

**Possible Postmaster
Detriment:
*Overview for
understanding***

8 Oct 21 working draft



Situation - a reminder

- **HSS** - only applies to HNG-X period (to 2017) and is a voluntary scheme
- POL is **legally liable** for any actual detriment, even if a postmaster did not apply to the HSS, because the CIJ found POL had to investigate any unexplained shortfall with its *relational* contract, and it did not
- POL has a **duty of good faith** to communicate any known possible detriment to **current postmasters**, only
- **Suspending postmasters without pay** breaches UCTA, thus **POL is legally liable** for any suspension period pay for all postmasters (current and former) before March 2019, the date when POL started paying
- Current available POL data, particularly during the HNG-X period, is **insufficient to proactively remediate** any known possible detriment to postmasters.
- Calculated possible detriments estimated does not mean an actual detriment has occurred. Event specific information is required to analyse each case to understand if actual detriment did occur

What is Detriment - 3 lenses

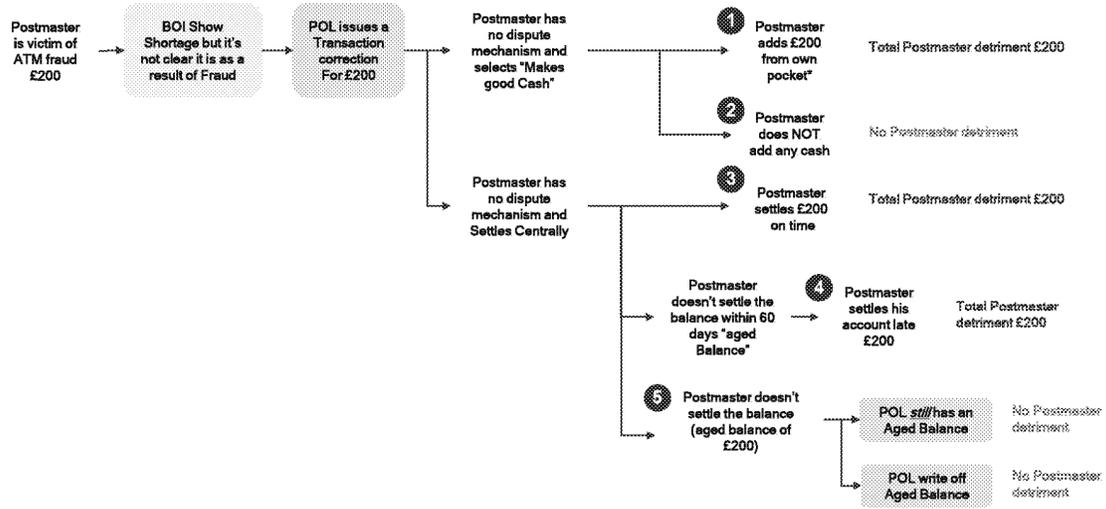
1. **Shortfall loss** (mismatched process) - *a shortfall in stock or cash in a branch compared with the amount of stock or cash indicated on Horizon for that branch*
 - Shortfalls are investigated for resolution or passed on to the postmaster as a TC. At the end of month the postmaster must balance the account, if a shortfall is present, they could either:
 1. "Repay balance" - allowed the postmaster to add cash (or a cheque) from their own pocket to balance at month end
 2. "Settle centrally" - allowed the postmaster to leave an outstanding balance that requires payment. Unpaid balances will age and after 60 days become "aged balances." If a postmaster never settles, there is would be no realisable detriment
 - The HSS was set up to manage Shortfall losses, for the HNG-X period
 - This includes both known (e.g., ATM, FX) and unknown shortfalls
 - Possible detriment doesn't mean actual detriment has occurred - there are legitimate shortfall reasons - and thus we require specific event data to investigate any possible shortfall detriment

2. **Suspension Pay** (unpaid) - *prior to March 2019, POL suspended Postmaster without pay to undertake further investigation on certain matters. This is actual detriment as POL did not pay*

3. **Back office process** (M.E.L.) - *an internal, automatic Debit/Credit write off policy for a small number of low value, high volume reconciliation discrepancies that did not involve postmasters, nor were they aware. This is actual detriment when the net amounts (often in pennies) require POL to pay back postmasters*

*Once a Postmaster selects to repay a balance with cash (or cheque), they should add the physical cash to the cash balance. There is no way to verify that cash has actually been deposited. Thus, it is possible for the Postmaster to carry forward shortfalls at the end of every month without actually ever adding cash. Until event specific investigations take place, we cannot quantify if actual detriment occurred because we do not know what actually happened in branch. So whilst it is possible for a postmaster to continue to roll over a repaid balance, we have not assumed they have.

A possible detriment - 5 examples



* repaid balances, POL policy is to make good from Postmasters own pocket, however it is not possible to confirm if this activities does occur on every occasion

Assumptions to estimate possible detriment - MAXIMUM POTENTIAL

General Assumptions

- HNG-A starts 1/1/17 yet *branches transitioned in 2017 to 2019. For simplicity this defined as HNG-A period*
- Total branches reviewed was 14,000+ for the HNG-A period 2017 to 2021 and does include duplicated branches with changed FAD codes but not Strategic Partners. Estimated de-duplicated total is c.10-11k
- All branch monthly gains/losses are netted out during the sample period review for a final net estimation
- Sample data is straight-lined extrapolated by time for the HNG-X period, *without regard to other changes*
- Compound interest is 3.45% from midpoint of event to 12/21, *aligned with HSS calculations*
- All calculations are at branch level, *not postmasters who may own multiple branches*

Specific Assumptions

- For Repaid Balances*, all balances are assumed to be repaid in the month the postmaster indicates repayment. However, postmasters could roll-over these balances every month, and if so, this would be double counted
- For Settled Centrally** and Repaid Balances the HNG-X period is calculated 1999 to 2016 based on HNG-A extrapolation, and without regard to any changes in type or number of branches
- For M.E.L., branch specific write-offs comments to the general ledger were used for the HNG-A period (1/1/17-25/1/21) and judgements on free form text comments in the GL were used. HNG-X is extrapolated to 2006
- For ATM and FX product and branch specific TCs were used for HNG-A and extrapolated to HNG-X

*Sample period for Repaid Balances was 1/1/17-14/4/21 and had 4452 branches out of 14,022 branches that settled centrally, of which 24% settled surpluses and 76% settled shortfalls

**Sample period for Settled Centrally was 1/1/17-14/4/21 and had 4452 branches out of 14,022 branches that settled centrally, of which 24% settled surpluses and 76% settled shortfalls

Shortfall Loss Potential Detriment estimates - MAXIMUM POTENTIAL

Possible Detriment HNG-A	Period	Total £m (MAX)	
Settle Centrally	HNG-A	30.2m	<i>This assumes every time a branch settles centrally it is detriment. This is not correct</i>
Repaid Balance	HNG-A	25.1m	
ATM (explained possible detriment)	HNG-A	0.6m	
FOREX (explained possible detriment)	HNG-A	0.3m	
Total HNG-A possible detriment (explained and unexplained)		55.3m	
Less current** HNG-A unpaid Aged Balances		14.6m	
Total HNG-A possible detriment		40.7m	
Possible Detriment HNG-X and before			<i>This is just a straight-line extrapolation of the £30.2m</i>
Settle Centrally	HNG-X	128m	
Repaid Balance	HNG-X	107m	<i>Remember this may have duplicated amounts</i>
ATM (explained possible detriment)	HNG-X	0.5m	
FOREX (explained possible detriment)	HNG-X	1.28m	
Total HNG-X possible detriment (explained and unexplained)		235m	
Less current** HNG-X unpaid Aged Balances		8.9m	
Less current** HSS claim estimates		39m	
Total HNG-X possible detriment liability net of current HSS claims		187.1m	
TOTAL Group 1 detriment		227.8m	

The ATM and Forex calculations above relate to possible detriment activity. It is only when the shortfall is settled centrally or repaid that the detriment occurs. Therefore to include these figures in the total calculations would be double counting. ATM and Forex are subsets of the Settle Centrally/Repaid Balance calculations

*Includes £4.5m of interest at 3.45% from 14/2/19 to 31/12/21. Total current Aged Balance stands at £23.5m. There are 112 postmaster accounts which sit in HNG-X, 484 postmaster accounts which have aged balances which occurred in both HNG-A and HNG-X and 1197 in HNG-A only.

**Current HSS estimates for the detriment (and interest) portion of the HSS claims is £39m, or 17% of total possible detriment amount, not including any consequential loss estimates which is part of the total HSS estimate

Suspension Actual Detriment estimates - MAXIMUM POTENTIAL

Postmasters Suspended without Pay	Period	Total £m (MAX)
Current Postmasters		
Cat1: During the HNG-A Period	HNG-A	0.8m
Cat2: HNG-X period that do not relate to shortfalls	HNG-X	1.2m
Cat3: HNG-X period relating to shortfalls where PM has not applied to HSS	HNG-X	0.6m
Total Current Postmasters		2.6m
Former Postmasters		
Cat4: During the HNG-A Period	HNG-A	2.4m
Cat5: HNG-X period that do not relate to shortfalls	HNG-X	29.6m
Cat6: HNG-X period relating to shortfalls where PM has not applied to HSS	HNG-X	18.6m
Total Former Postmasters		50.6m
Total Suspension Detriment		53.4m
HNG-A Period	HNG-A	3.2m
HNG-X period	HNG-X	50.2m

These amounts assume £10k per postmaster

- From May 1999 to March 2019, 3401 postmasters have been suspended
- 220 of the 3401 postmasters have applied to the HSS (7 current, 213 former)
- Of the 3181 remaining suspended postmasters who did not receive suspension pay, there are:
 - 187 current postmasters (assumed as follows: Cat1: 40; Cat2: 88; Cat3: 59)
 - 2994 former postmasters (assumed as follows: Cat4: 219; Cat5: 1702; Cat6: 1073)
- It has been assumed that 43% of postmasters (current or former) were suspended as a result of a shortfall (Cat3 and Cat6). This is based on a sample of 543 suspensions where we have the known and accurate 'reason code' data. These postmasters had the ability to make a claim under the HSS if this was during the HNG-X period (Cat6).
- We have a name for a postmaster at the time of the suspension, but names and trading names may have changed, thus we have assumed categorisation of current postmaster based on name as of April 2021
- Where we do not have HNG-A migration date and a suspension was after July 2017, we have assumed this is HNG-A period. Given the nearer timeframe the total calculation for HNG-A period is more accurate (259 postmasters), whereas we have assumed a £10k/postmaster suspension pay the HNG-X periods and categories

Maintained Error Limit Actual Detriment estimates - MAX POTENTIAL

Back office Process	Period	Total £m (MAX)
Maintained Error Limits in HNG-A	HNG-A	0.06m
Maintained Error Limits in HNG-X (to 2006)	HNG-X	0.17m
Total Maintained Error Limits Detriment		0.23m

- 5401 branches in HNG-A period with a MEL credit due to postmasters
- Largest credit due was £252, the top 5 branches totalled £951
- 55% of branches had a credit due of £1 or less
- 42% Former postmasters, 58% current postmasters

Total Possible & Actual Detriment estimates - MAX Summary

	Period	Total £m (MAX)	Less Aged Balance* £m
Possible Shortfall Loss Detriment			
Settle Centrally & Repaid Balance	HNG-A	55.3m	40.7m
Settle Centrally & Repaid Balance (<i>net of estimated HSS claims</i>)	HNG-X	196m	187.1m
Total Shortfall Loss Possible Detriment	HNG-X & HNG-A	251.3m	227.8m
Actual Suspension Detriment estimates			
HNG-A period Suspension Detriment	HNG-A	3.2m	3.2m
HNG-X period Suspension Detriment	HNG-X	50.2m	50.2m
Total Actual Suspension Detriment estimate	HNG-X & HNG-A	53.4m	53.4
Back office Process Actual Detriment			
Maintained Error Limits in HNG-A	HNG-A	0.06m	0.06m
Maintained Error Limits in HNG-X (to 2006)	HNG-X	0.17m	0.17m
Total Maintained Error Limits Actual Detriment estimate	HNG-X & HNG-A	0.23m	0.23m
Total Possible and Actual Detriment net estimates	HNG-X & HNG-A	304.9m	281.4m
HNG-A Period	HNG-A	58.6m	44m
HNG-X period	HNG-X	246.4m	237.5m

This assumes every time a branch settles centrally, it is detriment. This is not correct

*Assumes 35% of current 23.5m unpaid aged Balance is for HNG-A period and 65% for HNG-X.

Reputational, Brand and Political considerations

- Based on learnings so far, consideration on **specific decision factors** must be given to minimise reputation, brand and political risks. Specifically how various groups* will feel or trust us if we do not carefully consider:
 - Transparency
 - With regard to **detail provided** about any possible detriment
 - In communicating **beyond our duty of good faith** to current postmasters only
 - Speed:
 - By which we proactively or reactively **communicate** possible and actual detriment
 - To **reactively resolve submitted claims** or **proactively resolve actual detriment** where POL has sufficient accurate information to do so
 - Process Ease:
 - With which postmasters can **ask questions** about possible detriment
 - With which postmasters **submit claims** about possible detriment
 - Level of Inclusion:
 - Enabling POL to resolve any remaining **legal liabilities for HNG-X** period (outside of HSS)
 - Ensuring **all postmasters (current and former)** are treated equally, given equal legal liability

*Stakeholder groups include the 565/IF SA, combined convicted postmasters, our current group of c. 3000+ postmasters and strategic partners to build trust, all former postmasters as well as secondary groups like the public, CWAU, NPSF, etc

Options considered

		(P)reactive payment / (I)investigate reactive claim	Horizon Version	Postmaster status	Cost £m	Viable Option
1	Pay everything	P	HNG-A & HNG-X	All	282m	No
2	No Communication to anyone	-	HNG-A & HNG-X	All	0m	No
3	HNGA Only	P	HNGA only	All	44m	No
4	Communicate to Current Postmasters only	P	HNG-A & HNG-X	Current only	Unknown**	No
5	Communicate to all & invite a claim	I	HNG-A & HNG-X	All	153m*	Yes

- **Pay Everything** assume all issues are detriment and that there was no postmaster error. This has been discounted as it is impossible to determine if detriment has occurred for Shortfall Losses and for other actual detriment the data required for accurate payment is either not robust or does not exist.
- **No Communication** to any postmaster has been discounted as POL has a duty of good faith to current Postmasters. Moreover, no communication does not remove the legal liability which exists for both current and former Postmasters and would result in reputational damage.
- **HNGA Only** has been discounted given the HSS is voluntary and POL would continue a legal liability for any actual detriment that occurred in the HNG-X period.
- **Communicate to Current Postmasters only** has been discounted as informing former postmasters could result in reputational damage. Moreover, if and when a former postmaster did bring a claim, we would require additional information to determine if detriment occurred and how much to pay. Thus needing to create more process similar to current postmasters
- **Communicate to all & invite a claim (Recommended)** -Postmasters are the only people who can identify potential past discrepancies and the information needed for POL to investigate, requiring a postmaster claim enables POL to accurately investigate potential detriment expediently. The funding proposition for this option assumes that for the majority of claims during the HNG-X period, those would have been claimed through the HSS. However, assumptions have been made as to the Horizon transfer date, the underlying data and overall averages. Thus the cost estimate has a portion of HNG-X period estimates, given the overall legal liability with POL.

*This value assumes 100% of any HNG-A period possible or actual detriment (£44m) + 2/3 of HNG-X suspended postmasters detriment claims (£33m) + 1/3 of HNG-X Shortfall Loss claims (£75.5m)
**It is not possible at this time to separate out unexplained shortfall losses between current and former postmaster

Inviting Claims - New 'BAU Process'

- The **recommendation** is to make a broad announcement on a webpage accessible by both current and former Postmasters in relation to these areas of potential detriment which:
 - Notes that POL is reviewing its processes and seeking to resolve all outstanding issues from past practices
 - Explains the detriment issues
 - Notes that Postmasters may have already applied to the HSS in relation to such detriment issues
 - Invites Postmasters to contact POL should they believe they have incurred such losses and have not already applied to the HSS.
- A webpage allows for any required **future updates** if any further areas of potential detriment are identified (instead of continuously writing to the network).
- Also considered and discounted was **not expressly and proactively inviting** Postmasters to contact POL in respect of any potential claim. This option had reputational and brand risks, did not seem like the right thing to do, aligned with our duty of good faith to current postmasters and does not seek to clear our legal liability.

DRAFT – WORK IN PROGRESS

Individual detailed choices and recommendations for 'BAU Process'

- While we do not have choices on our legal liability, we have choices on **how, when, and to whom, we transparently communicate** possible postmaster detriment and **how we resolve** any possible detriment claim

Topic	Recommendation	Other Options Discounted
Communications	<ul style="list-style-type: none"> • Public website for all current & former postmasters • Clearly signposting HSS was for HNG-X period • Detailed requirements for submitting a claim • Email out to current postmasters signposting website 	<ul style="list-style-type: none"> • Only contacting current postmasters • Explicit exclusion for HNG-X period
Proactive v. reactive remediation	<ul style="list-style-type: none"> • Proactively remediate Maintained Error Limits actual detriment (as postmasters cannot make claims) • Reactively remediate all other possible detriment based on claims (and the requested additional information) 	<ul style="list-style-type: none"> • Proactively remediate specific smaller possible detriment areas with current assumptions and without additional information
Evidentiary requirements	<ul style="list-style-type: none"> • Same/slightly higher bar as HSS, but without generous leniency 	<ul style="list-style-type: none"> • Same generous leniency as HSS • Significant detail, much higher bar than HSS
Claim limitations	<ul style="list-style-type: none"> • Include interest, aligned to HSS calculations • Exclude consequential loss, bar exceptional circumstances (like Stamp Scheme) 	<ul style="list-style-type: none"> • Exclude interest • Same consequential loss as HSS
Time limitations	<ul style="list-style-type: none"> • 6 year statute of limitations from date of possible detriment publication 	<ul style="list-style-type: none"> • Exclude any HNG-X periods (2017 or earlier) for possible claims (given HSS is voluntary)
Effort to resolve claims	<ul style="list-style-type: none"> • To be calculated, but suggest a de minimis if sufficient evidence is provided to allow for investigation (e.g., £500) 	<ul style="list-style-type: none"> • No de minimis

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Draft Webpage Copy - *Initial draft, highlighted area still under review*

Resolving past discrepancies

This page contains information for current and former Postmasters about the process for investigating and resolving past discrepancies.

As part of our continued effort to improve our processes we have identified that there may have been occasions where a discrepancy occurred which may have resulted in detriment that was outside of your control, and you may have felt at the time that the outcome wasn't fair or reasonable.

We want to ensure that Postmasters can resolve any past Horizon discrepancy and actively invite you to contact us should you feel that you have been treated unfairly and/or feel we didn't investigate certain discrepancies as thoroughly as we should have. If you feel a past discrepancy wasn't fully investigated at the time, or if you didn't notify us about it, you can use this process to raise this with us now.

To help us process and investigate your request you will need to provide comprehensive information about a specific past discrepancy including the reason for the discrepancy. Please ensure that you complete the form fully and supply supporting evidence and documentation.

Discrepancies that didn't occur on the current HNG-A version of Horizon i.e. previous versions of Horizon in use since around 2000 until 2017/19 would have been addressed by the Historical Shortfall Scheme. For any discrepancies relating to that period we would have expected you to apply to that scheme.

We won't take forward an investigation request if an application has already been made to either the Historical Shortfall Scheme, or the Stamp Scheme relating to the same discrepancy, regardless of the status or outcome of that claim.

This is also the case if we have previously reached a full and final settlement with you, via an alternative route, for example under Network Transformation or as part of Group Litigation Order settlement in December 2019. If this applies to you, please do not submit an investigation request through this process as we will not be able to take it forward. (these last two sentences may change in relation to outstanding legal advice on what constitutes a "full and final" offer.)

If you didn't apply to the Historical Shortfall Scheme or Stamp Scheme about a past discrepancy and we have not already reached another full and final settlement with you, you can use this process to raise this with us now for further investigation.

How to submit an investigation request form

To help us process and investigate your request as quickly as possible, please use the online form at [\[LINK TO FORM\]](#) or email your completed form to pastdiscrepancies@postoffice.co.uk. If you don't have an email address yourself, a family member/friend is welcome to email on your behalf.

BACKUP



Funding considerations

- POL proposes funding Detriment is drawn from, and subject to the same conditions as, the £320m envelope granted for the Historical Shortfall Scheme in BEIS's commitment letter dated 11 March 2021.
- The current HSS estimates are c. £160m, which leaves £160m for the current identified possible detriment.
- The £320m envelope was approved as a means to pay for the cost of certain liabilities arising from the GLO
- In this light there are clear commonalities between the HSS and the possible Detriment liabilities discussed here - both have arisen as a direct consequence of Fraser J's findings in the CIJ and the commitments made by POL in the GLO settlement agreement
- Funding these liabilities from the same envelope is consistent, as governance and reporting arrangements have also been agreed which will allow for a more streamlined approval process and faster disbursement of payments to affected postmasters

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Information required to determine possible detriment claims

Sufficient for HSS processing

Recommendation

Information required to process a Horizon claim (ATM, Forex, M.E.L, unexplained Horizon losses, any other detriment not yet identified):

1. Identity of the postmaster
2. The Branch(es) in which the detriment occurred
3. The date on which the initial activity occurred that caused the shortfall
4. The detail on why the Postmaster believes the activity to be incorrect
5. The value of the loss

Investigating further requirements with HSF

Information required to process postmaster suspension claim:

1. Identity of the postmaster
2. The Branch(es) from which they were suspended
3. The start date of the suspension
4. The end date of the suspension
5. The remuneration six month prior to suspension
6. The reason for the suspension (shortfall / non-shortfall)
7. The outcome of the suspension (Reinstated / Terminated)

Investigating further requirements with HSF

HSS Currently

Information requested process an HSS Horizon claim:

1. Identity of the postmaster
2. The Branch(es) in which the detriment occurred
3. The date on which the initial activity occurred that caused the shortfall
4. The detail on why the Postmaster believes the activity to be incorrect
5. The value of the loss

Information requested to process postmaster suspension claim in HSS:

1. Identity of the postmaster
2. The Branch(es) from which they were suspended
3. The start date of the suspension
4. The end date of the suspension
5. The remuneration six month prior to suspension
6. The reason for the suspension (shortfall / non-shortfall)
7. The outcome of the suspension (Reinstated / Terminated)