



Loss Recovery Update

Strictly Confidential

Introduction

- This presentation summarises the current position regarding the treatment of Postmaster (PM) loss recovery
- The presentation is divided into the following sections:
 - **Background** – providing a short description of the historical context leading to the present-day situation
 - **Options and Recommendation** – considers the options available to proceed with any associated benefits and risks and a recommendation
 - **Actions**– details the work remaining to finalise the recommendation with input from cross functional teams
- Please note that this presentation is for information only, however the SEG is requested to highlight any key risks or issues they see with the proposed approach and initial recommendation

Background

1. Following the recommendations made in the Group Litigation Order and Common Issues judgment, in 2018/19 POL ceased action to recover Established Losses from PMs. This activity has been on hold since this time, except where a PM both agrees to repay the established Loss and proceeds to repay.
2. To support implementation of associated CIJ recommendations, a new team (Network Monitoring and Support) and target operating model was set up in April 2021, its purpose being to support PMs to review and resolve discrepancies mainly found during their trading period balancing process.
3. The process to review a discrepancy and identify the cause is formally documented and regularly assured by the Assurance and Complex Investigation Team. This includes looking at Horizon transaction data to ensure Horizon acted as expected and is therefore unlikely to be the cause of the discrepancy. There are a number of possible outcomes to this process including:
 - Write off as below de minimis value (£1,000),
 - Write off as the cause has not been established,
 - Correct with a transaction correction if the cause was due to a processing error,
 - Establish that the loss has arisen, on the balance of probabilities, due to the negligence, carelessness, or error of the PM and/or their assistants.
4. In the last case above, the PM is asked to contact the Postmaster Account Support Team to arrange repayment which could be in full, via a repayment plan or via a deduction from their remuneration.
5. If the PM disagrees with the findings, they are able to refer through an internal dispute process, but there is no option for an independent review of the discrepancy outcome.
6. Currently repayment for discrepancies is only sought from a PM voluntarily, and if a PM either doesn't engage in the process at all, disagrees with an upheld decision following the internal dispute process or agrees with the outcome and fails to engage in repayment, there is no further action taken and the outstanding balance remains on the PM account and is fully provisioned after 60 days.
7. Whilst the current discrepancy review process does involve checks in Horizon, **the target operating model and ultimately any recovery activity is predicated on Horizon data being robust and for POL to be able to rely on this data.** POL is currently awaiting confirmation from both Fujitsu and POL IT that this is the case.

Options and Recommendation

- There are a number of options available to the PO as to how to move forward from the current situation
- Each of these options gives rise to risk(s) outlined below;
 1. Not a consistent process for PMs, potentially leading to unfair and inconsistent experience for PMs, which is contrary to our ambition to rebuild trust
 2. Unclear policy position with PM's
 3. Significant reputational risk for PO
 4. Significant financial risk for PO
 5. Relationship risk with the Post Office's shareholder, as may be non-compliant with the guidance around Managing Public Money,
 6. An environment likely to embed improper financial behaviours / practices in the network of PMs, if there is no sanction or consequence for failing to follow the proper policies and procedures
 7. Failing in our duty of care to PMs

No.	Description	Advantages	Risks	Recommendation
1	Maintain current situation	<ul style="list-style-type: none"> • Will not bring PO into conflict with PMs • Will not repeat issues seen previously 	• 1, 2, 3, 4, 5, 6, 7	• No
2	Maintain current situation and communicate as a policy decision to PMs	<ul style="list-style-type: none"> • Will not bring PO into conflict with PMs • Will not repeat issues seen previously 	• 1, 3, 4, 5, 6, 7	• No
3	Never seek to recover losses	<ul style="list-style-type: none"> • Will not bring PO into conflict with PMs • Will not repeat issues seen previously 	• 1, 3, 4, 5, 6, 7	• No
4	Seek recovery of established losses via a civil means/deduction from remuneration, following an agreed, defined process with an external review board that will take final recovery decision	<ul style="list-style-type: none"> • Provides, clear consistent guidance and a 'level playing field' for PMs • Consistent with 'reset' of PO following strategic review • Will balance managing public money with fairness/duty of care to PM 	• 3, 4	• Yes

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Actions

- The recommendation is that the PO begins to recover losses through civil action or deduction from remuneration (where necessary), following an agreed process and the approval of an external, independent board. All other options give rise to significant PM and PO risks across a range of factors
- The key decision therefore is what pre-requisites need to be in place for 'common' loss recovery to restart
- Note that the recommended option requires a decision on both pausing the current process and how to treat PMs who have/haven't offered payment previously
- Furthermore, significant work will be required to manage the reputational risk associated with this option as it is likely this could be misconstrued as a further historical issue with Horizon rather than a matter of process
- Outlined below are the initial actions required as a consequence of this option, completion dates to be agreed

Policy - SEG

- Decide and recommend to Board criteria for restarting 'common' loss recovery e.g. chase prior unrecovered losses, repay PMs for recovered losses
- Decide whether to continue with current limited loss recovery until such time as ready to resume
- Approve new policy

Network Monitoring – Mel Park

- Agree process to log and follow up on remediation activities with PM
- Calculate any cost/people impacts of this enhanced activity
- Propose extent of loss recovery process i.e. we will not pursue losses to the extent where they will place the PM into material financial hardships etc..
- Detail policy/process ready for communication with stakeholders
- Agree composition of the external review Board

Actions

Corporate Affairs – Charlotte Cool

- Create proactive/reactive enquiry lines/briefing
- Socialise policy/process and decision regarding loss recovery with stakeholders including PMs, press, government

Finance – Max Jacobi

- Provide estimate on the cost of repaying PMs who have voluntarily paid under loss recovery process from agreed date. Note this will not include all costs recovered, e.g. cost of fitting out a store, only those where there has been a dispute
- Provide cost estimate to 'write off' unrecovered losses
- Provide forward looking view of annual provisions based on new policy

Legal – Neil Wallis

- Review and advise on any legal aspects of the proposed process/policy including a view on the prospects of civil recovery
- Provide legal view on any proposed date of repayments
- Define terms of reference for external Board

Technology – Simon Oldnall

- Confirm that as of today the data can be relied upon to commence the loss recovery process (noting that part of the process is to check Horizon)