

Group Litigation Update

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Context

The **Common Issues Trial Judgment** (CITJ) was handed down on 15 March 2019. It reinterpreted our contracts with branch operators and was critical of our past practices and culture. The **Horizon Issues Trial** (HIT) has now concluded and we are preparing for an adverse Judgment, which could be as soon as mid-September.

Questions addressed in this report

1. How are we handling the trials and appeal; what is our potential path to settlement?
2. Since the CITJ, what changes have been made to provide better support to our postmasters?
3. How are we preparing for the HIT Judgment?
4. What further work are we doing to improve our operational processes and our relationships with postmasters?
5. What have we budgeted and how much do we anticipate spending?

Conclusion

1. By mid-September, the Court of Appeal is expected to give its decision as to whether Post Office has permission to appeal the CITJ and Justice Fraser is expected to hand down his decision in respect of the HIT. We are proposing to mediate with the Claimants in October and this would be the first step towards a potential settlement.
2. Since the CITJ, we have enhanced the support provided to postmasters with improvements to initial training, loss recovery, suspension and termination processes.
3. We are working to ensure our business is resilient and well prepared for an adverse Judgment from the HIT. Preparations include our readiness to deliver technology and process changes, as well as communications planning.
4. We are delivering activities to improve our relationship with postmasters and improve the day to day operational support we provide to them. Postmasters have been at the heart of this design process. We are moving to a support model with a much-reduced reliance on call centres. Low-value tasks and basic enquiries will be handled online in real time, with higher value-adding relationship management handled face to face via field teams. A number of these changes are already in place, with further changes being rolled out in stages this financial year and next.
5. £22m of incremental Capex and Opex spend was budgeted at the May Board. £7.1m has been committed so far, with an anticipated £14.9m yet to commit over FY19/20.

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Input Sought

The Board is asked to note this paper and endorse the approach set out.

Input Received

Our Legal, Operations and Retail teams have contributed to this paper.

How are we handling the trials and appeal; what is our potential path to settlement?

1. The Board Sub-Committee has been updated and provided instructions on material developments in the Group Litigation since the CITJ was received in March of this year.
2. On 23 May 2019 the Managing Judge refused permission for us to appeal the CITJ. On 13 June 2019 Post Office applied to the **Court of Appeal** (CoA) for permission to appeal the CITJ. This application was refiled in shorter form on 28 June 2019 as ordered by the CoA on 18 June 2019.
3. The CoA's decision on whether to grant permission to appeal could be delivered at any time. The Court has however indicated that the decision is unlikely to be received before mid-September 2019. If permission is granted, the CoA will then set a hearing date. The appeal may not be heard for up to 12 months.
4. The HIT resumed on 4 June 2019 and concluded on 2 July 2019. The Managing Judge has now retired to write his Judgment. He has indicated that this will not be completed before mid-September 2019.
5. At the conclusion of the HIT, the Managing Judge moved the **Further Issues Trial** (FIT) to commence on 2 March 2020, with a time estimate of four weeks. On 23 July 2019, the Managing Judge ordered that the FIT will focus solely on the legal basis for the Claimants' claims for financial compensation, which it will determine on assumed facts rather than the specific facts of any individual Claimant's cases.
6. On 23 July 2019 the Managing Judge also gave directions for determining by early December 2019 criteria for selecting "Test Claimants" in later (as yet unscheduled) trials to determine issues of breach (i.e. whether Post Office acted wrongly), causation (i.e. did that breach caused the harm for which the Claimant seeks compensation), and limitation (i.e. is a Claimant's claim time-barred).
7. The parties have been ordered by the Court to use reasonable endeavours to attend mediation after the delivery of the CITJ. The parties have agreed that a mediation should be held, and that Charles Flint QC of Blackstone Chambers act as mediator. The Claimants have indicated to the Court that a mediation could be held in October/November 2019, after the Horizon Issues Trial Judgment and the Court of Appeal's Judgment on the permission to appeal the CITJ have been handed down. The Claimants are not however committing to a specific date pending those judgments.

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9. A consolidated project plan is located in the reading room which sets out the relevant milestones for the litigation, operational and agent relationship workstreams.

Since the Common Issues Trial Judgement, what changes have been made to provide better support to our postmasters?

10. The CITJ deals primarily with the contractual relationship between Post Office and its network of branch operators. The Judgment reinterprets these contracts in a number of ways, restricting some of Post Office's legal rights, striking down others and imposing a wide-ranging general duty of good faith on both Post Office and Branch Operators. The Judgment is also critical of Post Office's past practices and culture; for example it refers to Post office being "*oppressive*" and operating a "*culture of secrecy*".
11. Extensive work has been undertaken to assess the impacts of the Judgment across all operational processes, with the most detailed reviews deliberately focussed on the following areas: (i) onboarding of Branch Operators (ii) loss recovery processes (including loss prevention, audit, investigations, loss recovery and transaction queries); (iii) suspension; and (iv) termination.
12. Immediate changes have already been made to the areas outlined above to ensure Post Office acts in good faith, i.e. transparently, fairly and reasonably, with integrity and taking Branch Operators' interests into account. A detailed view of all the process changes that have been made so far is contained in a Table of Operational Changes which is available in the Reading Room. A summary of the most pertinent points is set out below.

Onboarding of Branch Operators

13. Postmaster interviews are now delivered 'in house' to achieve a more seamless journey for our Postmasters and maintain our relationship with them at every touch point of their onboarding journey. There is also now a single point of contact for each applicant who 'hand holds' prospective new postmasters from the initial contact stage, through to the point of a contract being issued. We have also introduced the Business Support Manager role to support the new postmasters for up to 6 months and help embed their training; ensuring the postmasters and their teams are set up for success.

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14. The Judgment imposes numerous additional duties and requirements which impact Post Office's loss recovery processes. Specific changes we have implemented to address these requirements include:

- a) **Loss Prevention:** creation of a new Branch Insights Tool to provide a basis for discussion for Area Managers with branches, giving an early warning of possible issues to enable support to be provided.
- b) **Audit:** creation of an Audit Rationale Document so that the reason for an audit can be shared with the Branch Operator; as well as various changes to improve the quality and transparency of the audit process.
- c) **Investigation:** creation of checklists to assist the Branch Support team in investigating discrepancies in cash balancing; a Tier 2 escalation team now provide further support to Branch Operators; and a Branch Review Tool is in development to speed up the investigation time.
- d) **Loss recovery:** the loss recovery function has been moved to sit within the new loss prevention organisation structure to improve efficiency and transparency across functions; letters sent to Branch Operators now use language which better reflects the spirit of the Judgment; legal debt recovery action has paused pending a full review and alignment to the Appeal process; call recording has been put in place for outbound calls; and, deductions from remuneration are currently on hold unless with agreement.
- e) **Transaction queries:** narratives sent to the Branch Operator have been re-written to improve clarity; and a new team has been set up to handle disputes relating to Transaction Corrections.

Suspensions

Changes have been made to address the contractual requirements Post Office must satisfy before it is able to suspend a Branch Operator and to reflect the fact that Post Office is no longer contractually entitled to withhold remuneration during suspensions. We are now continuing to make payment to Branch Operators who have been suspended following the Judgment. Payment is based on average remuneration during the 6 months prior to suspension. In aggregate this costs Post Office £125k per month. We are currently reviewing our suspensions policy, including replacing this with closer monitoring and limiting access to cash except in the most serious cases.

Terminations

15. Changes have been made to address the new contractual requirements Post Office must satisfy before it may terminate a Branch Operator. These include updates to the Conduct Case Decision Document and changes to the language used in termination correspondence with Branch Operators. These changes are designed

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to bring transparency to the evidential process followed to support the termination decision.

What preparations have we made for the upcoming Horizon Issues Trial Judgment?

16. Our planning assumption is that the day when the Judgment lands will be circa 16 September 2019 ("Day 1"). We now have a robust response plan in place, with technical and organisational mitigations, owners, and timelines for delivery. Our response can be framed as follows:

Activities prior to "Day 1"

We have translated the worst-case legal outcome into operational, commercial and reputational impacts / risks - putting in place mitigations to, insofar as is possible, prevent these impacts / risks from crystallising. Examples include greater transparency in how we deal with and communicate issues and bugs; improved processes to better test changes being made in the live environment; and proactively scanning for issues and or bugs. Additionally, surge resourcing for our support centres; enhanced branch controls for cash orders; monitoring compliance issues including refusals to open branches / operate Horizon will help to protect Post Office whilst settling branches.

Day 1 and beyond

- a) We are standing up a parallel team of lawyers in readiness for Day 1 to translate (at pace) the Judgment into what, in lay terms, it means for our current operations, customers, agents, retail partners, corporate clients and suppliers. This will allow our response to developed, actioned and communicated swiftly.
 - b) We have established a user group of branch operators, who we have actively involved in designing and prioritising a backlog of Horizon changes. These changes are being made to make their lives simpler by reducing operational and financial risks for both sides due to poor journey design. We have established a Horizon 'quick wins' delivery capability with Fujitsu both to deliver these changes and to be ready to make other Horizon changes at short notice. We already have a series of initial Horizon changes that are in design and development for release to the network in October. Following this initial release, we have scheduled further Horizon software release windows for every 6 weeks thereafter. This gives us the delivery capacity we may need to work through any other software changes that we might not have already considered.
17. Our response plan (which is available in the reading room) includes a comprehensive communications plan and the briefing of all relevant teams and relationships owners. However, we are clear that in circumstances of an adverse Judgment, we need to act and cannot simply 'talk our way' through this. Our immediate focus will be the discrepancy support team. We have been trialling a new approach to identify

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the causes of discrepancies for operators and we have seen a 95% success rate across 311 cases with the remainder being unknown causes. This process give operators and answer within a few days and is winning their confidence where they may have otherwise blamed Horizon. We are ready to scale up this support in Chesterfield as needed once the next judgment is made public. Recognising that we need to serve our branches better, we have also put in train a series of more fundamental changes to improve our operational processes and our relationships with postmasters as detailed below.

What further work are we doing to improve our operational processes and our relationships with postmasters?

18. Since we updated the Board in May, a wide range of longer-term change activities have been scoped, planned, resourced and mobilised. These changes are the right thing to do for our business and our postmasters, irrespective of how critical or favourable any HITJ might be. Delivery of these is well under way.
19. We have listened to postmasters and are reshaping our support offer to them in response. We are creating a new support model, moving from telephone support to online support for day to day processes, but supplementing this with increased face-to-face time with relationship managers in the field.
20. As we roll this model out, postmasters will benefit from "always on" real time online support. This support will reduce the need for long call times to resolve simple queries and issues, reducing hand offs between teams and removing inconsistencies in processes. The new model will also reduce risks both to postmasters and to Post Office through earlier identification of said risks, as well as providing greater traceability and transparency in everything we do. Concurrently we are improving our onboarding processes, improving postmaster training, increasing face to face support for postmasters, and reviewing agent remuneration. Our primary change activities are summarised below:
21. **Improving Branch self service and support.** We have a plan of work which will digitise support services in stages over the next 12 months. In 18/19 we received around 389,000 calls and 120,000 emails in to the NBSC. We aim to reduce these by circa 70% by 2020/21. Our changes include: online cash and stock ordering; moving basic process enquiries online; revising "how to" guides and introducing more video tutorials; onboarding and vetting of branch staff online; and online IT support for our branches. The primary platform for this is the new Branch Hub portal. The initial platform has been built, a pilot is underway, and we are now accelerating the rollout and development of services that will be delivered on this platform, with cash and stock being prioritised for transparent tracking. Digitisation of the services we provide will improve branch operator experience. Functionality and information will be available instantly in an easy to digest format versus current processes which require phone calls or trawling through numerous Horizon screens.
22. **Improving Horizon and designing out transaction corrections:** By the end of July we will have analysed the causes of the c125k transaction corrections (TCs) we had to make over the last year. These are a cause of risk for Post Office, our branch

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operators and our third-party clients such as banks. We will identify the suite of process, data and system changes we need to make to eliminate the root causes of each type of TC. Our ambition is for a reduction of over 70% of TC volumes in stages between now and December 2020, with a commensurate reduction in the approximately 50 FTE who are currently employed to process them.

23. Transforming contracts and loss prevention: We wrote off £6m of losses in the last 12 months and due to changes driven by GLO our rate of write-off of losses is increasing. We aim to arrest the rate of increase in FY19/20 and reduce the value of losses written off to £4m in FY20/21. Approximately 10% of branches do not follow the recommended process for cash declaration and remittance each day or week – a key 'red flag' for a branch building up losses. We will reduce this to 1% by the end of 2020/21 by bringing in more controls. We have formed a new Loss Prevention function with new leadership and are moving our Loss Prevention capability from a reactive and largely manual function to one that uses more root cause analysis and data analytics to look ahead and make interventions that prevent losses from happening in the first place. This provides benefits for branch operators as well as Post Office, with interventions such as troubleshooting guides through to targeted training and support to improve compliance and performance. Where suspected losses do occur, we will provide tools for the branch operator via Branch Hub to better analyse their own position and how it has occurred, making getting to a resolution a faster process. On our side, we will use a redesigned set of KPIs, processes, risk assessment tools and case management software to ensure a clear, robust and transparent end to end processes with a single version of the truth throughout.

24. Redesigning the operations organisation: Based on the reduced workload driven by moving branch support processes online and reducing transaction corrections we will reduce headcount in Operations by the end of 2020/21 by up to a third (from approx. 350 to 230 FTE). Further potential savings are likely to be identified as our design work progresses. This reduction in staff would provide savings of around £3.9m p.a. Our target model for Operations will continue to require a Branch Support Centre in Chesterfield as a first point of contact when things go wrong, but with fewer resources and different skills. Roles that currently sit across NBSC, FSC and the IT service desk in Chesterfield and those in Bristol cash centre will move into this transformed Branch Support Centre, creating a one-stop shop for branch operator support. We will design the future organisational structure for the Operations function from a zero-base, based on the future services that it will provide to branch operators.

Improving operator onboarding: We will reduce the time for applicants to complete a business plan from 60-90 days to less than 30 by the end of 2019/20. We will also reduce the number of unsuitable applicants who enter the process through better pre-screening questions and reduce the drop-out rate by 50%. Critically, the 'Run a Post Office' website (RAPO) is being overhauled to make it more user-friendly and to work better on mobile platforms and the Electronic Business Plan which postmasters find complex and personally and financially intrusive is being significantly streamlined;

25. Redesigning operator training: We have designed an improved training offer for new and existing postmasters which will reduce the likelihood of operational

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errors and improve overall customer experience. By 25 August, we will have increased classroom trainers by 6 FTEs, onsite trainers by 10 FTEs and field support by 8 FTEs. We are increasing our classroom capacity and reach from 12 to 18 locations nationally and improving the classroom environments. New training modules are being developed and will be running from August 2019. These modules will address some of our biggest drivers of risk e.g. back office and balancing training.

26. Reviewing agent remuneration: We have commenced the review of Agent Remuneration adopting a qualitative and quantitative approach to determine our recommendations. This is covered in more detail in a separate paper at July's Board.

27. Improving field support: We updated the Board in May that we had changed the field team structure to provide a nominated point of contact, an Area Manager, to support every Post Office, regardless of size and location. This change has been well received by the c6,000[] postmasters who have since received a visit, some of whom are seeing someone from the Post Office for the first time in over a decade. Improved Management Information is enabling our field teams to help postmasters identify opportunities to improve their sales and remuneration, with a common play book of solutions such as developing local marketing, improving the retail offer and investing in store design.

28. Investing to improve our operational processes and our relationships with postmasters will also improve the wider financial health of our business. Reducing risks and reducing costs are compatible in this instance. In summary we anticipate achieving a £5.9m (annualised) reduction in our Operations cost base by the end of FY20/21, comprising a £3.9m reduction in staff costs and a £2m reduction in losses.

What have we budgeted and how much do we anticipate spending?

29. At May's Board meeting we set out £22m of anticipated incremental spend on items which would not otherwise have been delivered during FY19/20. Against this spend £7.1m has been committed so far, with an anticipated £14.9m to be spent over the remainder of this financial year.

Initiative	19/20 £m	FY Committed	Still Open
Opex spend			
Agents Remuneration – reverse Mails simplification	3.5	-	3.5
Agents Remuneration for suspended Postmasters	1.5	1.5	-
Agents Remuneration – deep dive	0.5	0.5	-
Legal work regarding policies and processes	2.0	0.2	1.8
GLO Communications	0.5	-	0.5
Simpler business – training and engagement	1.2	1.2	-
Impact on Change plan reprioritisation	0.5	0.5	-
BAU impact of process changes (placeholder)	2.3	0.2	2.1
Opex total	12.0	4.1	7.9
Change spend			
Horizon changes (quick wins)	2.5	-	2.5
Branch hub initiatives	1.5	-	1.5

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Simpler Business – HotHousing to accelerate field structure benefits	3.0	2.9	0.1
Design of new processes (including loss prevention)	2.0	0.1	1.9
POL workforce changes (Restructures etc.)	1.0	-	1.0
<i>Change total</i>	<i>10.0</i>	<i>3</i>	<i>7.0</i>
<i>Total</i>	<i>22.0</i>	<i>7.1</i>	<i>14.9</i>

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