

OFFICIAL SENSITIVE: COMMERCIAL**Overview of Post Office Horizon Scheme Issues: August 2015**

1. Government faces calls to launch an independent inquiry into Post Office's Horizon IT system and the way that Post Office has handled cases where money has gone missing from branches.
2. We recommend Government resist these calls for the following reasons:
 - a. Despite three years of independent scrutiny, no systemic issues with the IT have been found
 - b. Many of the allegations raised against Post Office have been mischaracterised by campaigners and the media, and indeed in Parliament
 - c. Post Office have gone further than most commercial organisations would in attempting to resolve this issue – however they cannot respond publicly to the most serious allegations while they still respect individuals' confidentiality
 - d. Existing routes to resolution, including mediation, appeal or litigation, remain available to individuals – it would be wrong to create a new quasi-judicial process while these options have not been exhausted (or even attempted, in the case of appeal or litigation).
 - e. Absent any evidence of wrongdoing by Post Office, there is no need for a judicial inquiry.
3. By maintaining that Government sees no need for an inquiry, ambiguity is removed and applicants can be clear on the options available: mediation and/or legal action. This would help bring cases to resolution as swiftly as possible.
4. We anticipate a BBC Panorama programme on Monday 17 August will repeat these allegations. The claims will appear very serious but do not stand up to scrutiny once the full facts are known. Our reactive line will be that these are operational matters for the Post Office, unless pressed.

Lines to take

- *The issues raised are an operational matter for Post Office Limited and subpostmasters*

If pressed:

- *Despite three years of independent scrutiny no systemic issues found with the IT system*
- *There are options available for resolution. Government encourages mediation, but individuals can still pursue other routes to resolution through the courts*
- *While there is no evidence of wrongdoing by Post Office, Government sees no need for a judicial inquiry.*

OFFICIAL SENSITIVE: COMMERCIAL**Background**

5. Concerns were raised by campaigners and a small group of MPs in 2012 that systemic flaws in the Horizon IT system were causing accounting losses. Subpostmasters, who operate branches as contractors (not employees), are liable for branch losses including if caused by negligence or carelessness. A subpostmaster with excessive losses can have their contract terminated, and can face prosecution if there have been instances of false accounting and/or theft.
6. Post Office responded to these allegations in a fair and transparent way, commissioning independent scrutiny of Horizon, and setting up a mediation scheme for individuals to raise concerns and seek resolution, established in collaboration with campaigners and MPs.
7. After more than three years of independent scrutiny, the forensic accountants (Second Sight) appointed to scrutinise Horizon produced no evidence of systemic (i.e. constantly recurring) flaws. Second Sight did identify some issues specific to individual circumstances, although many of these were unrelated to the IT system., Post Office is making improvements to address those points and have resolved some of those specific cases to the individuals' satisfaction.
8. Absent any system-wide "smoking gun", campaigners have broadened the scope of investigations to focus increasingly on prosecutions, claiming there have been miscarriages of justice with subpostmasters wrongly accused and convicted. Formerly constructive relationships between Post Office and campaigners have broken down as it has become clear that the scheme is not delivering what campaigners want, namely, large compensation payouts. Applicants are increasingly declining (or seeking to "defer") mediation in the hope of a judicial inquiry.
9. There is a large amount of misinformed or inaccurate comment on this matter, including in the media and in Parliament. Many individual cases involve difficult or sad stories, and appear compelling; the Post Office has little opportunity to respond as it has committed to maintaining individuals' confidentiality, even when facing intense (and in many cases unfounded) criticism.
10. The intensity of criticism, and the work of campaigners, has given many applicants unrealistic expectations of both the nature of mediation as a process and the likely outcomes. Post Office estimate the total amount of money lost in branches for all applicants at £1.3 million (this is money *owed to Post Office*). The total amount of compensation *claimed by applicants* is over £65 million. One applicant is seeking £13 million in compensation.
11. While purportedly independent, Second Sight appear to side against the Post Office, and indeed have done so publicly on social media and to some extent when giving evidence to the BIS Select Committee. They are also due to appear on Panorama next week.
12. Second Sight have also recently written to Ministers claiming that their work has been misrepresented and does in fact demonstrate that Horizon is flawed (this letter has been shared with and publicised by campaigners). However, the matters they identify as "systemic flaws" appear to actually be operational issues in specific circumstances, often unrelated to the IT system but described as "the Horizon experience", and which are best resolved directly between Post Office and the individual (through mediation or the courts).
13. Importantly, the National Federation of Subpostmasters (NFSP), who represent c.6,000 subpostmasters, are supportive of Post Office's position and have publicly expressed scepticism at the motives of the campaign against Post Office and some individuals' claims.

OFFICIAL SENSITIVE: COMMERCIAL**Status**

14. In total, 136 applicants were accepted into the mediation scheme, mostly former subpostmasters. In context, Post Office has over 11,500 branches across the UK and estimate that around 500,000 individuals have used the Horizon system since its roll-out in 2000.
15. To date, 26 of the 136 cases have been resolved; 43 applicants have criminal convictions (usually false accounting / theft) received prior to entering the scheme and these cases are unsuitable for mediation (which cannot overturn a conviction). In the majority of the remaining cases mediation has been offered but not yet taken place, largely due to stalling tactics.

Options for resolution

16. Mediation remains an option for many, although Post Office are unwilling to keep the offer open in perpetuity and applicants have until early September to accept the offer.
17. Mediation is conducted by an independent mediator from the Centre for Effective Dispute Resolution (CEDR) and Post Office pay the costs of mediation, the reasonable expenses of the applicant and their representatives, and contribute to the applicant's independent legal advice.
18. If mediation is not successful, or if the applicant chooses not to mediate, they retain their existing legal rights such as seeking damages through litigation or pursuing a class action. To date no applicant has pursued a civil claim against Post Office.
19. Mediation cannot overturn a criminal conviction but an individual can appeal the Court's judgement (although no applicant has done so to date). They can also raise their case with the Criminal Cases Review Commission (CCRC). These are the right avenues for applicants to pursue potential miscarriages of justice and around 20 have submitted applications to the CCRC.
20. A Government or judicial inquiry would seem inappropriate when these options exist and have not been exhausted (or indeed explored at all in some cases). A Government investigation would be unlikely to find the "smoking gun" campaigners are seeking or provide large compensation payouts, given the amount of scrutiny this issue has received, thus risking accusations that Government too is part of the "conspiracy". So, unless there is evidence of wrongdoing on the part of Post Office, there is no need for Government to intervene.
21. By maintaining that Government sees no need for another inquiry, ambiguity is removed and applicants can be clear on the options available to them: mediation and/or legal action. This would help all involved bring cases to resolution as swiftly as possible.