

# Operational Responses to the GLO

Meeting date: 25 March 2019

## Context

The purpose of this paper is to share more detail with the Board on our operational response to the GLO. Separately, we will circulate the fact base around Horizon to explain why we believe it works at scale. Details of previous reviews together with the full action list supporting this work have been included in the Reading Room.

## Questions

The questions for this paper are:

1. What workstreams have been formed and who is leading them?
2. How are we governing this work?
3. What the key questions being answered within each workstream?
4. What are our highest priorities?
5. What are the financial and other implications?

## Conclusions

We have set up 8 workstreams. We are finalising the governance to ensure we prioritise and do not aim off BAU management or important strategic opportunities. Within the paper, we have set out the questions each workstream is answering. These encompass things we have to do in response to the verdict, things we wanted to do anyway and things which might shift the balance with agents.

Our priorities are:

- Putting project governance and management in place
- Agreeing and rolling out contract variations
- Resolving issues of legal interpretation on BAU processes (new contracts, Branch Trading Statements, Suspensions, Withdrawals) and changing how we work
- Creating, rolling out and staffing a new differences and dispute resolution process
- Creating a plan to manage a bad Horizon outcome.
- Agreeing a set of positive changes for agents to reduce tension in the relationship

Our focus is on stopping issues building momentum and undermining agents and customers: if agents remain in BAU mode, largely reassured and pleased with changes, other stakeholders will also relax. At the same time, we mustn't over-react and expend scarce resources in the wrong places. We will revert with recommendations for 2019-20 in April.

## Input Sought

The Board is asked to comment on the contents of this report, making recommendations as appropriate and requesting an update at each subsequent Board meeting.

## The Report

What workstreams have been formed and who is leading them?

1. As set out in the Board paper supporting the meeting on 20<sup>th</sup>, we have set up the following workstreams:
  - Legal (Ben Foat)
  - Operations (Julie Thomas)
  - Agents (Amanda Jones)
  - Communications (Mark Davies)
  - Stakeholders (Al and others)
  - IT/Horizon verdict (Rob Houghton)
  - Brand (Emma Springham)
  - Financials (Micheal Passmore)

How are we governing this work?

2. Governance is being finalised. This list assumes that we have completely separated the current case management and the legal workstream will therefore be focused on supporting the operational team – for examples on issues of interpretation to enable better operational decisions.
3. Jane will coordinate the work of the legal team to ensure there is appropriate balance and alignment between the Litigation and operational change. We are setting up weekly oversight, bringing the workstream leads together with other key colleagues and seeking an overall Project Manager. We will provide a progress update at each Board meeting.

What are the key questions being answered within each workstream?

Legal

4. The purpose of this workstream is to ensure that we make changes that are consistent with the judgment and are designed and introduced in a way that is fair and reasonable and can be expected to stand the test of time.
5. The priority is to agree what contract variations we should make to resolve some of the gaps and issues left by the judgment. We are not seeking to restore the status quo but to achieve a reasonable balance. The process of discussion and consultation will be important to making changes sustainable. Other urgent questions of interpretation will enable the operational changes detailed in paragraph 6 below.

## Operations

6. The focus of the Operations workstream is to deliver new processes including: what contract we should be offering new postmasters; how should we proceed if we think we should suspend or terminate a Postmaster's contract; under what circumstances can we retrieve cash; does the Branch Trading Statement work and how can it be used/changed following the judgment; what process should we follow to manage discrepancies; is our application process fit for purpose?.
7. Most critically, we need to agree and deliver a new process for managing differences. Can we be more transparent on the information we have? How do we speed up resolution? Do we need to communicate more and more often on the status of outstanding differences? Do differences need to be accounted for in a different way, perhaps with some element of "escrow"? Do we need an element of independence in finalising disputes? Do we need to formally investigate differences or only disputed differences and what form does that investigation take: is it simply triangulating against known issues and client data, for example? Under what circumstances can we trigger which follow up actions?
8. We are working through a plan to create 4 tiers of response in Chesterfield and are currently splitting calls between a Tier 1 for easy answers and Tier 2 for more complex balancing support. We are considering a third team to manage historical differences and a fourth team for material disputes. Again, we need to design in transparency and independence.
9. As well as managing differences better, we need to reduce them. We are underway with a programme to reduce errors and repeats and we will likely invest more than planned to re-design errors out of Horizon.
10. Culturally, we decided last year that we had a good deal of work to do to create a culture that is focused on customers and agents and delivers continuous improvement. We started by changing the names of some teams, so the Fraud Analysis Team became the Branch Analysis Team. Delivering a material shift in attitude and behaviour will need programme disciplines and will tie into some of the cost and capability work coming back to the Board in May.
11. We have very recently delivered much better information through our Branch Insight Tool, developed on the back of the investment in Case Management. We have now gathered together a series of data points by branch on the number and nature of phone calls, cash declarations, transaction corrections and so on. The current plan is to create corrective activity, training, support etc on the back of it. In addition, we will look to share data with branches so they can see warning signs or issues for themselves.
12. We may also choose to accelerate investment in the Branch Hub. This can become a single point of interface for branches to order cash, do training, receive communications and can also be used for transparent dispute management.

13. We have already concluded that a critical area of focus is training. Classroom training for new agents is not good enough. On-site training is not long enough. There is very little ongoing training, although the recent field restructure will introduce 6 months close support for new agents. We may, over time, develop an online Postmaster Academy to support agents through their careers.
14. To get training and communication right, we know that we need to invest in our Communications team, which has been focused on network change. This is not just resources: it is about using simple, jargon free language that agents can understand. We may also need to recognise some segmentation in how we communicate between small, subsidised Post Offices, commercial independents and Multiples. We will also consider whether we need foreign language versions of some material.
15. In the existing budget for 2019-20 we have increased the size of the field team and are bringing the field teams together. Field presence will be critical to explain, reassure and resolve issues: we have become too dependent on letters. We may expand the team further by using some ex-DMB and other colleagues who know how to run a Post Office.
16. Other potential investments include creating key logs in Horizon or screen sharing to enable better explanations from the call centre. It may also be that disciplines that help us (cash declarations, balancing etc) may need to be mandatory and more regular.

## Agents

17. A number of the operational priorities above will be owned and delivered by the Network teams in Retail and not just in Operations. There are also bigger picture questions around the future of our agent relationships.
18. Fundamentally the question we are due to bring back in the Autumn is to set out how and over what timescale we can improve agents' lives to the point where we have a queue of people wanting to join: what is the balance of remuneration, simplification, support and lower costs that would unlock the opportunity. The opportunity is to create agents as advocates, training each other, supporting each other and explaining their role to stakeholders: they are much more effective and trusted than we are.
19. We are trying to clarify with the NFSP and others how we best help now. We are anyway announcing improved remuneration for deposits and lower penalties on Mails segregation. We also need to be clear on whose problems we are trying to solve first: the hardest up agents or the most entrepreneurial.
20. Fundamentally, agents want to earn more and perceive unfairness in different places. Which do we want to address and how quickly: can we pay them more for digital leads and create them as advocates for our website instead of viewing it as a competitor; should we pass on inflation increases in Mails pricing; should we neutralise the pricing differentials on foreign currency; should we share more of the Banking Framework premium; should we resolve the stuck agents either by paying more, reducing network numbers or by putting employees in to run them?

21. We need an effective representative body for agents that they support. Can the NFSP evolve to fill this role or will agents prefer to replace it? How can we help without undermining its independence? As a first step, we should free them from the commitment not to criticise us in public.

## Communications and Stakeholders

22. Much of this is self-explanatory and clearly the priority is to minimise the impact of GLO criticisms on agents and customers. This requires a balance between demonstrating operational and cultural change with a robust defence legally. However, while there are many stakeholders: Government; the Unions; Clients; Customers all of them will be happier and more relaxed if we make progress with agents. It is the sense of unhappy or unfairly treated agents that causes concern elsewhere.
23. We also note that there is a political narrative that seeks to link the GLO with falling agents' pay and DMB closures and we need to decide if we wish to accept some of that narrative in our budget decisions
24. Finally, we should be strongly reinforcing the message to our shareholder that now is not the time to be publicly discussing dividends. Nothing would infuriate agents more and indeed it may be that we won't be able to have that conversation without also talking about ownership.

## IT

25. The IT stream is delivering support to the operations stream to reduce transaction failures and avoid user failure scenarios. Investigations continue into Horizon front end design, "defensive programming" and resolving high volume transaction corrections.
26. The critical focus is "how bad a Horizon verdict can this Judge deliver and how would we manage it?" While he should only be able to reach a limited view, we have to assume that he is capable of stating that Horizon cannot be relied upon.
27. This is potentially devastating, even though the vast majority of agents know deep down that this isn't the case. Other changes listed above may help but this fundamental narrative will be critical. One aspect may be introducing much more transparency around our data: how many transaction corrections; how old etc.
28. In order to rebuild trust and faith in Horizon we are investigating hiring an independent assessment (which we could publish) of Fujitsu test coverage, test strategy and identify gaps that we can fill against known use cases
29. We are also assessing the Known Error Logs of Fujitsu and determining the communications and release strategy of those errors. We are also investigating the "triangulation" of those errors against the branch incidents and ability to recreate significant incidents to demonstrate that the issue is not Horizon related.

30. Fundamental to this is getting deep engagement from agents and operations teams to help design the front-end changes, the help required and the branch hub design.

#### Brand

31. We have asked Emma to explore what sort of brand spend, and at what scale, would help defend us against criticism without simply being so alien to the public conversation that it reinforces a view that we are not listening and are out of touch. Any brand message may have to be articulated by agents not us.

#### Financials

32. We have two priorities which have been rehearsed in other Board papers. In the budget paper for this Board we have set out the questions we need to resolve for 2019-20. In the previous Board paper we listed out the options we are working through to provide additional funding capacity over the next 2-3 years.

What are our highest priorities?

33. The above is a long list of questions which need answering prioritising and executing. The range and variety is concerning and we must prioritise. Key issues are: Putting project governance and management in place; Agreeing and rolling out contract variations; Resolving issues of legal interpretation on BAU processes (new contracts, Branch Trading Statements, Suspensions, Withdrawals) and changing how we work; Creating, rolling out and staffing a new differences and dispute resolution process; Creating a plan to manage a bad Horizon outcome; and Agreeing a set of positive changes for agents to reduce tension in the relationship.

What are the financial and other implications?

34. Many of these changes were in our strategy and by accelerating them we will become a better business. If we can do so while maintaining a calm continuity of service it will be a significant achievement.

35. Adverse implications if we don't manage the situation are significant. We will find it harder to recruit and retain agents and that will cause the 11,500 target to come under pressure. If things start to unravel along these lines, we will find it harder to retain key people and that in turn will undermine our ability to respond to the issues and deliver change safely.

36. We will revert on the short-term financials in April. However, it would not be ridiculous to invest £5-10m in operational change, £10m in IT change and £5-10m in fairness initiatives. We will also need to fund further litigation costs, as discussed elsewhere.