

OFFICIAL-SENSITIVE: COMMERCIAL

# Post Office Teach-in

Minister Hollinrake, 2 November 2022

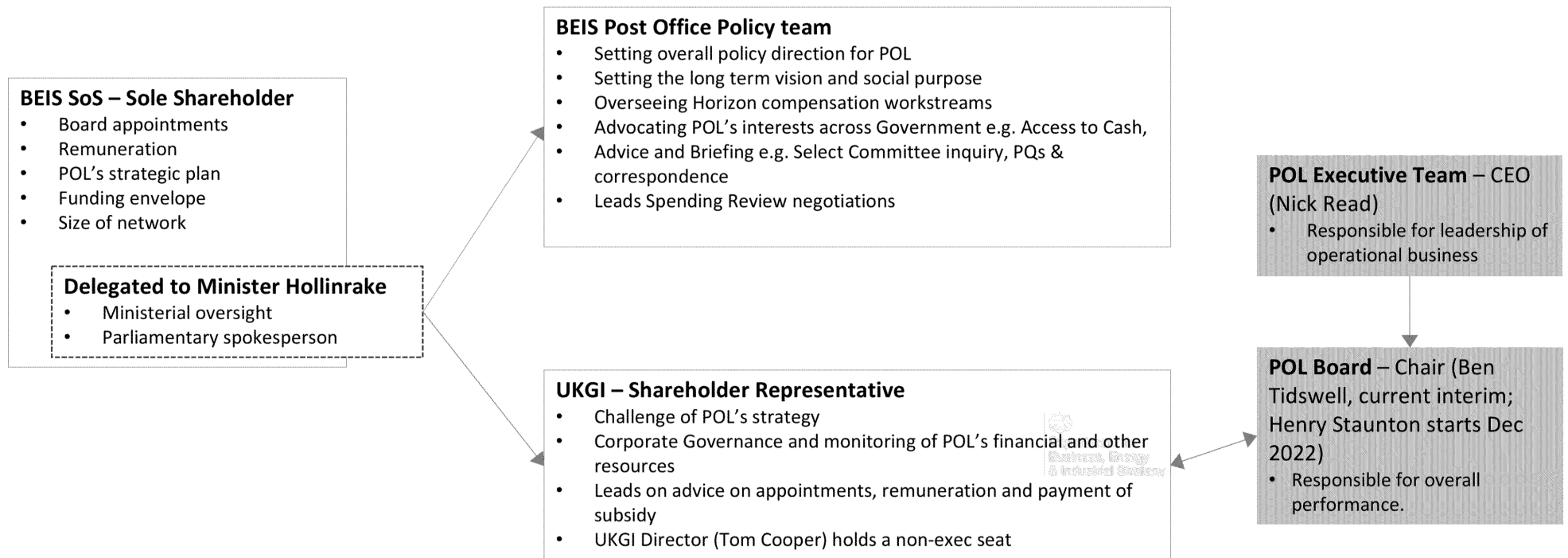
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# Overview of Post Office Limited

- Post Office Ltd (POL) is a Government-owned business, sponsored by BEIS via UKGI (UK Government Investments). POL is classified as a **public corporation**; it operates at arm's length from Government, as a commercial business with its own board.
- POL's public ownership is founded on its **social purposes**, including protecting interests of vulnerable claimants, providing services of social importance and safeguarding services in deprived areas. These include SPEIs (services of public economic interest) such as **mails** (as a key partner of Royal Mail) and **banking and financial services**.
- Government requires POL, through its funding agreement to:
  - Maintain a **national network of 11,500 branches** (beyond its optimal commercial size) (Entrustment Letter/Funding Agreement)
  - Meet the '**Minimum Network Access Criteria**' e.g. 99% of UK population to be within 3 miles of their nearest Post Office outlet
  - Make available **Services of Public Economic Interest** (SPEIs) (Entrustment Letter/Funding Agreement)
- Under the current **Spending Review settlement**, POL will receive £335m Government funding over the 2022/23 - 2024/25 period. This comprises an annual £50m network subsidy and a further £185m of investment funding.
- There are several **different post office models**: just over 1% (116) of branches are Directly Managed Branches (DMBs) run by POL employees; the remaining 99% operate on a franchise or agency basis. Branch types include; 'mains', where there is a full post office counter within a retail outlet, offering a wide range of post office products and services; a 'local' where the post office is fully integrated into a retail outlet, offering fewer products and services; an 'outreach' mobile post office; or the new pilot 'drop and collect' model.
- **As of September 2022**, there are just over 11,600 branches in the UK, and 93% of population live within one mile of a Post Office.

# BEIS's relationship with Post Office Limited (POL)

- BEIS's Secretary of State became sole Shareholder in POL in 2012 (Postal Services Act 2011).





# Live Issues

- **Post Office Review** – see next slide;
- **Horizon and Compensation** – see later slides;
- **Economics of running a post office** - a third of post office franchises are unprofitable; costs (e.g. minimum wage and energy bills) are rising, and postmasters cannot pass price increases on to customers; these difficulties could have a negative impact on POL's ability to maintain a functioning network of 11,500+ branches;
- **Industrial action** – strikes by members of the Communication Workers Union (CWU) have affected directly-managed branches and the Post Office supply chain. Combined with ongoing action by Royal Mail Workers, industrial action is having an adverse impact on the network (although have resulted in very few branch closures);
- **POL financial position** – although they have performed better than expected in the first six months of 22/23, due to rising costs and declining demand for core products, POL's current financial outlook is significantly behind the forecasts set out in their 2021 Three-Year Plan. POL have begun pursuing a number of self-help measures, but may yet seek further financial support (in the form of an invest-to-save loan) from HMG.

# Post Office Review

- HMG's current network requirements were established some 15 years ago. Since then we have seen dramatic changes in technology, consumer behaviour, and the high street. We have begun work **reviewing the Government's policy on the Post Office**, to ensure that our priorities for POL are the right ones.
- The Review was a condition of POL's 2022/23-2024/25 Spending Review settlement. It will aim to arrive at a policy position that **secures POL services in the long term**, for those that need them, whilst ensuring the company is **financially sustainable and represents value for money**.
- To date, we have drafted and agreed terms of reference with POL and HMT. We have also been **engaging with other Government Departments** with an interest in Post Office policy; they have been broadly supportive of the need to update the policy, and closely involved in the work so far.
- We need to go public with the Review in order to begin important engagement with external stakeholders; but **the announcement has been significantly delayed**. Previous BEIS Ministers signed off the Review Terms of Reference, and in October we had begun the process of securing collective agreement to announce; due to the reshuffle, we will need to **begin the write round process again**.
- Subject to your views on the overall approach to the Review, our recommendation is to write round to members of the relevant Cabinet Committee at the earliest possible opportunity. We hope to secure **agreement to proceed with the Review**, and to make a (light touch) **public announcement later this month**, or early next.

# Horizon Timeline

POL introduced Horizon, a new computerised accounting system, in 1999. It recorded shortfalls in branches that POL investigated and took action on, such as terminating postmaster contracts and prosecutions (up until 2013). In 2009 the “Justice for Subpostmaster Alliance” (JFSA) was formed, arguing that system errors caused the shortfalls. They formed a group of 555 postmasters who started High Court proceedings in 2016 under a Group Litigation Order (GLO).

**The Trials/Settlement timeline:** The litigation was split into several trials:

- March 2019: Judgment in the first “Common Issues” trial (on the contractual relationship between POL and postmasters) was highly critical of POL.
- April/May 2019: POL attempted to have the judge recused and appeal the judgment – both of these were rejected.
- April-July 2019: Second Trial on “Horizon Issues” was held.
- July 2019: POL changed its legal team and adopted an approach to consider settlement.
- 11 December 2019: Settlement was reached, with POL agreeing to pay £42.75m plus costs, alongside other commitments to strengthen the postmaster relationship, such as improvements to postmasters' day-to-day interactions with POL. It subsequently became clear that only £10.5m of this settlement went to the 555 postmasters in the GLO group.
- 16 December 2019: Judgment in the second “Horizon Issues” trial (on the reliability and function of Horizon) was handed down. Again this was very critical of POL.



# 1) Historical Shortfall Scheme

- Launched following a commitment in the GLO settlement. Over 2,500 applications, of which c.2,350 are eligible.
- **Offers now made to 90% of claimants.** POL are committed to delivering 95% of offers by end 2022. Ministers have set the expectation that all offers should be made by end 2022.
- HMT have agreed to fund settlements for the original HSS cohort until 31 March 2024, on the proviso that offers are made to all applicants by 31 March 2023.
- HMT have also committed to fund settlements for **late applicants to the HSS** until 31 March 2025.
- Areas of pressure: ensuring the process of accepting late applicants can press ahead swiftly and a substantial proportion of these cases can be settled by the end of this financial year; ensuring that the majority of the remaining, most complex HSS cases from the original cohort have received offers by the end of the calendar year.

## 2) GLO

- In March 2022, Ministers announced that members of the GLO will receive further compensation similar to their non-GLO peers, in addition to the £10.5m from the Post Office via the December 2019 settlement.
- We are working in partnership with Justice for Subpostmasters Alliance (JFSA) and their lawyers, Freeths.
- On 30 June, we announced that we would within weeks distribute a further £19.5m to eligible GLO claimants as **interim payments** ahead of further compensation. 85% of those payments have now been made. The remainder are held up while we resolve tricky issues such as claimant's bankruptcy. **Some political/media pressure** about this.
- We ran an informal consultation with postmasters on the design of the overall scheme. We will use the results to inform our business case, due for approval by BEIS and Treasury in early Dec. Hope to **announce further information** before Williams hearing on 8 December.
- Areas of pressure: admin costs for running the scheme (HMT view); law firms.



### 3) Overturned Historic Convictions

- Following recommendations from the Criminal Cases Review Commission, the Court of Appeal overturned 39 convictions in April 2021. In total, 82 convictions have been overturned so far, either by the Court of Appeal or other courts.
- The postmasters have had to wait until their convictions are overturned before being eligible for compensation. We have successfully made **interim payments of £100k** to the vast majority of people with quashed convictions. The interim payment limit has recently been uplifted to £163k for new applicants.
- POL has settled two claims for malicious prosecution. **An Early Neutral Evaluation (ENE)** process with Lord Dyson was undertaken with a group of claimants in July. This has unlocked some of the barriers to settlement concerning non-pecuniary damages. Including the 10 claims involved in the ENE, POL has received 38 non-pecuniary claims and is progressing offers swiftly.
- Areas of pressure: length of time it is taking to agree compensation; POL's estimate of postmasters with convictions is much higher than the number who have sought to overturn their conviction. Postmasters' lawyers are also not promptly submitting their claims (only 4 full claims to date), which is holding up progress.

## 4) Post Office Horizon IT Inquiry

- Chaired by Sir Wyn Williams. Promised by PM Johnson Feb 2020. Launched as a non-statutory Inquiry Sept 2020. Made a statutory Inquiry in May 2021 after the Court of Appeal quashed convictions. Started with Call for Evidence and human impact hearings.
- Hearings on **compensation issues** took place in July 2022. Williams issued an update report in August which included some moderate criticisms of policy. Action on some of these was already in hand. Williams has announced a **further hearing on compensation on 8 December**. We will send him an update in advance: if this can include details of the GLO scheme it will also need a **Commons statement**.
- Further oral hearings are under way. Focus until December will be on procurement of Horizon in the 1990s. BEIS continues to supply documents and prepare former Ministers and officials as witnesses.

# Key Stakeholders

- Post Office CEO Nick Read – monthly catch-ups (next on 22 November).
- Meeting with group of key MPs and Lords on Horizon issues – Minister Russell held a first meeting with them on 19 October. May be worth a further meeting before the Williams update and any GLO statement.
- Parliament – Post Offices APPG – chaired by Marion Fellows MP; ongoing interest from BEIS Select Committee into Horizon-related issues and compensation and health of the Post Office network.
- National Federation of Subpostmasters (NFSP), the main trade body for postmasters (via meetings three times a year).
- Justice for Subpostmasters Alliance (JFSA) – led by Alan Bates – and their lawyers, Freeths.
- Citizens Advice (provide scrutiny of Post Office performance and service provision).
- Sir Wyn Williams (Chair of Horizon IT Inquiry). Interactions with him must be limited out of respect for his independence.
- Communication Workers Union (CWU) – the Union representing Post Office staff in directly managed branches, supply chain and logistics; CWU also represent Royal Mail workers.