

STRICTLY CONFIDENTIAL AND PRIVILEGED

POST OFFICE LTD BOARD

PROJECT SPARROW

1. Purpose

- 1.1 Update the Board on progress against the list of actions included in the Horizon Update paper sent to the board on 27th July 2013.

2. Background

In the update paper we said that we would aim to have completed the following by the end of August 2013:-

- 2.1 finalised the terms of reference for the process of mediation and resolution in relation to the existing cases and also identified a mediator, so we are ready to commence the process;
- 2.2 agreed the process for filtering any 'new historical' cases that emerge;
- 2.3 started engagement with key individual MPs on how we will be taking forward their cases;
- 2.4 completed the second sift of past prosecuted cases;
- 2.5 developed an initial position on the pros and cons of continuing to bring prosecutions ourselves;
- 2.6 identified 'quick wins' in relation to process improvements for sub-postmaster training and support, and started mapping the approach for longer-term improvements; and
- 2.7 established the terms of reference for the Branch User Forum.

All of the above actions are complete (details below) other than 2.5 which is in progress with a full review to be completed by the end of October.

3. Current Activities already underway

- 3.1 The Initial Mediation scheme was launched on 27th August and so far Second Sight have received 23 case submissions, 20 of these were reviewed formally on 11th September by the Working Group (Post Office, SS and JFSA) to establish how many were eligible to progress through the process. Of the 20 cases received one was a serving subpostmaster who had not exhausted Post Office's internal processes and was therefore not eligible for the scheme at this stage. The other 19 are eligible and will be advised that they can enter the next stage of the process which is to enlist the help of an advisor to present their case with a view to mediation.
- 3.2 The Initial Mediation scheme is designed to run until 31st March 2014, after that date it will be necessary to decide whether to keep this process in place, to discontinue it or to replace it with another process which permits independent oversight.
- 3.3 A briefing day for the Panel Advisors was held on 5th September. 25 advisors attended, a mix of lawyers and forensic accountants. The briefing was well received and about a third of the attendees indicated on the day that they would be signing up to become a panel advisor; the others wanted to reflect on the requirements of the role and whether they wanted to sign up. The Panel Advisor

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agreement for the advisors have been sent to the attendees of the briefing day. The list of Panel Advisors will be finalised on receipt of the signed agreement and communicated to the Sub postmasters who have submitted their case to the Scheme – they can choose one of these advisors or they are free to select another professional firm.

- 3.4 We have appointed the Centre for Effective Dispute Resolution to provide a panel of mediators for the Scheme and they are also going to provide administrative support; a representative also attended the training session.
- 3.5 One of our public commitments was to appoint an independent Chair for the working party, a candidate brief and job description has been prepared. Paula Vennells and Alasdair Marnoch are to meet with a candidate on 24th September.
- 3.6 Alice Perkins met with James Arbuthnot on 11th September that meeting went well, he was happy with our plans and said that given the progress that had been made he would recommend to the MPs that a meeting in October would not be required and that it should be postponed until the New Year.

4. Ways of Working/ Second Site

- 4.1 Angela Van Den Bogerd has pulled together a team of four experienced Network people to work alongside Second Sight to investigate the cases that are submitted to the Scheme.
- 4.2 A meeting has been held to establish how the two teams will work together to ensure an effective and efficient flow of information between the parties with a view to concluding the facts of the cases expediently. The findings of the case will then be presented to the Subpostmasters and their advisor for their consideration as to whether they want the case to progress to mediation. This team has also established a process to investigate live cases that have/are emerging from serving Subpostmasters. This approach will run in parallel with the Second Sight approach. Lessons learned from these cases will feed into the process improvement work.
- 4.3 A monthly cap on the Second Sight fees has been agreed and they have also agreed in principle, that provided the Post Office team is operating effectively, that they will hand over the investigation on a date to be agreed. It will be key to keep James Arbuthnot, MPs and the JFSA aligned in order to achieve this.

5. MP Engagement

- 5.1 All the MPs who have expressed an interest in this issue were contacted on 27th August (launch of the Mediation scheme) and our communications team have offered to meet and discuss the scheme and individual cases, no one has taken this offer up so far.

6. Criminal Case Review

- 6.1 Our external firm of solicitors who prosecute our cases have completed three sift reviews, have discontinued 4 cases and under their continuing obligation of disclosure have notified the defendants' legal representatives of the Second Sight report in 9 cases.
- 6.2 A meeting with Brian Altman QC was held on 9th September; his role is to oversee the review of our criminal cases. He had received the protocol that our external solicitors had developed and are using to inform their review process

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and he also looked at a sample of reviews that had been completed in a number of cases. He agreed with the approach taken by our external lawyers and confirmed that the protocol was well thought through being correctly applied in the cases he reviewed. After discussion he also understood the logic of 1st January 2010 being the start date for the review on the basis that this was implementation date for Horizon NG and that the branches had been audited on transition.

- 6.3 Brian Altman was also asked to advise on Post Office / external solicitors on its continued disclosure obligation with particular reference to concluded cases and on the basis that new facts which emerge on a regular basis. He gave initial advice and emphasised the importance of ensuring that this information is collated and communicated to our external firm on a regular basis.
- 6.4 The Terms of reference for his review will be agreed and will include an opinion on the Post Office's position as a public prosecutor and its prosecutions policy.
- 6.5 Meeting in Scotland with the Procurator Fiscal and our external lawyers to deal with their concerns re the impact of the SS report on prosecution evidence – satisfactorily resolved and new ways of working to be developed which will in any event be more effective.

7. Improvement Process

- 7.1 Defining the “As is” process work is on track to be completed by 30th Sept. From the 80 gaps/issues recorded so far there are common themes emerging: Training; Comms; Processes; Products; Horizon; Support; Ownership; Systems; Ownership and Leadership.
- 7.2 There are 26 quick wins that have been identified and whilst these are low level issues fixing these will have a positive impact on in-branch users and will reduce effort/duplication with the support/central functions. The relevant business owners have taken ownership of these quick wins and started to deploy/implement from 9th Sept onwards.
- 7.3 Stakeholder input/engagement continues with the project on track to complete the recommended future state by 20th Oct.

8. Branch Users Forum

- 8.1 The purpose of the Branch User Forum is to provide a way for sub-postmasters and others to raise issues and insights around business processes, training and support directly feeding into the organisation's thinking at the highest level. The forum is a forward looking mechanism to ensure the business processes and approaches are fit for purpose for users and are in keeping with Post Office behaviours and values.
- 8.2 The Branch User Forum terms of reference have been established.
- 8.3 It is intended to issue a communication to the network to raise awareness of the Branch User Forum and invite Subpostmasters and staff to put themselves forward to become Forum members with a view to holding the inaugural Branch User Forum in early/mid October

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9. Next Steps

- 9.1 Interview and appoint (subject to agreement on fees) the Independent Chair of the Working Group. Once this appointment has been made it will be necessary to finalise the terms of reference for the Working Group and plan for meetings.
- 9.2 Work with SS to manage the flow of cases through the mediation process and ensure that the new Post Office have sufficient resources to make the process timely and efficient.
- 9.3 Continue to engage with MPs.
- 9.4 Facilitate a discussion on remedies to be offered as part of mediation process..
- 9.5 Brian Altman's review to be completed by end October; including a recommendation on Post Offices prosecution policy; and whether it should continue to act as a public prosecution.
- 9.6 Implementation of process improvements in support the Post Office gives its subpostmasters.
- 9.7 Continue to monitor costs of programme (see appendix A).

10. Risks

- 10.1 Continued risk to reputation and brand if the mediation process is not successful, i.e. insufficient cases are reviewed, it should be noticed that media interest has been more balanced since the announcement of the mediation process.
- 10.2 Risk to NTP if concerns as to how subpostmasters are treated leads to lower take up of new models.
- 10.3 Potential of destabilising relationship with NFSP mitigated by Angela Van Den Bogerd who has regular meetings to keep them informed and they will be invited to take part in the Branch User Forum.
- 10.4 The process re-engineering that will be required for the IT training and support systems which may in the short term add further complexity and risk to the existing transformation programme.
- 10.5 The costs of the programme may over-run as the budget has been based on 75 cases going through the full mediation process and there may be more than that, in addition the criminal costs are front loaded as the main bulk of the reviews have been completed.

11. Recommendations

The Board is asked to note the update.

Susan Crichton
18 September 2013

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Appendix A

Budget – Forecast (Aug 2013 – March 2014)

Item	£k	£k total net VAT	inc VAT @ 20%	comment	Board Paper low	Board Paper high
Complete Cases (using Mediation)				Assumed number of cases: 75		
Second Sight	125			Second Sight at 25k per month (Aug-December)	100	150
Back fill for internal resources & external assistance	90			15k per month, 6 months		
Mediator(s)	225			Assumed 3k per case - will use a national company		
Mediator Expenses	50			travel, meeting rooms, training etc		
Legal support case preparation - BD	56			£750 per case assume all cases		
Legal support - case advice	28			£400 per case. assume all cases. £400 is their estimate for simple cases, but if we assume some will drop out this should average out.		
Legal support - mediation meeting	150			£2k per case - assume all cases - could recruit internal staff to reduce costs?		
Independent advisor for Subpostmasters	238			Per case: £1.5k case prep + £1k mediation meeting. Plus £50k contingency for more complex cases	350	550
Total: Complete Cases (using Mediation)		962	1154		450	700
Legal and Governance						
General External Legal Advice - BD	120			Advice on: preparing and agreeing mediation process and packs of information for SPMRs. Engaging and briefing mediators, attending working group meetings (ie. advising on rejecting cases; revising mediation process). Advising on Fujitsu related matters. £15K per month		
Case Review - CK	175			Includes QC, Bond Dickinson and Cartwright King	100	300
Kay Linnell/ Alan Bates	14			£2k per month (up to)		
Independant Chair	25				0	10
Total Legal and Governance		334	401		100	310
Improvement project						
Back Fill for Gayle Peacock and Ann Allaker	42			Back fill for 5 people to conduct the gap analysis across the business groups	200	200
Contact Centre	0			assumed this can be done with current resources	40	40
FSC	0			assumed this can be done with current resources	100	100
Total: Improvement project		42	50		340	340
Technology						
Horizon improvements	50			Funding needed beyond the £100k Fujitsu funded costs	0	0
Total: Technology		50	60		0	0
Total		1388	1665		890	1350