



Tim Parker
Chairman
Finsbury Dials
20 Finsbury Street
LONDON
EC2Y 9AQ

Privileged and confidential

Paul Scully MP
Minister for London and Parliamentary Under Secretary of State
and
Sarah Munby
Permanent Secretary
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Dear Minister and Permanent Secretary

Our teams, in BEIS, UKGI and Post Office have been working to find the best way to fund Post Office. I want to put on record how grateful we are for their hard work and persistence.

My understanding is that we all share an agenda. The Government believes that Post Offices are a critical element of the levelling up agenda and that has been reinforced during CV-19. Our support for, and commitment to free, national access to cash is important. The historical claims from Postmasters should follow due process and eligible claims should be met. We should continue to pursue trading improvements with the intention of becoming commercially sustainable. As we do these things, there is no intention for Post Office Limited to become insolvent.

The impact of CV-19 on our business and the much greater impact of the fall-out from the historical litigation means that we need significant additional funding:

- We requested £350m of BAU funding for the three years to March 2024 to move us back on track for commercial sustainability. We were asked to fund the costs of managing the historical claims, proving we had “skin in the game”. Our total financial request was increased to £402m, with £15m then repaid in the last year. The request for 2021-22 was for £250m of BAU funding plus the project costs, totalling £302m.
- We need to deliver on the Historical Shortfall Scheme (HSS) which remains the best hope of avoiding or limiting a second group action lawsuit from affected Postmasters. The HSS has attracted 2,328 claims as at 28 October 2020, with some late claims still being filed, vastly more than originally estimated. We are working with your officials and external legal counsel to build a model to estimate the HSS claim payments, similar to the model used to estimate for settlement purposes the claim values in the Post Office Group Litigation. There are now clearer parameters to start but it will remain an iterative process as precedent decisions from the Panel and further claimant data improve the inputs to the modelling. Decisions from the Panel are likely to start in November 2020. Our target is to have processed circa 80 per cent of applications by March 2022.

- The Court of Appeal can be expected to overturn the historical, criminal cases referred to them by the CCRC, most of which we did not oppose. Further cases may be appealed and we expect civil law claims for compensation to follow. In August, we suggested the cost of such civil proceedings might be £800m but we have no reliable basis for an estimate. Claims have not yet been made, so their scale and potential value is currently unknown.

We understand Government's desire to take this in stages and not to commit funds or promises blindly. However, we all know that POL cannot fund these historical liabilities and the resulting uncertainty is creating a number of issues:

1.

[REDACTED]

However, there are good commercial reasons to make early payments: delays in making payments in the current, febrile atmosphere will attract public criticism and, if the scheme fails, the cost of further group action may be much greater, materially increasing liabilities.

2. The combination of the litigation costs to date and the impact on our profits from CV-19 means that we may end the year with net liabilities. We have risk, given the collapse in our travel businesses, that write-downs of investments will make this worse, as we finalise our 2019-20 accounts. We believe we should also raise a provision for future HSS payments when we can reliably calculate them, probably in December 2020. The occurrence of net liabilities is an event of default in a number of our financing and commercial agreements. We are therefore at risk of commercial partners withdrawing both directly and through cross defaults. This includes [IRRELEVANT] guarantee of our borrowings from [IRRELEVANT] typically worth over £300m, our working capital facility with [IRRELEVANT] as well as [IRRELEVANT] hedging agreements with major banks and commercial agreements for foreign currency, Moneygram and with [IRRELEVANT]

Our finance team continues to forecast weekly to help us respond to the CV-19 impact on the business. Given the impact we saw in March – May 2020, the impact of further lockdowns may cause us to breach our security headroom in our facility with BEIS and [IRRELEVANT]. We have started to take steps to manage our key counterparties.

You have been working on a letter of comfort. As it does not represent a guarantee, it would not enable us to create a matching accounting asset to the HSS provisions, would not reduce or avoid net liabilities and would not enable us to make payments under HSS with certainty.

Given our shared agenda, we continue to believe that the most effective route forward is to separate the historical liability management from business as usual activities: either formally by creating a different legal vehicle and/or creating a Government guarantee of funding, legally separated from normal funding and operations.

If that is not possible in time to allow the November payments under HSS, we are requesting with urgency that we:

- Agree a distinct BAU funding settlement for at least 2021-22 along the lines requested, together with the matching contractual commitments. If the cash were to be provided early in the year

and with limited conditions, we would be able to minimise the period of net liabilities and be more likely to succeed in reassuring counterparties.

- Agree the working capital facility with the proposed changes on security headroom, for more than one year.
- Receive a letter of comfort amended to guarantee that HMG will cover the HSS costs incurred to March 2022. While the value of the payments remains hard to estimate, this should not be a blank cheque: we should follow a methodology agreed with you, follow agreed controls and we would welcome the engagement of your people into the process. The letter should also provide sufficient comfort in relation to the civil liabilities that may follow the criminal appeals.

We continue to believe that an active HSS, starting soon, offers the best chance to mitigate liabilities. Such a letter would also give us a much better chance of limiting counterparty anxiety.

We would be grateful for an urgent meeting to seek your permission to start the HSS payments in November, the total of which will cost more than our £50m delegated authority, with appropriate support to fund the HSS programme to at least March 2022.

Bob wishes,

GRO