



Department for
Business & Trade

Post Office: Introductory Briefing

July 2024

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Agenda

- 1) Governance of Post Office
- 2) Redress for Horizon scandal
- 3) Strategic challenges and future of the Post Office

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Post Office governance

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Governance overview

- Policy: DBT is the sole shareholder of the Post Office. UK Government Investments (UKGI) provides our Shareholder Representative on the Post Office Board and advises the Department on governance and corporate finance.
- Redress for victims of Horizon scandal: programme-level governance is in place within DBT to monitor delivery, fairness and consistency. DBT deliver two redress schemes, with the support of external contractors. The other two are delivered by Post Office (Horizon Shortfall Scheme & Overturned Convictions). DBT is closely involved in oversight of significant policy and precedent-setting decisions. UKGI sits on the Post Office's Remediation Committee.

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Redress / compensation

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Horizon Scandal Timeline

1999	Post Office introduces a computer accounting system called Horizon (supplied by Fujitsu).
1999-2013	Post Office pursues repayment of shortfalls from postmasters and terminates contracts. Over 900 are prosecuted, mostly by Post Office itself. Post Office denies faults with Horizon system despite postmasters claiming there are bugs.
2013-15	Following pressure from MPs, Post Office asks forensic accountants to investigate and launches a mediation scheme, which it later closes down.
2016	Minister asks incoming Post Office Chair to investigate continuing concerns of MPs. QC's report does not fully expose scandal and is not shared with Post Office Board or Department.
2017	A High Court case under a Group Litigation Order (GLO) is brought against the Post Office by a group of 555 postmasters who suffered issues with Horizon. Post Office continues to deny any issues with Horizon throughout the trials.
2019	The High Court judgment found the Horizon system was not robust and suffered bugs and errors. A £42.75m settlement plus costs is reached with the 555 group litigants. The group litigants had used litigation funders to fund their action and so £31m of the settlement went to funders. As part of the settlement, Post Office agreed to set up the Historical Shortfall Scheme (now Horizon Shortfall Scheme, HSS) to remediate postmasters who suffered losses which were caused by Horizon.
2020	The Prime Minister commits to holding an inquiry into the Horizon Scandal. The Criminal Cases Review Commission (CCRC) refers 39 cases linked to Horizon to the Court of Appeal.
2020	Horizon Shortfall Scheme (HSS) is launched. Due to receiving more applicants than expected, Post Office later calls on Govt for funding, which is agreed.
April 2021	The Court of Appeal quashes 39 Horizon-related convictions in a landmark judgment.
May 2021	Horizon IT Inquiry placed on a statutory footing. The Inquiry publishes a list of 218 issues to look at including errors with Horizon, investigations & prosecutions by Post Office, governance and compensation.

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Horizon Timeline continued

Dec 2021	Govt announces funding for POL to reach settlements with those with overturned convictions .
March 2022	Department announces further compensation to the GLO members given their settlement was absorbed by legal fees and this cohort is now in a disadvantageous position compared to others in the HSS or OC. To be delivered by the Department.
Jan 2024	ITV drama <i>Mr Bates vs the Post Office</i> raises the public profile of the scandal.
Jan 2024	Prime Minister announces that the Government will legislate to overturn convictions.
Jan 2024	Post Office (Horizon System) Compensation Act achieves Royal Assent, removing the 2024 deadline for GLO compensation payments.
March 2024	The Post Office (Horizon System) Offences Bill was introduced in the House of Commons.
May 2024	The Post Office (Horizon System) Offences Act received Royal Assent, overturning hundreds of criminal convictions.

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Horizon Redress schemes

Horizon Shortfall Scheme (HSS)

- Launched following a commitment in the Group Litigation Order (GLO) settlement, which was reached with the 555 claimants who brought a class action.
- Offers issued to all of the 2,417 original claimants. Scheme reopened for applications: 1,887 more received to date, with a surge following ITV drama.
- **Run by Post Office with funding, oversight and governance provided by DBT.**

Overtured Convictions (OC) compensation

- Launched following overturning of first convictions – total of 110 overturned by courts before the new legislation came into force.
- 48 out of these 110 claims have now been fully-settled.
- **Scheme run by Post Office but DBT funds and closely involved in governance.**

GLO Compensation Scheme

- Announced March 2022 for c. 500 postmasters in recognition that it was unfair that those who took High Court action ended up with less compensation than those who did not.
- Launched in March 2023.
- Of the c.480 who are eligible, 224 claims received so far; 210 offers made; 184 offers accepted
- **Run by DBT because Post Office could not afford to fund or deliver it and because GLO members do not trust them.**

Horizon Convictions Redress Scheme (HCRS)

- Announced alongside Bill to overturn outstanding convictions.
- Ready for launch in July 2024.
- [See next slide for more detail.]
- **To be run by DBT.**

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Horizon Convictions Redress Scheme (HCRS)

- We estimate c.900 people have had their convictions quashed by the 2024 Post Office (Horizon System) Offences Act.
- The Ministry of Justice (and their Scottish and NI equivalents) are seeking to identify everyone covered by the Acts and inform them that their conviction has been quashed.
- These people will be eligible for financial redress – the Horizon Convictions Redress Scheme. HM Treasury has set aside £1BN.
- Under the previous Government it was announced that the redress scheme would be run by DBT. Work has been underway to enable the scheme to launch before end July.

Decisions for you:

- Timing of launch.
- Overall scheme design and related policy principles.

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Horizon Redress: Overview

Progress

- Approximately £222 million paid out to over 2,800 claimants so far across 3 schemes:
 - Horizon Shortfall Scheme (HSS): £122 million
 - Group Litigation Order (GLO) Scheme: £54 million
 - Overturned Convictions (OC): 110 convictions have been overturned; £46 million total value of all payments including interim payments

Opportunities and Challenges

- Launch of new **(HCRS) redress scheme** – high public and political expectations of very early delivery.
- Overseeing Post Office's response to the **surge of HSS claims** triggered by the ITV drama.
- Consideration of the Advisory Board recommendation to establish an **independent route of appeal** for HSS claimants.
- Ensuring that redress is fair and timely, and that we convey that to the **Williams Inquiry**, which will look at redress issues in September-October.
- Forthcoming investigation report may require compensation for postmasters affected by previous IT system **'Capture.'**

Handling public communications

- We recommend that you swiftly confirm reappointment of the Advisory Board.
- We recommend publishing regular data on payments made to address public concerns about lack of progress.
- We recommend publishing regular scheme reports on progress, as part of being proactive on comms.

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Strategic challenges and the future of the Post Office

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Overview of Post Office

- Post Office's public ownership is founded on its **social purpose**, including protecting interests of vulnerable customers, providing services of social importance and safeguarding services in deprived areas. Key services include **mails** (as a key partner of Royal Mail) and **banking and financial services**.
- Government requires Post Office, through its funding agreement to:
 - Maintain a **national network of 11,500 branches**.
 - Meet the **minimum network access criteria** e.g. 99% of UK population to be within three miles of their nearest Post Office.
 - Ensure the **provision of core services** over the network (including postal services, cash/banking services, bill payment services and Government services).



11,744

branches
open in May,
around half
in rural areas



99%

branches
operated
on franchise
basis



£4.7bn

in economic
impact in
21/22



50,000

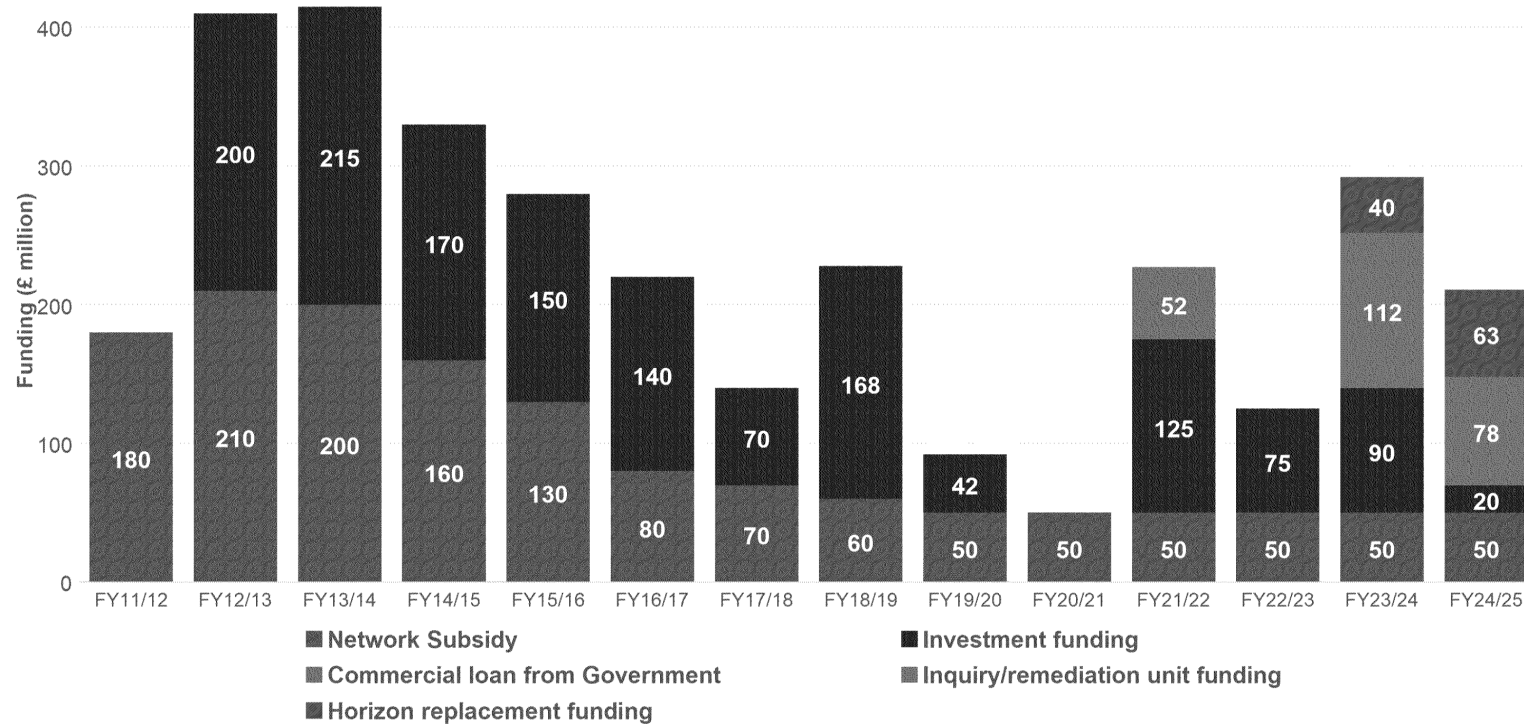
full time
jobs supported
by the network

Challenges facing the Post Office

1. Post Office is **heavily reliant on Government funding** and the trend of Post Office being loss-making on a cash basis is expected to continue.
2. Post Office and HMG are in a difficult position with respect to the complex and expensive **IT programme to replace the Horizon system**.
3. **Over half the network is loss-making** and the costs of the uncommercial network are increasing as reductions to revenues materialise in core services.
4. Both the **mails and cash business elements are likely to face challenges** in the medium term.
5. **Postmasters are struggling** in some parts of the network, partly as a result of inflationary pressures.
6. Delivering change is difficult considering **strong views from stakeholders**, potential impact on communities and cost to implement changes.
7. The **company continues to experience significant issues in recruiting and retaining suitable talent**.

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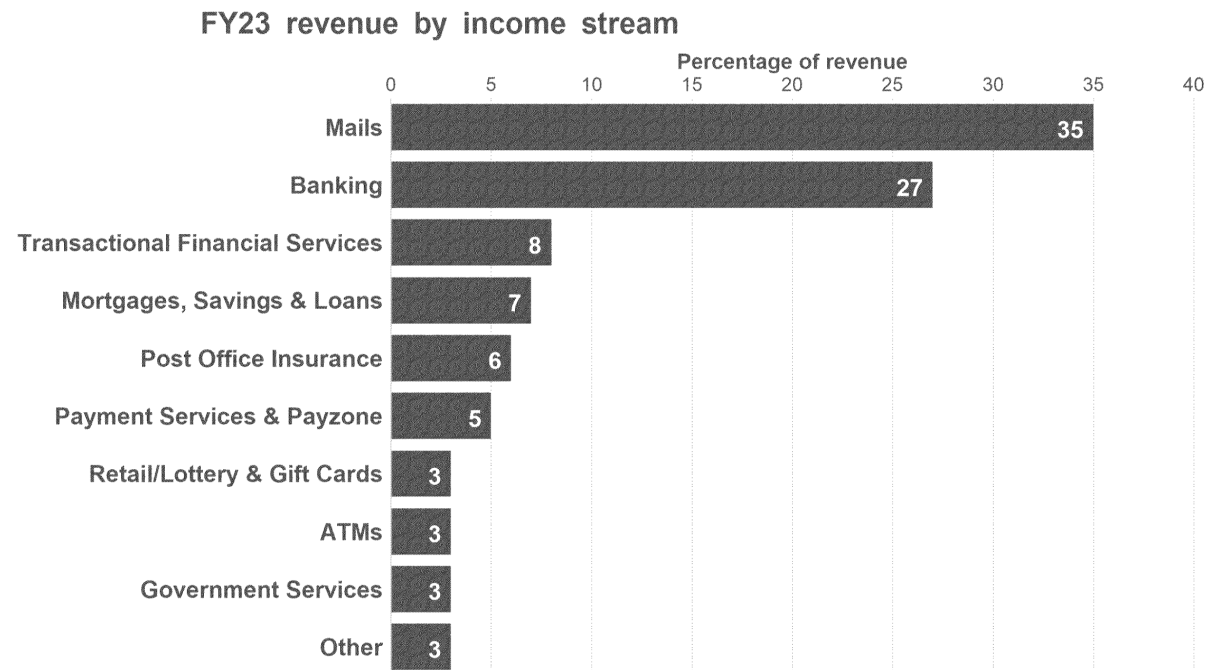
Around £3 billion has been provided to support the Post Office since 2012, but the company is still heavily reliant on Government funding



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Post Office relies heavily on Mails and Banking for revenue which are both likely to face significant challenges



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Questions

1. Your manifesto commits to strengthening the Post Office network. Do you have any initial steers for how this should be achieved?
2. All options for the future of the Post Office (including maintaining the status quo) have trade offs around impact on customers/communities, impact on postmasters, implementation costs, ongoing funding required and speed of implementation. Do you have any early views on what you consider most important in terms of trade-offs?
3. Nigel Railton (appointed Chair on 1 May) is undertaking work to look at Post Office's operations and strategy including a radical reduction in its cost-base and its product and service portfolio. Cost reduction proposals are likely to require up-front investment funding. How challenging will it be to make a case for this investment?
4. Government's network requirements have been in place since 2010 during which time there have been significant changes in consumer behaviour with many services moving increasingly online. Would you be happy to review these requirements to deliver services in a different or targeted way?

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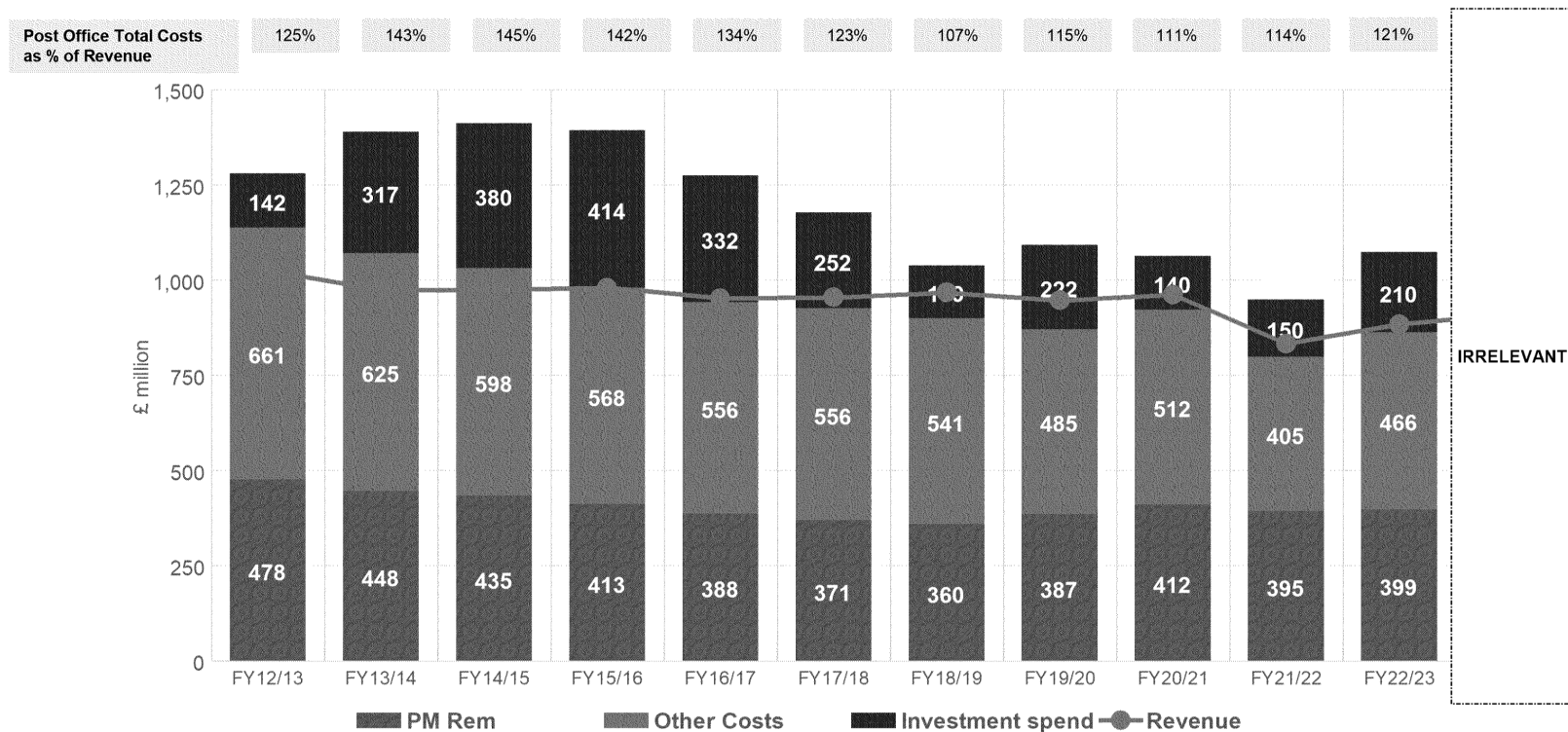
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ANNEX: Further details on Post Office's financial position

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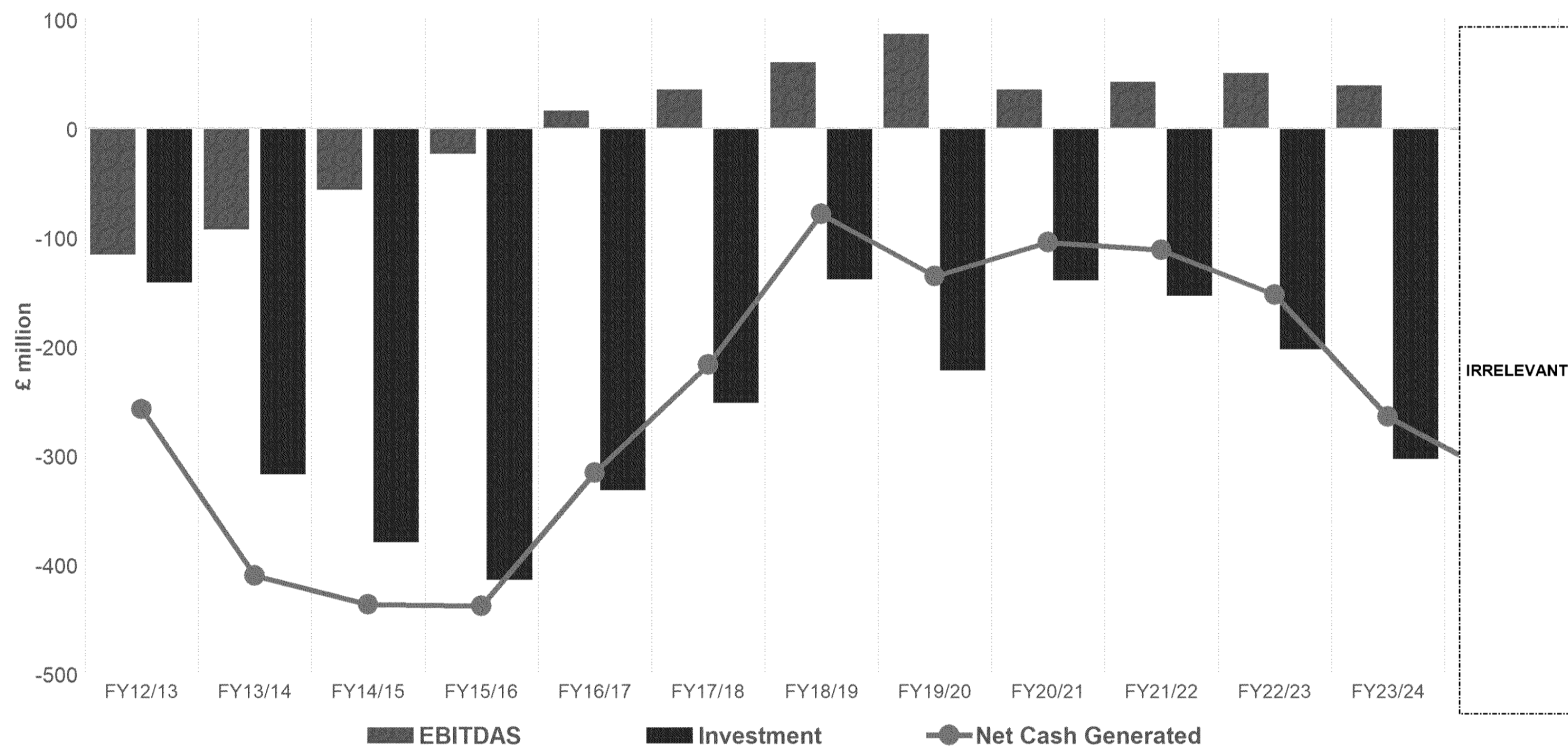
Post Office spends substantially more to cover costs than total revenue it brings in



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While Post Office has delivered a small ‘trading profit’ in recent years, it has never been cash generative after accounting for essential investment spend

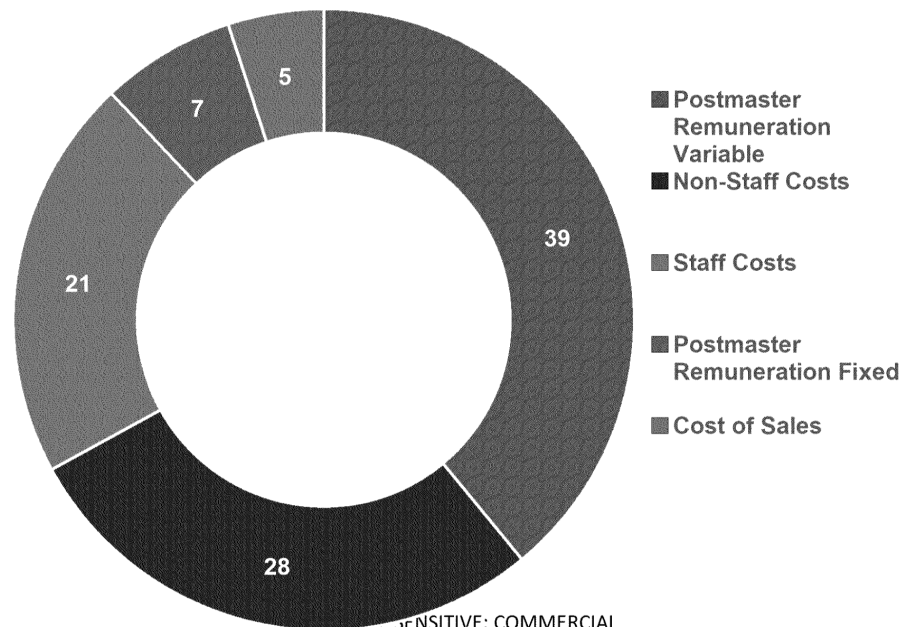


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Post Office's total cost base is largely split between postmaster pay and central costs to run the company. There are limited options within postmaster pay and non-staff costs to reduce the cost base.

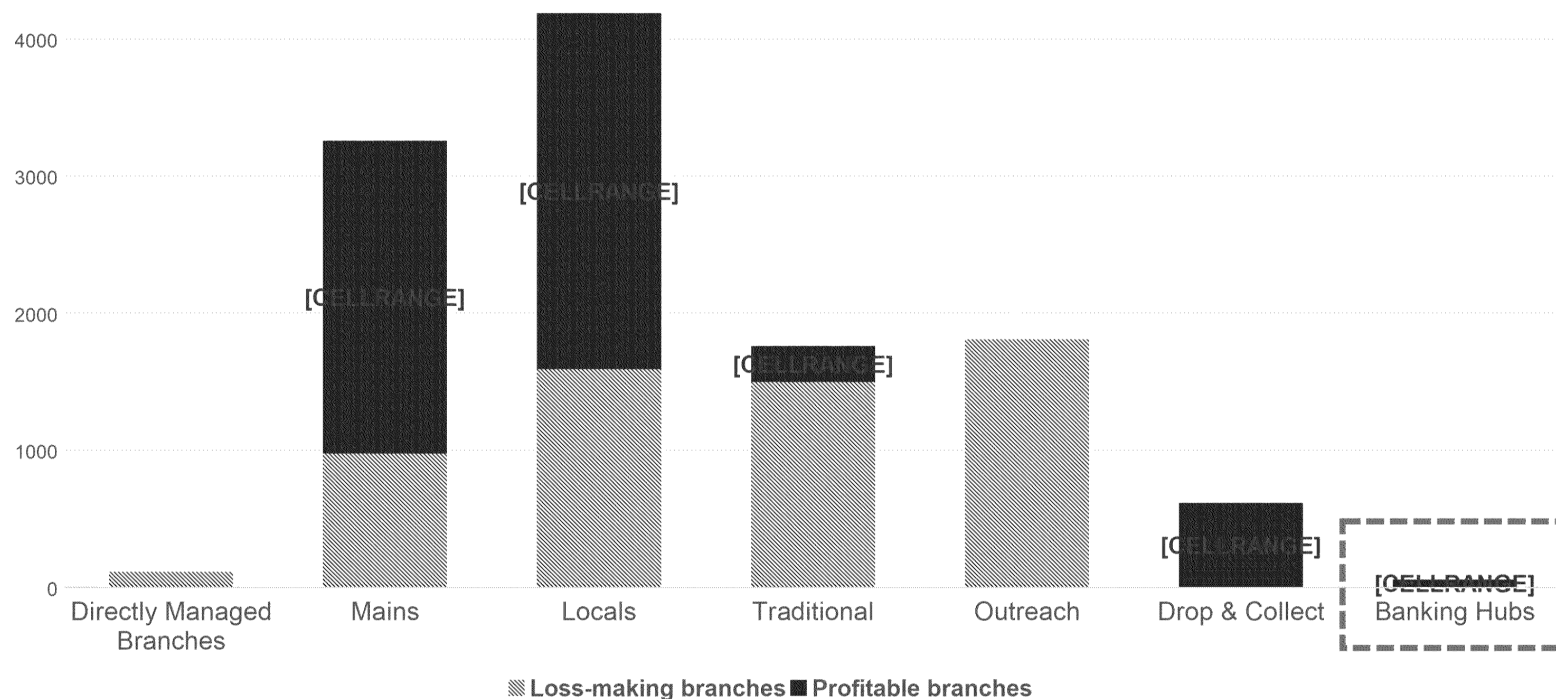
FY23 trading costs by type (%)



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There are several different branch formats across the network. Over half the network is loss-making, which is expected to increase as reductions to revenues materialise



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