

Witness Name: Russell Paul Hancock
Statement No: WITN 0367_1
Exhibits: WITN 0367_1/1 – WITN 0367_1/3
Dated: 21st July 2022

THE POST OFFICE HORIZON IT INQUIRY

Witness Statement of Russell Paul Hancock in the Post Office Horizon IT Inquiry

I, **RUSSELL PAUL HANCOCK OF** Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ, **SAY AS FOLLOWS:**

1. My name is Russell Paul Hancock. I am the Supply Chain Director at Post Office Limited ("**POL**"), a role that I have held since February 2017.
2. Except where I indicate to the contrary, the facts and matters contained in this witness statement are within my own knowledge. Where any information is not within my personal knowledge, I have identified the source of my information or the basis for my belief. The facts in this witness statement are true to the best of my knowledge and belief.
3. In this statement I use the term "Postmaster" to refer to those individuals, companies and partnerships who/which are responsible for running branches in the Post Office network pursuant to contracts with POL, but excluding those individuals who are directly employed by POL to work in branches that are directly managed by POL. Depending on the context, references to "the Postmaster" should be read as referring to or including, as appropriate, the Postmaster's staff and/or representatives.

4. In my role as Supply Chain Director, I am responsible for the day to day running of the whole of POL's supply chain operations. This includes responsibility for the cash management team (including planning cash holdings for branches, cash forecasting and the management of the POL cash centres), as well as the management of other stock, such as stamps, bureau (meaning foreign currency notes) and marketing collateral.
5. This witness statement has been prepared in response to the request made by the Inquiry pursuant to Rule 9 of the Inquiry Rules 2006, dated 17 December 2021, for the provision by POL of the same or similar information that POL previously provided to the Inquiry at a number of "teach-in" sessions between April and June 2021 (the "**Teach-In Rule 9 Request**"). Where this statement makes any reference to policies, processes or systems that have been adopted since those sessions, this statement reflects the position as of 8 February 2022 when this statement was first provided to the Inquiry in draft.
6. I am aware that my colleague, Alison Clark, is providing a witness statement to the Inquiry in relation to most of the information provided in Teach-In Sessions 1 to 4. In this witness statement, I set out only the information requested by the Inquiry in question 10 of the Annex to the Teach-In Rule 9 Request. That question relates to the cash movement process, including the handling of discrepancies, as explained by POL at the second teach-in session relating to *Central Accounting Processes and Practices at Post Office Ltd – How is POL Client Data Integrated Monthly with Branch Network Data?* ("**Teach-In 2**").
7. Where I refer to specific documents in this statement, copies of those documents are exhibited to this statement in a series of exhibits marked (**WITN**

0367_1/[X]) and identified by the Inquiry's unique reference number for that document.

TEACH-IN SESSION 2: CENTRAL ACCOUNTING PROCESSES AND PRACTICES AT POL. HOW IS POL CLIENT DATA INTEGRATED MONTHLY WITH BRANCH NETWORK DATA? – 28 APRIL 2021

8. Teach-In 2 took place remotely, over video conferencing, on 28 April 2021, and was facilitated on behalf of POL by **GRO** POL's Group Financial Controller. I was there in my role as Supply Chain Director and I answered the Inquiry's questions relating to those issues. Some cash management matters overlapped with Treasury issues (which is **GRO** area). I answered and provided information in relation to the supply chain elements of stock and cash management.
9. Amongst other issues, Teach-In 2 covered the cash movement process, including how POL dealt with discrepancies.

Cash counting and measures in place to prevent discrepancies

10. POL operates four cash centres, which are in London, Birmingham, Glasgow and Belfast. On average, around £3 billion moves around the network of Post Office branches and POL cash centres every month. Not all of this is handled by POL, as much of the cash is simply turned over in the branches, meaning that the cash is received at and paid out at the branches, without being sent to a POL cash centre or otherwise being handled by POL.
11. In the past, the movement of cash was more frequently from POL to the branches, as branches had a greater need for cash for things such as pension and benefits payments. Now, most branches are "cash surplus", rather than

"cash deficit", in that they take in more cash than they hand out. This is, at least in part, because pensions and benefits are now increasingly paid by bank transfer, not cash. The usual flow of cash at present, therefore, is from the branches to the POL cash centres.

12. The cash counting process varies (or, at least, has varied historically) between the various cash centres. In relation to cash that is received at the cash centres from the branches:

a. In England & Wales, the issuing bank for currency is the Bank of England and the Bank of England's rules apply in relation to fitness and authentication standards. Therefore, in the London and Birmingham cash centres, the process for cash counting follows the Bank of England's rules. These rules require all notes to be authenticated to ensure that they are not forgeries and that they meet the necessary fitness/quality standards before they are recirculated. In accordance with these rules, all cash is processed through a desktop method whereby each pouch is cut open under camera and the separate bundles of cash within each pouch are individually counted through a desktop note counter. Then, the total cash in each pouch is amalgamated and reconciled against the amount expected from the particular branch or in that pouch through a high-speed note machine. That machine also authenticates the notes to Bank of England note standard quality.

b. The Bank of England also has some authority over the cash centre in Glasgow, such as auditing security standards. However, the issuing banks in Scotland are high street banks, namely the Bank of Scotland, the Royal Bank of Scotland and Clydesdale Bank. The Bank of England

rule in relation to the use of a high-speed note machine therefore does not apply to Scottish-issued notes. Prior to 2012, therefore, the Glasgow cash centre followed the same desktop method of opening the cash pouch(es) under camera that I have described for London and Birmingham, but the reconciliation and amalgamation was then undertaken manually, again under camera. In 2012, the Glasgow cash centre was automated and moved fully into line with the process used in London and Birmingham through the introduction of a high-speed note machine for the amalgamation and reconciliation processes.

- c. In the Belfast cash centre, all cash counting is also subject to the same initial desktop process of opening the pouches and counting the cash under camera. However, the Bank of England's stipulation that a high-speed note machine must be used does not apply. Instead, POL passes the processed notes to the Bank of Ireland, which is the issuing bank in Northern Ireland, for them to authenticate and amalgamate. This is more efficient than for POL to buy and maintain its own equipment, given the lower volumes of cash that are processed in Belfast.

- 13. The process in the Glasgow cash centre was aligned with that in Birmingham and London because the volume of notes being processed in Glasgow justified the change and to take advantage of the following benefits:

- a. In England and Wales, POL can obtain balance sheet relief for any cash that it holds and that has been counted and verified in accordance with the Bank of England rules. Effectively, the cash held by POL is treated as being held on the Bank of England's balance sheet, rather than POL's. Until very recently, POL had a similar relationship with

Clydesdale Bank. By aligning the process in Glasgow to that in the London and Birmingham cash centres, POL could also claim similar balance sheet relief in relation to the cash that it held at the Glasgow cash centre.

- b. There were also operational benefits. With the process in Glasgow being aligned to the same standards as the England cash centres, cash from the England could be counted in Glasgow. This could help support cash counting in the north of England and in circumstances where, for example, a note machine in Birmingham was broken.
14. However, far lower volumes of notes are processed in the Belfast cash centre and the balance sheet relief is not available. POL has therefore continued to run its Northern Ireland operations in line with the Northern Irish rules.
15. At each of the cash centres, once the cash has been counted, the amount in the pouch(es) from each branch is reconciled against the amount that was expected. If there is a discrepancy during the count, it is always double-checked. Cash processing colleagues can check discrepancies up to £20, anything from £20 up to (and including) £99 needs a team leader and discrepancies above £100 need to be checked by a manager.
16. In relation to any confirmed surplus/deficit:
 - a. POL sends any surplus back to the branch.
 - b. If the reconciliation shows a deficit of less than £10, POL will simply bear that loss. If the deficit is greater than £10 then the cash centre will write to the branch and give them the details of the discrepancy. The discrepancy (either a surplus or deficit) will also appear on Horizon, to

which the branch staff have access. The branch then has two weeks to investigate the discrepancy and to respond to the cash centre as to whether they have found anything in branch that can highlight why a deficit was found (for example, a corresponding surplus). The branch staff can also attend the relevant cash centre, if they wish, to review the footage, either individually or through representation by the National Federation of SubPostmasters ("**NFSP**"). The footage of the cash counting is retained at the relevant cash centre for three months, in case a branch wishes to dispute a count. POL is in the process of updating this process to allow branches to review the footage of the first-stage cash count (where the cash pouch is opened, the contents checked and the discrepancy is identified) remotely. Following a live pilot with a selection of branches over the course of summer 2021, the intention is that this process will be rolled out across the network of branches later this year. In addition, POL has started to invite branch staff into its cash centre and CVIT operations, so that they can see the processes for themselves.

- c. If the discrepancy is agreed, the branch and the cash centre will then agree how to resolve the discrepancy. The process for doing so falls outside of my responsibility.
17. If a challenge is unsuccessful, the Postmaster can appeal the adverse finding to a panel constituted of members of the NFSP and POL staff. This panel was put in place in 2005. With effect from 2016, this process changed to allow for appeals to be made to the Supply Chain Head of Cash Management instead.

Since 2016, the Head of Cash Management has only had to adjudicate on one occasion and, on that occasion, found in favour of the branch.

18. As explained above, all cash centres ordinarily go through a two-pass process to count the cash received. The first level of validation is at the desktop counter (under camera) with a second level of validation being undertaken by the high-speed note machine. However, there may be occasions where POL would run a "single pass process". In London, Birmingham and Glasgow, that would mean that the desktop count element was removed, and notes were just counted and authenticated through the high-speed note machines.
19. Single pass processes like this are extremely common amongst other wholesale cash counting operations. In fact, the vast majority of cash processing in cash centres supporting high street banks is done this way. However, at POL, the cash centres would only use a single pass process in circumstances where the volume of cash being received at that cash centre is unusually high or where staffing levels at the cash centre are temporarily low (for example during periods of high absence or where industrial action causes staff shortages). In these circumstances, there is a risk that cash would not be processed quickly enough if it is counted using POL's normal two-stage process. This could hamper the business, and so a single-pass process (consistent with those used by many other wholesale cash counting operations) may be used. The single pass process improves productivity. Where a single pass process is used, any surplus identified is returned to the relevant branch and any shortfall is borne by POL.

The cash collection/distribution process

20. All cash that moves between the POL cash centres and the branches is tracked and is under continuous camera surveillance from its collection in branch, to entering and being on the cash-carrying vehicle, to being opened in a POL cash centre for processing. Likewise, when cash is delivered from a POL cash centre to a branch, the cash is tracked and is under continuous camera surveillance.
21. POL uses a company called G+D (who are a leading player in the provision of cash centre infrastructure services) to provide the cash warehouse management system and software. Their products and services allow POL to track the cash deposits from the cash centre to the point where the cash is handed over in branch (and in the reverse, where a branch returns cash to the cash centre). This means that there is a full audit trail of this process.
22. In relation to cash being collected from a branch and being delivered to a POL cash centre, the process involves the following steps:
 - a. The branch prepares the cash into pouches, which will show up on Horizon as "Cash in Pouches";
 - b. A member of POL's Cash and Valuables in Transit ("**CVIT**") team attends the branch to collect the cash;
 - c. The CVIT personnel presents their ID and the CVIT Authorised Collectors Card ("**CVIT ACC Card**") to the appropriate branch staff member. The CVIT ACC Card is a security card, issued to POL by the Security Industry Authority (the "**SIA**"). The SIA issues a new series of CVIT ACC Cards to POL every six months. Each CVIT ACC Card has a unique barcode, coming within a barcode range that is unique to POL.

That barcode range changes every six months when the SIA issues a new series of cards. When a cash delivery/collection needs to be made, POL issues a CVIT ACC Card to the CVIT personnel. When that CVIT ACC Card is presented by the CVIT personnel at a branch, the branch staff scan the barcode into Horizon and if the barcode is within the POL barcode range, then Horizon will show that that CVIT personnel is authorised to receive the cash. In this way, the CVIT ACC Card provides an added layer of security to identify the CVIT personnel. Once this identification verification has been completed, the cash pouches are scanned and handed to the CVIT personnel and the branch staff get a receipt for the value of the cash being returned to POL. The cash now appears on Horizon as "Inbound Cash";

- d. The cash is then taken to the vehicle in cases that each contain up to IRRELEVANT (being the insurance limit for cash in a case);
- e. The cash is then emptied into a metal safe in the vehicle under camera and is tracked and kept under video surveillance all the way to the local cash depot. No one has access to the metal safe until it arrives at the cash depot;
- f. The cash pouches are taken out and scanned and the pouches are counted under camera to perform a reconciliation of the cash on the vehicle against the cash expected to be on the vehicle;
- g. Any cash that then needs to go back to a cash centre is placed into a "level 2 container", which is then scanned onto a truck and kept under video surveillance as it drives to the nearest cash centre; and

- h. The container is receipted on arrival at the cash centre and is off-loaded from the truck. It is broken down into the pouches and those pouches are re-counted and reconciled in accordance with the processes for the London, Birmingham, Glasgow and Belfast cash centres, above.

Counterfeit notes

- 23. POL sets out clear steps that branch staff should undertake to identify counterfeit notes. Those steps help branch staff identify counterfeits using the key features of genuine notes, such as being made of polymer material, having unique features such as watermarks and so forth. Branch staff are also provided with guidance, including industry and Bank of England guides, to assist them with recognising counterfeit or out-of-circulation notes (both sterling and bureau), although that training is outside the scope of my responsibility.
- 24. Prior to 2019, if a branch accepted a counterfeit note, but then discovered it ahead of it being sent to the POL cash centre, the loss would have been borne by POL (provided that the counterfeit was taken by the branch in error). However, branches bore any losses resulting from their acceptance of counterfeit notes that were sent to, and subsequently identified as counterfeits by, POL at a cash centre.
- 25. This system has been reformed so that, since 2019, POL now bears the burden of all losses resulting from counterfeit notes, provided that the branch has acted in good faith and undertaken the necessary checks on the security features of the note. I would estimate that about 90% of the time, POL does not pass any loss back to the branch. However, there are occasions where the branch has

failed to undertake reasonable checks, in which case POL might pass the loss back to the branch, if it has satisfied itself that it would be appropriate to do so.

26. POL has sought to improve the support given to branch staff in relation to counterfeits by (i) introducing improved training and guidance; and (ii) making information on both sterling and foreign bank note standards available through the Horizon help pages and Branch Hub (an online platform that enables branch staff who use the platform to conduct certain activities in support of the running of their branches) since March 2021.

Cash delivery/collection on Horizon

27. Since 2005, the following process has applied in relation to how/when cash delivery appears on a Horizon terminal:
 - a. For inbound cash into a branch: cash appears on the Horizon terminal once the cash pouch and the CVIT ACC card are scanned. The cash is then populated into the branch's cash account.
 - b. All the cash that has been delivered and scanned will automatically be credited on Horizon to the branch's overall cash holdings. If some of that cash is for an ATM, the branch must make a physical entry on the Horizon terminal to move the cash and designate it as ATM cash. In practice, this does not always happen. This can lead to issues with POL's planning for the correct level of cash holding for that particular branch. For example, the branch might be showing as holding more cash than it actually holds (and so it might not be sent any/as much cash as it needs) or its ATM cash levels might be recorded as lower than they actually are (and so it might be sent cash for the ATM that it doesn't actually need).

28. The process, in terms of Horizon, for cash collections is set out above.
29. Both in relation to cash being received by a branch and cash being returned by a branch to a cash centre, the cash figure being received / returned will sit in the background of Horizon until the pouches and CVIT ACC cards are scanned. This allows the branch staff to see the amount of cash coming in and POL to understand the amount of cash expected to be collected from the branch.

Treatment of cash stock

30. All cash (including coin, notes and bureau) is treated in the same way from a planning and accounting perspective. The branch will receive a "planned order" message in Horizon up to 48 hours before its scheduled CVIT delivery/collection. This message indicates the amount of cash that the system proposes will be sent to/collected from the branch. The Postmaster and/or their staff can adjust this figure in Branch Hub or by contacting the POL Cash Management Team in Bristol. Coin volumes are not included on the planned order message.
31. On occasion, POL needs to send cash to branches in an emergency and there is not a convenient CVIT vehicle nearby/available to make the delivery. In those circumstances, POL will utilise Royal Mail Special Delivery. This is a tracked and insured mode of delivery that allows POL to send up to £7,500 in cash to branches in separate £2,500 pouches. If a branch receives cash this way, the branch staff must scan the accompanying barcode in order to enable the cash figures to be loaded into Horizon.
32. By comparison, for stock, branches order the stock that they require through the Horizon terminal. That stock is then despatched to the branch either through

POL's own CVIT network (for value items, such as stamps and biometric passports) or Royal Mail (for transactional/non-value stock such as posters, PPE, printer cartridges, pouches and marketing collateral). Stock is currently not auto-populated into Horizon in the same way as cash. When stock arrives in a branch, the branch staff have to physically count it into the branch and make a manual entry onto Horizon. Guidance is provided to Postmasters and branch staff in relation to the management of stock, for example in the "Guide to Managing Stamps" (**WITN 0367_1/1**).

33. POL requires branches to complete a daily cash declaration on each of their branch stock units (being the physical till that branch staff use to serve customers), indicating the cash volumes the branch is holding. Branches declare cash by denomination each day by 19:00 and POL uses this declared figure for planning cash requirements. Horizon also returns a total generated figure of cash in branch, based on cash transactions, cash deliveries, and cash collection. This gives a total of all cash in the branch, although this is not broken down into products (such as ATM notes, branch notes or coin).
34. If POL does not receive a cash declaration from a branch then it will use the Horizon-returned generated cash figure for planning. This is less than ideal because the generated cash figure may be inflated by the amounts of coin, unusable notes, ATM notes and any Cash in Pouches.
35. POL also overlays additional cash needs for issues such as winter fuel payments. Where a branch is aware of things occurring outside of the branch that could impact its cash needs (such as a local ATM going offline that will drive footfall into the branch), POL encourages the branch to contact it so that it can help to adjust the branch's cash holdings.

36. As set out in paragraphs 12 to 17, all cash received by a POL cash centre from a branch undergoes a thorough reconciliation process as against the branch records.
37. POL undertakes regular audit checks of branches and, with very few exceptions, the cash balance in branch at audit matches the amount held within Horizon. This is because, provided that the daily cash declarations are being undertaken by the branch correctly, the cash holding for that branch as recorded on Horizon will be updated accurately on a 24-hour cycle.

Training to branches in relation to cash counting

38. Training on cash accounting and effective management of cash in branch is provided and made available to Postmasters and/or their staff through a variety of sources:
 - a. Training on weekly accounting, monthly accounting, and general cash management (including best practice to undertake daily cash declarations and end of day activities) is provided through classroom training courses. Delegates practice, under supervision from the Classroom Trainer, production of cash declarations and balances.
 - b. Guidance is also available on these topics in the "Operational Training Guide" (sections 11, 12, 14 and 10 respectively) (**WITN 0367_1/2**). New Postmasters and/ or their staff are given a copy of the Operational Training Guide when they attend the classroom sessions. The Operational Training Guide is also available, along with other documents referred to during the classroom training session, on Branch Hub. In addition, following the judgment in relation to the historic issues, POL

has also devised and implemented the Postmaster Support Guide. This sets out the particular ways in which the various POL teams (including my team) can support Postmasters and/or their staff in running their branch and contains information regarding daily procedures, including cash remittances and declarations. "Postmaster Support Guide" (as at April 2021), (**WITN 0367_1/3**).

- c. Work aids are also available regarding the delivery of remittances (both cash and stock) into the branch, and there is an additional work aid available regarding investigating cash discrepancies in branch.
 - d. Existing Postmasters and/or their staff can access Horizon Help via the Horizon terminal in branch and/or Branch Hub. Horizon Help sets out relevant guidance and support on cash-related topics or indeed any other operational topic.
39. Postmasters and/or their staff are provided with any updates to operational procedures via a weekly Branch Focus update published on our One website and also available on each Horizon terminal.
40. POL also now provides additional support to all new Postmasters and/or new branch staff. With effect from September 2021, new branch staff can speak to a dedicated member of the cash management team during their first 2 months who is able to talk them through any issues or questions that they have in relation to cash matters. If the branch staff raise queries through this channel that are better answered by another team within POL, the cash management team will do what they can to put the branch in contact with the appropriate POL team.

Statement of truth

I believe the content of this statement to be true.

Signed: **GRO** _____

Dated: 21st July 2022

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HORIZON IT INQUIRY**

**WITNESS STATEMENT OF RUSSELL
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Index to the exhibits to the Witness Statement of Russell Paul Hancock

No.	Exhibit Number	Document Description	Control Number	URN
1	WITN 0367_1/1	Guide to Managing Stamps	POL-0023189	POL00028012
2	WITN 0367_1/2	Operational Training Guide	POL-0024557	POL00028029
	WITN 0367_1/2	Operational Training Guide	POL-0024558	POL00028030
	WITN 0367_1/2	Operational Training Guide	POL-0024559	POL00028031
	WITN 0367_1/2	Operational Training Guide	POL-0024560	POL00028032
	WITN 0367_1/2	Operational Training Guide	POL-0024561	POL00028033
	WITN 0367_1/2	Operational Training Guide	POL-0024562	POL00028034
	WITN 0367_1/2	Operational Training Guide	POL-0024563	POL00028035
	WITN 0367_1/2	Operational Training Guide	POL-0024564	POL00028036
	WITN 0367_1/2	Operational Training Guide	POL-0024565	POL00028037

	WITN 0367_1/2	Operational Training Guide	POL-0024566	POL00028038
	WITN 0367_1/2	Operational Training Guide	POL-0024567	POL00028039
	WITN 0367_1/2	Operational Training Guide	POL-0024568	POL00028040
	WITN 0367_1/2	Operational Training Guide	POL-0024569	POL00028041
	WITN 0367_1/2	Operational Training Guide	POL-0024570	POL00028042
	WITN 0367_1/2	Operational Training Guide	POL-0024571	POL00028043
3	WITN 0367_1/3	Postmaster Support Guide (as at April 2021)	POL-0023098	POL00027921