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Darren Jones MP
Chair of the Business, Energy and Industrial Strategy Committee
House of Commons
London
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16 June 2020

Dear Mr Jones,

Thank you for your letter (2 June). The answers to the specific questions you ask are contained in the annex to this letter. In addition, I would like to set out some further reflections to assist the Committee with its Inquiry.

I took up my position as Chief Executive in September 2019 following a selection process led by the Department for Business, Environment and Industrial Strategy (BEIS). My key objectives on appointment were to reset and evolve the relationship with postmasters and to secure a self-sustaining commercial future for the company. This would enable it to discharge its social purpose free of public subsidy at the earliest opportunity.

As Chief Executive, ensuring that the business conducts itself with integrity is of upmost importance to me. That requires addressing the issues of the past which gave rise to the Group Litigation Order (GLO) and this Inquiry with energy and transparency. Bluntly, there can be no new beginning without an appropriate reckoning with the past.

I was clear early in my tenure that the longstanding civil litigation needed to be brought to a head, a settlement reached, and a sincere apology made. I would like to place on record my gratitude to Alan Bates and the other GLO claimants he represented for their constructive engagement in agreeing a mutually acceptable resolution to those civil proceedings. We accept that we got some things wrong in the past. We all need to recognise this and focus on finding the best way forward.

The joint settlement went further than the £57.75 million which has been the focus of comment. Our joint agreement also included the establishment of the Historical Shortfall Scheme. This provides those outside the GLO proceedings with an accessible means (including an independent panel) of bringing forward concerns over any shortfalls they may have experienced while using the versions of the Horizon point of sale system criticised by the judge, the Honourable Mr. Justice Fraser. I want to encourage postmasters, past or present, who meet the eligibility criteria, to apply to this scheme. To date, well over 500 applications have been made with a further two months before the scheme closes on 14 August 2020.

Beyond this, the Committee is aware that we are making strenuous efforts regarding postmasters with historical convictions that may be affected and have fully co-operated with applications to the Criminal Cases Review Commission (CCRC). The criminal appeal courts will now determine these complex issues, with each case resolved on its own specific facts.

The government has also announced that it will shortly undertake a review. The review will aim to assess how far the business has come in addressing the issues identified and in preventing any possibility of a recurrence of these events. We will engage with this review meaningfully and transparently. The Committee should understand that, while the terms of reference and standing of the review are a matter for Government, that commitment extends to an inquiry in whatever form is ultimately determined appropriate to help postmasters and Post Office move forward with mutual trust and improved commitment.

As part of resetting of our relationship with the postmasters, I have a responsibility to the many thousands of postmasters who are currently hard at work in Post Offices across the UK, today and every day. Ensuring postmasters are fairly rewarded was one of my immediate priorities. Remuneration had already been increased, shortly before I joined, by £20 million. To my mind that was not enough, so we increased it again by £17 million.

The hard work of postmasters throughout the Covid-19 pandemic, providing essential services to those in need, is clear evidence that a sustainable future for post offices on our high streets remains key. During the pandemic, in addition to supplying personal protective equipment, Post Office guaranteed and topped up remuneration to help keep as many branches open as possible. The Post Office is, and will remain, a key facilitator of access to public services and to communications as well as a catalyst for strong communities where they often are a focal point for much needed social interaction.

Since the first High Court judgment, a major programme of improvement has been underway. The goal is to overhaul the culture of the organisation and help it to prosper into the future. I am determined that we recognise the true nature of the relationship between the Post Office and its franchisee postmasters, reflected in an approach which asks what we can do for them rather than what they can do for us. As part of this process, we are giving careful thought to postmaster representation in the decision-making processes of the organisation.

Change of this scale is, of course, highly resource intensive. The ability of senior management to focus on making the lasting changes needed to give the Post Office a bright future has, inevitably, to be balanced against the imperative to address past events. This is not in any way to understate the importance of dealing with the past, solely a statement of ensuring we strike a suitable balance between that and building a sustainable future.

The financial effects of the Covid-19 pandemic on our revenues for this year exacerbates this situation. We continue to discuss with our shareholder, UK Government Investments, options that will allow the Post Office to meet its required obligations without impacting on postmaster remuneration or the sustainability of the Post Office network.

The Post Office faces significant challenges on several fronts. To overcome them the business needs to make fundamental changes to its culture and practices. Foremost is the need to forge a new relationship with the postmasters that run the network. In the past nine months we have begun to do so by implementing a plan that is focused on trust, flexibility and giving a proper voice to those who choose to work with us.

I am very clear that this is merely the beginning of a long and undoubtedly difficult process to reset an institution that remains pivotal to our national life. I would be pleased to continue to engage with the BEIS Select Committee on the measures needed to secure a sustainable future for Post Office for the benefit of postmasters and the provision of essential services to their customers.

Yours sincerely,

The signature of Nick Read is represented by a dashed rectangular box containing the letters 'GRO' in a large, bold, black sans-serif font.

Nick Read
Group Chief Executive Officer

ANNEX

1. Do you now accept that there was a major problem with Horizon and, if so, when did Post Office Ltd identify this problem and what was the nature of that problem?

Post Office accepts that there were deficiencies in previous versions of the Horizon system.

The extent of issues became apparent to Post Office during the Group Litigation and is set out in the High Court judgment which found that the potential for bugs to affect branch balances in historical versions of Horizon was greater than Post Office believed. The judgment did not determine whether bugs, errors or defects did in fact cause shortfalls in the individual claimants' accounts but it found that they had the potential to create apparent discrepancies in postmasters' branch accounts. The current version of the Horizon system was found to be robust, relative to comparable systems but we are not complacent about that, as I detail in responses to other questions.

- ***For instance, can you confirm that local Horizon terminals could be accessed centrally and altered?***

The matter of 'remote access' was examined in detail during the Group Litigation, including different types of access regarding versions of the Horizon system over the period since around 2000, when the original system was introduced.

It was agreed by the experts in the litigation that it was necessary for Fujitsu to be able to access the system remotely. That is to enable, for example, changes to be made to product reference data including prices, security patches to be added to the counter PC operating system and other such uploads which are needed by any electronic point of sale system. That was not the issue in the Group Litigation. The issue in the Group Litigation was whether transaction data or data in branch accounts could be altered without the postmaster's knowledge and/or consent, leading to a risk of unexplained shortfalls. As to that, the position as found by Fraser J was that Post Office could read transaction data or data in branch accounts remotely (i.e. centrally) but could not modify that data remotely without the knowledge and/or consent of the postmaster. Fujitsu was, however, able to modify transaction data or data in branch accounts without the postmaster's knowledge and/or consent and Fraser J criticised some of Fujitsu's permission controls and record keeping, including around the use of that remote access ability.

- ***If so, when was Post Office Ltd aware of this?***

I first became aware of the position as found by the High Court when the Horizon judgment was handed down. As I was not involved at the time, I do not wish to speculate how Post Office's knowledge of remote access issues evolved over time.

2. How much confidence do you currently have in Horizon?

I am confident but not complacent. The current version of Horizon (HNG-A) was found during the litigation to be robust, relative to comparable systems, and both the independent experts involved agreed this.

But robust does not mean infallible and every large-scale IT system will suffer problems on occasion. The point is to limit the impact of those and, importantly, to be transparent with postmasters regarding issues which may affect them, letting them know quickly and providing appropriate advice.

It is worth adding that we have also made a number of user design changes to the current Horizon system, directly based on postmaster feedback, to help minimise the risk of human errors. This improvement work will continue as postmasters tell us what else would make life easier for branches.

3. How transparent are you now, regarding bugs and errors in the system and are you tracking them?

- ***If you are tracking errors, how many have been reported each year since tracking started?***

Whenever a potential Horizon bug is reported, it is investigated, tracked and reviewed on a weekly basis until it is closed. If a bug is thought to have the potential to impact a Branch's accounts, the postmaster is contacted and made aware of the issue and the proposed resolution. The current list of bugs is available to the Fujitsu Horizon support team, and to the Post Office Branch Support team, as detailed knowledge articles. These articles can be referred to during support calls with postmasters.

4. Can sub-postmasters now park significant shortfalls in suspense accounts and can they expect that Post Office Ltd's first response will be to assist them in identifying possible errors?

Our first response must be to help and support any postmaster who has an error they cannot understand or resolve and this is very much at the forefront of changes I have been taking forward.

A postmaster can put a shortfall into their suspense account, trade normally and ask for our help and investigation if they do not understand the reason for the discrepancy.

In the majority of cases, our Branch Support Centre can resolve queries quickly and easily to the postmaster's satisfaction.

For more complex cases, we assign a specific case handler to complete a more in depth investigation. The case handler will work alongside the postmaster to identify the reasons for the discrepancy and, if necessary the case can be further escalated.

5. You have said that Post Office Ltd will "take on board some important lessons". Can you tell us what these lessons are?

- ***What mistakes did Post Office Ltd make?***

I am clear from the Group Litigation that there are significant lessons to be learnt in terms of our relationship with postmasters and the support provided to them – and that there have been serious deficiencies in support for some postmasters in the past. From my own observations since I joined the Post Office, the culture of the organisation has not always kept pace with what is required of a modern business.

I am undertaking wholesale reform of this relationship so that the business is structured and driven culturally to ensure that it is the Post Office supporting postmasters and not the other way round.

I am driving change to put that right at every level in the organisation. We have completely overhauled, for example, the ways in which we bring new postmasters on board, with better training and continuing dedicated support. We now have a team of 94 area managers throughout the UK, engaging with our postmasters individually; we have put in place new processes for helping postmasters with any Horizon transaction issues including dedicated teams to investigate for them in cases where there are discrepancies they cannot understand or transaction corrections they do not agree with.

The current Covid-19 situation has brought into even sharper relief the incredible service that so many of our postmasters provide to their communities and our appreciation needs to be demonstrated by better rewarding them. We have increased their remuneration by £20 million a year on top of the £17 million increases secured for banking services through our new framework with the High Street banks. We are also providing fixed remuneration for community branches, mailwork services and mails products.

6. Have you reviewed the role of the Post Office Investigation Branch in light of Horizon and the powers Post Office Ltd has to prosecute sub-postmasters and postal workers?

Post Office no longer exercises a private prosecutorial function. I believe that the last private prosecution of a postmaster or branch assistant was brought by Post Office in 2015 but there have been very few since 2013.

- ***If so, what conclusions have you drawn and what changes might be implemented?***

Our approach now is centred on 'early intervention' to prevent situations where losses might arise. Post Office has a relatively new Loss Prevention team, of which the Security team is part, under new leadership. The Loss Prevention team is focused on helping branches to prevent losses from occurring. In particular, the Security element of the team is focused on the prevention of external criminal activity in our network through physical security measures, security intelligence and operational security processes. Our investment in security devices for ATMs, for example, has virtually removed the damaging attacks experienced in 2018.

In some circumstances, we do still need to suspend postmasters but we work hard, in partnership with the postmaster, to avoid this. Our suspension rate has more than halved since our new approach came into effect, but if we do need to suspend a postmaster pending investigation, we ensure their business can keep running by a combination of continued remuneration and finding a temporary operator while the issue is resolved.

- ***Will you, for example, ensure that the Crown Prosecution Service is fully involved in and will conduct future legal proceedings involving sub-postmasters or postal workers?***

As Post Office has ceased bringing private prosecutions, any such prosecutions brought in England and Wales will be brought by the Crown Prosecution Service.

- ***Why does it appear that when an individual sub-postmaster was questioned by one of your investigation teams that they were told that they were the only sub-postmaster experiencing shortfalls with Horizon?***

I know that this has been said by some of the postmasters involved but I have no direct knowledge of the background as I was not at the Post Office at the time. I am not aware of any documents held by Post Office that would help the Committee resolve whether such statements were consistently made by member of the investigation teams. What I can say is that any postmaster who raises issues with shortfalls today will have the matter properly and fairly investigated, as explained in more detail in answer to questions 4 and 5.

- ***Have you reviewed the duty of care you exercised towards sub-postmasters who experienced shortfalls in Horizon?***

Yes. The High Court found that there is a mutual duty of good faith between Post Office and postmasters, including a duty that Post Office must properly, fully and fairly investigate any alleged or apparent shortfalls. The

legal findings are hugely important but I want our culture to go further – the Post Office essentially exists to serve its postmasters and customers. We have implemented changes, some of which I have outlined above, and there will be many more.

Post Office has paid £57.75 million to the postmasters who were party to the Group Litigation to settle their complaints. In addition we have set up a claims scheme – the Historical Shortfall Scheme – for both former and current postmasters who were not part of the litigation settlement and believe they experienced shortfalls related to previous versions of Horizon. This includes an independent advisory panel to assess claims. The scheme is being advertised in regional and national press and we have written individually to current and former postmasters. To date over 500 applications have been made. In relation to postmasters, branch assistants and Post Office employees with past criminal convictions that may be affected we have been co-operating fully with the Criminal Cases Review Commission since applications were first made to them by a number of former postmasters.

The Horizon computer system was rolled out from late 1999. Therefore, we are conducting an extensive review of all relevant historical convictions dating back to 1999, to identify and disclose material in line with our duties as former prosecutor.

7. The Judge in Bates v Post Office Ltd said that your organisation paid “no attention to the actual evidence, and seem to have their origin in a parallel world”. He also criticised several of your staff who gave evidence, such as one individual whom he said “did not give me frank evidence, and sought to obfuscate matters, and mislead me”.

- ***How many of your current management team or those in senior positions were involved with the Horizon case? [i.e. took key decisions and/or gave evidence]***

Post Office is led by its Group Executive (GE), which currently has 10 members, none of whom gave evidence during either the Horizon Issues or Common Issues trials during the High Court litigation.

In terms of key decisions, Alisdair Cameron, our Chief Financial Officer, is the only member of the current Group Executive who sat on the Main Board sub-committee, with majority non-executive membership, that managed the High Court litigation. This sub-Committee of the Main Board operated from March 2018 to the end of the Group Litigation.

As you will be aware, I was appointed as Chief Executive Officer in September 2019. Our General Counsel, Ben Foat, was appointed in May 2019, a number of years after the start of the High Court proceedings and had no previous involvement in the Group Litigation.

- ***Has anybody within your management team who was involved in decisions relating to Horizon been disciplined or dismissed?***

The original Horizon system was introduced from late 1999 and there have been considerable changes, including of personnel, over subsequent decades.

A number of the management team have left Post Office in recent years. As the Committee will appreciate, I am not at liberty to reveal the circumstances or terms of their departures.

8. How are you responding to the Judge's criticism in Bates v Post Office Ltd that your organisation has a culture of "secrecy and excessive confidentiality"?

This goes to the heart of the need for the wholesale reform. I am undertaking to drive a culture of genuine commercial partnership between Post Office and postmasters with openness and transparency at its core.

I have detailed in my answers to questions 4 and 5 some of the improvements made – and there will be many more – which provide the proper foundation for our relationship with postmasters into the future.

9. Lord Callanan has stated that on Horizon, Post Office Ltd "clearly misled" BEIS officials, while the Minister has told this Committee that the advice Post Office Ltd gave BEIS was "flawed".

- **What action are you taking to address the serious charges levelled by Lord Callanan and the Minister?**
- **Are you investigating which advice was misleading or flawed and who gave it?**
- **Will there be any sanctions for those who may have given misleading or flawed advice?**

I should make clear that, since the beginning of my tenure (which began a few months before settlement was reached in the Group Litigation), BEIS has been kept fully involved in all key decisions relating to this matter including being on the Board GLO Subcommittee which was put in place March 2018.

I am not able to comment on matters before my time.

10. How many of your current and previous staff worked for Fujitsu on Horizon before joining Post Office Ltd and what input did they have in Post Office Ltd decisions on Horizon?

I am not aware of any current Post Office employees employed in the IT team that had previously worked for Fujitsu on Horizon before joining Post Office. Post Office does not hold this information for former employees so I cannot comment definitively on that question.

For completeness, I should note that Torstein Godeseth, a Post Office witness in the Horizon Issues trial, worked for Fujitsu after leaving Post Office.

11. How much has Horizon cost Post Office Ltd in addition to the settlement agreement, including legal and other costs such as hiring and diverting resources to deal with issues relating to it?

It is very difficult to be precise about how much the High Court litigation and its consequences have cost Post Office.

However, we estimate that, since 2016/17, Post Office has incurred costs of approximately £43m in relation to the litigation (which began in April 2016). This figure includes expenditure on legal and professional consultancy fees connected with the litigation and other costs indirectly related to the litigation.

Please note that this figure excludes the settlement amount which was ultimately paid by Post Office in December 2019.

- ***Are you paying the legal and other costs of former Post Office Ltd employees related to Horizon?***

Post Office is not making payments to former employees in respect of the High Court litigation or issues connected to it.

- ***How much have you put aside for meeting costs and compensation if sub-postmaster convictions are overturned on appeal?***

Should the criminal courts decide to overturn any convictions on appeal and any subsequent civil claims are made, Post Office will work with its shareholder, UK Government Investments, to consider what provision should be made consistent with its trading position and other liabilities.

12. How will Post Office Ltd fill any financial holes caused by Horizon and will it threaten sub-postmaster and postal worker incomes and the ongoing sustainability of the Post Office network?

My priority has been to help postmasters to thrive and ensure a commercially sustainable network consistent with government's access criteria. That is why remuneration has increased by £37 million from April 2020; and why variable remuneration was first guaranteed and then topped up during the first three months of lockdown in response to Covid-19.

13. On 1 May 2020, Post Office Ltd launched a new scheme to independently assess applications from sub-postmasters who believe they had experienced shortfalls related to previous versions of the Horizon system.

- ***Bearing in mind Bates v Post Office Ltd and, as we heard in our first evidence session, the lack of faith many former sub-postmasters have in your organisation, how can you be trusted to deliver such a scheme?***

I am determined that past events are resolved fairly. The scheme is an important milestone in restoring trust.

Post Office is financing the scheme and will play a role in its overall governance. However, eligible applications will be assessed by an independent advisory panel. The panel is Alex Charlton QC, a leading barrister with particular expertise in software and IT systems; Susan Blower, a forensic accounting partner at BDO and fellow of Chartered Accountants of England and Wales; and Sunder Sandher, an experienced retailer and member of the Independent Retailer Board of the Association of Convenience Stores. If a postmaster is not content with the outcome of the assessment of their case there is a dispute resolution procedure which includes independent mediation (fully funded by Post Office) provided by The Wandsworth Mediation Service, a charitable community mediation service chaired by Stephen Ruttle QC who co-mediated the resolution of the Group Litigation. Although I accept that it will ultimately be judged on its results, the scheme was born out of the settlement with the claimants in the Group Litigation and features of its structure were agreed with them at the time.

The scheme is open, accessible and it is free to apply. As of 15 June 2020, we have had 560 applicants to the scheme.

- ***How will you ensure the independence and integrity of the scheme, and who is on both the advisory panel assessing the applications and the external appeals panel?***

Applications to the scheme will be assessed by the independent advisory panel – leading specialists in three separate disciplines to ensure that claims are viewed from a number of perspectives: legal, forensic accounting and retail.

No applicant is obliged to accept any offer made to them by Post Office. If an applicant is dissatisfied with their scheme outcome, they can use the dispute resolution procedure which is built into the scheme. This offers several opportunities to resolve any dispute:

- (a) The first opportunity is an initial Good Faith meeting;
- (b) If that is unsuccessful, the applicant can proceed to an Escalation Meeting with Post Office;
- (c) If that too is unsuccessful, the applicant can refer their case to mediation operated by an independently-run mediation service, Wandsworth Mediation Services as mentioned in my response to question 13. Their website is available [here](#).

If the mediation is not successful, disputes for sums totalling not more than £10,000 are to be resolved through civil proceedings in the County Court. Disputes for sums totalling more than £10,000 will be determined by arbitration rather than through the courts.

○ ***What criteria is being used to assess applications and how is this being communicated to those applying?***

Eligible applications will be assessed by the independent advisory panel in light of the guidance given by the judgments of Fraser J in the Group Litigation. More information is available on the scheme's website ([here](#)).

As explained on those pages, applicants are able to claim for losses relating to historical shortfalls, including claims for consequential loss.

○ ***How much money has been earmarked for the scheme and when do you expect to start making payments if applications are successful ?***

Until all of the scheme applications have been assessed by the independent advisory panel, I am not able to say how much the scheme will cost. This is because applications will be assessed independently, on their individual merit.

The time taken to investigate and assess each application will be heavily dependent on the total number of applicants to the scheme, the circumstances of the individual applications and the volume of documentation involved. It could take several months for individual outcomes to be arrived at and communicated but I am committed to begin delivering outcomes as soon as practicable.

○ ***Will you provide regular updates to the BEIS Committee on the progress of the scheme?***

Of course. We are very happy to update the Committee on the progress of the scheme.