



POLICY DOCUMENT– Operators' In Service Debt



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Version control

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Version 1.0	Policy review to assess the relevance and fitness for purpose of existing POL contractual policies and processes for all Post Office branch models.	18 September 2013
Version 1.1	Amendment to version 1.0, Section 12.0 referring to the write off authority levels for Network Services.	22 October 2013

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SUBJECT: Policy for dealing with the recovery of Operator's in service debt

PART 1**1.0 Statement**

- 1.1 The purpose of this policy is to clearly set out the processes Post Office Ltd (POL) will follow to recover debt incurred in service by Operators of all Post Office branches. This policy supercedes custom and practice formerly implemented to recover debt incurred in service.

2.0 Glossary

Word/term	Definition
Agreement	Standard contractual conditions for the operation of a Local Post Office® and Main Post Office®, Scale Payment Sub-Office (SPSO), Modified Subpostmaster Post Office (MSPO), Company Franchise Post Office (CFPO), Independent Franchise Post Office (IFPO), Community Post Office and Restricted Hours Post Office
Assistant	A person employed by the Operator (who is approved by Post Office Ltd) to work in the Branch
Basic Business	The type of business carried on by the Operator on its own account from the Branch Premises
Branch	The Post Office branch operated by the Operator
Branch Discrepancy	When Branch Trading is completed, Horizon calculates the expected cash position, using the transactions completed through Horizon. The branch then counts the actual cash in the branch and declares this. A branch discrepancy is where there is a difference between these two values, either a cash shortage or surplus.
Branch Premises	The premises from which the Post Office Branch and the Basic Business are Operated
Branch Trading	The act of the monthly balancing of the branch accounts. The Operator is required to reconcile the cash and stock in his branch against what the Horizon system is displaying there should exist in real terms.
DFR	Deduction from remuneration
Existing Contract	A contract currently in place between Post Office Ltd and the Operator (or, as appropriate, a shareholder and/or a director of the Operator) for the operation of a Post Office branch at the Branch Premises
FSC	Finance Service Centre
NBSC	Network Business Support Centre
Non-transactional Debt	Refers to debt incurred outside of branch transactions. Incurred due to unpaid invoices for example: Franchise Insurance Waivers (once a year); Lease of electronic scales (once every quarter); Property projects (e.g. refurbishment work).
Operator	Any individual, company or partnership (including Subpostmasters and Franchisees) responsible for the operation of any Post Office branch,
POL	Post Office Limited
Settle Centrally	In Horizon Operators can choose the option to “Accept and Settle Centrally” which signifies acceptance of a loss or gain within a branch unless the dispute process is instigated. “Settle Centrally” does not prohibit further investigation which might offset all or part of

	the loss/ gain accepted earlier, but this is the branch's responsibility to initiate.
Transaction Correction	Transaction Corrections are sent to the branches via their Horizon system when a discrepancy has occurred in their accounting. These are sent out by teams within Finance Service Centre who deal with various clients/products.
Transactional Debt	Refers to debt incurred in branch. Usually created by a Transaction Correction or a Branch Discrepancy which has occurred in the office accounts at branch trading.

3.0 Introduction and purpose

3.1 In order for POL to be modernised and sustainable it is vital that it works to prevent and minimise financial loss, and mitigate the impact of financial loss on POL and the network. Aside from the direct cost to POL of incurring losses, some of which are ultimately written off, all losses involve administrative costs in dealing with recovering the debt and with the errors that cause them.

3.2 This policy is designed to provide clear and consistent guidelines and processes for POL to recover transactional and non-transactional debt incurred whilst in service by Operators of all Post Office branches whether they are still in service or have subsequently resigned.

3.3 Process charts and guidance notes for dealing with these requests are included in Part 2 (Section 3.0) of this policy.

3.4 Standard letters and documents are included in Part 2 (Section 4.0) of this policy.

4.0 Background

4.1 From a purely contractual perspective the Operator of a Post Office branch is responsible for:

- Making good any loss of Post Office cash and stock without delay.
- Making good any losses incurred whilst operating under their respective contractual agreements that come to light following termination of the agreement.
- All losses incurred through their own negligence, carelessness or error and also for losses caused by their Assistants.

4.2 To ensure that this policy is consistent with the contractual relationships between POL and the Operators it is designed to clarify circumstances where mitigation may be appropriate and to provide a clear framework of repayment options, where immediate repayment is not possible.

5.0 Right of recovery of sums due

Traditional contracts

- 5.1 POL has a common law right to set off sums owed by the Operator to POL against some payments made by POL to the Operator.

Main and Local agreements

- 5.2 Where money is owed by an Operator to POL or any other member of the Royal Mail Group whether that money is owed under an Existing Contract or lease of premises or otherwise, POL at its own discretion may recover *all* of that money from any sum due to the Operator under the Agreement or the Existing Contract, including their remuneration fees or any termination payment owing to Operators leaving the Post Office network. This right does not affect POL's right to require an Operator to make good any deficiencies identified through the late account procedure and/or repay any other debts due. Also note that POL has made a business decision that sums owed by the Operator cannot be recovered from funds POL releases to the Operator under the Network Transformation Programme namely investment payments, or conversion or transition payments.

6.0 Repayment of outstanding debt

- 6.1 The contractual position is that Operators should repay the debt immediately. POL understands that in some circumstances immediate repayment of the debt is not always possible. It is within POL's interests to ensure the continuation of Post Office services and branches, motivate Operators, and where appropriate limit the risk of resignation by an Operator whilst taking steps to recover the debt.

- 6.2 Therefore there will be circumstances in which POL will give due consideration to offering one or both of the following repayment options to Operators:

- Repayment of full amount in one instalment.
- Repayment plan where Operator proposes a reasonable repayment plan up to 12 months.

Each repayment option is considered in turn below.

6.3 Repayment of full amount in one instalment

- 6.3.1 The default option for repayment of debt should be in full either via direct payments or by deducting amounts from remuneration. Note that the priority order for payment options is to be defined as card payment, automatic transfer (bacs or chaps payment), one deduction from remuneration, with the last option being payment via cheque.

6.4 Operator proposes a reasonable monthly repayment plan up to 12 months

- 6.4.1 Operators will not always be able to repay the debt in one payment. POL will consider reasonable repayment plans suggested by Operators. Operators must provide a reason for why they are proposing the repayment plan as opposed to paying the amount in full.

- 6.4.2 The Operator can propose to repay a debt on a monthly basis over a maximum period of 12 months either via direct payments or by deducting amounts from remuneration. Note that the priority order for payment options is to be defined as card payment, automatic transfer (bacs or chaps payment) with the last option being deduction from remuneration over the shortest possible period (see Fig 1 below). Further note that the repayment plan will commence from the date of the plan being set up.
- 6.4.3 In cases where the monthly instalments would be insufficient to repay the debt over the agreed repayment period, a lump sum will be required from the Operator to repay the balance and this must be received prior to the end date of the repayment plan in cleared funds.
- 6.4.4 For transactional debt only one instalment plan can be in place at any time. This should be confirmed in writing to the Operator, using Standard Letter C, when the initial repayment plan is established. Following repayment – no further instalment plans will be allowed for a further 12 month period. The 12 month period would commence from the date of the final payment being paid on the previous instalment plan. Details of when the last repayment plan was repaid is to be included on the concurrence report issued by the Current Agents Debt Team. Should an Operator appear on the report whilst they have a repayment plan in place or in the twelve month period after repayment of a plan, the Contract Advisor should request full repayment. A conversation must be conducted with the Operator to assess the financial position/problems being experienced at the branch.
- 6.4.5 Where the Operator has agreed to repay the debt any repayment plan should be recorded in writing, using Standard Letter D. The letter will state the agreed sum due, when instalments are to be paid and for how much. The letter should also expressly reserve all of POL's rights and remedies under the contract. POL and the Operator should then sign off the plan as having been agreed. Note that agreement is not required to deduct the amount from remuneration where the Operator has failed to repay the debt subsequent to warning from the FSC and Contract Advisors (See Process Chart A). In such cases Standard Letter E or F can be used to communicate the arrangement to the Operator.
- 6.4.6 Note that where the Operator proposes a repayment plan of beyond 12 months it is at the discretion of Network Contract Deployment Managers, in consultation with the respective Contract Advisor, to approve or reject such a request subsequent to assessment of the circumstances (See Process Chart D). Pro forma A may be sent by the Contract Advisor to the Operator for completion to enable the Contract Advisor to assess the current financial position of the Operator. POL can also request the Operator to carry out a credit check and to provide a copy of the report to support their case.

Fig 1 - Deduction from remuneration

- a. Where direct payment is not made by card payment or automatic transfer (bacs or chaps payment), the debt can be paid by deducting amounts from the Operator's remuneration over the agreed repayment period. Where the debt amount exceeds £1000.00, the Current Agents Debt Team will send out a concurrence report to Contract Advisors, seeking concurrence to commence to collect this outstanding debt by deduction from remuneration.
- b. In determining the amount to be deducted from remuneration (DFR), POL must consider the circumstances of the Operator's branch including its remuneration for the previous

7.0 Repayment options for former Operators

7.1 The following options are available to former Operators for the repayment of debt incurred in service:

- a. **Lump sum payment** - via cash, cheque, postal order or debit card.
- b. **Standing order** - over a period agreed with POL. Where this option is agreed the former Operator will be required to complete and submit pro forma B - income and expenditure form.
- c. **Recovery from sums due** – Where Operators decide to leave the Post Office Network under the Network Transformation Programme, POL can deduct monies due to it from the Operator's compensation payment.
- d. **Recovery from third party** – Some former Operators will appoint a third party (e.g. Payplan) to consolidate all of the former Operator's debts. The third party will then allocate repayment to the various creditors. This will likely involve a discount to the full sum due.

7.2 In the circumstance that POL successfully pursues legal routes for recovering debt, recovery may be via cheques received from various County Courts to credit the former Operator'.

8.0 Pluralist Operators and multiple partners

- 8.1 In the case of pluralist Operators and multiple partners, POL will consider the aggregated remuneration of all of the pluralist's or multiple partners' branches as opposed to the individual position of the site where the loss has occurred.

9.0 Death in service

- 9.1 The recovery of debt from an Operator who has died in service will be dealt with by the Former Agents Debt team. It is important to note that each case must be treated with sensitivity and due diligence. Where POL has contracted with a company, as opposed to an individual, the branch may be able to continue operating. In such an instance POL will continue to deploy its business as usual policy.
- 9.2 The Former Agents Debt team will write (recorded delivery) to the next of kin to notify them of the outstanding debt amount and requesting repayment, giving 21 days to respond. If a response is received, repayment details are discussed with the next of kin. If no response is received the Former Agents Debt team will research whether the address for the next of kin is correct or whether another contact within the Operator's family is available. If the address is correct and no response has been received a second letter is sent out to the next of kin, giving 14 days to respond. Subsequent to this if no response is received a third letter is sent out, giving 7 days to respond. Further failure to respond prompts the requirement to send a referral to POL's legal representatives for further action.
- 9.3 Note that if POL was unsuccessful in recovery, the Former Agents Debt team will weigh up the cost effectiveness of pursuing the debt prior to referring it to POL's legal representatives.
- 9.4 In regards the repayment options available to former Operators refer to section 8.0 above.

10.0 Risk register/Branch profile

- 10.1 Operators that fall into the following categories are to be highlighted by the Branch Standards Team on the branch risk register/branch performance profile as being potentially a higher risk as they are to not able to repay outstanding losses in full.
- Operators that cannot pay within 12 months and/or need a lump sum to settle the debt.
 - Operators on a current repayment plan.
- 10.2 The Security team will be notified via the DFR Report of this information. Consideration should be given to organising a cash verification visit for these cases.

11.0 Securing the debt

- 11.1 There may be circumstances where POL wants extra comfort that it can recover losses incurred by securing the debt, particularly where there are concerns about the Operator's accounts or where there is the risk that the Operator may leave the network. POL loses significant amounts of money to former Operators.

11.2 The debt may be secured in two ways:

- a. **Personal guarantees (proactive)** – under the Local and Mains Post Office agreements Operators operating as a company are obliged to provide personal guarantees to secure the performance of the Operator's obligations under the agreement, where the company has existed for less than three years, or if the company is deemed a financial risk. It is important that POL explains clearly to the guarantor that they will be liable for the debt.
- b. **Charges on property (reactive)** – POL may consider securing the debt against property of the Operator by placing a charge on their property.

11.3 The above measures should not be implemented without informed advice from Legal Services.

11.4 The Operator should obtain independent legal advice before providing a Personal Guarantee or a Charge. POL should obtain an Independent Legal Advice ("ILA") certificate confirming this. This will minimise the risk of the Personal Guarantee or Charge being set aside.

12.0 Write offs

12.1 Decisions in respect of write-offs are not taken by groups but are the responsibility of individual managers, who bear P&L accountability for those decisions. The reasons for a write-off must be fully documented and may be subject to audit.

12.2 The Network Directorate authorises its write-off's as follows:

Up to £5,000	Agents Contracts Deployment Manager or BAU Regional Manager
Up to £25,000	Head of Network Services or Head of Network Operations
Up to £100,000	General Manager Network Agency Sales, Services & Transformation
£100,001+	Network and Sales Director

12.3 The write-offs are then processed within the Finance Service Centre. The authority limits for write-offs within FSC is as follows:

Up to £1,000	Team Leader
Up to £5,000	Senior Manager
Up to £100,000	Head of FSC
£100,001+	Finance Director

12.4 For write-offs pertaining to debt owed by former Operators the authority limits for write-offs are as follows:

Up to £1,000	Former Agents Debt Team Leader
Up to £15,000	Relationship Manager
Up to £25,000	Former Agents Debt Team Senior Manager
£25,001+	Head of FSC

13.0 **Debt disputes -Transactional debt**

13.1 POL acknowledges the potential financial impact and stress that may be caused by unexpected Transaction Corrections or Branch Discrepancies. An effective dispute resolution process is essential to ensure that settled centrally debts are not recovered from Operators without reasonable time to investigate, challenge and resolve individual amounts.

13.2 There are two routes by which Operators might instigate the dispute process:

- Transaction Corrections
- Branch Discrepancies

13.3 ***Transaction Corrections***

13.3.1 Branches should contact the Transaction Correction issuer within 7 days of acceptance at branch to challenge the evidence provided to support the Transaction Correction wherever possible. Where time permits prior to Branch Trading, branches should challenge prior to acceptance.

13.3.2 If the challenge is accepted by POL in full or part at this stage, a compensating Transaction Correction will be issued to close the dispute.

13.3.3 On receipt of supporting information the issuing team will suspend the debt recovery process, if the Transaction Correction was settled centrally, until a response has been made. Written submissions to the specific team should receive a written response, within 10 working days, in line with business standards. It is recommended that written submissions be sent using a priority service.

Transaction Corrections where there is insufficient time to investigate prior to Branch Trading roll over.

13.3.4 Branches should contact NBSC GRO and request further time to investigate and present supporting information. A reference number will be provided.

13.3.5 Supporting information to support any dispute must then be presented by the Operator in writing via Special Delivery to *The Current Agents Accounting Team*

(Debt recovery), GRO, within 7 days quoting the above reference number.

13.3.6 The Current Agents Accounting Team will then present to the issuing team who will suspend the debt recovery process, if the Transaction Correction was settled centrally, until a written response has been made. FSC will provide an update on the query or a resolution, within 10 working days.

13.4 **Branch Discrepancies**

13.4.1 The resolution of branch discrepancies is the responsibility of the branch.

13.4.2 If the Operator believes a transaction correction is required they should contact the appropriate department in FSC via NBSC GRO. It is FSC's sole responsibility to update NBSC of any changes to a department's contact number. Supporting information should be presented and resolution then follows the transaction correction process. It is recommended that this be sent using a priority service. FSC will provide an update on the query or a resolution, within 10 working days.

13.5 **Further Review**

13.5.1 If the Operator believes that the supporting information provided to FSC adequately supports their dispute but the dispute has not been allowed they should make a written submission to:

The Network Relationship Manager

GRO

13.5.2 The debt recovery process, if settled centrally, will be suspended pending a written response.

13.5.3 A written response will be provided, within 10 working days, in line with Business standards.

13.5.4 All correspondence will be included on the EFC for the Network to be able to view.

13.5.5 Where a dispute is subsequently not upheld, a branch then becomes liable for the settled centrally debt and no repayment will be made for any debt made good.

13.5.6 The decision of the Relationship Manager is final. Decisions are made at POL's discretion.

14.0 **Debt Disputes - Non-transactional debt**

14.1 Where an Operator disputes the amount of an invoice he should raise a query with the ESFS Credit Control team in Farnworth. The Credit Control team will then forward

on the query to the responsible individual within POL who raised the invoice. The responsible individual will respond to the ESFS Credit Control team to confirm the invoice amount.

- 14.2 Where the Operator has successfully disputed an invoice amount (i.e. he has been charged incorrectly), the responsible individual will send an SD05 form to the ESFS Billing team who will raise a credit note on to the SAP system to offset against the discrepancy in the invoice.

Property Project Invoices	Sam Boyd, Property Projects Team
Electronic Scales Invoices	Julia Johnson, Equipment Team
Franchise Insurance Invoices	Andy F Macdonald, Contract Admin Team
Intro Fee Invoices	Sarah Rimmer, Agent Recruitment & Remuneration/STL Agent Services

PART 2

1.0 Applicability

This policy applies to all contracts types and to dealings between POL and all Operators of Post Office branches.



2.0 Related policies




The following policies require consideration or cross referencing when dealing with the recovery of in service debt:

Burglaries and Robberies
Suspensions









The above list is not exclusive and consideration of other policies may be required depending on the particulars of each case.






3.0 Implementation procedures

Process Chart A Process for recovery of in service transactional debt incurred by an Operator.	 Trans Debt Recovery Process Jun 13.d
Process Chart B Process for recovery of in service non-transactional debt incurred by an Operator.	 Non-trans Debt Recovery Jun 13.doc
Process Chart C Process for recovery of in debt incurred by a former Operator.	

	 Former Operator Process Jun 13.doc
Process Chart D and guidance notes Process for agreeing a repayment plan beyond 12 months for the recovery of in service debt.	 DFR payments 12 month plus Jun 13.pd  Exceptional Requests for DFR NO

4.0 Standard letters and documents

Standard Letter A Statement of debt detailing amount of outstanding transactional debt settled centrally.	 SL A - Statement of Debt.doc
Standard Letter B Reminder of debt, following Standard Letter A, detailing amount of outstanding transactional debt settled centrally.	 SL B - Reminder of Debt.doc
Standard Letter C Letter agreeing with Operator that transactional debt will be deducted from remuneration in one instalment.	 SL C - DFR one instalment.doc
Standard Letter D Letter agreeing with Operator that transactional debt will be deducted from remuneration over a number of instalments.	 SL D - DFR Instalments.doc
Standard Letter E Letter of warning to the Operator stating that payment will be taken in one instalment from remuneration.	 SL E - DFR one instalment WARNING
Standard Letter F Letter of warning to the Operator stating that payment will be taken in a number of instalments from remuneration.	 SL F - DFR instalments WARNING
Standard Letter G Letter from Finance Service Centre for the recovery of non-transactional debt.	 SL G - Recovery of non-trans debt.do
Standard Letter H First statement of debt letter to former Operator.	 SL H - 1st Letter to Former Operators.do
Standard Letter I Second letter to former Operator reminding of unpaid debt.	

	 SL I - 2nd Letter to Former Operators.do
Standard Letter J Letter of action to former Operator subsequent to Standard Letter I and J.	 SL J - 3rd Letter before action to Form
Standard Letter K Letter to Operator requesting additional information where request placed to repay the debt beyond a 12 month repayment plan.	 SL K - Exceptional Request for Instalme
Pro Forma A Income and expenditure form to be sent to a current Operator for completion where he requests to repay a debt beyond 12 monthly instalments.	 PF A - Income and Expenditure Form.d
Pro Forma B Income and expenditure form for completion by a former Operator where he requests to repay an outstanding debt via standing order over an agreed period.	 PF B - Former Operators I&E Form.