recovery

- Understand the actual cost to the network – what ends up on the bottom line?
- Quantify the cost of non conformance
- Determine actions to improve conformance, what would these cost and how would we deliver these?
- Agree approaches with other PO Ltd teams – cash management, P&BA, audit and compliance

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Network Efficiency

The whole subject of network efficiency can be as narrow or as wide as we care to make it.

My view is that if we consider the costs areas in the network we need to review all of these to understand the prize, the cost of delivering the prize and where the tipping point is.

Lean programme

In a nutshell and as I understand it this is about fundamentally changing our approach, our processes and how we deliver across a range of internal activities. One area that has been reviewed is Crown Offices and it's unfortunate that our meeting on 7/11is in advance of the presentation to be delivered by the Borton Group who are consultants providing support to Neil Ennis about what the prize might look like.

Areas in Crowns likely to be highlighted in the review are:

Counter serving – are we as effective and efficient at this as we might be particularly following changes to product mix. The review may well highlight the inefficient way in which we find any number of ways to process what arguably seem like very similar or the same type of product

Back office admin – what is it costing and are there better ways of doing this

BM support – we're in the process of changing this – is now the right time? Is it a done deal in terms of BoI financial support

There are other areas within the team where Lean could make a difference and I'll be in a position to discuss in more detail after the presentation on 8/11

Branches

The cost of operating some of our branches far exceeds what we earn from them in income. I'm not sure how much of this has been factored into the NC area plans, certainly I know some has but the information to base some of these decisions on has not been as good as it might be. The following gives a favour of where there could be opportunities.

We currently pay £1.125m per year in property costs to keep open 20 branches

We have around 50 branches where we have temporary agents running the branches and we are paying a fixed sum over and above the remuneration warranted by the branch to keep it open. The additional cost hasn't been quantified because of the way in which this is recorded in Salford. Work is underway to quantify this

We have a number of branches operating with a temp for a considerable length of time, years in some cases. We might want to consider advertising these branches and if no-one is interested taking a pragmatic decision to close

We are committed to paying transition or top-up payments in branches converted to franchise status from Crowns. There is little we can do about this unless we have an opportunity to franchise with an alternative partner which might reduce the payment

We run three branches in various Government buildings e.g. House of Commons. These are operated by employees and are Crown Offices. There could be scope to run these as agency branches and make a saving not yet quantified

We have 46 Crown branches with lease breaks over the next three to four years, 19 of these are within half a mile of a WHS location and whilst some of the WHS stores may not be able to accommodate the Crown branch there could be scope for further franchising dependent on the ET's view of commitments given

Losses and Debt management

We need to understand in financial terms the level of branch discrepancies resulting in real cash losses to PO Ltd to determine what more we could do to reduce this figure and whether the cost of not doing something else is greater in the long term.

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A very brief analysis of the audit findings revealed the following:
2006/07

- 1396 branches were audited in 2006/07
- Shortages were discovered in 937 branches
- The total amount of discrepancies found in branches following these audits was (£3.788m). This figure includes a number of accounting discrepancies including Transaction Corrections waiting to be issued by P&BA; unfortunately this is not quantifiable from the information provided.
- 895 branches were visited as a result of being identified by the Risk Model as requiring an audit. Shortages were found in 593 of these branches resulting in an overall discrepancy of (£1.285m)
- 295 branches were visited following requests from various people (Outlet Support team, BDMs, P&BA, and Investigation) for 'special audits'. Shortages were found in 237 branches resulting in an overall discrepancy of (£2.411m).
- Shortages in 82 branches were due to 'dishonest acts' and the resultant discrepancy was £945k
- Shortages of over £50k were discovered in 19 branches. The discrepancies in these branches amounted to (£1.629m) in total
- (£1.782m) was posted to late accounts which in the main means we have to chase this debt with ex subpostmasters

2007/08 (information up to P6 - end Sept)

- 544 branches have been audited up to the end of period 6
- Shortages were discovered in 406 branches
- The total amount of discrepancies found in branches following these audits was (£3.865m) although a shortage of (£1.46m) in one branch has now been resolved. Even so the trend is upward. This figure includes a number of accounting discrepancies including Transaction Corrections waiting to be issued by P&BA; unfortunately this is not quantifiable from the information provided.
- 325 branches were visited as a result of being identified by the Risk Model as requiring an audit. Shortages were found in 233 of these branches resulting in an overall discrepancy of (£2.322m)
- 188 branches were visited following requests from various people (Outlet Support team, BDMs, P&BA, and Investigation) for 'special audits'. Shortages were found in 153 branches resulting in an overall discrepancy of (£1.532m).
- Shortages in 36 branches were due to 'dishonest acts' and the resultant discrepancy stands at £359k
- Shortages of over £50k were discovered in 12 branches. The discrepancies in these branches amounted to (£2.602m) although the largest figure of (£1.46m) in one branch has now been resolved. The question is how can one community branch accumulate discrepancies of £1.46m without the risk model picking this up?
- (£1.027m) has been posted to late accounts which in the main means we have to chase this debt with ex subpostmasters

Ultimately some of the above will not result in loss to the business but there is obviously a cost to the business of managing all of the errors creating these discrepancies. Branch trading losses are not included in the above which is another source of significant potential loss

I would hope to have further analysis and proposals around debt management and losses for our meeting

Crown Office losses
These continue at a very high rate and in most cases result in a loss to the bottom line. Again I would hope to have further analysis for our meeting

Recommendations
Quantify the potential 'size of the prize'
Quantify the resource to deliver and impact on other activity

LEAN

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Understand the impact of LEAN in terms of how it affects the Network Directorate and agree an approach to delivering cost efficiencies – suggest further meeting required after 8/11/07

Branches
Consider radical approaches to branches costing money to run based on the following:

- Is the branch essential to meet the access criteria?
- How much income does it currently make for PO Ltd?
- What are the actual costs to PO Ltd?
- What potential for growth has been identified by the sales Potential model and what would be the impact financially if a branch achieved these levels
- What level of costs would PO Ltd be prepared to support ongoing to maintain the branch

Losses and debt recovery
Understand the actual cost to the network – what ends up on the bottom line?
Quantify the cost of non conformance –is this feasible?
Determine actions to improve conformance, what would these cost and how would we deliver these?
Agree approaches with other PO Ltd teams – cash management, P&BA, audit and compliance

Crown Office losses
Assess impact of new policy recently communicated
Consider further actions to reduce losses – e.g. possible impact on Goldmine pot?

Other issues to consider
CWU and NFSP

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We also need to get the Inventory Teams to take more ownership up front. Because of the IA, we don't have enough historical information to prove where we have had influence; they would get the money back into the cash centres, 6 weeks earlier than we could.

b) FONCH

The size of the prize is very much dependent on the difference between target and actual performance. Like ONCH above, the intervention that is made should cover the costs of resource and the interest rate. The problem with the FONCH branches is that we are less likely to see the return due to the smaller numbers involved. This is not helped by the ratio versus sales that is used. For example, a branch may sell £1000 of currency per week, and has £3000 of holdings. This gives the branch a ratio of 1:3 and this is one of the branches that we would focus on. However, even if we recovered the £1000 surplus, it would not be enough to cover our costs.

Therefore I think our focus needs to change within the team. We should take ownership of the bigger branches as the intervention would be quicker than the BEMs and the size of the prize would be a lot bigger.

As mentioned above, we need to be in a position to put a cost against the processes that we define, to assess whether what we are doing is worth it. If there isn't a financial benefit, we would need to understand if there are different drivers why we do something, i.e. brand damage, client dissatisfaction etc. I also agree with John's point that the marketing team don't put non-conformance into their business cases, as they expect the cost to be absorbed somewhere else.

With regards to other information you needed, the audit results following robbery and burglary costs weren't included in the info that John provided. This information has been provided by Chesterfield and currently stands at:

2005/2006 = £1,315,586.94
2006/2007 = £1,784,672.90

2007/2008 = £918,546.67

Common sense dictates that the risk is higher at this time of year, so the potential is that this figure will only increase and exceed last year's out-turn.

I hope this is the type of thing that you are looking for.

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branches would have made a figure of £161k good by putting the cash in, therefore there is a risk that in the top 30 branches alone, there is a risk of £678k being unaccounted for.

- 39 branches opted to settle losses centrally that equated to £674k. The ranges for these branches was a lot lower that the ones who opted to make good, and ranged from £4k to £57k. This implies that some are not as eager to press settle centrally if they think it is going to come out of remuneration.
- 46 branches had a gain, which implies that they can take the money out to balance the account. In this period, this equated to £1.3m, with a range from £5k to £114k. Again, there is no confirmation to say that the money has been taken out, or any challenge to the branch to get them to settle centrally.
- Only 21 branches that had a gain decided to settle it centrally. This amount totalled only £346k and the ranges were from £6k to £48k.

Therefore if we take John's suggestion of charging an interest rate for DFR, there is the opportunity to deter it coming from remuneration. If we assume that the branches that opt to settle losses centrally end up as DFR, based on an interest rate of 7.5%, this would equate to £47,156 in interest per year. However, there would be the risk that money just wouldn't be made good.

The other issue is that there is no correlation between losses, gains and DFR. There is no tie up or challenge for branches that have a gain in one week, take the money out, have a loss the next BT period, dispute the transaction and then opt to pay by DFR, even though we assume they have had the money.

One suggestion that was made was that we could do something similar to multiples and opt to settle everything centrally. A customer account would be produced every quarter and the subpostmaster would be sent an invoice to settle the account.

6. Manage non-conformance more effectively in the short term

I've touched briefly above on what I think we should be doing as a business to manage non-conformance more effectively in the long term, but we have had a think about what we could do within our team in the short term.

Basically, we need to be concentrating on things that will bring us a return.

a) ONCH

The size of the prize is basically the difference between current performance and target. We would have the capacity to make 100 extra calls per month on top of what we already do, but these would need to generate a cash return to be effective. The calculation has been made that based on the cost to make the phone call and the interest rate; we would need to ensure that £6k is returned on each call. Therefore the information that we use would have to be completely accurate to make sure that we are contacting the right branches.

The other suggestion that we made with ONCH was charging branches for not returning the expected levels of cash. The branches where we have least control over are the surplus branches, as we cannot control how much cash is received, but we rely on them to return. Therefore, what we could do is charge the branch with the cost of delivery, admin fee and the interest rate of the surplus cash. This would be completely reliant on accurate information and the proviso that we didn't have a cash van failure, but it may focus the mind.

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remuneration of £18k, we wait until it reaches £25k to go out and have a look. Again, with things like ONCH levels, there is no correlation with the size of the branch. It becomes a high risk branch when it gets to £25k excess, but it doesn't take into consideration the size of the branch and the variation between in-payments and out-payments.

Therefore, I think the model needs to be reviewed, otherwise we will be wasting our time where there is no loss, or the loss is that great, we have no chance of ever recovering it.

4. Review what is done following an audit taking place at the branch

Currently, there is no process for what happens following an audit taking place at a branch. The information is sent for filing, and nobody takes ownership for rectifying the issues in the branch. The only follow up that the audit team do is where the subpostmaster has been suspended following a cash shortage and has been re-instated. The branch is classed as high-risk and is then put back into the model for review.

A full process of how non-conformance identified at audit is then managed needs to be developed. We also need to define what the process is for how we manage branches that have a cash shortage, but make it good and are not suspended. A similar approach to the ONCH visits could be taken, and those branches that have opted to make good are identified and someone like a member of the Outlet Field Support Team could be asked to go a spot check the cash, a number of weeks/months after the visit.

5. Manage Losses and Debt more effectively

How we manage debt also needs to be completely reviewed and can be split into 2 areas.

a) Former subpostmaster debt

- In April 2006 we started with a figure of £5.2m to recover from former subpostmasters. By March 2007, this figure increased to £5.3m. In the 12 months between, £2.1 m was recovered, meaning that an extra £2.2m had been sent to late account to recover.
- By Period 6 of this financial year, the outstanding debt to recover increased to £6.7 m. In the past six months, £683k has been recovered, which means that in 6 months alone £2.1 million has been sent to late account, which is nearly the figure for the whole of last year.
- We have no information as to the different categories for this debt - Tics, robbery/burglary, losses on suspension
- The above information shows that we are leaving it too late to tackle the issue and too much recovery of debt is being pushed in this direction. This has the potential to rise massively with the Network Change Programme.

b) Current debt

I don't think that even P&BA have a handle on what this looks like. Nicky did some analysis of the information that is produced in Chesterfield to highlight the branches that have the largest discrepancies per Branch Trading period, whether that is a loss or a gain.

The reports analysed between 26th July and 20th Sept show the following:

- 30 branches with the largest discrepancies within the network opted to "make good" a total loss of £678k. The amounts ranged from £4.5k to £161k. I think that it is unlikely that

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What would be the ideal solution would be the development of a central database that pulls information from a variety of sources and allocates the branch a performance score and raises flags when intervention is required, and the severity of the non-conformance levels. This would work in a similar way to the performance database that is used to support the Core and Outreach assessment process. This system would also enable you to identify on you "worst" 15% and either improve them or manage them out.

The risk is that if we can spot things sooner, we may have a higher suspension/termination rate that we can't cope with. This would be especially difficult to manage if the business don't try and make the proposition of running a post office an attractive idea.

3. Review of the audit risk model and who controls it

The proposal would be that the central point that analyse the information would also take control of the audit risk model, and prioritise visits. The current model is operated by a team who engage very little with Network, and previous findings submitted demonstrate that the line submitting special audit requests, often results in a greater loss being identified. Looking back over previous special audit requests submitted for large scale losses, there seems to be a common factor between them.

- The subpostmaster is often vague regarding what has caused the problem
- When tackled regarding non-conformance, the subpostmaster says they are aware of it but have actually done nothing to rectify the problem - i.e. not reported faults to NBSC
- The subpostmaster cannot be contacted or is always "unavailable"
- The person who has submitted the audit request has done a bit of digging and communicated with other people, and often found that other teams are having problems with the same branch but for different reasons.

Therefore, whilst a model may highlight poor performance, it often takes a personal interaction or knowledge about the branch that confirms whether the branch is a risk to us as a business.

In the case of Bolinbrook, an initial special audit request was submitted in April 2006 due to concerns when the branch was having losses at £4k. If that audit had taken place at that point, the loss to the business would have been far less than the £85k it had escalated to in just over a year. However, for whatever reason, the request was sidelined and never took place. When Pat submitted the request again on the 8th May following the 42-day process report, the branch was visited within 2 days. Only then was it deemed serious enough to warrant a visit.

In terms of the risk model the following has been identified from the information supplied:

- There are 25 data feeds that flow into the audit risk model
- None of the data feeds are given a priority basis, and nothing is classed as more high risk than the other
- The risk model has not been constructed around where the opportunity is for fraud and the methods that the subpostmaster would use to take money - i.e. creating a gain to take the cash, having high cheque figures but rem out a lesser figure (i.e. keeping a personal cheque in the drawer to cover their cash and carry fund!)
- The data feeds are not very sophisticated to take into account where there may be a problem. For example, they only look at the value of TCs issues and ignore the volume that the branch is generating. Only when this gets to a figure of £25k do they class it as high risk. Also, there is no correlation between the TC volume/value and the branch remuneration. If the branch has a

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Input from Gayle Laverick

I've had a look at the Network Efficiencies paper and had a think about what we talked about. As John points out in his e-mail, these observations/suggestions would need to be fully looked into before being implemented. I am also sure that someone has probably thought about some of these before, so apologies if I'm reinventing the wheel or stating the obvious.

1. **Visibility of Performance and Efficiency Opportunities within the Network**
Until we get to a point where we can see the full cost of a branch in P+L terms, we will only be scratching the surface in terms of what efficiencies can be made. At the moment, we have different teams holding accountability for how a branch operates within their remit and on their scorecard. For example, P&BA are measured against debt management, all support costs get allocated to Operations, whilst Heads of BD see very little other than sales, agents pay, ONCH, FONCH and compliance. The finance team may see this, but it doesn't filter down to the line or branch level.

The branch P&L would need to be split into income, controllable and non-controllable costs. The granularity of the information would depend on the requirements, but you would need to include things like NBSC allocated costs, costs for Stores and Stock delivery, and if you wanted true costs, you would also need to build in costs for non-conformance. At the moment we have different teams such as Product Support, P&BA, Product Managers, NBSC, Inventory Team etc all making interventions to branches and we have no idea of what this costs. For example, we have just undertaken an exercise of writing out to community branches who have still failed to do the test. We have asked them to submit their training receipts to us for checking. My calculation for this is that this is going to cost us £1200, and this cost never gets allocated anywhere but gets absorbed.

The branch scorecard would create ownership and provide incentive to identify and resolve the issues, rather than just passing it on.

2. **One team analysing information coming into a central point**

If you created a branch scorecard, you would also need a central team to pro-actively manage non-conformance and spot problems before the case becomes a bigger issue and the branch poses a bigger financial risk. The teams within the different directorates work in silos and don't talk to each other when they have suspicions about a branch. Even within our own team, the tools that we have don't help us do this. For example, I had a quick look at the EFC to understand what went wrong at Bolinbrook, where there was an £85k shortage following audit.

- It took me about an hour to trawl through the documentation and understand all of the different interventions
- A concern had been raised by the Training team in 2006 when the postmaster was appointed, but nobody took ownership of this
- Branch performance was poor and there were various indicators - rolling losses, lax security procedures resulting in warnings, compliance workbook not being completed, accumulation of Transaction Corrections resulting in debt of over £4.5k, warnings being issued for people being behind counter, non-completion of Horizon roll-over, unauthorised closures, cash declaration non-conformance and BT bad debt.
- It is only when people start "having a look" that they uncover something more sinister going on, and this is often too late.

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A greater focus by POL on both sides of the accounts i.e. not just focused on income but also losses.

Greater ownership of cash and stock by all subpostmasters so to try to cut down on careless errors/better accounting for the stock and cash issue to them (I know Geoff May has advocated on several occasions subpostmasters should actually own the cash and stock as with any other franchise type arrangement).

The losses and gains policy needs to be reviewed completely to reflect current and revised approaches to the issue of debt.

We need to focus our effort in two ways

(i) quick wins on recovery and
(ii) (ii) preventing debt situation deteriorating further.

Who would we need to involve to work on debt management:

- P&BA
- Finance particularly the MI team
- Network Directorate (Outlet Support, Anna Malley's/Julie Thomas's team, Richard Barker and Adele Henderson's team, NFSP liaison team)
- Possibly Legal Services, HRSC
- Cash Management potentially
- Change team to manage introduction of any changes
- NBSC for changes to scripts of operators where appropriate
- NFSP at some stage
- I am not sure if there could be system work involved with may need IT involvement.

In addition at some stage the product proposals prepared by Marketing should include something on potential errors that can occur with transactions and how this is built into the overall product proposition.

Not sure if this fits the bill of radical but hopefully it will provide a start point.

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Waiver Scheme - offer a scheme similar to the insurance waiver on franchise branches in respect of debt which would be an up front payment which would allow debts to be cleared by POL where a subpostmaster has been compliant but an error has subsequently arisen they were not likely to be aware of at the time of the transaction.

Consistency of application of debt management procedures across POL - there are different approaches adopted to debt management by differing teams in POL which needs to be eradicated and likewise when a debt can be written off needs consistent application.

Transaction corrections - the production of transaction corrections is very slow and I realise this is sometimes due to the client but on other occasions it is probably down to POL. Do we put a deadline on the production of transaction corrections whereby if POL cannot produce within an acceptable time which would have to be carefully defined this debt is not pursued. (Whilst I realise it is difficult to draw comparisons between POL and other operators due to the vast number of transactions undertaken but if you take a bank or a building society it is highly unlikely they would wait 6 months before notifying an individual of an error in a mortgage/loan payment)

Transaction corrections - there is a need to ensure adequate quality evidence is provided for these errors which basically is difficult to contest. Redefine how transactions corrections can be contested i.e. does the subpostmaster have to prove they didn't make the error for a TC to be cancelled?

Former subpostmaster debt - this is probably where the bigger sums of money are, particular in relation to Subpostmasters who have been terminated following a loss - there is a certain amount the individual leading on the conduct case can do to ensure steps are put in place for recovering debt which if this is focused on as has been proved this financial year to a limited degree can reap rewards e.g. undertakings with subpostmaster solicitors where the business is being sold so from the proceeds our debt can be repaid. Whether we need to go further that this in respect of applying to have a charge registered over a property to secure repayment of debt would I think need to be taken on a case by case basis and recognise:

(i) the cost involved and
(ii) (ii) a POL/RM charge will always be second to the bank that has the mortgage on the property.

The greatest area of difficulty in recovery of debt is where there is no surplus cash or the subpostmaster is declared bankrupt.

Resigning subpostmasters - transaction corrections come through following transfer and the outgoing is then pursued to clear the outstanding amount - could the last months remuneration not be retained for a period to allow for these transaction corrections to come through - we would have to have a cut off point at which time we could still apply transaction corrections against withheld remuneration before this remuneration is released to the outgoing SUBPOSTMASTER.

Bond - take a bond from subpostmasters up front which can be applied to settle debt - this could not apply retrospectively I don't believe and again could attract interest whilst the bond is in place.

MI - we need better MI as at present we don't appear to have a good reporting system in respect of debt or if we have I have not seen it e.g. something like the suspense reports which showed rolling losses etc. My understanding is POLFS has capability to produce an array of reports but I am not sure we have these in place and if they are timely.

Recognition for staff involved in debt recovery if debt recovery targets were achieved/exceed.

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Input from John Breeden

Following our telephone conversation on Monday and the document you circulated on efficiencies to Gayle and myself here are some ideas for debt management that might improve the situation. They are only ideas and would need to be worked up to see viable or politically acceptable.

Settle Centrally Button - this facility appears to be being abused by parts of the network i.e. this function is used so the branch can balance on the given night but no real consideration is given to how the debt will be settled, how it has arisen and then the concurrence process has to kick in to follow up payment of this debt which is labour intensive. Somehow greater control has to be implemented on how this button is used (in discussions with Martin Ferlinc and others they are totally against the suggestion of removing the facility as this apparently is the only way of knowing what is outstanding with the removal of the suspense account). Perhaps some kind of reminder needs to be issued under the circumstances which subpostmasters use this facility and in using the facility what they are agreeing to link to the contractual clauses on losses. Occasionally this function may be used where a loss is in dispute but this needs to be registered and authorised as an allowable for using settle centrally.

Repayment of debt - where a subpostmaster looks to repay by deductions from remuneration (DFR), first we appear to allow this method of repayment irrespective of the individuals ability to repay being assessed (the old hardship process where accounts were assessed etc does not happen now) so we would need strict criteria over who qualifies for this method of repayment, the max term and how many can be running concurrently/if you can top up with further losses. Additionally for a subpostmaster this is a great way of repaying as it helps their cash flow at the detriment of POL's and is an interest free loan and if I am not mistaken losses are an allowable expense in Subpostmasters business accounts. Therefore I would have thought that it is not unreasonable to charge an admin fee for such and arrangement to reflect the costs of setting up DFRs and any work undertaken to get to this stage and also that they should be charged interest on the balance outstanding similar to that charged on any commercial loan/overdraft. (The present arrangement of an interest free loan which is what a deduction from remuneration is would probably be viewed as a benefit in kind should the Tax Authorities look at it).

Repayment of debt by debit/credit card - do we look to offer a 'discount' off the debt if this method of payment is used due to the lower costs of processing this type of transaction via the banking system i.e. they are cheaper than cheques for processing and if payment is rejected this is identified more quickly.

Debt free branches/compliant settlers of debt - do we offer a bonus to branches who settle debts as they arise i.e. branch discrepancies and clear all transaction corrections as they arrive or where they use the settle centrally button clear immediately. This scheme could be set up in bands i.e. amounts cleared in a year not exceeding in total £1k receive a bonus of x % of their remuneration, not exceeding £5k a bonus of a lower percentage of their remuneration.

Savings Pot - allow subpostmasters to save part of their remuneration into a pot which can be used when a debt arises - this money in the pot could have interest applied to it similar to an Instant Saver.

Subpostmaster applications - stronger vetting of existing subpostmasters who apply for another branch in respect of past performance in settling debt and errors in general i.e. transaction corrections etc

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Lynn Hobbs
03/03/2008 00:59

To: Outlet Support Lead Team
cc:
Subject: Objectives 2008/09

Folks

We need to agree your objectives and for you to agree the objectives for your team members by the end of March 2008.

My top three objectives which I've forwarded to Paula are:

1. Completion of WHS roll-out including any additional stores towards 14
2. Deliver support to centrally supported branches in the network (measures to be agreed)
3. Steer Network Transformation Programme to achieve:
   - £0.5m savings from improved network compliance (speculative, for discussion, activity benefit was £0.5m but no expenditure was allocated)
     - *Conformance- 5% reduction of volume of Transaction Corrections (to be finalised after scoping with Rod Ismay)*
     - *Foreign Currency cash management- reduce Full year average FONCH to sales ratio by 0.5 x less than 07/08 average full year outturn*
     - *Sterling cash management- improve ONCH cash declaration conformance volume and accuracy (target to be defined when baseline has been ascertained)*
     - *Delivery of Network loss budget (shared with Richard and Adele)*
   - Introduction of service support charter for Community branches
   - Implementation of 20 POL locals and development of at least one other branch cost model to pilot.
   - Roll-out of 4000 Paystation terminals

The areas on our scorecard nest year in addition to the ones we currently have will be:

Possibly licence fees?

- Agents Pay Fixed
- Agents Pay Variable
- Overscale payments
- Fixed costs (logistics, NBSC)
- Property costs
- Subpostmaster losses
- Write-offs
- Overnight Cash Holdings
- Foreign Overnight Cash Holdings
- Investment Grant payments
- OBC costs
- Compliance results

We need to decide where these fall to ground in the team and who takes ownership of specific targets

I would like you to consider the above along with your current BAU activity and forward your draft objectives to me by end of 11/3/08 so we can discuss them at our meeting on 12/13 March

Thanks
Lynn

Head of Outlet Support
Post Office Ltd
GRO
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Network Conformance

Mission

To deliver 98% conformance or better across all compliance and conformance indicators by end 2008/9 and establish culture of achievement of continuous improvement in compliance and conformance.

Dimensions

- All Network segments
  - Crowns
  - WHS
  - Multiples
  - Community Box 1
  - Community non-box
- Regulatory Compliance
  - Financial services
  - Money laundering
  - Telephony
  - Mails integrity
  - Data protection
- Client contract conformance
  - Bank of Ireland
  - NS&I
  - DVLA
  - Camelot
  - Etc
- Branch accounting conformance
  - All products
- Branch/asset security
  - All procedures/controls
  - Recruitment

Stakeholders

- Clients
- Product & branch accounting/Finance BPs
- Regulators/Bank of Ireland/Royal Mail Group Compliance
- Network line managers
- Multiples' line management
- Product mangers
- P&ODS

Performance drivers

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- branch profitability (Crowns)
- compliance scorecard
- line management objectives

Current initiatives within scope

Scorecard related

- Access to previous audit reports
- Access to compliance risk model outputs
- Over £5k bureau transactions
- Innovation lab day follow up Working groups:
    - Capability
    - Communication
    - Culture
    - Management
    - Systems
- Re launch of Compliance monthly comms
- Training follow up to new appointees
- Three strikes process

Losses related

- Worst 20 – Security initiative to monitor and support worst branches
- Security team themes
    - Postage stamp labels
    - Savings stamps
    - Cheques
- P&BA 'backlog priorities'
    - Cheques
    - First Rate
    - ATMs
- Crown Office losses Action Group
- Internal Controls review follow up to 'Miscellaneous' loss posting including Post Shop losses
- Establishment of 'Fraud Forum' to identify trends and issues in branch frauds

Benefits sought

- Better service to customers
- Better service to clients
- Reduced regulatory risk
- Reduced Operational risk (and actual losses)

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- Reduced costs of investigation and correction
- Reduced credit exposure to agents