

To ask the Secretary of State for Business, Innovation and Skills

- (1) how many (a) prosecutions and (b) investigations of postmasters instigated by **Post Office** Ltd as a result of apparent financial irregularities on the Horizon computer system have subsequently been abandoned; [77794]
- (2) how many complaints **Post Office** Ltd has received from subpostmasters concerning difficulties with the Horizon computer system in each of the last five years; [77795]
- (3) whether any operational faults have been identified with the Horizon computer system used by **Post Office** Ltd since its introduction; and what action has been taken to resolve any such faults; [77796]
- (4) what the monetary value is in current prices of the (a) original estimate and (b) final cost of the **Post Office** Horizon computer system; and what additional costs at current prices have been incurred since its completion. [77797]

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Your recent questions in Parliament about the Horizon system within Post Office Ltd have been referred to me for a response. As you cover a range of issues, I believe it would be helpful if I could provide some context by briefly describing what is generally considered as 'Horizon' and the role it plays within the Post Office network and the accounting undertaken by subpostmasters.

Let me stress at the outset: we have complete confidence in the accuracy and integrity of the Horizon system, which has been operating effectively for subpostmasters in recording transactions for over ten years. The National Federation of Subpostmasters, which vigorously represents the views and interests of subpostmasters around the entire country, has also expressed its full confidence in the accuracy and robustness of the Horizon system.

It is important to recognise the scale of the Horizon system. Over the last ten years perhaps 20,000 different subpostmasters will have used the system to perform many millions of successful financial reconciliations between the cash and stock they have in the branch and the transactions they have handled. The Horizon system provides detailed records of every transaction, no matter how small or large, in any individual Post Office branch. If an individual branch has been unable to reconcile their transactions with the cash in the office, there are systems of checking and auditing by the subpostmaster or his or her staff that enable issues to be resolved. If they are unable to resolve the issues themselves using the guidance materials provided to branches then they are able to seek advice from the Network Business Support Centre which has operational guidance on hand to respond to such enquiries.

An example of an issue that might lead to a financial reconciliation initially not being achieved, but which could be subsequently resolved, could be a colleague in a branch

making an error when inputting a number into the system, or they may inadvertently hand out stamps of the wrong value. The systems of checking and balancing, and the helplines available, enable our branches to maintain accurate and reliable accounts and to have a note on record in the interim that they had experienced an issue and were in the process of resolving it.

As with any large organisation responsible for large amounts of money within a dispersed branch network, Post Office Ltd also undertakes audits at branches. In an extremely small number of cases, shortages of cash and/or stock (such as stamps) can be discovered and, after all necessary checks have been undertaken, there might remain significant missing sums that can't be accounted for by the subpostmaster. In such cases there are processes which are fully outlined in the commercial contract that Post Office has with subpostmasters (the independent businesses who operate agencies on behalf of the Post Office) that can involve suspension whilst enquiries are ongoing and which may lead to a termination of that contract if a substantial breach of contract is found ( following the appropriate opportunities for appeal which are built in to those processes). The contract reflects the position that public money is entrusted to the Post Office and it is vital that everything is fully accounted for. If significant money is missing – either as a result of lack of sufficient competence by the subpostmaster or their staff or, in extreme and very rare cases, as a result of dishonesty, it is not appropriate for that subpostmaster to continue to operate the branch, and the Post Office will seek to appoint someone new to take over.

In a small fraction of cases, court action has been taken over missing sums of public money. In some of these cases, the subpostmaster has made allegations about the Horizon system that records transactions. The Courts have consistently upheld the Post Office's position that the Horizon system is accurate and reliable. When former subpostmasters have been convicted of false accounting and / or theft, it is, of course, the Courts that have convicted, not the Post Office. In some cases, the subpostmaster pleaded guilty; in others the Post Office had to provide robust evidence to support the Crown's case. A criminal court will only convict an individual if it considers that the evidence has shown, beyond reasonable doubt, that the individual is guilty of the offences with which they have been charged. .

The Horizon system is therefore used by every subpostmaster, and every Post Office counter clerk in Crown Branches every day. Each has an individual log in, so all the transactions they undertake are recorded as being done by them as individuals. Each is able to run off logs of the transactions they have undertaken whenever they wish. They will have received training on the system and have full access to helplines to assist them. The system underpins efficient service to our customers and provides our subpostmasters and staff with an effective tool to accurately and efficiently manage their day to day operations.

Having established this background context, I would like to consider the questions that you have raised.

You have asked about the numbers of prosecutions and investigations instigated by Post Office Ltd as a result of financial irregularities on the Horizon computer

system which have subsequently been abandoned. The first point I need to make here is that the issue that we can consider is that of 'financial irregularities' – all the Horizon system is doing is keeping a record of the transactions that are input by the subpostmaster or clerk. A financial irregularity might arise when the cash and stock that is held in the office is short against the amount that should be in the office in accordance with the transactions undertaken. As has been previously explained, this may happen for a range of reasons – and it may well be that the issue can be quickly resolved by tracking back and identifying the issue that has caused the shortage. We move into the area of financial irregularity where there is a significant loss and there is no clear initial explanation. This is most likely discovered when Post Office Ltd undertakes an audit of the office and discovers the significant shortage. Like all financial institutions and retailers, Post Office Ltd will undertake audits of branches to ensure that proper accounting practices are being followed and the assets of the Post Office are being kept secure. The cash that is held in Post Offices is typically the property of Post Office Ltd and is supplied to the subpostmaster. If there is a shortage at a branch, this represents a loss to Post Office Ltd and it is, of course, vital for a publicly owned organisation to ensure that its cash and assets are managed with integrity and care and are not put at unnecessary risk.

In circumstances of potential financial irregularities, the Post Office may suspend the subpostmaster on a precautionary basis whilst further investigations take place. Subpostmasters are not employees of Post Office Ltd – they are agents, independent businesses who have a commercial contract with Post Office Ltd. That contract includes provision for suspension in certain circumstances. In the period ..... there were ..... suspensions across the Post Office network whilst investigations were being made.

During a suspension, detailed enquiries will take place as to whether the apparent financial irregularity can be explained and whether any breaches of the commercial contract with the agent have occurred. It may be the case that a reason for the shortage is identified and, as appropriate, the subpostmaster may be reinstated to continue with their contract for services. In the period ..... there were ..... occasions where the subpostmaster was reinstated. It is important to note here that reinstatement would occur if Post Office Ltd were satisfied there had been no gross breach of contract. This will have nothing to do with the Horizon system – all that Horizon will have done is record transactions undertaken at the branch.

There will however also be cases where a subpostmaster who is suspended will themselves resign their contract before any action is undertaken by the Post Office. In the period ..... of the ..... branches that were not reinstated ..... Resigned their contract. The balance represent cases where Post Office Ltd has found a significant financial irregularity, constituting a gross breach of the contract with the subpostmaster. There are processes by which the relevant charge is put to the subpostmaster, where he/she has every opportunity to

answer it (with representation from the NFSP if required) and if a decision is subsequently made by Post Office Ltd to terminate the contract, there are appeals processes that can be invoked. All these processes are laid down in the subpostmasters contract and have been agreed with the NFSP. It is only after all these processes have been applied that Post Office Ltd would terminate the commercial contract of the agent to provide services on behalf of the Post Office. In the period..... this occurred on.....occasions.

In a small fraction of cases court action has been taken over missing sums of public money. In the period..... Post Office Ltd has been involved in ..... Prosecution cases which have led to..... In some of these cases, the subpostmaster has sought to make allegations against the Horizon system that records their transactions. The Courts have consistently upheld the Post Office's position that the Horizon system is accurate and reliable.

The above figures also need to be put into context – Post Office Ltd has 11800 Post Offices. The numbers involved in suspensions, contract terminations or prosecutions are a tiny proportion of such cases. The vast majority trade completely normally, using the Horizon system in full accordance with their commercial contract.

You have also enquired about the number of complaints that Post Office Ltd has received in each of the last five years with respect to the Horizon system. A subpostmaster has many channels by which they can make enquiries or complaints about matters relating to their operation – via the management structure, with visiting training, support or audit staff, via the NFSP, or via the various helplines that are available to assist them in operating in accordance with their contract. Each case is handled individually and central records are not held of the nature that you are specifically requesting. In these areas where we do hold information – for example in our National Business Support Centre (NBSC) for subpostmasters – the information is held with respect to the nature of the enquiry made (it is not necessarily a complaint). The role of the NBSC is to assist subpostmasters in resolving operational enquiries that they may have in the course of their ongoing trading. There is not a specific category of 'complaints about the Horizon system'. A subpostmaster may have queries about their accounting processes for a wide range of reasons and as part of this he/she may need some support on some aspect that involves operation of the computer system. For example he/she may need assistance on remedying an inputting error that he/she'd already made – these are part of the normal day to day trading issues that will occur in any large retail or financial organisation. To illustrate the kinds of enquiries that subpostmasters make with respect to the national helpline – the top ten issues over the period ..... were

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To consider your enquiry further, if we look outside the realm of normal day to day trading by trading Post Offices, we can seek to look at cases of those who

are making distinct allegations with respect to the operation of the Horizon system. We find that there appears to be a very small group of ex-subpostmasters who no longer have contracts with Post Office Ltd after a significant shortage of funds has been found at their office, for which they couldn't account. The legal firm, Shoosmith's has been claiming for around a year that they have number of cases where such individuals are making claims against the system. Although, they have not told us directly, we believe that they have intimated to other sources – such as the media – that they have a number of such cases ( which they first mentioned around a year ago). These cases appear to stretch back over a period of at least five years. We have not seen details of all these cases despite Shoosmiths stating that they are on the threshold of instigating civil action against the Post Office for over a year. All we have received from Shoosmiths are 5 cases where there have issued 'letters before claim' seeking information prior to determining whether they might pursue a civil claim under commercial law.'. These cases refer to individuals who ended their contractual relationship with Post Office Ltd between x and y years ago. The claims are not solely related to allegations with respect to Horizon, they also encompass other issues where the ex-agents have issues about their contract such as training. In two of the cases the individuals have in the past pleaded guilty to false accounting.

The Post Office does not accept any of the allegations that are being made and will robustly defend its position if any civil action is mounted against it. With respect to the rest of the cases that Shoosmiths say they have, they have not seen fit to share details with Post Office Ltd – even after a year of stating that they have such potential claims - so we cannot comment upon them.

If we assume that these claims constitute 'complaints against Horizon' the number can be seen to be absolutely tiny in the context of a system that many thousands of subpostmasters have been using for over ten years to help produce many millions of financial reconciliations. It is also important to note that none of these complaints has been upheld. Rather Post Office Ltd is vigorously defending itself against such allegations and will do so in the civil courts if necessary. It regards the claims in the cases it has received as being absolutely without merit. Of course, at the end of the day, Post Office Ltd is in a commercial contract with the agents operating post offices, and if the businesses involved in those contracts believe they have an appropriate issue with respect to the contract, they are fully able to pursue the matter through the normal processes of commercial law.

Separately, on the very few occasions where an adverse comment about Horizon has sought to be made in legal proceedings where a subpostmaster is being prosecuted for theft or false accounting, the Courts have consistently upheld the Post Office's position that the Horizon system is accurate and reliable.

You also ask for information about operational faults with the Horizon system since its introduction and the actions taken to remedy those faults. As with any large, complex system that is required to support changing business requirements, operational issues can occur. Industry standard tools are used to alert support teams to any such issues so that the potential impact can rapidly be assessed and, if required, rectified. The system is independently audited to ensure compliance to a variety of standards, for example PCI and ISO27001. Rectification actions range from straight forward hardware replacement to software patching designed to combat evolving cyber threats.

At this stage, it is worth pointing out that the Horizon system keeps full audit records of all key strokes undertaken by all log ins – so that it is always possible to track back anything that has occurred within the system – or at an individual sub post office. The system is designed such that all data is sequentially numbered at the point of its creation and is separately stored in a secure tamper proof facility for 7 years – so that recreation of situations and track back is always feasible.

Finally, you have asked about costs of the Horizon system. You are probably aware that the system originally developed out of Government processes to automate benefits payments alongside a major automation of previous Post Office point of sale and accounting systems. It was therefore designed to meet the rigorous security standards necessary to undertake the payment of benefits. The original costs and development were the subject of substantial Parliamentary scrutiny back in the 1999/2000 period. To respond to your specific question, it may help if I quote an extract from the 2001/02 Royal Mail Group Report and Accounts;

'Responsibility for the liabilities of the Horizon ICL/Pathway project was transferred from the Government to The Post Office in 1999. This resulted in a one-off payment by the Group for costs incurred by ICL of £550m, a write off of £571m in the 1999-2000 accounts and the incurrence of substantial ongoing maintenance costs. By the time the contract terminates in 2005, aggregate contract costs are expected to amount to some £1bn.'

Current contracts for the operation, maintenance and ongoing development of the Horizon system are held with Fujitsu and the payments within these contracts are regarded as commercially confidential (as disclosure could have a material impact on any future procurement exercises with respect to the system).

This has necessarily been a long letter as the issues upon which you enquire are complex and detailed. They also involve recognising a wider context of the operating and accounting systems of the Business. We have full confidence in

the Horizon system and it is regarded as an important part of the successful operation of our business and the modern infrastructure that is necessary to support our nationwide network of Post Offices. As you are aware, our policy approach is to sustain that network – we have no programme of closures – rather we have an approach of investment and growth that seeks to ensure the future viability of the network and retain the social value that it offers to customers and communities throughout the land. A modern and effective computer infrastructure is a necessary part of achieving that goal (as will be the case with any nationwide bank, retailer or Government Department). Horizon provides that infrastructure in full accordance with modern industry standards. It accurately records millions of customer transactions every day.

Given your interest in these matters as reflected in your questions, and given the importance of recognising the background context of how Horizon fits in with a modern Post Office's approach to handling transactions and accounting, it may be helpful if I invite you to meet us and for us to demonstrate to you how Horizon operates. We could either do this at a specific Post Office – or by demonstrating the facilities here in London. Please let me know if you would wish to do this. It is very important to us that there is no misunderstanding as to the nature, effectiveness and integrity of this computer system.

Thank you for your interest in these matters. I do hope that this letter has helped clarify the issues upon which you had questions and please let me know if you would wish to meet and see a demonstration of how our computer and accounting systems operate for Post Offices.