

OFFICIAL-SENSITIVE: COMMERCIAL

# Post Office introductory brief for Secretary of State

February 2022

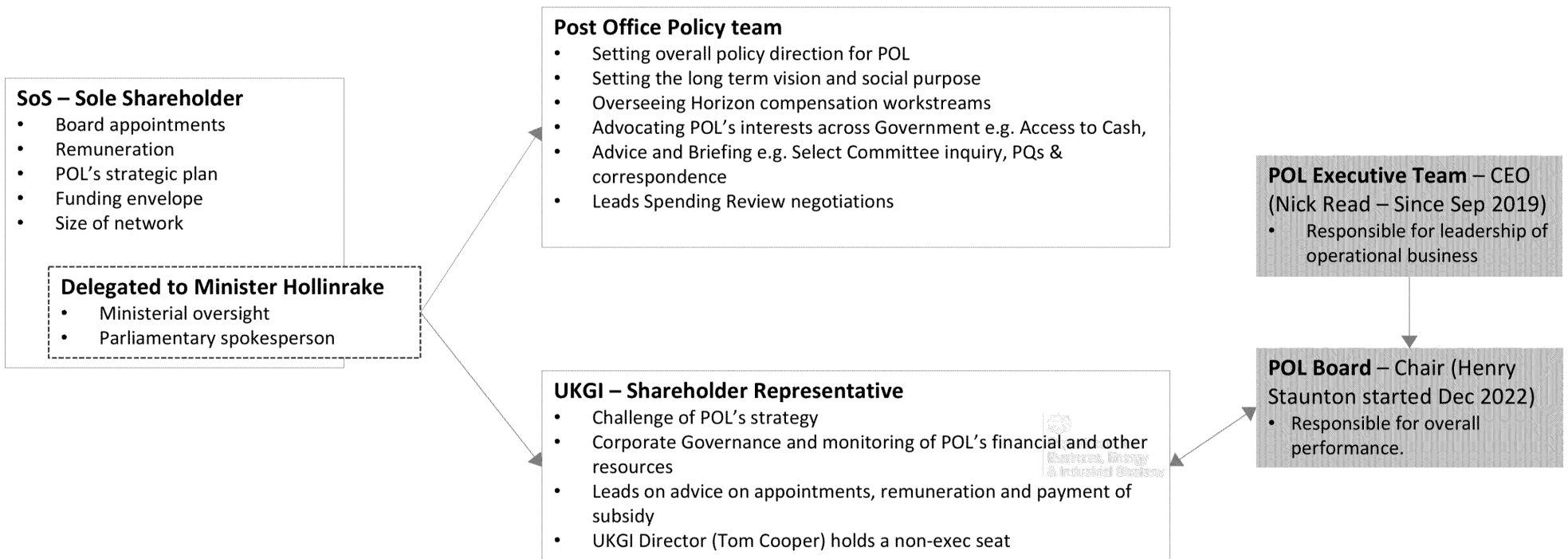
# Overview of Post Office Limited

- Post Office Ltd (POL) is a Government-owned business, sponsored by DBT 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 branch types**: 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 at January 2023**, there are just over 11,600 branches in the UK, and 93% of population live within one mile of a Post Office.

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

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



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# Live Issues

- **Post Office Strategy** – 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, with a long-term downward trend in Mails performance, including a 26% drop in December in Mails revenue. POL have begun pursuing a number of self-help measures, but Nick Read wrote before Christmas and again in January setting out the financial challenges facing POL and seeking additional financial support from HMG (of at least £160m from next year). We are expecting a final ask from POL after the 9 March Board. The ARAC Chair also wrote to former BEIS's ARAC to flag a number of risks that are out of tolerance. We are engaged with HMT, following a steer from SoS Shapps that officials should seek additional funding.

# Post Office Strategy

- 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.
- Reviewing the policy framework was an HMT condition of POL's 2022/23-2024/25 Spending Review settlement. Its aim was 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 had **early engagement 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.
- Recent Ministers have been more **cautious about going public** on this work than their predecessors. As a result we are taking this strategy/policy work forward only internally within HMG and together with POL. We will then advise Ministers of the findings and Ministers (including with HMT Ministers) will then decide whether they want to make any changes to the current policy framework and if so, when to proceed with the necessary public consultation.

# Horizon Timeline

- **1999:** POL introduced Horizon, a new computerised accounting system.
- **1999-2019:** Horizon recorded shortfalls in branches that POL investigated and took action on, such as terminating postmaster contracts and (up until 2015) prosecutions. They assured each postmaster that they were the only one facing difficulties with Horizon.
- **2009:** Some affected postmasters realise that the problems are not individual to them. “Justice for Subpostmaster Alliance” (JFSA) was formed, arguing that system errors caused the shortfalls.
- **2009-16:** Persistent lobbying of Post Office and Government by JFSA leads to various actions, none of which resolved the issue.
- **2016:** Group of 555 postmasters under JFSA banner started High Court proceedings in 2016 under a Group Litigation Order (GLO).
- **December 2019:** In the light of Court findings highly critical of POL, case was settled with POL agreeing to pay £42.75m plus costs. Only £10.5m of this settlement went to the 555 postmasters in the GLO group; the remainder was paid to those who funded the case. POL also agreed to set up what became Historic Shortfall Scheme (HSS) for other postmasters.
- **Spring 2021:** Court of Appeal overturns first batch of convictions of postmasters for Horizon offences. Williams Inquiry given statutory powers to investigate.
- **Early 2023:** so far 84 convictions overturned out of total [700+]. Likely that many will never be overturned – whether because claimants can’t face further legal processes or because their cases don’t meet criteria set by the courts.



# Compensation for Horizon scandal

- Over time, 3 compensation schemes have been set up:
  - **Historic Shortfall Scheme (HSS)**. Launched following a commitment in the GLO settlement. About 2,500 applications. Offers now made to 95% of claimants: remainder due by [March 2023]. Run by POL but DBT provides much of the funding and is heavily involved in scheme governance.
  - **Overtured Historic Convictions (OHC)** compensation. Launched following overturning of first convictions. First settlements negotiated late 2022. Pace now picking up. Run by POL but DBT funds and heavily involved in governance.
  - **GLO additional compensation**. Announced March 2022 in recognition that it was unfair that those who took High Court action ended up with less compensation than those who didn't. Run by BEIS because POL couldn't afford to fund or deliver it and because GLO members don't trust POL. Launch due March 2023.
- We maintain alignment between the terms of the three schemes. Annex A shows
- Post Office has additionally sought funding to allow them to compensate for poor contractual practices, criticised by Justice Fraser in the GLO court case. Announced in November 2023, the first funding supports unpaid suspension pay; addition funding for other sources of detriment is currently being bid for.

## 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.
- Williams has held earlier-than planned hearings on **compensation issues** because of his concerns in the light of human impact hearings. Most recent was 8 December. We satisfied his concerns on most issues and he decided not to submit a formal interim report at this stage, though he highlighted some areas in his informal “progress update” on 9 January. Another compensation hearing will take place on 27 April and it will important to demonstrate further progress by then.
- Further oral hearings are under way. We do not expect BEIS to be asked to give evidence to the next phase, running until March, covering **roll-out** of Horizon in the early 2000s and the (much-criticised) **training** programme. Topics for subsequent phases (e.g. **prosecution** of postmasters, **governance**) will require significant DBT involvement – supply of documents and preparation of former Ministers and officials as witnesses.



# Key Stakeholders

- Post Office Chair Henry Staunton – recommend that you meet him
- CEO Nick Read – monthly catch-ups with Minister Hollinrake.
- Meeting with group of key MPs and Lords on Horizon issues – two meetings with junior Ministers to date.
- Advisory board on GLO scheme (with Kevan Jones MP, Lord Arbuthnot and two law professors) has met twice. Minister Hollinrake attending next meeting on 8 March.
- 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.

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# Annex A: payments to claimants

